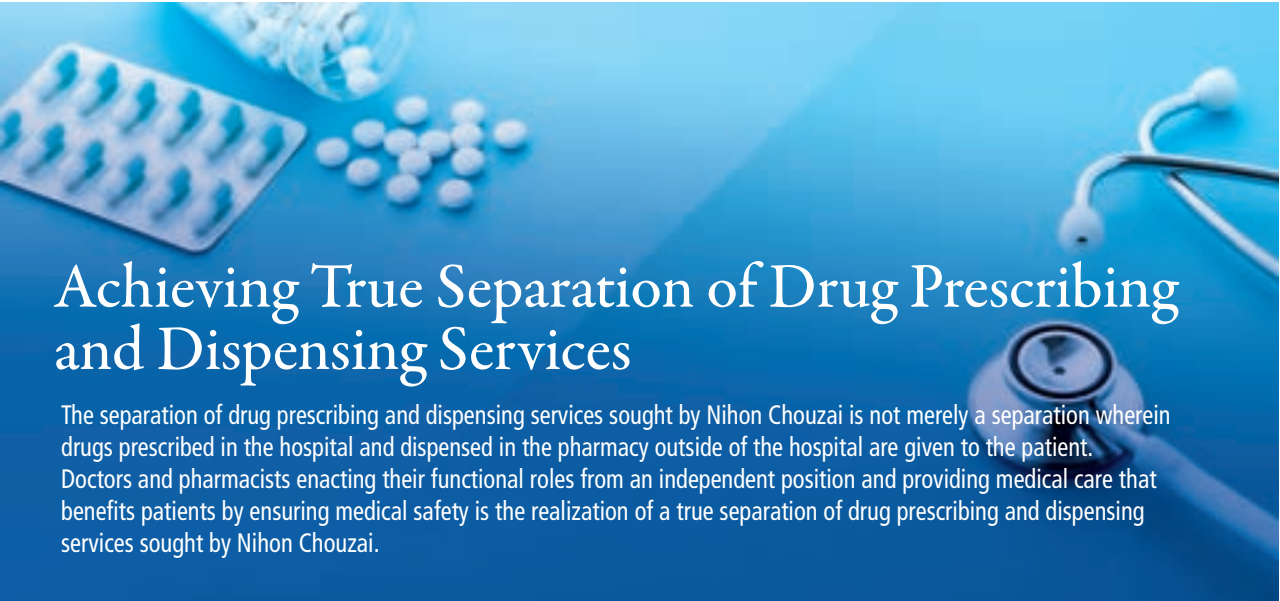




Becoming a Comprehensive Healthcare Company

Corporate Philosophy



Achieving True Separation of Drug Prescribing and Dispensing Services

The separation of drug prescribing and dispensing services sought by Nihon Chouzai is not merely a separation wherein drugs prescribed in the hospital and dispensed in the pharmacy outside of the hospital are given to the patient. Doctors and pharmacists enacting their functional roles from an independent position and providing medical care that benefits patients by ensuring medical safety is the realization of a true separation of drug prescribing and dispensing services sought by Nihon Chouzai.

Determining Degree of Importance

Corporate Report 2019 presents topics with a high degree of importance to the Nihon Chouzai Group and to society. This document is published on an annual basis as reference material for readers to gain an understanding of the Company's business status and its corporate policies. This year, Nihon Chouzai discusses two important themes on which the Company is focused: further growth as a comprehensive healthcare company and growth achieved by seeing the significant changes involved in industry reorganization as a positive opportunity.

Editorial Policy

In addition to the management policy and business strategy of the Nihon Chouzai Group, this report covers both financial and nonfinancial information in detail so that all stakeholders, and first and foremost, shareholders and investors, will have an understanding of the Company's medium- to long-term creation of corporate value. The period covered in this report is fiscal 2018 (April 1, 2018 to March 31, 2019). However, as necessary, the contents may also cover some aspects of fiscal 2019.

Notes Concerning Forward-Looking Statements

The Corporate Report 2019 includes forward-looking statements with regard to the Nihon Chouzai Group's plans, strategies, business performance and other information. These statements are based on judgements made by the Company's management, and these are gained from currently available information. Actual business performance and other information may be impacted by various risks and uncertainties and may differ significantly from these projections. Your understanding is therefore requested. Factors that may have an impact on business performance and future outlook include, but are not limited to, the economic situation in which the Company's business domains operate, the reform status of relevant laws and regulations, conditions with regard to revisions of medical service fees, and the progress of product development.

About the Cover

Since its founding, Nihon Chouzai has endeavored to contribute to the reform of Japan's social security system. With the advent of a "super-aged" society, now is a time of major changes with various measures to curb the increase in social security expenses and address other issues that are emerging. Seeing these changes as opportunities to create synergy between our Dispensing Pharmacy Business and other businesses, the cover of Corporate Report 2019 expresses the image of immense growth as a comprehensive healthcare company with a focus on the people who work in each company and each department.



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* See page 44 for examples of environmental initiatives

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Growth Trajectory

1980
Started with one dispensing pharmacy in Sapporo, Hokkaido

2004
Sales exceeded 50 billion yen

2010
Sales exceeded 100 billion yen

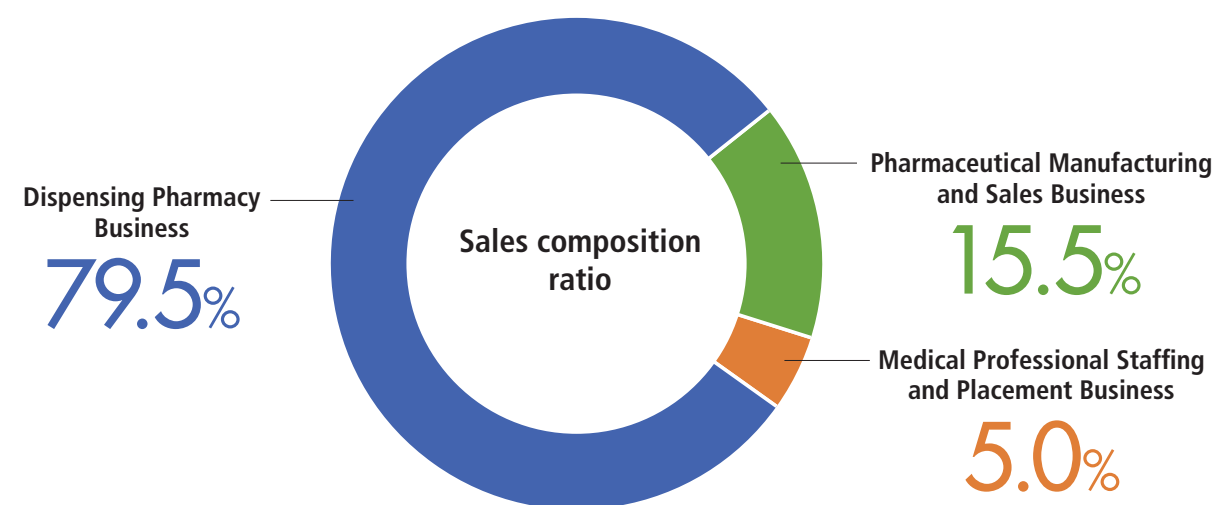
2018
245.6 billion yen

Year	Sales (billion yen)
1980	Started with one dispensing pharmacy in Sapporo, Hokkaido
1981	
1982	
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	
1991	
1992	
1993	
1994	
1995	
1996	
1997	
1998	
1999	
2000	
2001	
2002	
2003	
2004	Sales exceeded 50 billion yen
2005	
2006	
2007	
2008	
2009	
2010	Sales exceeded 100 billion yen
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	245.6 billion yen

(FY)

* All years mentioned on this page are calendar years.

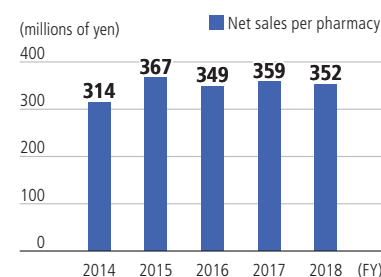
Business Portfolio



Dispensing Pharmacy Business

A leading dispensing pharmacy company

Net sales per pharmacy
No.1



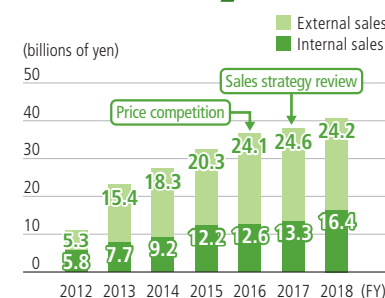
In the Dispensing Pharmacy Business, we have achieved massive net sales per pharmacy as a result of steadily opening our own pharmacies. Using mergers and acquisitions based on our strict standards, we open pharmacies that can survive in the industry reorganization, while expanding sales per pharmacy.



Pharmaceutical Manufacturing and Sales Business

Manufacturer of a full line of generic drugs

Unrivaled business model
Only 1



In the Pharmaceutical Manufacturing and Sales Business, because we have dispensing pharmacies within the Group, the expansion of the Dispensing Pharmacy Business has become an unrivaled business model that leads to this business expansion.



Medical Professional Staffing and Placement Business

Human resource services company that specializes in the medical field

Dispatching of pharmacists
No.1

High growth potential

High profitability

High reliability

In the Medical Professional Staffing and Placement Business, we are achieving value-added staffing and placement not offered by other companies by taking advantage of the high-quality education system created by the Dispensing Pharmacy Business.

A numerical view of the Nihon Chouzai Group



Market environment

Dispensing pharmacy market size

Approx. 7.7 trillion yen

FY2017

Generic drug market size

Approx. 1 trillion yen

FY2017

Source: Fujii Keizai Co., Ltd.
Survey results of the domestic generic drug market

Number of pharmacists nationwide

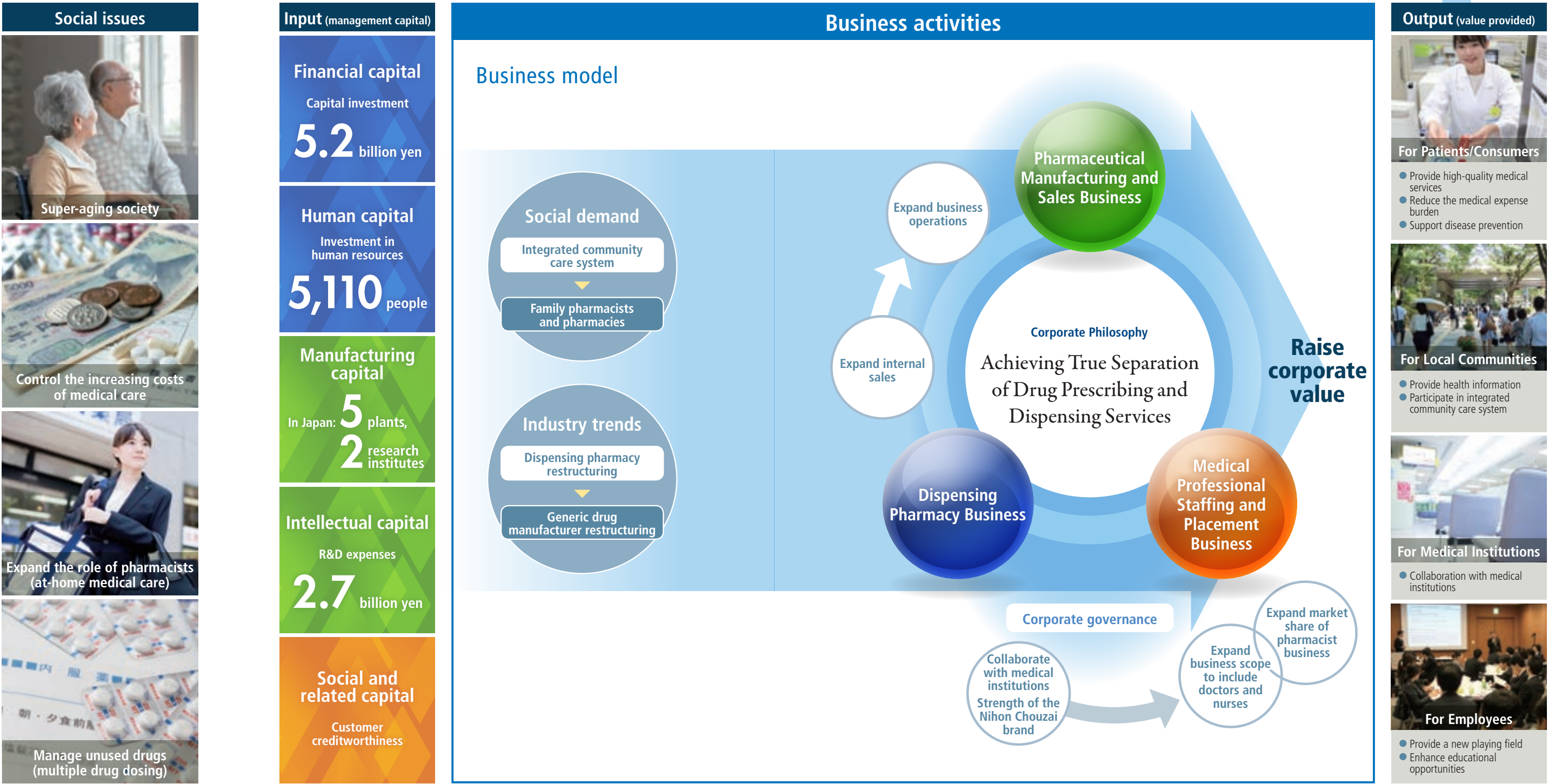
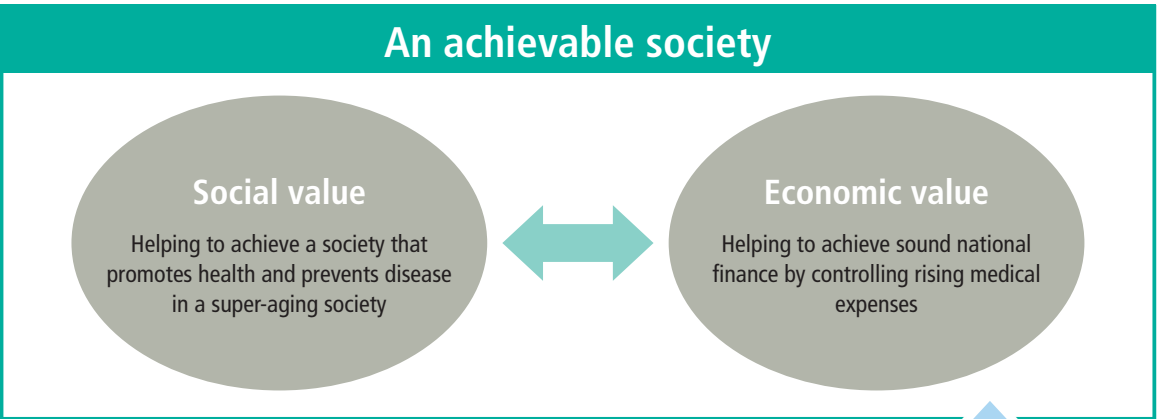
Approx. 300,000 pharmacists

FY2016

Value Creation Model

While addressing a wide range of social issues facing Japan, the Nihon Chouzai Group is developing its business to achieve a true separation of drug prescribing and dispensing services by utilizing the Company’s management capital.

We are providing sustainable value to society by developing peripheral businesses that generate synergies, starting with the Dispensing Pharmacy Business.

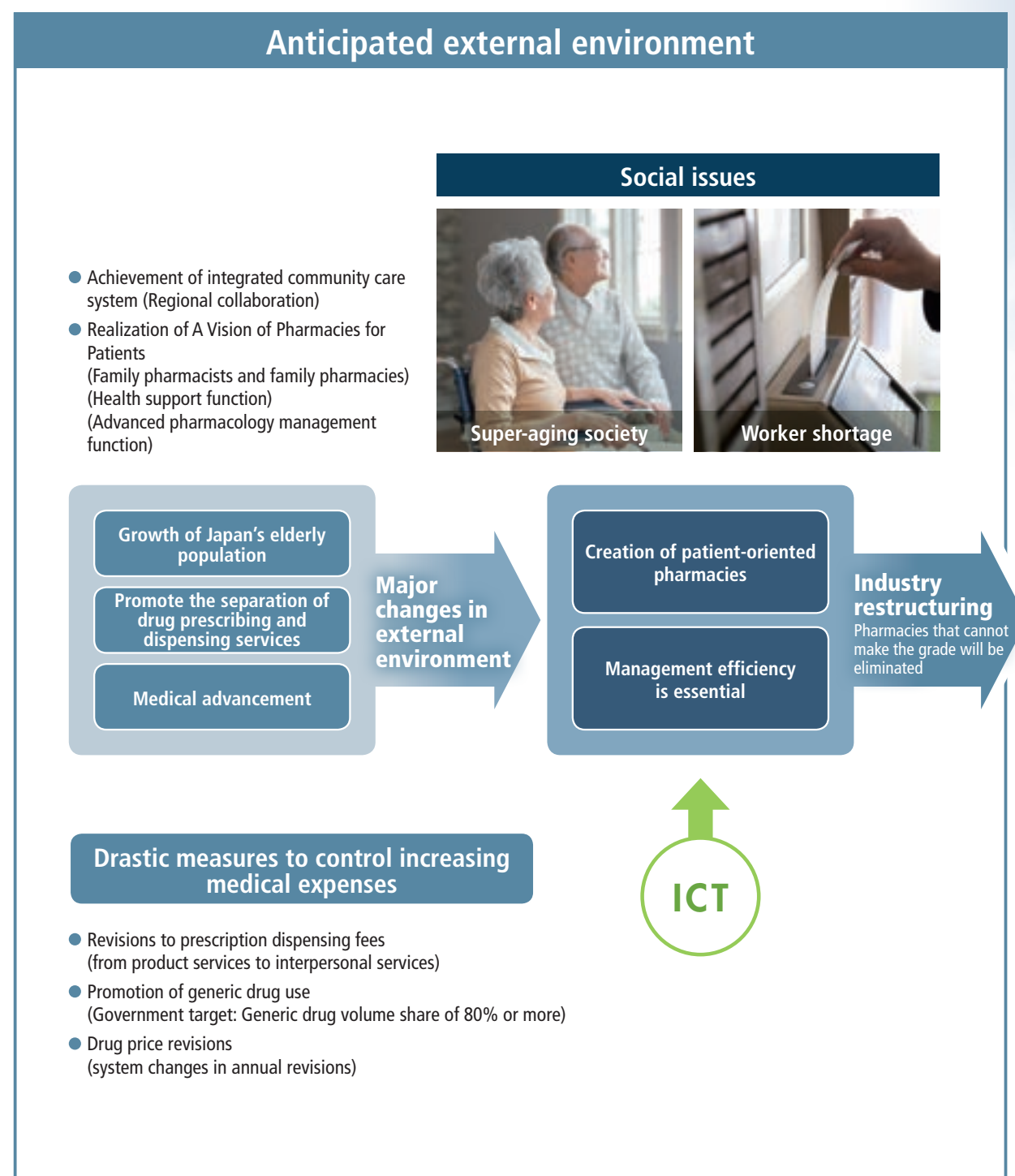


Strategy for Achieving Growth

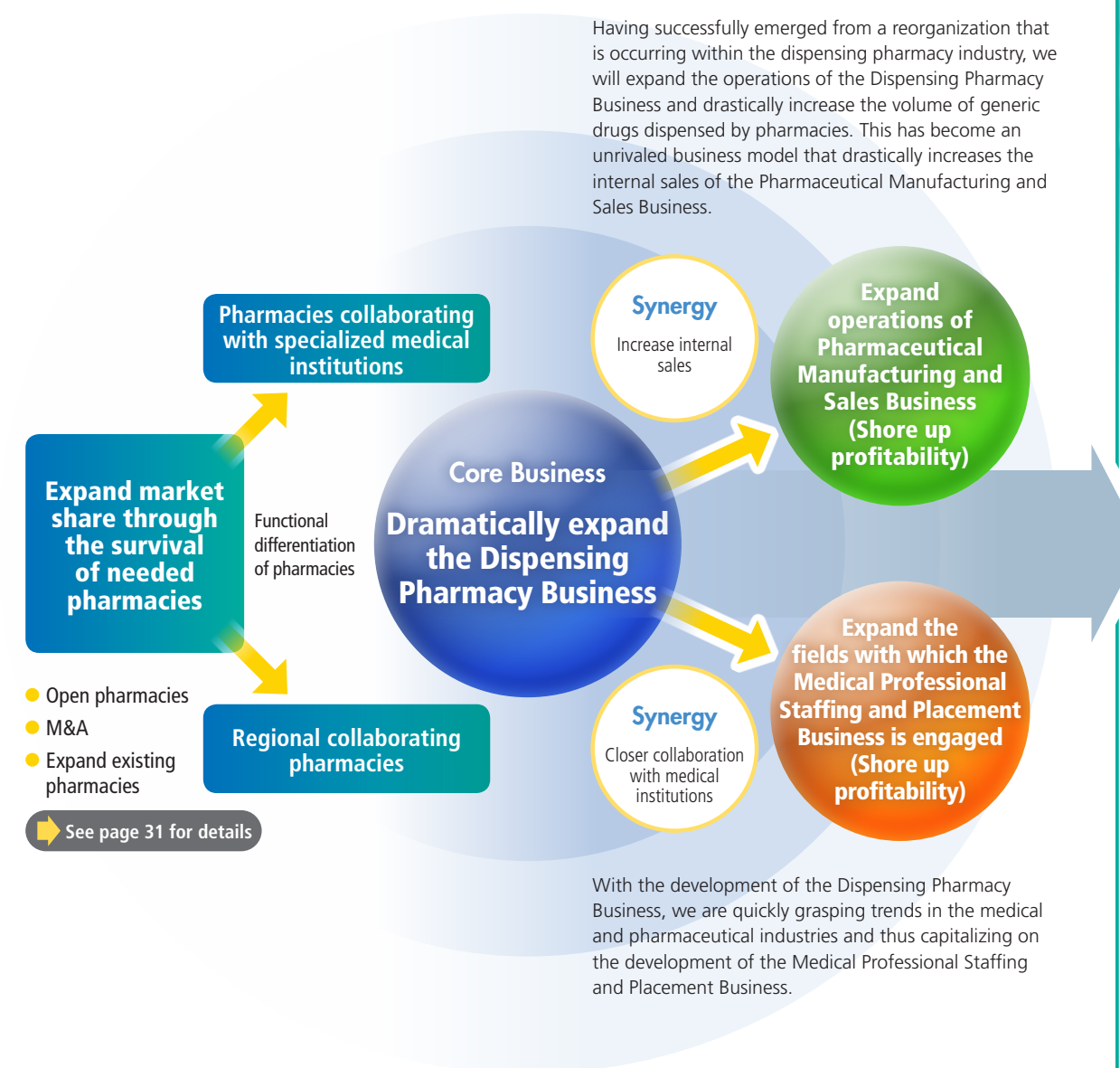
Long-Term Vision — On the Road to 2030

In April 2018, the Nihon Chouzai Group announced the Long-Term Vision for 2030. It was announced as part of the long-term strategy of the Group's vision for the future after having successfully emerged from a reorganization in the industry that is occurring in response to major changes in the external environment in the medical and pharmaceutical industries.

View of corporate growth

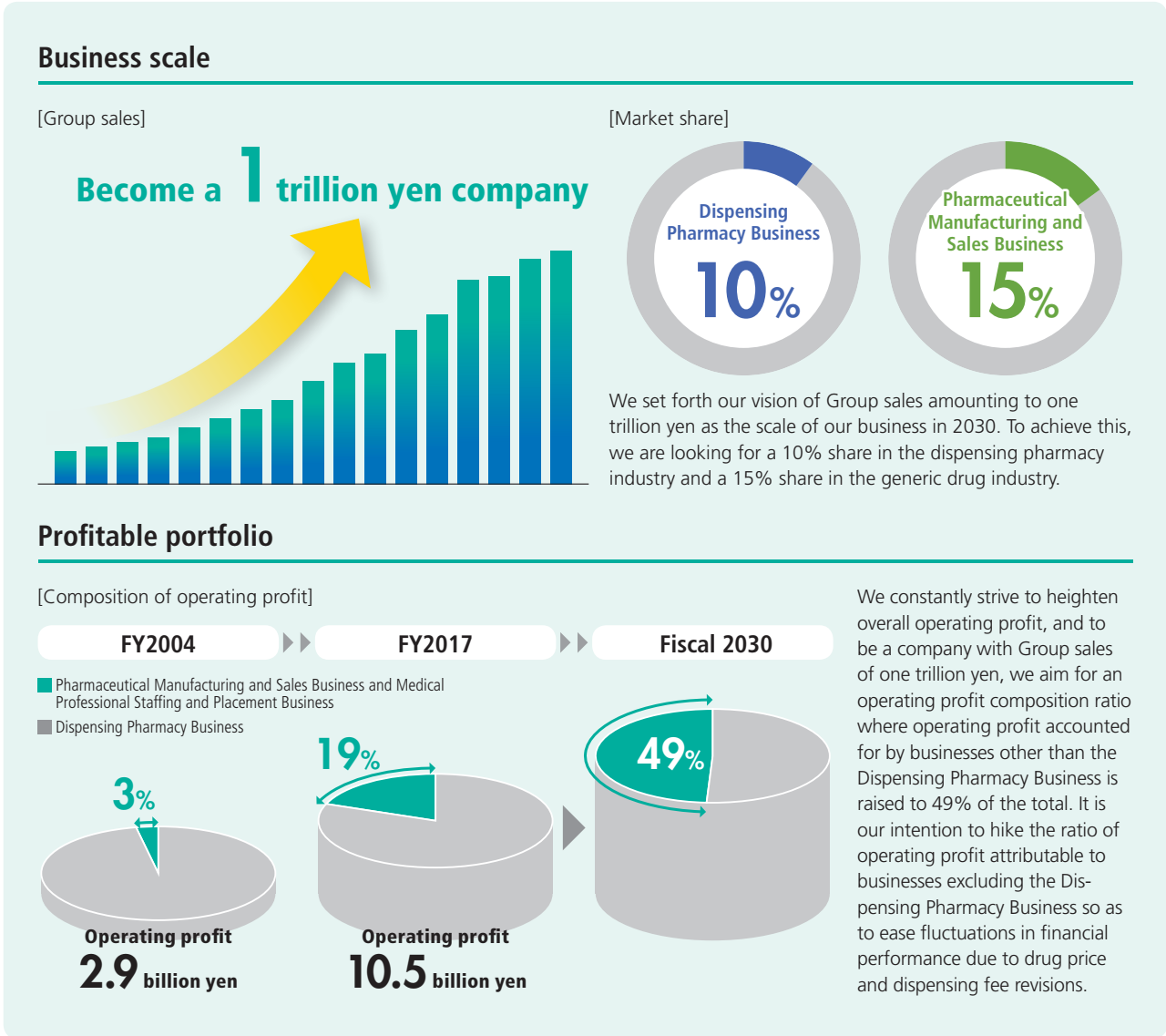


Strategy for rapid expansion



Toward Becoming a Comprehensive Healthcare Company

An image of growth leading to 2030



View of business environment changes and corporate growth by 2030

		FY2004 (results)		FY2017 (results)		FY2030 (forecast)	
Dispensing Pharmacy Business	Net sales	51.8 billion yen	→	205.2 billion yen	→	900.0 billion yen	
	Per-pharmacy annual sales	294 million yen	→	359 million yen	→	700 million yen	
	Number of pharmacies	174 pharmacies	→	585 pharmacies	→	1,000 pharmacies	
	Share of Nihon Chouzai generic drug use	—	→	83.6%	→	90-100%	
Pharmaceutical Manufacturing and Sales Business	Net sales	—*1	→	38.1 billion yen	→	300.0 billion yen	
	Maximum production capacity	—	→	6.2 billion tablets	→	16.2 billion tablets	
Medical Professional Staffing and Placement Business	Net sales	0.7 billion yen	→	12.0 billion yen	→	25.0 billion yen	
External environment	Separation ratio*2 (outside of hospital prescription ratio)	53.8%	→	73.2%	→	90-100%*5	
	Share of generic drug use, volume-based	4.6%*3	→	72.5%*4	→	85-95%*5	

*1: The Nihon Chouzai Pharmaceutical Manufacturing and Sales Business launched in fiscal 2005.

*2: Prepared by Nihon Chouzai based on progress of separation of drug prescribing and dispensing (trend of health insurance dispensing) according to the Japan Pharmaceutical Association

*3: Share of generic drug use, volume-based as of end of FY 2005 (previous standard). FY2005 data posted because FY2004 data was not publicly disclosed.

*4: Share of generic drug use, volume-based as of end of February 2018.

*5: Nihon Chouzai estimates

Figures are rounded off

1

Growth towards achieving true separation of drug prescribing and dispensing services

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Financial Highlights

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

Message from the President

We will achieve further growth as a comprehensive healthcare company in an age where quality defines quantity and the superiority of the Nihon Chouzai Group will become more prominent.

My name is Yosuke Mitsuhashi and I assumed the position of President and CEO in June 2019.

I recently took over the operation of the Company on short notice. However, while serving as management assistant for two years as Senior Managing Director, I had gradually taken control over operations, and because I had prioritized my work in my areas of responsibility, I have been able to meet the current circumstances with sufficient composure.

The management philosophy of “achieving true separation of drug prescribing and dispensing services” pursued by former president and company founder Hiroshi Mitsuhashi will continue uninterrupted. Furthermore, I would like to steadily move forward with the initiatives that I began from my time as Senior Managing Director and with what new initiatives I can undertake.

We ask our stakeholders for their continuous support and cooperation.

Yosuke Mitsuhashi

Yosuke Mitsuhashi
President & CEO

Q How would you evaluate fiscal 2018 performance from your position as management assistant?

We are confident that we can increase sales on an existing pharmacy basis and absorb the fall in revenues caused by drug price revisions.

One highlight of our consolidated financial results for fiscal 2018 was that sales rose to record highs in all business segments. Operating profit achieved its initial target under the driving force of the Pharmaceutical Manufacturing and Sales Business.

In the pharmaceutical and dispensing pharmacy industry, dispensing fees and drug prices were revised in April 2018. The dispensing fee revisions of April 2018 were so harsh that they can only be described as unprecedented in the industry. In addition, the profitability of the Dispensing Pharmacy Business was substantially affected by difficult price negotiations based on revised distribution guidelines.

However, what should be noted in these circumstances is the strength of our existing pharmacies. Compared to other dispensing specialists, Nihon Chouzai was able to steadily increase sales on an existing pharmacy basis and absorb the damage caused by drug price revisions compared to other dispensing specialists, while sales at other dispensing specialists were down across the board on an existing pharmacy basis. We see this as the result of our strong frontline operations. At the same time, the fact that pharmacy sales, our business base, did not decline, even in a harsh environment such as that of fiscal 2018, is considered one likely reason for future expansion of business.

Q You are top in the industry in the number of new pharmacist graduates hired. What is the importance of your human resource strategy?

Our human resource strategy is at the center of the positive cycle that helps us obtain patients' support.

Over the last several years, I have been in charge of hiring new graduates. I felt that the desire of pharmaceutical students to find employment where they can make better use of their pharmacist license, which they spent six hard years earning, is stronger than ever before. It has been a well-known fact that the Company has an excellent education system and has a pharmacy environment where advanced medications are available to satisfy demand. In addition, we believe that the further improvement and the growing appeal of our education and human resource systems has helped us achieve the pharmacy and drugstore industry's top hiring results for new pharmacist graduates in April 2019.

Naturally, our human resource strategy is directly linked to our business strategy. We are often said to be less willing to engage in mergers and acquisitions than other companies in this industry, but even if we engage in large-scale M&As and pharmacy openings, without the ability to supply the needed human resources, it doesn't make sense. If we take a hard look at future

industry restructuring, human power is essential for us if we want to be at the center of this restructuring, so first, we have placed priority on strengthening our ability to supply human resources.

I have absolutely no intention of managing to ensure growth potential through M&A to compensate for stagnant sales at existing pharmacies. While our industry is expected to experience massive changes in the future, it is also a fact that the industry still has much growth potential. Accordingly, we first fortified our existing pharmacies. After that, we strengthened our ability to supply human resources, and we enhanced human resource education. Then for the past few years, we have been working to create a solid foundation for recruitment to initiate a positive cycle of gaining patient support.

We were able to hire 398 new pharmacist graduates this year. We continue to aggressively recruit and feel that we can adequately respond to industry restructuring and large-scale M&As.

Q I have heard that you have been a leader who champions electronic medication notebooks and remote medication instruction. What is the future direction of your ICT strategy?

Our major advantage is having a flexible system development environment. Therefore, we will actively promote ICT investment to help differentiate us from competitors.

We have been developing, updating, managing and maintaining core information systems within our organization for about 20 years. Therefore, our environment can flexibly reflect patient feedback and the views of workers in the field into system development. This has become a major advantage that has enabled us to differentiate ourselves from competitors both online and at brick-and-mortar pharmacies.

An example of the online side is the launch of the Nihon Chouzai Online Store for healthcare products in July 2019 (This interview was conducted on July 17, 2019, after the appointment of the new president.) This e-commerce website is not merely an e-commerce site; it also provides a mechanism that enables customers to check their prescription medications in conjunction with our electronic medication notebook, Okusuri Techo Plus, and cloud data of medicinal pharmaceuticals. There is some uncertainty about how remote medication (telemedicine) instruction will be deregulated in the

future. But in "A Vision of Pharmacies for Patients," the Ministry of Health, Labour and Welfare has stated that to achieve "centralized over-the-counter drug use data, including non-prescription drugs, for continuous management," we will contribute to improving the safety and convenience of patients, even in an e-commerce environment.

On April 2, 2019, the Ministry of Health, Labour and Welfare submitted "How Dispensing Work Is Performed" to pharmacies. It defines the details of dispensing work and must be posted for customers to see. With the role required of pharmacists having shifted from product services to interpersonal services, Nihon Chouzai has taken the lead in the industry in the automation of dispensing work. We will continue to actively invest in automation and rationalization, and by raising productivity, we will further enhance the pharmacy environment to respond to dispensing work that has shifted from product services to interpersonal services.

Q I'd like to ask you about your pharmacy-opening strategy. It was previously explained that you emphasized balance when opening pharmacies, but what will be your basic approach to opening pharmacies from now on?

We will pursue a balanced pharmacy-opening strategy without fixating only on dispensing pharmacies in hospital premises and hospital-front pharmacies.

With Japan's population declining, we are thinking of opening pharmacies primarily in the three major areas of Kanto, Kansai, and Chubu, where the population decline is relatively small. The type of new pharmacies that we will open will be dispensing pharmacies in hospital premises and hospital-front pharmacies, but my basic idea is to open various types of pharmacies in a balanced manner, but not fixate on that alone.

Behind this idea is the trend of patients selecting dispensing pharmacies with a critical and careful eye. Based on various data on pharmacy frontline operations, it is clear that patients select pharmacies regardless of location. How dispensing fees are distributed

and what are the patients' criteria are essentially different dimensions and the basic proposition of what kind of medical services to provide to patients is not directly related to store location.

Of course, it's true that dispensing pharmacies in hospital premises and hospital-front pharmacies have a relative advantage in cooperation with hospitals and in efforts at advanced pharmacological management. Based on fully taking into account the characteristics of each pharmacy, our policy is to open pharmacies in a balanced manner with a focus on patient trends, without fixating on either dispensing pharmacies in hospital premises or hospital-front pharmacies.



Q Next, I would like to ask about the Pharmaceutical Manufacturing and Sales Business. You achieved results that greatly exceeded your initial profit plan. What were the reasons for your success?

The fact that we could advance our sales strategy focused on profitability from a medium- to long-term perspective has led to stronger performance of the Pharmaceutical Manufacturing and Sales Business.

Nihon Generic has been conducting business for the past year with a focus on profitability, not only on sales. The increase in depreciation costs associated with the start of production at Tsukuba Plant No. 2 and the reduction in drug prices overlapped, and as a result, earnings in fiscal 2018 were expected to be subject to extremely intense pressure. However, the understanding and cooperation we received from pharmaceutical wholesalers in the area of sales led to stronger earnings

performance of the Pharmaceutical Manufacturing and Sales Business.

Because Tsukuba Plant No. 2 is equipped with state-of-the-art manufacturing equipment capable of large-lot production, manufacturing costs can be reduced as the production scale increases. To increase sales in the future, in addition to internal sales, we will focus on further expanding external sales and pursuing economies of scale.

Q I would like to ask about the Medical Professional Staffing and Placement Business. What are your future plans for expanding the market share of the Pharmacist Business and other fields?

We believe that profits will surely diversify due to expansion of our other fields based on the growth of our existing business.

Medical Resources Co., Ltd. is number 1 in the pharmacist staffing industry, and we hope it will further increase its market share as the mainstay in this business. In fiscal 2018, although prior investment in the Physician Placement Business that began one year earlier had an impact on profits, we believe we have succeeded in increasing the number of clients by leveraging our creditworthiness and brand power in the placement business. We have also strengthened the placement of experienced pharmacists who meet the requirements demanded by family pharmacists and pharmacies.

We are working to expand the fields that we work in with the previously mentioned Physician Placement Business and the Registered Pharmaceutical Medicine Sellers Staffing Business. Both are now at a stage where the results of their efforts are slowly starting to show up numerically, but potential needs are high, and we believe we are making steady progress toward profit diversification.

Q You are working on the new formulary business. What can you tell us about the background and future of this business?

The concept of the formulary will be an important approach in the reconstruction of the Japanese healthcare system.

Simply stated, the formulary concept can be expressed as the most effective, safe and economical drug-use policy for patients in both medical institutions and local communities.

On a volume basis, generic drugs now account for almost 60% of all drugs used in Japan. However, in reality, after a generic drug is released, a new drug that is three to four times higher in price with nearly the same efficacy and benefit is launched and this process is repeated. The fact is that the drug cost component of medical expenses has not fallen as much as the government had expected. If this continues, Japan's medical finances will not recover, even if generic drugs are actively used. Therefore, the formulary concept of evaluating evidence on drug effectiveness and safely establishing usage policies focused on economically rational pharmaceuticals is an important initiative.

One example of a specific project for developing the formulary business at Nihon Chouzai was when

we were commissioned by the Shizuoka Branch of the Japan Health Insurance Association to do research work two years ago. In addition, our consultation services are requested by many local health insurance associations, governments, and medical institutions. The formulary business requires appropriate data analysis skills, ICT infrastructure, and practical know-how. We view this business as one that Nihon Chouzai will pioneer in Japan.

The advancement of the formulary business is an unavoidable trend for curbing increasing medical costs in Japan. We will contribute to Japan's medical finances by promoting formularies and generic drug use, and our business expansion will help us provide value to society.



Q What future situation do you expect from the partial amendment of the Pharmacy Law submitted to the Diet?

There is a need for a shift from product services to interpersonal services, a commitment to medication management, and the promotion of at-home medical care through doctor and pharmacist collaboration.

In short, there is a stronger demand for a shift from product services to interpersonal services and a commitment to medication management.

In Japan today, the administration of multiple drugs has become a social problem, leading to serious side effects and increased medical costs. Under these circumstances, there is an increasing tendency to entrust pharmacists with medication management. Even in

medical settings, medication management by pharmacists is a key point leading to at-home medical care in which doctors and pharmacists fully cooperate. To ensure that pharmacists are trusted by patients during at-home medical care and fully manage their medications, we will proactively strengthen pharmacy policies and human resources from the patient's perspective.

Q What message do you have for stakeholders? For example, what is your future vision for management?

In an era where "quality defines quantity," we will emphasize our advantages.

The most recent example is the move to revise the Pharmaceutical and Medical Devices Act, but I see the future as an era in which "quality defines quantity." So far, in pharmacy management, it has been difficult to make a difference at a superficial level and to make a difference in dispensing fees. However, we believe that our advantages will naturally become more pronounced in an age where "quality defines quantity." In fact, we realize that this is still the case today.

When the Nihon Chouzai Group faced major social security system reforms and the accompanying industry

restructuring, the Group did not focus on M&A alone. Instead, we steadily strengthened the Company structure, which has been solid over the past several years, by strengthening its growth based on existing pharmacies and its human resource supply capabilities. The foundation for growth has been established. Implementation is all that remains.

The Nihon Chouzai Group seeks to grow as a comprehensive healthcare company. We hope you will follow our growth

Special Feature

Supporting the Future of Medical Care in Japan — ICT and the People at Nihon Chouzai

Nihon Chouzai has been aggressively investing in information and communication technology (ICT) for many years ahead of other companies. Examples of these investments include the in-house development of dispensing systems and an electronic medication notebook, the construction of an at-home communication system, the introduction of a voice input system and vein biometric authentication system, the initiation of remote medication instruction using ICT, and the establishment of Japan Medical Research Institute Co., Ltd., which is responsible for processing and analyzing big data.

Human intervention, or pharmacist intervention, is needed to maximize the investment effect of the growing use of ICT. Nihon Chouzai believes that ICT and the power of people will produce synergistic effects and that higher quality medical services can be provided by having family pharmacists involved in the "C" (communication) aspect of ICT.

ICT × People

Number of electronic medication notebook (Okusuri Techo Plus) users

360,000

* As of June 18, 2019

The next-generation pharmacy that Nihon Chouzai seeks to become will be a hub that connects medical care, nursing care, health management, and preventive healthcare in cooperation with communities and medical institutions, utilizing ICT in the integrated community care system.

ICT-supported areas

- Dispensing systems (health consultations system)
- Electronic medication notebook (Okusuri Techo Plus)
- At-home communication system
- Voice input system
- Vein biometric authentication system
- **Remote medication instruction (telemedicine)**

Quality Improvement of Medical Services (page 32)

Achievement of integrated community care system

Providing basic functions essential to future pharmacies

Family pharmacists and pharmacy function

- Centralized drug use data and continuous management
- 24-hour response / At-home medical care
- Cooperation with medical institutions

Next-generation pharmacies

Addressing health management and pre-symptomatic state/advanced medicine

Providing for diverse needs through the functional differentiation of pharmacies

Health support function

- Disease prevention and health support
- Establish Health Check Stations

Advanced pharmacology management function

- Support for outpatient cancer chemotherapy, etc.

Change in external environment surrounding the medical industry

Medical advancement

Low birth rate and aging society

Promote the separation of drug prescribing and dispensing services

Challenges facing the medical industry

Promoting at-home medical care

Extending healthy life expectancy

Providing high-quality medical services

Percentage of pharmacies that provide at-home medical care (Pharmacies that provide at least one case per year)

96.6%

* As of March 31, 2019

The pharmacist education provided by Nihon Chouzai is based on a curriculum that is among the best in the industry. While acquiring sufficient medical knowledge and skills is essential, pharmacists who have newly joined the Company also learn the basic thinking and attitudes required of medical professionals. The program is also designed to provide comprehensive personnel training, which includes such aspects as the ability to communicate with patients and the management skills required to operate a pharmacy. The revision of prescription dispensing fees in April 2016 introduced the family pharmacist system, appointing a specific pharmacist to be in charge of a specific patient, and strengthened the interpersonal communication aspect of the pharmacist's work. With these changes, the importance of those who provide medical services (pharmacists) is dramatically increasing.

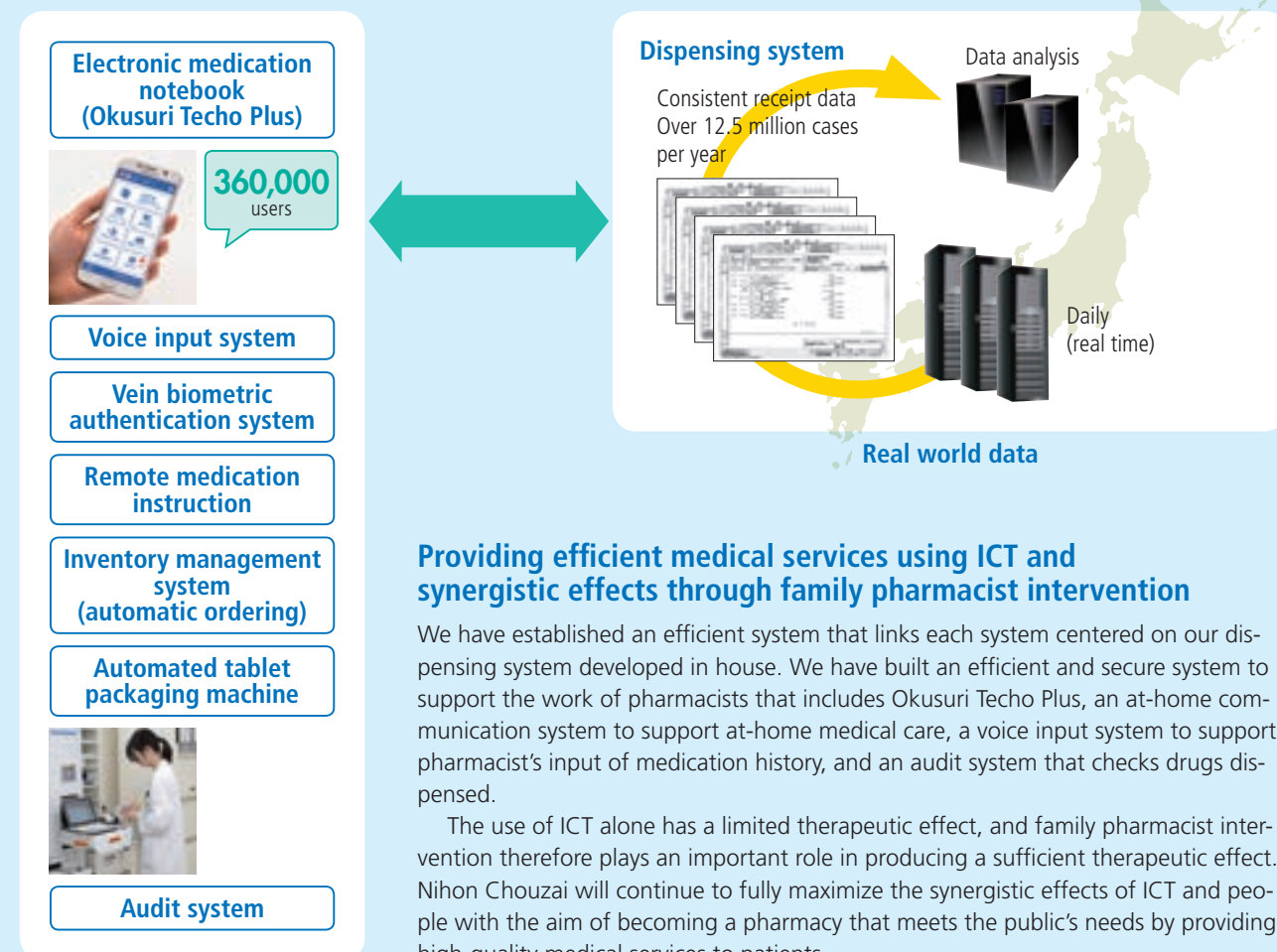
Human-supported areas

- Management of unused drugs and organization of duplicate prescriptions
- At-home medical care
- Cooperation with doctors, nurses, care managers, and others
- Consultation on diet, exercise, etc.
- **Support for cancer chemotherapy, etc.**

Strengthen Pharmacy Function (page 31)

Address remote medication instruction using ICT medical care

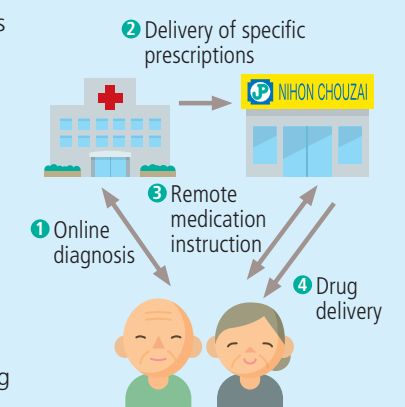
Synergistic effects based on ICT use and human intervention



Started remote medication instruction at a National Strategic Special Zone in Aichi Prefecture.

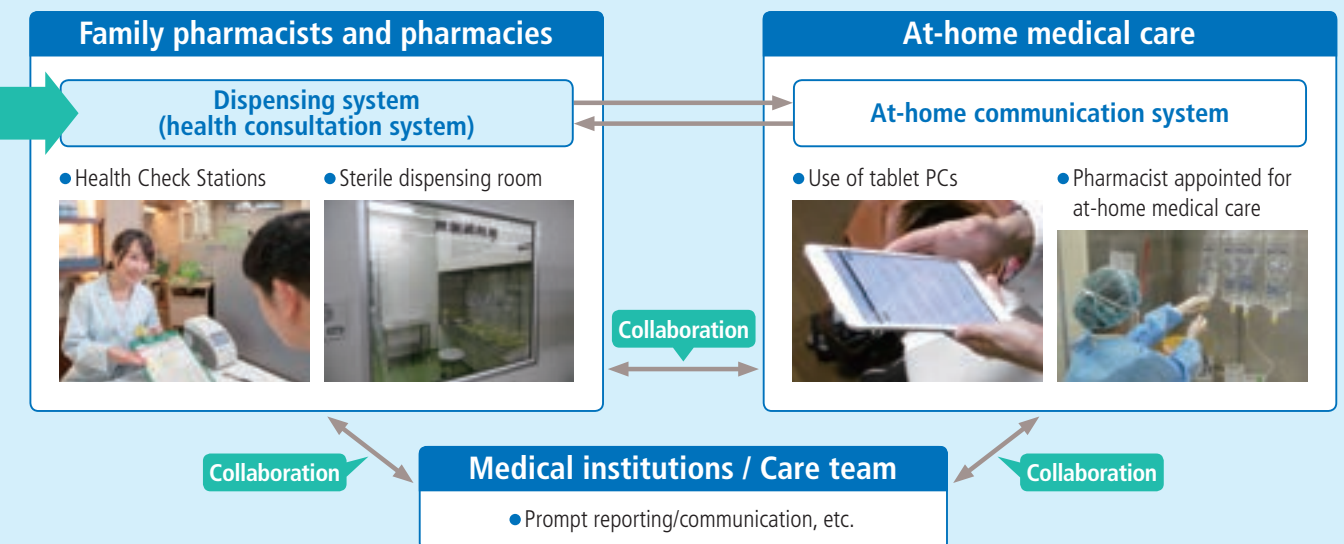
With respect to remote medication instruction, which has been approved on a trial basis only in the three National Strategic Special Zones of Aichi Prefecture, Fukuoka City in Fukuoka Prefecture, and Yabu City in Hyogo Prefecture, Nihon Chouzai registered a business in two of the special zones in Aichi Prefecture and Fukuoka City in Fukuoka Prefecture, and in February 2019, it started remote medication instruction in Aichi Prefecture. As of March 31, 2019, nine cases of remote medication instruction have been reported nationwide, but Nihon Chouzai's Seto Pharmacy is the first to conduct remote medication instruction in collaboration with a general hospital.

For this remote medication instruction, we created a system that provides optimal medication instruction while also referencing drug data prescribed at other hospitals using Okusuri Techo Plus. We will continue to improve patient convenience by reducing the burden of having to visit the hospital from a remote location while also collaborating more closely with medical institutions.



Comments of a pharmacist who has conducted remote medication instruction

The difference between face-to-face medication instruction and remote medication instruction is that the remote medication system uses a communication device to examine the patient, and then the prescription is posted from a doctor after the patient's examination, but other than that, there is **no difference**. Initially, I was apprehensive about whether I could, as in face-to-face instruction, change the patient's state of health and confirm their concomitant drugs and unused drugs based on my conversation with them, their complexion, and other factors, or contribute to maintaining their health. But, in fact, I was able to give **the same medication instruction as in face-to-face instruction**. Also, in areas where medical resources are scarce, I felt the **advantage** of being able to **reduce the burden of the patient** having to visit a hospital to receive **high-quality medical care**. At present, as remote medication instruction can only be performed after a prescription is received from the hospital, there will be a two- to three-day interval from medical exam to remote medication instruction. Once we are able to give the medical examination and remote medical instruction on the same day, the patient's time burden will be reduced and convenience will increase. Therefore, I expect further improvements such as the spread of electronic prescriptions in the future.



Preparing for increased interpersonal services required of future pharmacists

On March 19, 2019, the Ministry of Health, Labour and Welfare submitted a proposed revision of the Pharmaceutical and Medical Devices Act. The proposed revision shifts the services required of future pharmacies and pharmacists to interpersonal services more than before.

In addition, the Ministry of Health, Labour and Welfare released a notification entitled, "An Approach to Dispensing Services" on April 2, 2019 that seeks more efficient product services with the goal of enhancing interpersonal services. Regarding this approach to dispensing services, the notification presented a basic concept for services that could be performed by a person other than the pharmacist under the assumption that the pharmacist has the final responsibility for dispensing.

We seek to reduce the burden on the work of the pharmacist and provide a full range of medical services by promoting efficiency, especially the mechanization of product services, while further promoting ICT investment to support increasing interpersonal services, while providing a full range of medical services.

The Year in Brief Nihon Chouzai Group

Health support pharmacies

* List of pharmacies that meet the criteria set by the Ministry of Health, Labour and Welfare each month

April 2018

Warabi Pharmacy, Nakanoshima Pharmacy

May 2018

Karumai Pharmacy

July 2018

Yatsu Pharmacy

August 2018

Sakurababa Pharmacy, Yuukari Pharmacy, Rokko Island Pharmacy

November 2018

Kuzumaki Pharmacy

December 2018

Kawasaki Ekimae Pharmacy, Hoshikawa Pharmacy

January 2019

Dainohara Pharmacy

February 2019

Urawa Central Pharmacy, Yamashina Pharmacy

March 2019

Heiwadori Pharmacy

2018

2019

AprilMayJuneJulyAugustSeptemberOctoberNovemberDecemberJanuaryFebruaryMarch

May 2018

Commenced airing of in-house-developed locomotive syndrome preventative training Chokotore (quick training) video at pharmacies nationwide

June 2018

Opened NICHOKURASHIKI healthcare shop in Kurashiki Central Hospital

July 2018

Began airing new TV commercial (men's edition) themed "peace of mind with your family pharmacy"

August 2018

Start of acquisition of treasury shares (July 31, notice of acquisition decision)

August 2018

Held a lecture and workshop at the 17th Asia Pacific Pharmaceutical Symposium sponsored by The Association of Pharmaceutical Students'-Japan

October 2018

The Okusuri Techo Plus electronic medication notebook began data links with the Health app (iOS) and Google Fit (Android)

November 2018

Sponsored the World Diabetes Day held on November 14, providing support activities to prevention and fostering treatment awareness

January 2019

Released Web commercial (parent and child edition) themed "peace of mind with your regular pharmacy"

February 2019

Treasury stock acquisition completion August 1, 2018-February 8, 2019 1 million stocks 3,450 million yen

February 2019

Commissioned by the Hiroshima branch of Japan Health Insurance Association to help prevent diabetes from increasing in severity through the insurance pharmacies

February 2019

Having tied up with Chita Kosei Hospital, conducted tele guidance at Nihon Chouzai Seto Pharmacy

June 2018

Acquired highest level of Eruboshi certification, being assessed as an excellent company for the active participation of women

July 2018

Acquired DBJ Health Management Rating, a first in the dispensing pharmacy industry

August 2018

Commissioned by the Shizuoka branch of Japan Health Insurance Association for the data development business of formulating a "regional formulary"

September 2018

Held the third Nihon Chouzai Group Academic Conference & JP-CS Award 2019, Second Role-Play Awards also held

September-October 2018

Participated in RUN TOMO 2018, a relay race across Japan to support urban planning that is comfortable for those with dementia

December 2018

Placed 10th in the company category (over 1,000 employees) of Forbes Japan Women Award 2018, one of Japan's most prominent awards for women

July 2018

Started maternity leave substitute pharmacist dispatch service for hospitals

August 2018

Authorized as a registered business operator for telemedicine at the National Strategic Special Zone in Fukuoka City

Health Support Pharmacy

Dispensing Pharmacy Business

Pharmaceutical Manufacturing and Sales Business

Medical Professional Staffing and Placement Business

Group companies

April 2018

Medical Resources

Commenced nationwide rollout of Medical Staffing Business

June 2018

Nihon Generic

Relocated Tsukuba Laboratory as part of the consolidation of R&D sites

June 2018

Nihon Generic, Choseido Pharmaceuticals

Released 13 new drugs with 7 different active ingredients

June 2018

Medical Resources

Started Registered Pharmaceutical Medicines Sellers Staffing Business

July 2018

Japan Medical Research Institute

Held its 2018 symposium entitled "Prescription Data Analysis Case Study and New Initiatives Aimed at Disease Prevention to Survive in a New Medical Environment"

December 2018

Nihon Generic, Choseido Pharmaceutical

Released 14 new drugs with 8 different active ingredients

December 2018

Nihon Generic

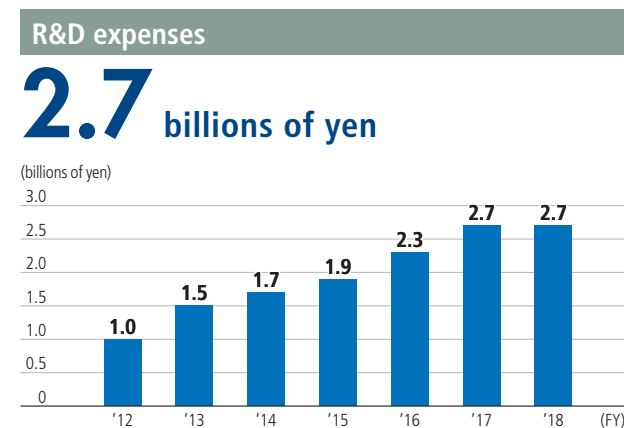
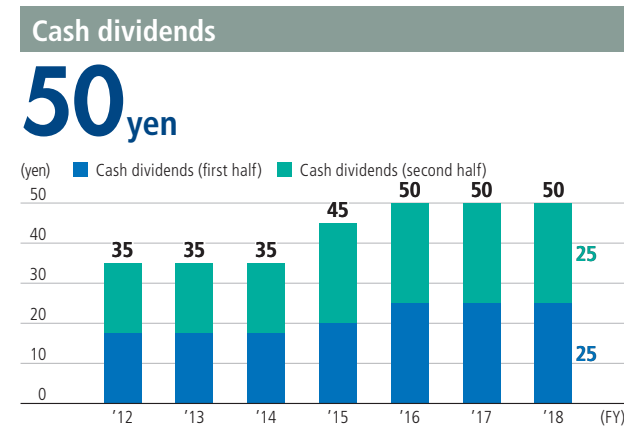
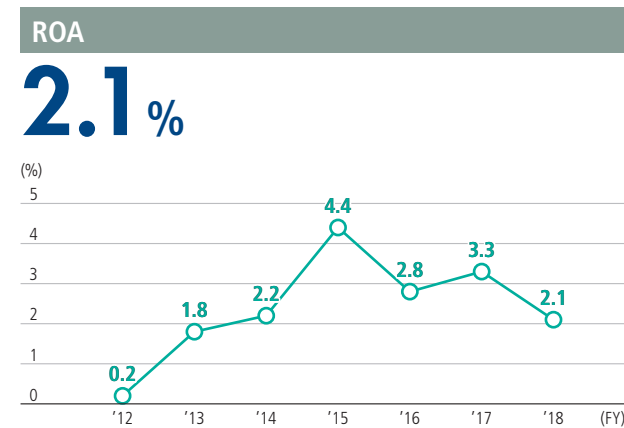
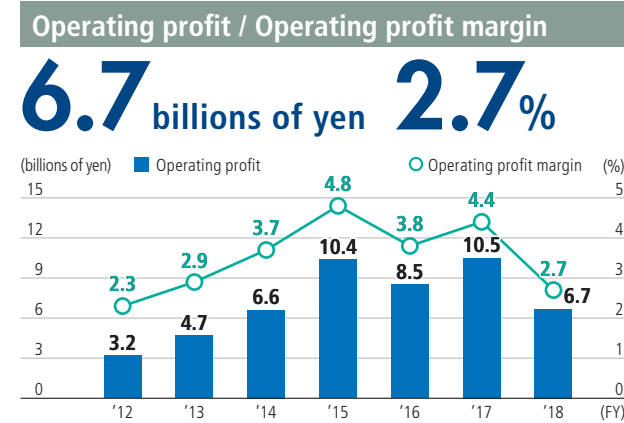
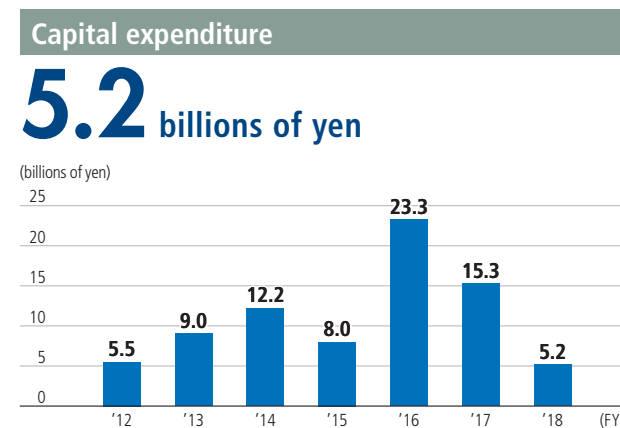
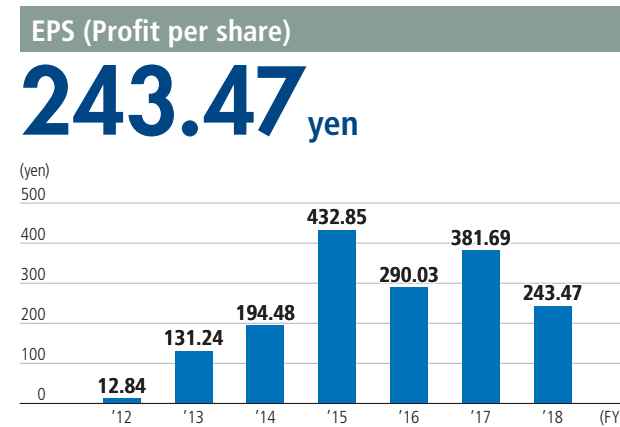
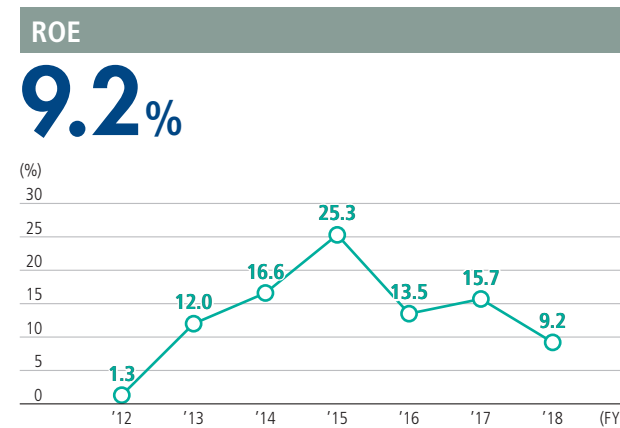
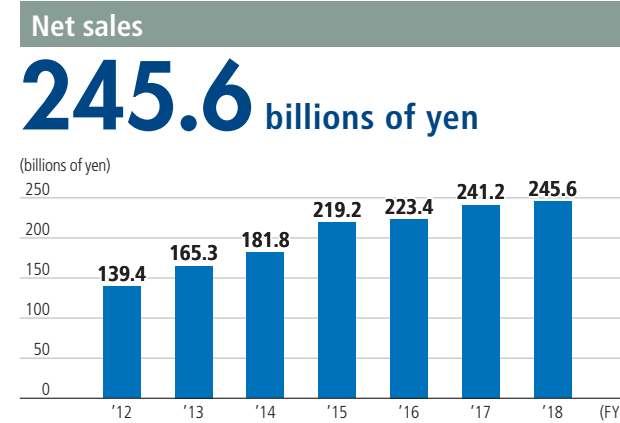
Launched hair-growth promotional product, Minoxidil Lotion 5% "JG," the Company's first over-the-counter drug

March 2019

Medical Resources

Renewal of Excellent Job Placement Agency certification, a system promoted by The Ministry of Health, Labour and Welfare

Financial Highlights



2

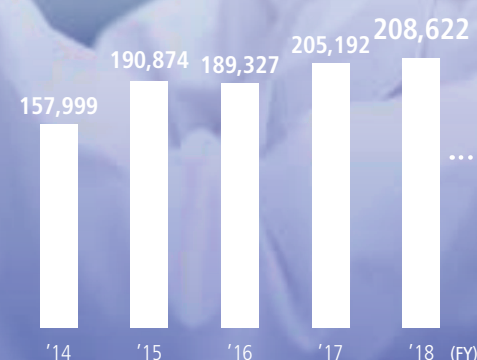
Business Performance

- 27 Dispensing Pharmacy Business
- 35 Information Provision and Consulting Business
- 37 Pharmaceutical Manufacturing and Sales Business
- 45 Medical Professional Staffing and Placement Business

Dispensing Pharmacy Business

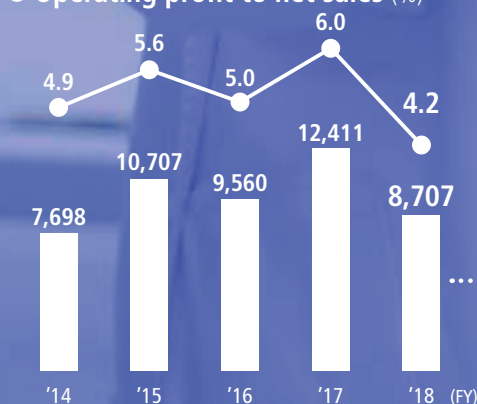
Nihon Chouzai Co., Ltd. and Dispensing Pharmacy Subsidiaries

■ Net sales (millions of yen)



Sales composition
79.5%

■ Operating profit (millions of yen)
● Operating profit to net sales (%)



Composition of Operating profit
72.2%

Long-Term Vision — Rapid Progress toward Industry Restructuring

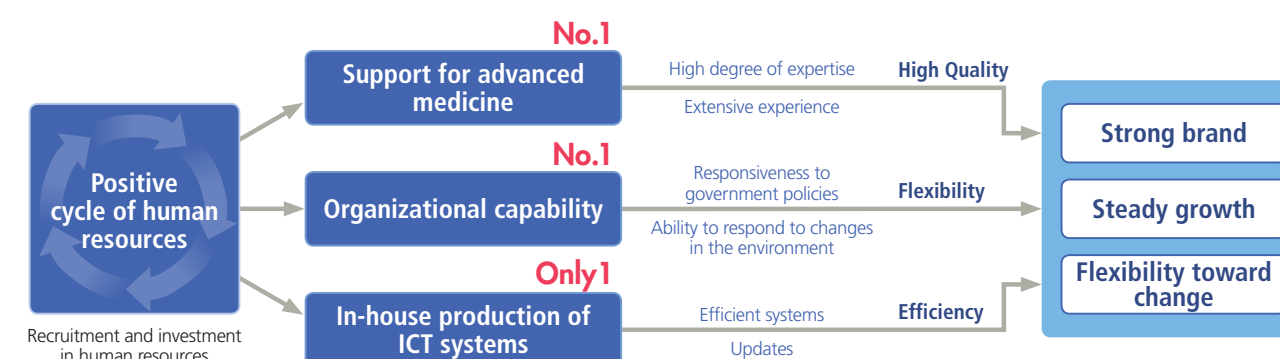
Nihon Chouzai's Growth Strategy

Nihon Chouzai's growth strategy in the Dispensing Pharmacy Business consists of three key factors centered on the positive cycle of human resources, which is the most important.

- 1 Support for advanced medicine
- 2 Organizational capability
- 3 In-house production of ICT systems

"Support for advanced medicine," the first strength that we developed since our founding, ensures that we have pharmacists with a high degree of expertise and extensive experience in the Company, and it creates high-value-added medical services that our rivals cannot surpass. "Organizational capability," our second strength, has enabled us to steadily overcome drug price and dispensing fee revisions with our strong responsiveness to government policies and measures and a changing environment. "In-house production of ICT systems," our third strength, creates the efficient systems needed for future pharmacy management through ongoing system investment, and we have achieved even greater efficiency with ICT by continuously updating it.

Growth strategy

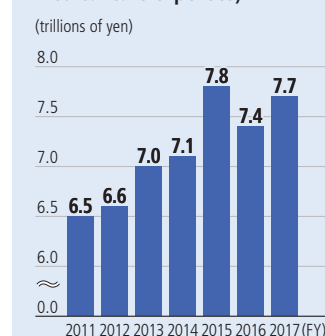


In the dispensing pharmacy industry, government-initiated drug price and dispensing fee revisions are performed, and the industry is said to be strongly regulated by government. With the rapid aging of the population as we head to 2025, the government has been implementing measures in rapid succession to control increasing medical costs. Continued severe drug price and dispensing fee revisions are expected due to the impact of tight financial

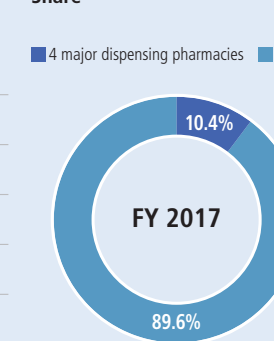
conditions. This harsh business environment will further increase the pressure on the dispensing pharmacy industry to restructure, and a considerable degree of consolidation can be expected to follow. Nihon Chouzai will successfully negotiate this industry restructuring with a strong growth strategy and seek further business expansion.

Market environment

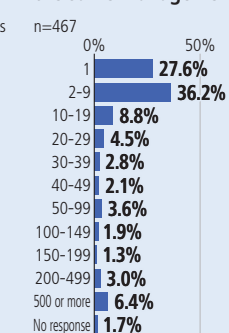
Market size (dispensing and medical care expenses)



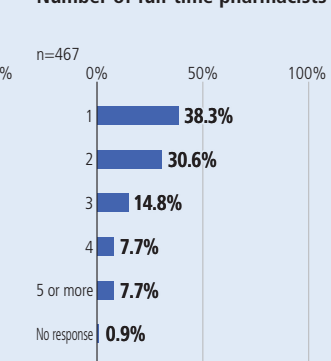
Share



Number of pharmacies under the same management



Number of full-time pharmacists



Market size and share: Trend of Dispensing and Medical Care Expenses, Ministry of Health, Labour and Welfare, prepared by Nihon Chouzai based on the securities reports of each company
Number of pharmacies under the same management and number of full-time pharmacists: Fact-Finding Survey Report for Achieving a Vision of Pharmacies for Patients, March 31, 2017, Ministry of Health, Labour and Welfare

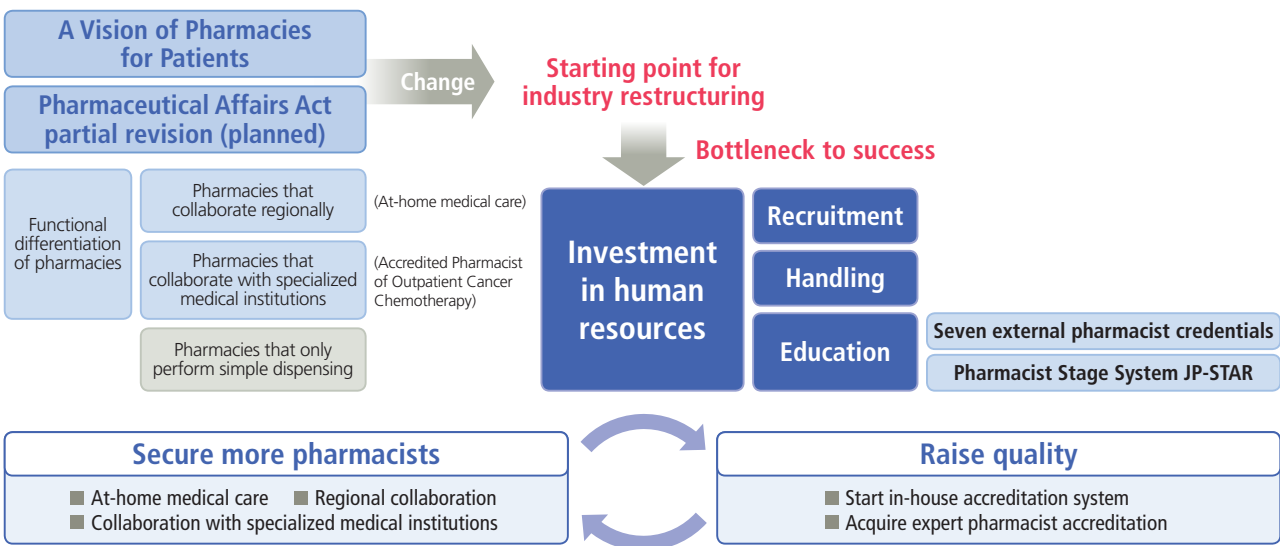
Growth Strategy: Achieve a Positive Cycle

Investment in Human Resources

Nihon Chouzai views people who support the Company as essential management resources and continuously invests in human resources. We are recognized within the industry as a company with topnotch, quality education, as exemplified by our providing various career opportunities and training.

Nihon Chouzai believes that “A Vision of Pharmacies for Patients” announced by the Ministry of Health, Labour and Welfare in October 2015, the proposed partial revision of the Pharmaceutical Affairs Act submitted to an ordinary session of the Diet, and the “strengthening of the interpersonal relations

skills of pharmacists,” common to both of these, will be the starting point of industry restructuring. It is expected that a higher level of interpersonal skills will be required than before and that the compensation structure will be balanced. Anticipating that these major, unprecedented changes will be the starting point of industry restructuring, Nihon Chouzai has made strategic resource investments for several years in people, who are the bottleneck to successful restructuring, and the foundation for growth is now in place.



Investment in human resources

Both “A Vision of Pharmacies for Patient” and the partially-revised Pharmaceutical Affairs Act calls for pharmacists and pharmacies to provide more efficient product services and stronger interpersonal service skills.

More efficient product services indicate that a portion of dispensing services has been replaced by the increasing use of internet communications technology. The strengthening of interpersonal service skills also requires the implementation of at-home medical care and support for advanced medicine, and inevitably many pharmacists with expertise will be required. We view these changes as an opportunity to continue investing in human resources, which will be an important factor for the industry's successful restructuring as we steadily prepare for medium- and long-term growth.

A Vision of Pharmacies for Patients

A Vision of Pharmacies for Patients indicates that all pharmacies will be restructured into family pharmacists and family pharmacies by 2025. We are encouraging the functional differentiation of pharmacies into two types: those with health support functions and those with advanced pharmacology management functions. The vision also indicates that the skills required of pharmacists will shift from product skills to interpersonal service skills.

Revised Pharmaceutical Affairs Act (Planned)

Certain revisions to the Pharmaceutical Affairs Act have been submitted to an ordinary session of the Diet in fiscal 2019 and are currently being discussed. It has been proposed that dispensing pharmacies be functionally differentiated into pharmacies that collaborate with medical institutions and nursing care providers, pharmacies that collaborate with specialized medical institutions that perform advanced medicine, and pharmacies that only perform simple dispensing.

Securing more pharmacists

A major component of Japan's population is the baby boomer generation born during the baby boom between 1947 and 1949. As we head to 2025, when all baby boomers will be over the age of 75, it will be essential to control increasing medical expenses, and the need for at-home medical care will increase. In light of this, it will be essential that future pharmacists and pharmacies address at-home medical care. At-home medical care, wherein a pharmacist visits a patient's home, is difficult for a pharmacy with only one pharmacist to address. The number of new recruits is an important factor in increasing the number of pharmacists per pharmacy.

Raise quality

Future pharmacists and pharmacies need to have the expertise to perform at-home medical care and advanced medicine based on family pharmacist and pharmacy functions. Today, it is said that around 80% of cancer patients are treated as outpatients, and the importance of patient follow-up by pharmacists is increasing. It is difficult to handle advanced medicine with pharmacy work experience alone, so we are trying to raise the quality of pharmacists through active participation in hospital training and other means.

Recruitment of High-quality Pharmacists

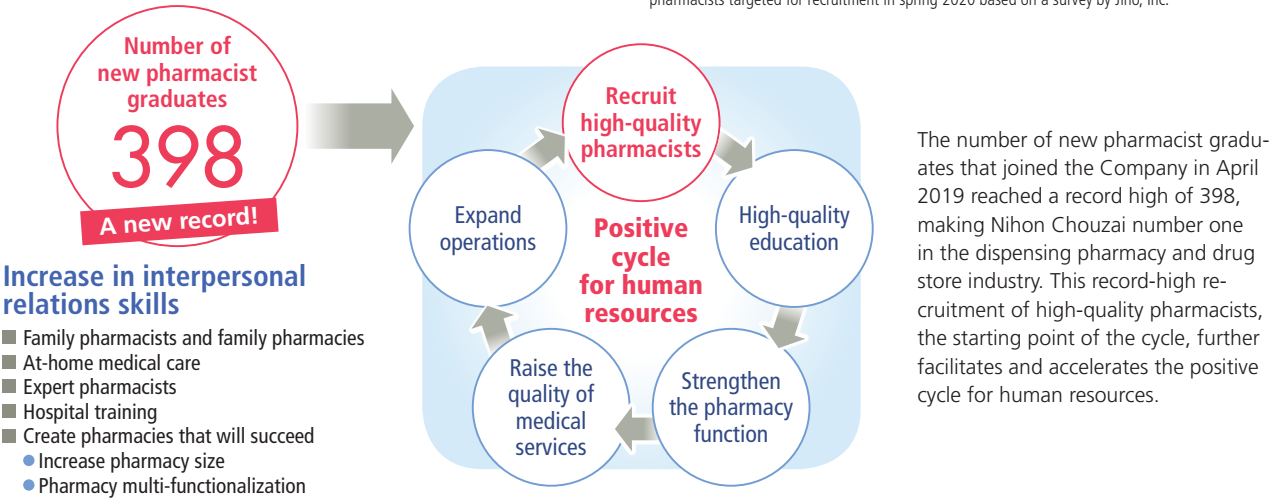
Because the pharmacist shortage in the dispensing pharmacy industry has continued for many years, the recruitment of pharmacists, who are essential to the long-term growth of the Company, has become a key management issue.

As a result of taking a strategic approach to recruitment activities, Nihon Chouzai has increased its recruitment of pharmacists and recruited high-quality pharmacists with the goal of providing advanced medical care and at-home medical care. In addition, pharmacists play an active role in various departments utilizing

their expertise thanks to investment in human resources, such as education and customer service and the preparation of a variety of career plans. The proportion of female pharmacists, who account for the majority of employees, is high at around 70%, and it is imperative and we must strengthen our efforts to advance women in the workplace. The active role played by pharmacists with diverse backgrounds and a wide range of experience has become the driving force behind Nihon Chouzai's growth.

Results No.1* in the dispensing pharmacy and drugstore industry

* The number of pharmacists entering major pharmacy chains in spring 2019 and the number of new pharmacists targeted for recruitment in spring 2020 based on a survey by Jiho, Inc.



High-quality Education

Although we have established a quality education system, we launched the Pharmacist Stage System JP-STAR in April 2018, in addition to our existing 15-step-up training. Through training and self-study, pharmacists can advance their stage by obtaining knowledge and technology, and we look forward to improvements in their expertise and motivation. Also, since it is extremely difficult to acquire the seven external pharmacist credentials for expert pharmacists through pharmacy work experience alone, the Company totally supports pharmacists, even with costs, by encouraging them to participate in hospital training at more than 15 locations nationwide.



Personnel system JP-STAR, the Pharmacist Stage System

* Started operation in April 2018



Seven external pharmacist credentials for expert pharmacists

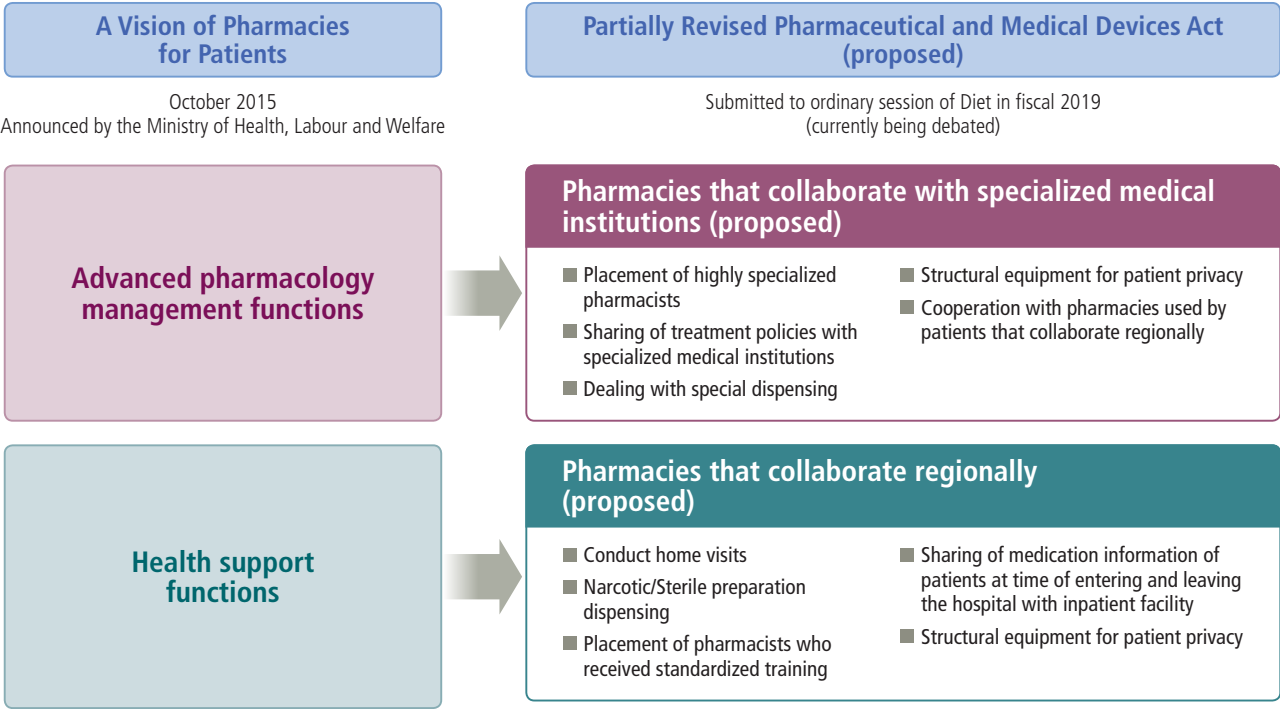
1. Accredited Pharmacist of Outpatient Cancer Chemotherapy
2. Expert Pharmacist (certified) in Kidney Disease Drug Therapy
3. Nutrition Support Team Expert Therapist
4. Board Certified Pharmacist in Diabetes Drug Therapy
5. Board Certified Pharmacist in Palliative Pharmacy
6. Expert Pharmacist in Cancer
7. Board Certified Pharmacist in HIV Infection Drug Therapy

Growth Strategy: Achieve a Positive Cycle

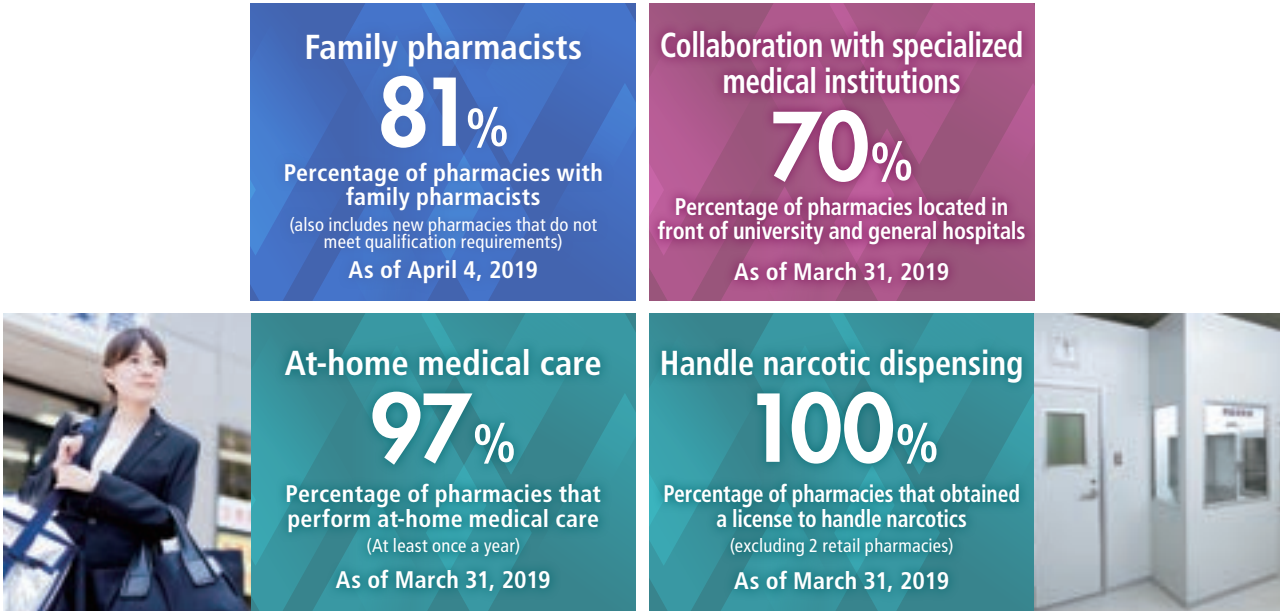
Strengthen Pharmacy Function

A Vision of Pharmacies for Patients, announced by the Ministry of Health, Labour and Welfare, specifically indicated the functions required of future pharmacists and pharmacies. Similarly, the partially revised Pharmaceutical and Medical Devices Act submitted to an ordinary session of the Diet in fiscal 2019 also indicated the

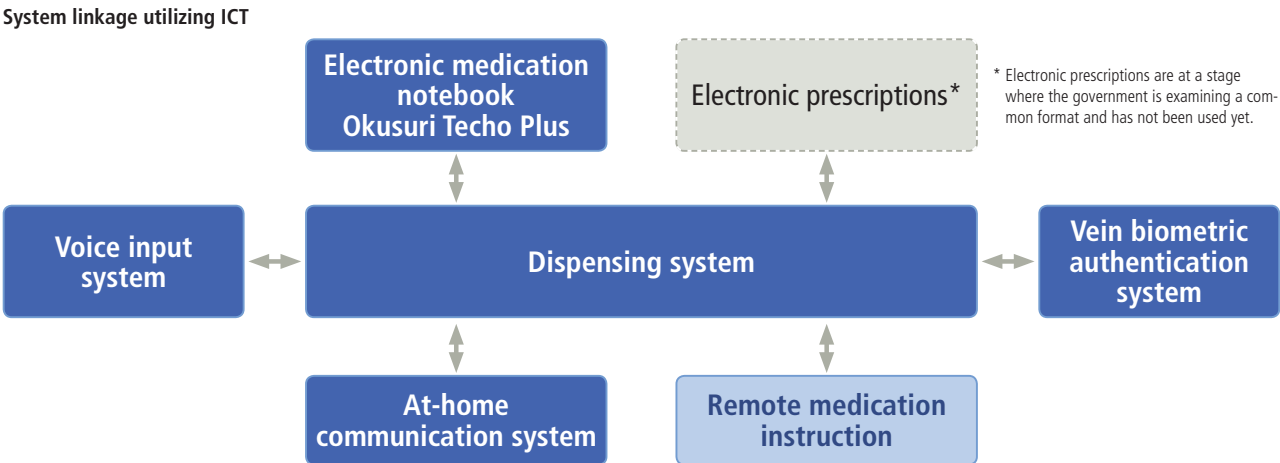
need to strengthen interpersonal relations skills. What is required of both is to control increasing medical costs and to continue to provide efficient, high-quality medical care.



Website of the Ministry of Health, Labour and Welfare: Excerpt from the proposed law at the 198th ordinary session of the Diet




Quality Improvement of Medical Services




Dispensing system

Nihon Chouzai has been investing in ICT for many years and is the only company in the dispensing pharmacy industry to develop by itself and operate a dispensing system for use in pharmacy work. Our proprietary dispensing system helps streamline work and supports pharmacists' work by enabling linkage with the at-home communication system and electronic medication notebook.



Voice input system

We have introduced a voice input system that assists with the input of medication history after the pharmacist has provided the medication instructions. The system's voice recognition function is highly accurate, and it supports technical terminology. At pharmacies that have introduced this system, the time it takes to input medication history can be shortened and the entry can be updated.



Electronic medication notebook Okusuri Techo Plus

The electronic medication notebook Okusuri Techo Plus links with the dispensing system to enable centralized management of medication history. Furthermore, the electronic notebook is also equipped with a personal health record (PHR) function that offers tremendous convenience by linking data from weight scales and blood glucose measuring devices and helps manage the patient's daily habits and health.




At-home communication system

We have devised a system that enables the pharmacist to access the at-home communication system using a tablet PC that can be carried around when performing at-home medical care, and records of past history and at-home medical care can be checked and entered on the spot. The system is used as a tool to streamline the work of pharmacists who conduct at-home medical care and collaborate with local doctors, thus providing high-quality medical care.



Vein biometric authentication system

Nihon Chouzai has introduced a vein biometric authentication system utilizing finger veins that is linked to a dispensing system. This system applies a time stamp for work performed and guarantees the work's authenticity. At the same time, work can be managed, and this promotes work-style reforms by optimizing working hours.



Remote medication instruction

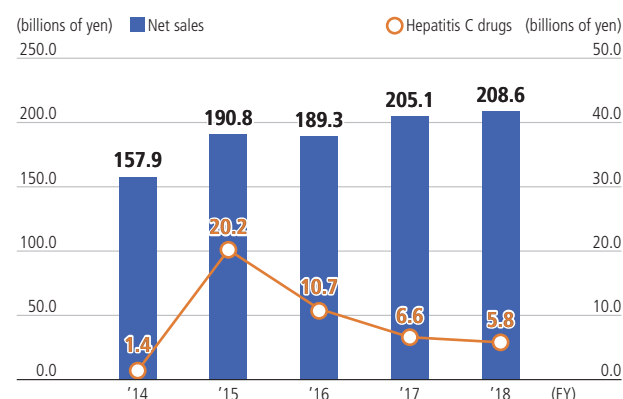
Currently, remote medication instruction is only allowed in National Strategic Special Zones in Aichi Prefecture, Fukuoka City in Fukuoka Prefecture, and Yabu City in Hyogo Prefecture. Nine patients (as of March 31, 2019) have received such instruction. Nihon Chouzai registered a business that performs remote medication instruction in the National Strategic Special Zones in Aichi Prefecture and Fukuoka City in Fukuoka Prefecture, and conducted remote medication instruction in Aichi Prefecture in February 2019. For patients in areas with no pharmacies, pharmacists remotely explain the medicines and work to improve patient convenience.

Growth Strategy: Achieve a Positive Cycle

Expand Business Operations

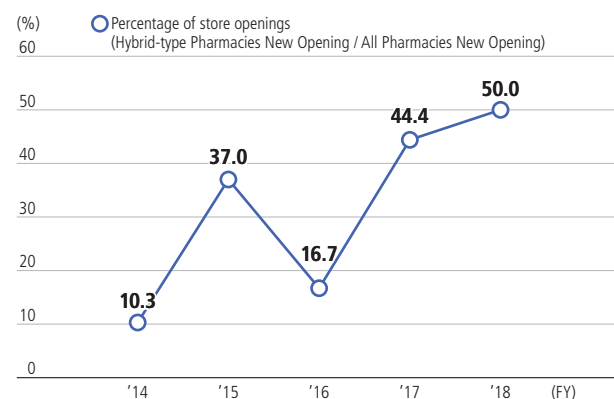
Net sales

Sales continued to steadily increase despite the effects of drug price and dispensing fee revisions. The sales amount of expensive hepatitis C drug use was cut in half in fiscal 2016, peaking at 20.2 billion yen in fiscal 2015, and it is now around 5.0 billion yen. This trend is one reason for the decline in sales from fiscal 2015 to fiscal 2016, but in real terms, excluding the impact of hepatitis C drugs, sales have continuously increased, and we are achieving continuous growth through the steady opening of pharmacies, mainly Nihon Chouzai pharmacies.



Pharmacy opening strategy

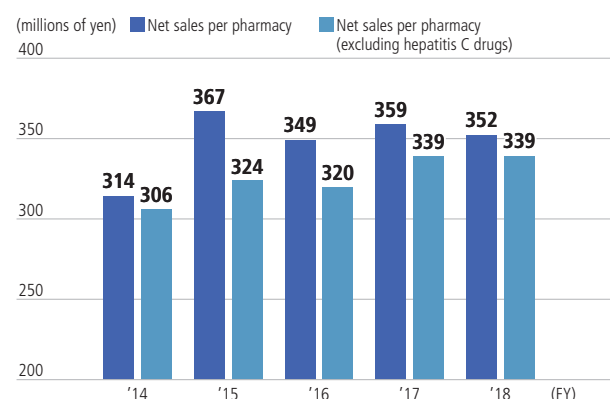
According to the Long-term Vision announced by the Company in April 2018, Nihon Chouzai seeks to change the current pharmacy mix of 70% for hospital-front pharmacies and 30% for hybrid-type pharmacies to 50% for hospital-front pharmacies and 50% for hybrid-type pharmacies, while working to increase its overall number of pharmacies by fiscal 2030. Although it will vary depending on the fiscal year, in the future, while emphasizing the opening of hybrid-type pharmacies, our strategy is to open hospital-front pharmacies and hybrid-type pharmacies in a balanced manner.



* Hybrid-type pharmacy: see Explanation of Terminology, page 76

Net sales per pharmacy

Nihon Chouzai regards net sales per pharmacy as a key factor to successful industry restructuring. We view collaboration with specialized medical institutions and the performance of at-home medical care as essential to achieving A Vision of Pharmacies for Patients. To carry these out, multiple pharmacists and pharmacies of ample size are both required. Therefore, we are opening Nihon Chouzai pharmacies and pharmacies through mergers and acquisitions, with a focus on pharmacies of ample size or larger.



Trend in pharmacy openings

Our pharmacy opening strategy is centered on the opening of Nihon Chouzai pharmacies, but we also actively pursue M&A depending on pharmacy size and other conditions. Because dispensing fees are expected to be severely reduced through revisions, our strategy is to open Nihon Chouzai pharmacies and conduct M&A focusing exclusively on pharmacies that have a chance of future success. Since combining and merging small pharmacies would saddle us with pharmacies that have no chance of success, we conduct M&A by carefully examining one pharmacy at a time.

(FY)	'14	'15	'16	'17	'18
Pharmacy openings	29	27	42	36	32
Nihon Chouzai pharmacies	28	22	21	23	26
M&A	1	5	21	13	6
Pharmacy closures	12	11	12	8	19
No. of pharmacies at fiscal year-end	511	527	557	585	598

Growth Strategy: Various Approaches

Initiatives to Enhance Health Support Functions

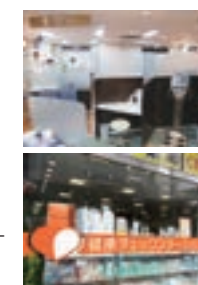
Health Check Stations

As a health support function, Nihon Chouzai set up in-pharmacy Health Check Stations and is proactively working to maintain the health of local residents and on pre-symptomatic disease prevention. Blood pressure meters and body composition measurement equipment have been installed in the Health Check Stations, and a variety of measurements and nutritional consultations by registered dietitians are conducted there.

	March 2017	March 2018	March 2019
No. of Health Check Stations*	3	37	63

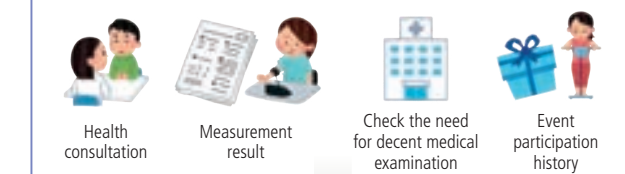
* The Health Check Station is a registered trademark of Nihon Chouzai Co., Ltd.

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



Health Consultation System

Started in November 2017



Holding of health event led by a registered dietician
Consolidation of various information including health consultations

Actively support pre-symptomatic disease prevention for local residents utilizing ICT

Increasing tendency of local residents to visit the pharmacy

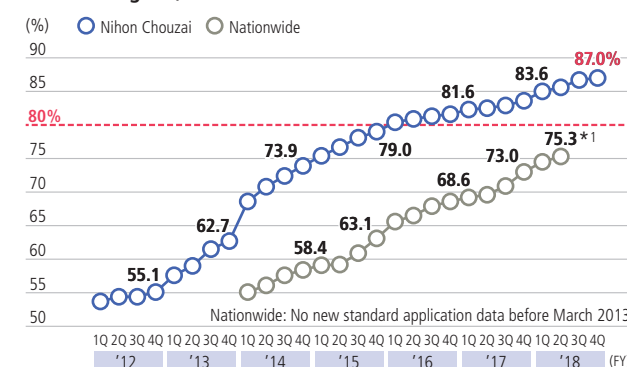
(Local residents without prescriptions are also increasing)

Initiatives to Control the Increasing Costs of Medical Care

Trend of use of generic drugs, volume based

We achieved the government target of 80% set for September 30, 2020 two years ahead of schedule. At present, we have achieved the industry's leading share of generic drug use, volume-based at 87%.

Generic drug use, volume-based



Promoting the use of generic drugs leads to control of increasing medical costs

Internal sales of the pharmaceutical manufacturing and sales business are expanding (Group synergies)

*1 Trend of Dispensing and Medical Care Expenses, generics ratio, volume-based (new indicator), Ministry of Health, Labour and Welfare

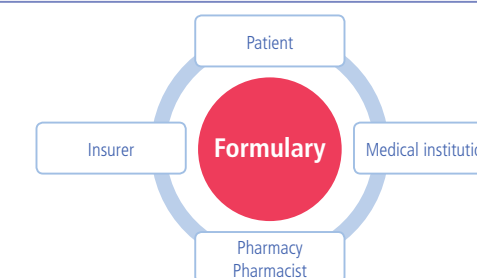
Promotion of formulary

To fully advance formularies that we have been working on, we established the Formulary Business Promotion Division in April 2019, which we are further disseminating and promoting.

Establishment of Formulary Business Promotion Division

(April 1, 2019)

To support the regional medical care economy of the future, we seek to pursue and spread a "true formulary" *2 in each region.



Spread formularies
⇒ Leads to control of increasing medical costs

Generic drug use volume is increasing
⇒ Market expands as a result

*2 Guideline for pharmacists that provides drug treatment with the goal of proper medicine use and medical care safety for doctors' standard treatments in accordance with medical care guidelines.

Information Provision and Consulting Business

Japan Medical Research Institute Co., Ltd. (Established January 2012)

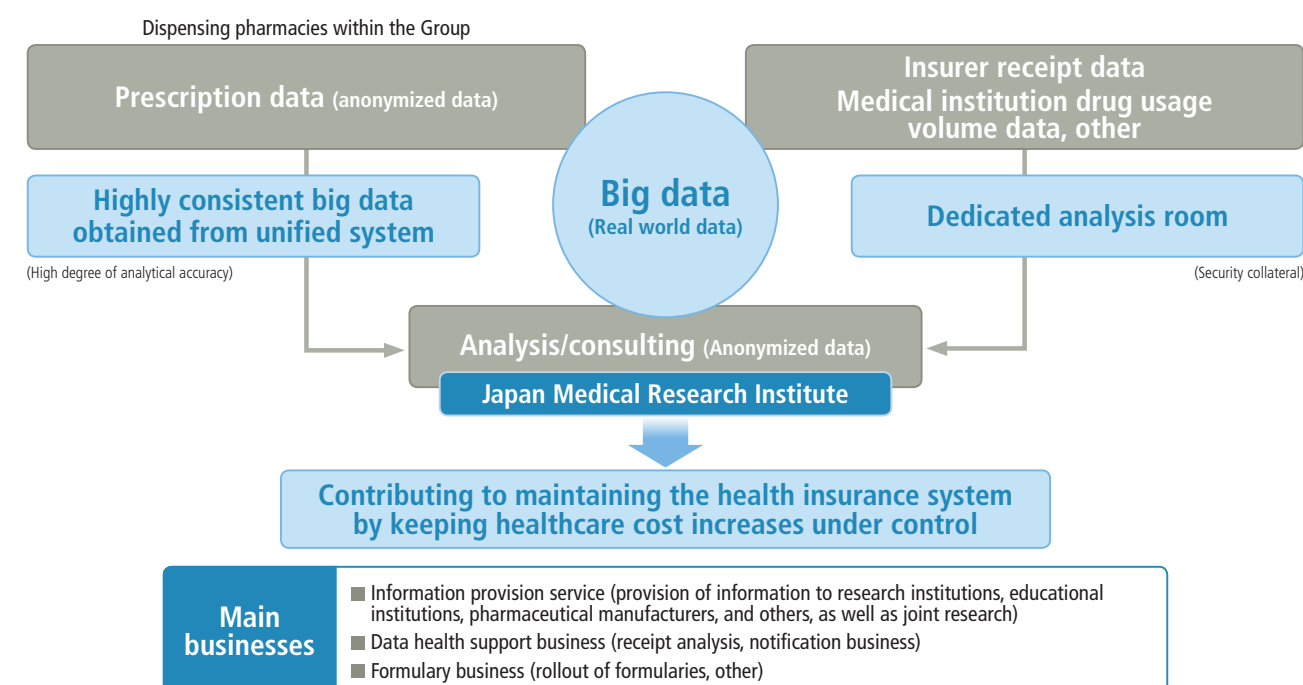
Information Provision and Consulting Business financial results are included in the Dispensing Pharmacy Business segment of the Company's consolidated financial statements.

For a Future of Ample Medical Care

Striving to provide its vision of high-quality medical care at low cost



Business model



① High-quality information provision service that utilizes real-world data

Based on the foundation of RI-CORE, which commenced services in fiscal 2017, the information provision service offers development and operation of analytical tools to process an entire five-year period of prescription data gained from Group dispensing pharmacies. This is big data of approximately 250 million prescription records, which, when integrated with information provided by pharmacists, achieves a maximum degree of synergies with the Dispensing Pharmacy Business to realize high-value-added data that is unrivaled in the industry. Providing this real-world data to universities, medical institutions, pharmaceutical manufacturers and others, as well as conducting joint research, contributes to improving patient adherence (medication management) and rationalizing medical expenses.

② Data health initiatives and formulary collaboration

The Japan Medical Research Institute conducts various data health initiatives that leverage its accumulated expertise in data analysis, as well as its consulting capabilities. This is demonstrated by the analyses and simulations it conducts based on anonymized data obtained from health insurance associations, which it then utilizes to support the introduction of formularies. This is a service that is Nihon Chouzai's proprietary technology. Formularies are already in place in Europe and the United States, but in Japan, where controlling rising medical care costs in an ultra-aging society is a topic of much discussion, formularies have just started to be introduced, and it is anticipated that they will spread in the future.

Information Provision Service "RI-CORE"

Providing high-value-added information that competitors cannot match

The information provision service RI-CORE is the foundation upon which analytical tools are developed and operated to process the information obtained from prescription data. Surveys, research, information provision and consulting businesses are conducted for research institutions, educational institutions, pharmaceutical manufacturers and others.

One example was the survey conducted at Nihon Chouzai pharmacies with the objective of promoting the use of generic drugs, announced at the 12th Conference of the Japanese Society of Generic and Biosimilar Medicines, held in July 2018. By integrating big data, such as the anonymized prescription data from the Group's Dispensing Pharmacy Business, together with questionnaire surveys that pharmacists conducted at pharmacies, the result was high-value-added information unparalleled in the industry. Providing information in this manner enables us to contribute to the rationalization of medical care costs.



In-store Promotion Advertising Media Services

Also contributing to the advance of self-medication

We perform in-store promotion (IP) and advertising media services conducted in stores by positioning a variety of IP in easily seen areas of stores to target a total of over 14 million patients that visit every year.

Examples of IP we carry out include videos airing on in-store monitors and poster displays, merchandise displays, and the samplings and booklets distributed directly to patients by pharmacists. From last year we also expanded upon efforts for samplings and other services performed by national registered dietitians and have been conveying useful information to patients who visit our pharmacies. Moreover, while linking these services to provide information, we are also taking up the challenge of new initiatives that bring data and people together and endeavoring to promote self-medication.

Formulary Study Groups

Promoting the spread of formularies

In fiscal 2017, we held formulary efficacy seminars for hospital management eight times at seven venues nationwide. In fiscal 2018, we held seminars under the theme of stopping the breakdown of the medical insurance system and the upcoming start of regional formulary activities, twice in Tokyo and a cumulative total of four times in Tokyo, Nagoya and Osaka. A number of instructors spoke from the perspective of a variety of positions: speakers were from Nihonkai Healthcare Net, an organization which promotes regional medical care cooperation, the Shizuoka branch of Japan Health Insurance Association, which gave the insurer's view, St. Marianna University School of Medicine, and Keiso Masuhara, a director of the Japan Medical Research Institute (currently a director at Nihon Chouzai). All speakers presented the current situation and issues surrounding the medical care industry from their point of view and announced initiatives with regard to establishing formularies. The participating insurers and hospital management staff, whose numbers had increased substantially, learned of the rising momentum that formularies have been experiencing recently.



What is a "formulary?"

A formulary is defined as a policy for drug use that provides patients with optimal efficacy and cost-effectiveness, and they are standard management guidelines for proper usage now well established in Europe and the U.S. Both in the short term and long term, formularies are expected to offer a cost-controlling effect while maintaining quality medical care. In Japan as well, certain medical institutions such as university hospitals and others have introduced formularies as policies for the usage of medical products, and with the thinking that they are an acceptable way to achieve a balance between healthcare quality and economy, there is increasing utilization of them in the delivery of standard medical treatments.

Pharmaceutical Manufacturing and Sales Business

Nihon Generic Co., Ltd. and Choseido Pharmaceutical Co., Ltd.

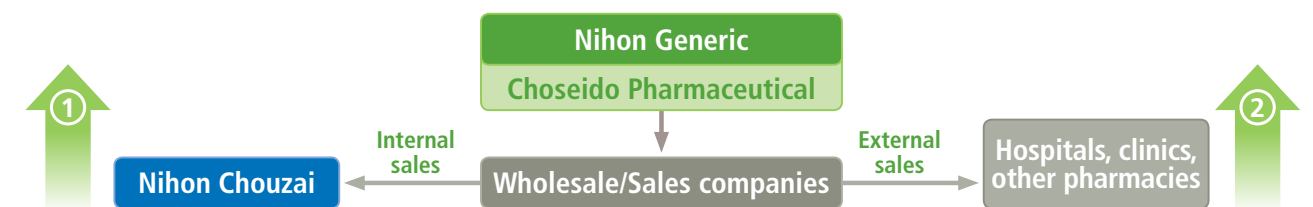
Pharmaceutical Manufacturing and Sales Business

Growth Strategy

Create Group Synergies Possessed Only by Nihon Chouzai and Steadily Expand Operations

- ① Together with the expansion of the dispensing pharmacy business within the Nihon Chouzai Group, the Company possesses an unrivaled business model that is expanding the Pharmaceutical Manufacturing and Sales Business (Nihon Generic Co., Ltd. and Choseido Pharmaceutical Co., Ltd.). As the only corporate group in Japan with both dispensing pharmacies and drug manufacturing companies, the Nihon Chouzai Group is taking full advantage of Group synergies to steadily expand its business.
- ② With Nihon Chouzai's purchase of Nihon Generic's and Choseido Pharmaceutical's generic drugs, which are sold through wholesale companies, its generic drug distribution network is expanding into wholesale distribution channels nationwide, and it has built a unique business model that is growing external sales.

Group synergies



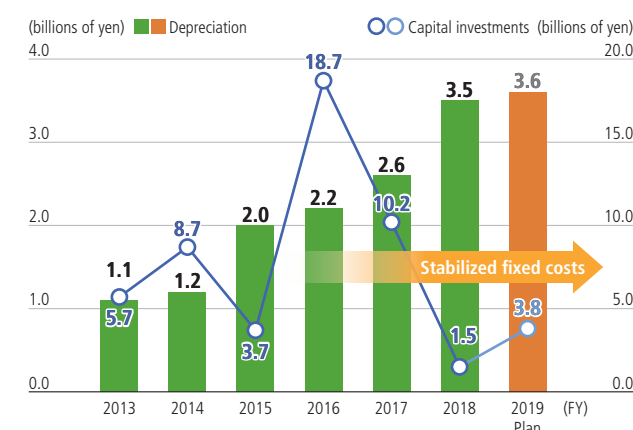
Prior investment completed → Sales strategy review / Cost control → Profitability improvement

The completion of Tsukuba No. 2 Plant and the relocation of the Tsukuba Research Institute brought to an end several years of investment in Nihon Generics and Choseido Pharmaceuticals. In fiscal 2018, due to increased depreciation associated with the start of operations at Tsukuba Plant No. 2, personnel costs, and other factors, the Company created an operating profit target of about 50 million yen annually, but operating profit significantly exceeded the initial forecast and reached a total of about 1.9 billion yen. We are confident about the V-shaped recovery of operating profit for the next fiscal year.

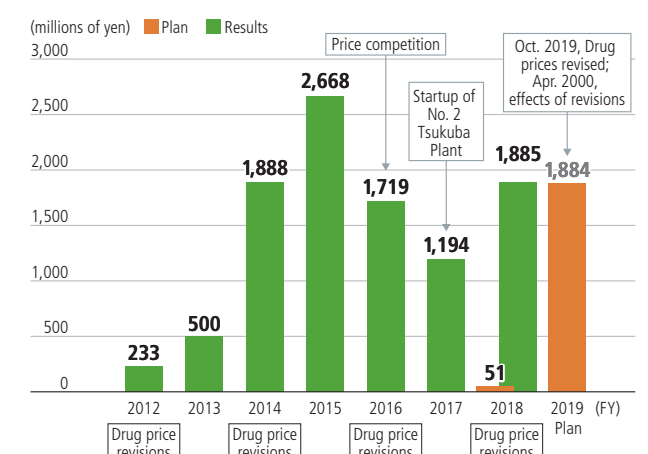


Tsukuba Plant No. 2

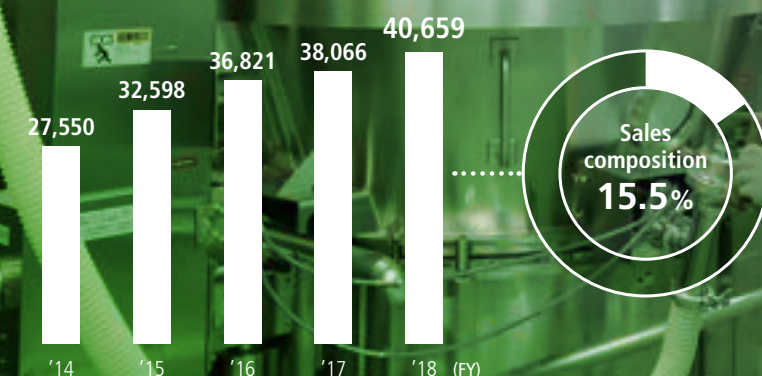
Cost of capital investments and depreciation costs



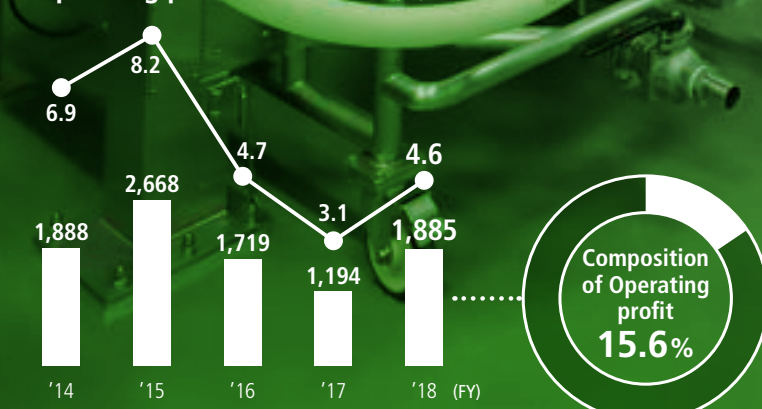
Operating Profit



Net sales (millions of yen)



Operating profit (millions of yen) Operating profit to net sales (%)

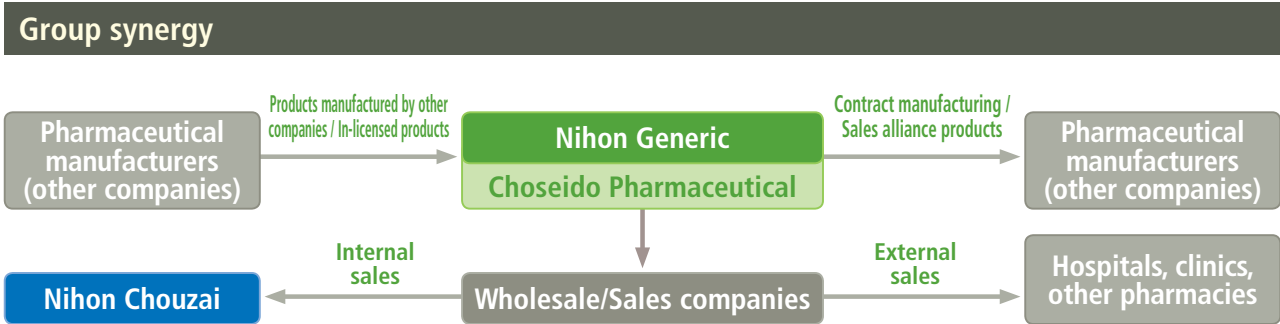


Growth Strategy

Expand Operations to Create Group Synergies

The Pharmaceutical Manufacturing and Sales Business consists of two manufacturing and sales companies, Nihon Generic and Choseido Pharmaceuticals, and these two operations are managed by taking advantage of their respective characteristics. In addition to the internal and external sales mentioned earlier, we contract out manufacturing to drug manufacturers and also sell out-licensed contract manufacturing products and sales alliance products. On the other hand, there are items we contract out to other compa-

nies to manufacture, and we also purchase in-licensed contract manufacturing products and sales alliance products. We have built an unrivaled business model, and the pharmaceutical manufacturing and sales business has achieved sales growth because Japan's leading dispensing pharmacy chain, Nihon Chouzai pharmacies, is part of the Group. We seek to further expand sales channels and sales growth through the measures shown below.



Internal sales	Convert generic drugs dispensed at Nihon Chouzai pharmacies into Nihon Generic and Choseido Pharmaceutical products Promote sales by converting generic drugs dispensed at Nihon Chouzai pharmacies into in-house products.
	Create synergistic effects with Nihon Chouzai's pharmacy strategy Together with the pharmacy opening strategy of the Dispensing Pharmacy Business, we can dramatically increase internal sales.
External sales	Expand external sales by leveraging internal sales growth Increase external sales through strong relationships with wholesalers that have been built up over the years in the Dispensing Pharmacy Business.
	Enhance development of DPC hospitals Increase the number of in-house products in major university hospitals and strengthen external sales by raising their recognition in the industry.
	Intensify development of company clinics Increase generic drug adoption in company clinics, especially in urban areas with many large companies.
	Draft/Promote plan for specific items From a product lineup of more than 600 items, conduct various sales promotion measures with the proper timing and frequency to achieve efficient sales promotion.
	Strengthen response to local formularies In the business of developing local formularies, while generic drug use is expected to drastically increase, the Pharmaceutical Manufacturing and Sales Business will create a framework to steadily follow this trend.

Enter OTC business

This is a business that started new initiatives expecting synergistic Group effects. In December 2018, we launched the hair growth agent Minoxidil Lotion JG. In fiscal 2019, we plans to place several items in Group dispensing pharmacies under the PDCA cycle.

Expand Operations with Out-licensed Contract Manufacturing Products and Sales Alliance Products

Contract manufacturing

Produce items developed by other companies at Nihon Generic and Choseido Pharmaceutical.

Contract manufacturing

The operation of Tsukuba No. 2 Plant will free up production lines at existing plants and enable us to manufacture other companies' products. In recent years, while generic drug use has increased, many generic drug manufacturers have been in difficult circumstances in terms of profitability due to annual price revisions, a decrease in blockbuster products (popular original drugs whose patents have expired), and stricter quality assurance. There are also cases in which manufacturers are hesitant to make new capital investments. Under these circumstances, we will actively work on contract manufacturing to help build up a stable industry-wide supply system. Choseido Pharmaceutical's Kawachi Plant is dedicated to producing cephem antibiotic formulations, and it will continue to further expand its market share with unrivaled originality.

Acquire new contract manufacturing of long-listed drugs

In Japan, as the switch to generic drugs progresses, the size of the original drug market itself is shrinking. Because the Group also has a small-lot production system, the Group is receiving an increasing number of contract manufacturing inquiries, and we expect this trend to continue.

Sales alliance products

Sales of items (Nihon Chouzai licensed products) that the Group holds manufacturing and sales approval for to other companies. Other companies sell these as their own products.

The startup of Tsukuba Plant No. 2 enabled us to move aggressively since it freed up production lines at existing plants. Our licensed products exceed 450 items (as of December 2018) and it is going to actively respond to inquiries from other manufacturers.

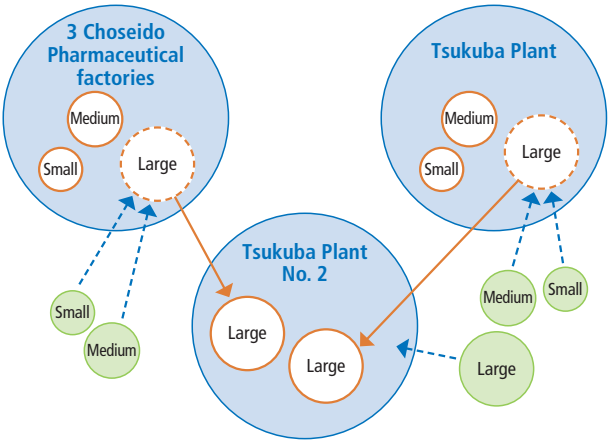
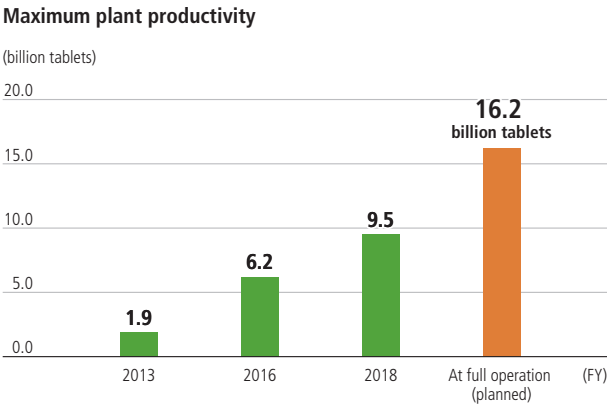
Expansion of Production Capacity

Tsukuba Plant No. 2 completed

Anticipating the establishment of a stable system of supply tailored to market trends and the expansion of the Dispensing Pharmacy Business, we have made aggressive upfront investments for several years and expanded production capacity. With the completion of the Tsukuba Plant No. 2 (phase 1 construction), the maximum production capacity, including the other four plants, will be 9.5 billion tablets, so we have built a production capacity that can sufficiently meet future demand increases.

Further expand contract manufacturing/sales alliance business

By transferring the production of large-lot products to the completed Tsukuba No. 2 Plant, we are utilizing the free lines available at the Tsukuba Plant and Choseido Pharmaceutical plant and have laid a foundation that will allow us to take on new businesses such as the contract manufacturing and sales alliance businesses. We are flexibly promoting total optimization among production bases within the Group.

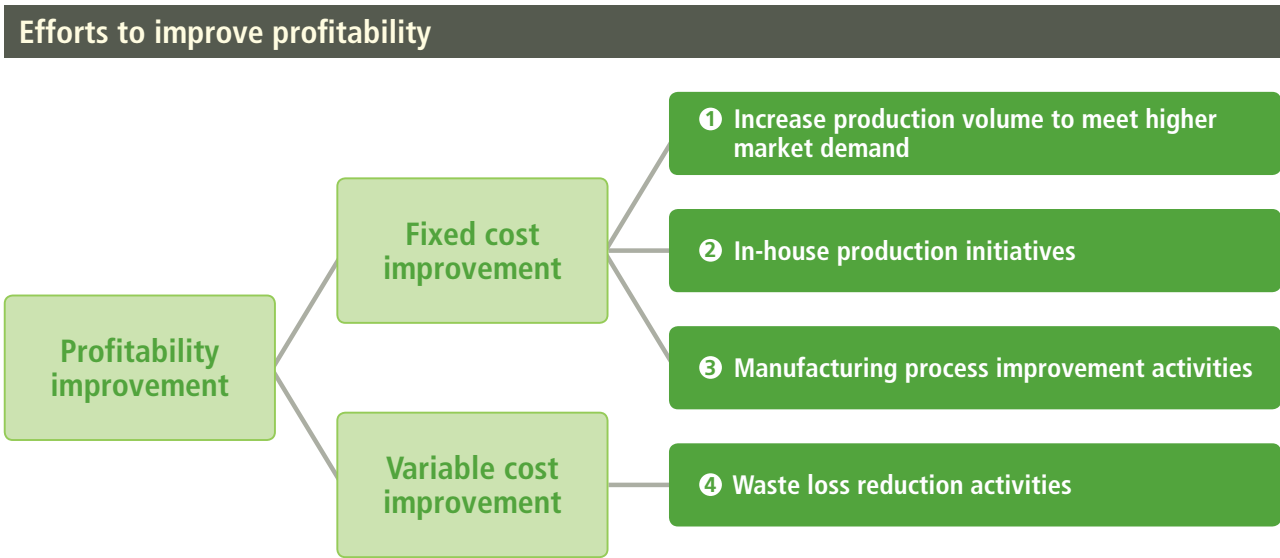


Growth Strategy

Profitability Improvement

Capital investment peaks out, profitability improves

Anticipating a labor environment (work-style reforms) where rapid change is expected along with measures to reduce medical costs (promotion of generic drug use and annual drug price revisions), we seek to improve profitability by gaining greater production volume while making full use of existing resources.



1 Increase production volume to meet higher market demand

To meet the 80% volume-based market share target for generic drugs in the generic drug market set by the national government, we expect further market expansion and production volume increases in the future, mainly due to strong promotions and formulary initiatives becoming commonplace.

2 Initiatives to promote in-house production

We are working on in-house production at Nihon Chouzai plants targeting items that are contract manufactured at other companies. Although it does not directly contribute to sales growth for items that have been used in Group dispensing pharmacies and in other medical institutions and pharmacies outside of the Group, it will lead to an improved operating rate and gross margin ratio at our Group plants, along with improved cash flow (by holding capital investment funds).

3 Manufacturing process improvement activities

We will take steps to improve fixed costs with efficient manufacturing by setting specific goals for the detailed review and improvement of the manufacturing process and continuously using the PDCA cycle. We will also focus on employee education as part of our improvement activities. With the goal of creating a culture where improvement activities can be enjoyed, we are now creating a mechanism that is able to maintain activities that sustain employee motivation.

4 Waste loss reduction activities

We are working to reduce wasteful product disposal by drawing up and implementing efficient production plans and producing the necessary products in the right amount when needed. Regarding sales, we have conducted improvement activities while being conscious of the cash conversion cycle (CCC). With a wide gap between production volume and sales volume, we have drawn up a supply chain management (SCM) strategy tailored to the characteristics of each item, leading to waste loss and more efficient operations.

R&D

R&D that maximizes group synergy

As a generic drug manufacturer with an unrivaled business model, we conduct development, manufacturing, and sales as a package.

Efficient R&D focused on items that are widely used at Nihon Chouzai pharmacies

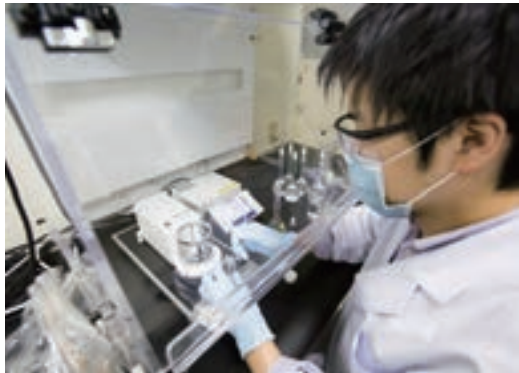
- The ability to predict sales volume for Nihon Chouzai in advance enables profit and recovery forecasting, leading to efficient development planning.
- As Nihon Chouzai is noted for reliability, other manufacturers can take part in joint development with peace of mind since development is carried out according to a plan.
- Because we must meet the need of pharmacies, our largest customers, we conduct a wide range of R&D that is unrelated to any particular disease. Although we deal with many medicines, in the end, we can accumulate the latest know-how and technology, resulting in a positive cycle.

The two research facilities, Nihon Generic and Choseido Pharmaceutical, utilize their respective expertise and know-how

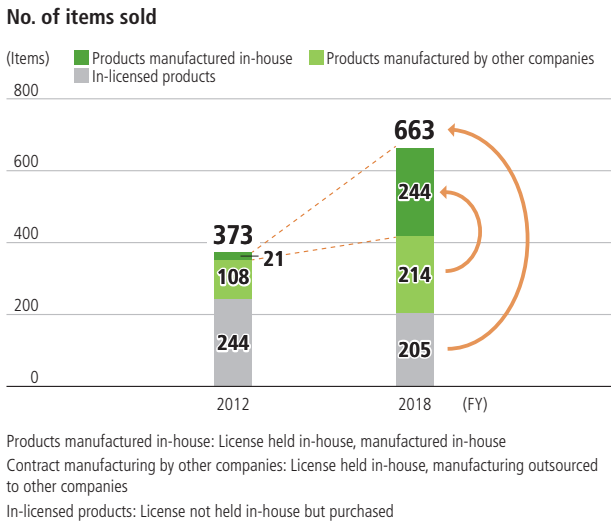
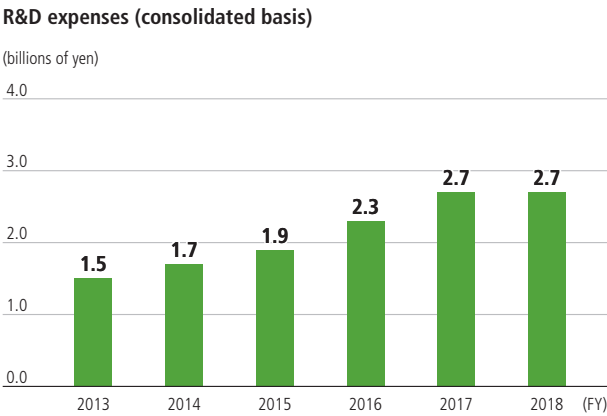
Efforts to minimize additional equipment investment by carrying out development appropriate to each manufacturing plant



Consolidate R&D bases (moved to Tsukuba Research Institute as of June 2018)



Analysis Research Center



Quality Control

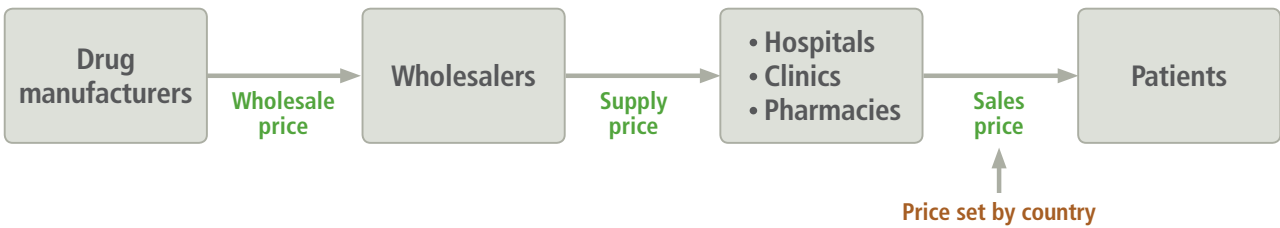
Conduct stricter quality control than before, set quality targets and begin operation.

Fiscal 2018 quality objectives

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

Market Environment

Distribution channels for medicines for medical treatment in Japan



Based on the Revised Distribution Guidelines, excessive price discount negotiations have been corrected and drugs are being distributed at an appropriate price. Both the wholesale and supply price tend to be raised.

Revised Distribution Guidelines

(Started using from April 2018)

1. Establish appropriate market prices in order to eliminate negative primary margin on sales
2. Promote early settlement and unit price-based/individual product transactions
3. Revise discount negotiations

Set appropriate wholesale price/rebate, etc.

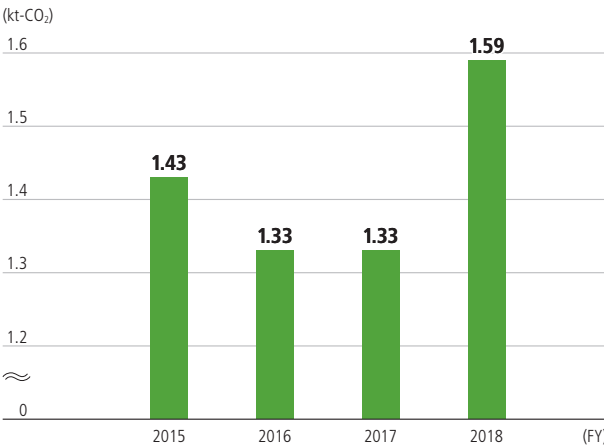
(Started using from April 2018)

1. Set an appropriate rebate that assesses the wholesale function
2. Reflect the wholesale price's corrected rebate item in the wholesale price

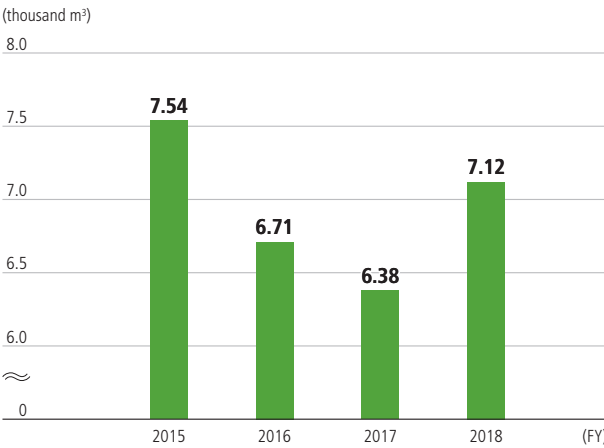
Environmental Initiatives

The Pharmaceutical Manufacturing and Sales Business reforms plant buildings it obtains and installs the latest equipment to ensure that CO₂ emissions, fresh-water usage, and electrical power usage are kept to a minimum. Newly constructed plants are designed from the planning stage to be environmentally friendly.

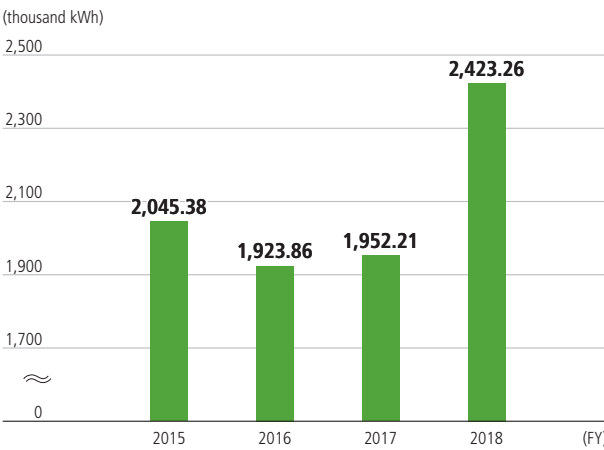
CO₂ emissions



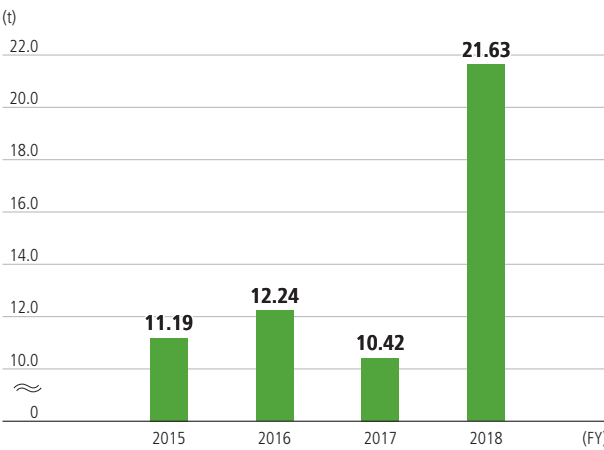
Fresh water consumption or water consumption



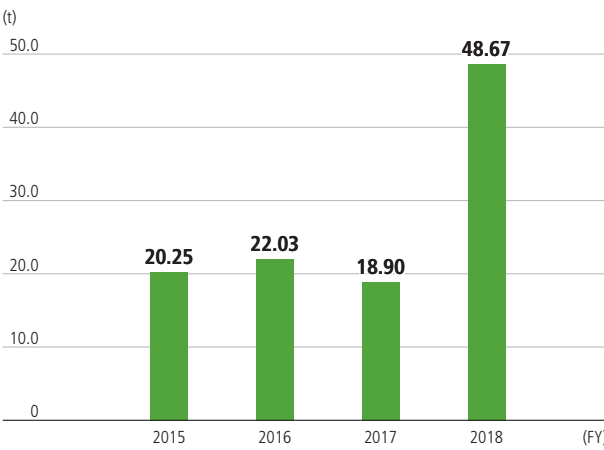
Electric power consumption



Amount recycled



Amount of waste material, etc.



Examples of environmental initiatives

1. Power consumption reduced at Tsukuba No. 2 Plant and No. 2 Plant at Choseido Pharmaceutical headquarters by decreasing chiller load with mist spray cooling using plant wastewater
2. Adoption of LED lighting at Tsukuba Plant, Tsukuba No. 2 Plant and Tokushima Research Institute
3. Decrease air conditioning load by adopting low air flow-type draft chamber at Tsukuba No. 2 Plant
4. Adoption of ultra-high-rate transformer capable of reducing loss by about 35% for top runner transformers at Tsukuba No. 2 Plant

Medical Professional Staffing and Placement Business

Medical Resources, Co. Ltd.



Providing high-value-added services to job providers (medical institutions and companies) and job seekers (doctors and pharmacists) as a comprehensive human resources service company for the medical industry

Growth
Average growth over a 7-year period (Fiscal 2012 – 2018)
21.9%

The medical industry can expect continuing high growth thanks to high demand for workers due to personnel shortages. Fields in which the Pharmacist Staffing and Placement Business is mainly engaged, including fields involving physicians, nurses, registered pharmaceutical medicine sellers, and other medical professionals are expanding.

Medical Professional Staffing and Placement Business
No.1

Pursuing group synergies
Leveraging the high-quality education system established by Nihon Chouzai, we dispatch and introduce high-quality pharmacists to medical worksites. We conduct business with the aim of further improving the quality of pharmacists who are responsible for achieving a true separation of drug prescribing and dispensing services.

Profitability
Operating margin (Fiscal 2018)
11.3%

The operating margin has temporarily declined due to upfront investments to expand the Pharmacist Staffing and Placement Business and the Medical Professional Staffing and Placement Business. This is an important year in which we invested in growth for the future, and we anticipate growth in fiscal 2019.

Ratio of internal sales and external sales
Internal sales 2%
External sales 98%

External supply of human resources
Medical Resources Co., Ltd., which engages in the Medical Professional Staffing and Placement Business, recruits human resources from the mid-career staffing market and dispatches and introduces them externally (to pharmacies other than Nihon Chouzai). The medical industry can supply high-quality human resources on a stable basis because of its many qualified professionals and highly mobile personnel.

Medical Professional Staffing and Placement Business

Strengths of the Pharmacist Business

Market for dispatching pharmacists

Sales No.1 Sales share 50%

Pharmacist Business

New job satisfaction 96.5%*

Brand strength

Matching quality

Advanced education know-how

15 facilities nationwide

* Customer satisfaction survey questionnaire (conducted by Medical Resources from July 25 to August 22, 2018)

Brand Power Generated by the Nihon Chouzai Group

Synergies with Nihon Chouzai's education

Medical Resources is a human resources business operated by Nihon Chouzai, a company with massive brand power in the medical industry and known for its high education level. It provides high-quality content to temporary staff and pharmacist placements, and it supplies high-value-added human resources. The advanced education system at pharmacies in the Nihon Chouzai pharmacy business is a strength unmatched by other companies.

* For details, see "Content Provided" on page 47.

15 Offices Provide Nationwide Coverage

Group management with national presence

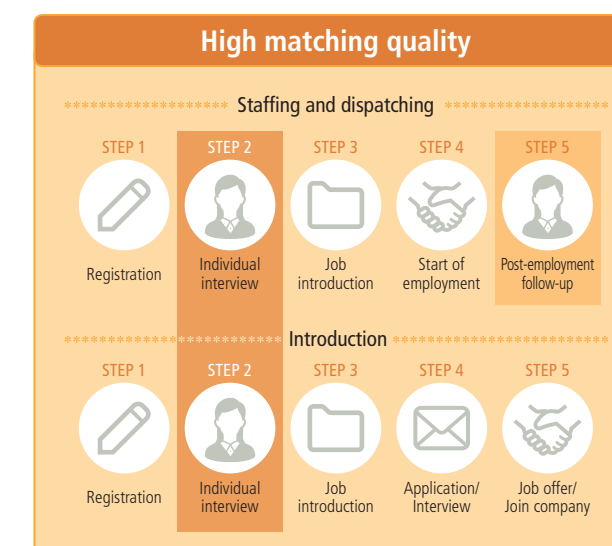
Like Nihon Chouzai, with facilities nationwide, Medical Resources' Pharmacist Business operates 15 offices throughout Japan and one head office. In fact, because its employees respond so meticulously to customer needs, it is able to differentiate itself from Internet-based-only human resource companies and has created a system that provides high customer satisfaction.

Matching Quality Underpins Customer Satisfaction

Peace of mind through face-to-face meetings

With facilities nationwide, Medical Resources can provide face-to-face counseling (outplacement counseling) to meet each and every pharmacist in a courteous manner and helps them find a satisfying place to work. It also provides detailed information on the distinctive characteristics of desired areas for work and the latest job change information.

There is a strong need for the people in charge of recruiting personnel for pharmacies to meet reliable job candidates face to face. We provide win-win matching quality for both pharmacists and recruiters of pharmacists to actually meet while using it as an opportunity to understand their other needs as well.



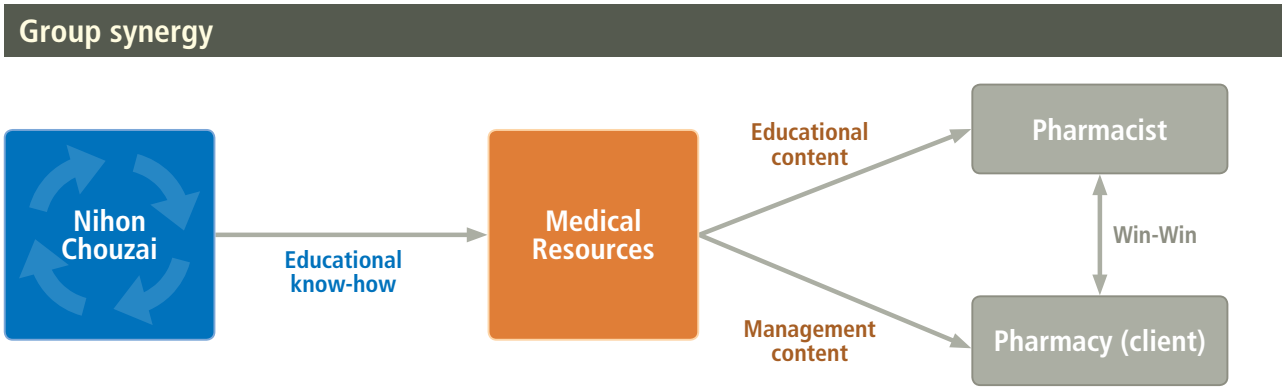
Strengths of the Pharmacist Business

Take Advantage of Advanced Educational Know-how to Provide High-quality and Up-to-date Content

Contribute to raising the quality of the medical industry as a whole

Medical Resources provides advanced educational content and management content to pharmacists and pharmacies outside the Group based on high-quality educational know-how provided by Nihon Chouzai. We are further promoting the achievement of a

true separation of drug prescribing and dispensing services and working to improve the quality of the medical industry as a whole through these efforts. In this way, Medical Resources will pursue sustainable growth and provide value to society by continuously operating its business as a company that society regards as indispensable.



Content Provided

WEB content	Yaku-Tore app	A dispensing textbook that has been edited by Nihon Chouzai is provided as an app for smartphones. It also deals with dispensing fee revisions.
	JP Learning	JP Learning is an e-learning course that allows one to obtain the credits needed to be certified as a family pharmacist. The course provides more than 1,000 pages of enhanced content.
Real content	Dispensing textbook	The textbook represents a portion of Nihon Chouzai's educational material converted to text. It provides practical information to help deal with dispensing fee revisions.
	Seminars for pharmacists	We hold seminars for pharmacists to learn the latest trends in the pharmacy industry.
	Retention program	This program is held as part of the health and welfare benefits for dispatched workers. We also hold money seminars as well as other seminars for working women.
	Management seminars	The pharmacy management seminar teaches Nihon Chouzai's management know-how.



Yaku-Tore app



JP Learning



Seminars for pharmacists

Growth Strategy

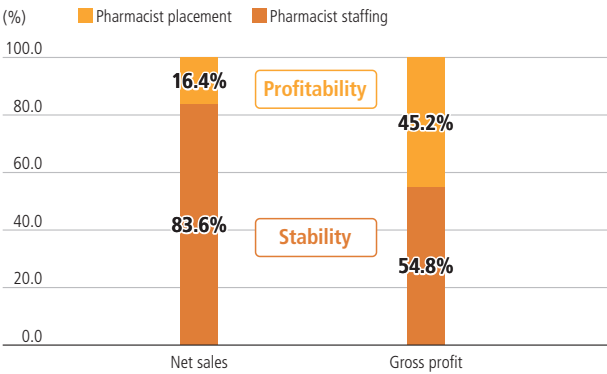
In Addition to the Continuing Stability of the Staffing Business, We Are Expanding the Placement Business

Because pharmacists hold a national qualification, it is easier for them to change jobs compared to regular occupations, and the job offers high personnel mobility. Furthermore, since women account for about 70% of all pharmacists, a distinctive feature is that many take maternity and childcare leave. Adding in the fluctuations of seasonal demand, the pharmacist shortage has remained constant.

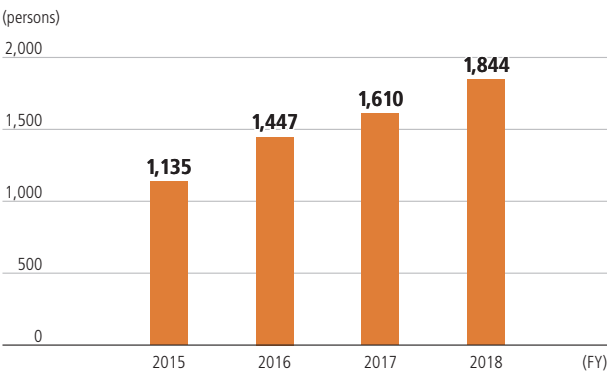
Because we can anticipate this high demand, we have always focused on the pharmacist staffing business where continuous sales can be expected as a core business. The aging of the population in recent years and the constant high demand for pharmacists are steadily expanding the business. At present, the Company has achieved about a 50% sales share in the pharmacist staffing market and is number one in the industry in sales results.

With an eye on further growth, Medical Resources has focused on increasing its market share of the highly profitable placement business while maintaining an overwhelmingly high share of the staffing business. In recent years, pharmacists' work has diversified (it now includes family pharmacists, at-home medical care, integrated community care teams, advanced pharmaceutical management, etc.) due to recent revisions to the system, and high quality is demanded of pharmacists. Medical Resources has steadily increased the number of pharmacists placed through close coordination with clients and a flexible response to market conditions. In preparation for further expansion of the Placement Business, in fiscal 2019, we will increase the number of sales offices and staff, and cultivate human resources. We seek higher profitability through expansion of the Placement Business.

Sales ratio and Gross profit ratio of Pharmacist Business



Number of pharmacists placed



Expansion of Service Lineup

Expand the Medical Professional Staffing and Placement Business

The Medical Professional Staffing and Placement Business was started in fiscal 2017, and sales in fiscal 2018 sharply increased, by 200%, year on year. We added four sales offices, doubled our sales staff and spent more on advertising. We seek to expand further from next fiscal year by activating our now larger sales staff.

Business offices	● Added four new offices, in Sapporo, Nagoya, Osaka, and Fukuoka
Sales staff	● Doubled
Advertising	● Website ● SNS

Began strengthening the registered pharmaceutical medicine sellers and nurse staffing businesses

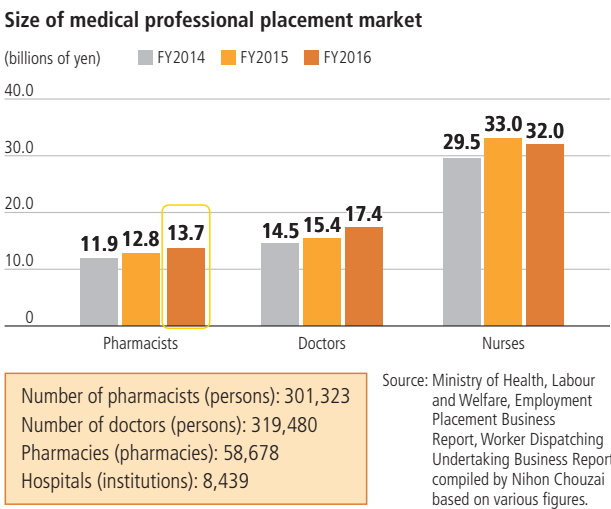
Demand for workers for registered pharmaceutical medicine sellers, who are qualified to sell Type 2 and Type 3 drugs from among over-the-counter (OTC) drugs, has increased. In fiscal 2018, because of high demand for workers in this area, a business unit was created. After taking this business nationwide, the number of job offers has reached 10,000 annually.

Since the nurse staffing business is a human resources market about twice the size of that for doctors and pharmacists, we will expand the market by updating the website in fiscal 2019 and improving our ability to attract customers.

Market Environment for Medical Professionals

Market Size and Nihon Chouzai’s Market Share of the Medical Professional Staffing and Placement Market

The size of the medical professional staffing and placement market in fiscal 2016 was 13.7 billion yen for pharmacists, 17.4 billion yen for doctors, and 32.0 billion yen for nurses. Since we have about a 50% share of the pharmacist staffing market, we will further expand our share of the placement market, which has significant room for growth. In addition, the placement market for doctors and nurses is larger than that for pharmacists, so we have significant room for market share growth. Although we are late-comers to this field, we will expand by leveraging the experience gained in the Pharmacist Business and our nationwide network of offices.



Changes in Market Conditions / Human Resources Demand

Demand for pharmacist placement has increased with the start of the family pharmacist system that resulted from medical service fee revisions in April 2016. On the other hand, overtime has been reduced due in part to work-style reforms, and pharmacist staffing demand remains high.

Furthermore, demand for high-quality pharmacists is larger than ever before due to the expansion of the pharmacists’ area of work. In addition to dispensing services, interpersonal services are

increasing due to at-home medical care, where interpersonal skills and expertise are required. As small- and medium-sized pharmacy chains and individual pharmacies account for approximately 80% of the prescription dispensing pharmacy industry, many pharmacies face the challenge of hiring a sufficient number of pharmacists, and the market environment always reflects a state of high demand.

Providing Highly Reliable Human Resources

While the dispensing pharmacy business has worked to improve the strength of Nihon Chouzai’s brand for 40 years, Medical Resources has worked to improve its matching quality through in-depth counseling over many years. As a result, based on an evaluation by a third-party institution, we received the Ministry of Health, Labour and Welfare’s “Excellent Job Placement Agency” and the “Excellent Temporary Staffing Agency” certifications. As a company that retains important personal information, we have also acquired the Privacy Mark. Therefore, we have been able to maintain a highly reliable staffing and placement business.



3 Base that supports Nihon Chouzai

- 51 Human Environment*
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- 67 Board of Directors
- 69 Nihon Chouzai’s Corporate Governance from an Outside Director’s and Audit Committee Member’s Point of View

* See page 44 for examples of environmental initiatives

Human

At Nihon Chouzai, we consider the people who underpin a company as critical resources for management, and we actively invest in their recruitment, training, evaluation and engagement. Among these initiatives is our effort to strengthen training and organizational strength with an eye toward achieving the dramatic business expansion set forth in our long-term vision for 2030.



To realize a virtuous cycle with human resources and the organization's management, we are undertaking a range of initiatives in support of dramatically expanding the Dispensing Pharmacy Business, one of the key issues of our long-term vision for 2030.

Recruitment

Recruiting human resources, starting with pharmacists, is critical. These are the people that offer high-quality pharmacy services and heighten our competitive capabilities, thus leading to the organizations' expansion. We are striving to strengthen our ability to recruit pharmacists, certified dietitians, medical administrators and administrative department personnel, both as new graduates and mid-career hires, making concerted efforts to recruit people essential to respective organizations. In this way we will be able to respond to changes in the external environment such as revisions to laws and industry restructuring.

Strengthening Recruitment of Newly Graduated Pharmacists

Person-to-person work is becoming an increasingly common part of the duties performed by pharmacists, whether it is family pharmacists, for at-home medical care, or throughout the range of specialized fields. We realize that a key issue to surviving as the industry undergoes reconstruction is to secure high-quality human talent that enables us to implement our growth strategy. Consequently, as a result of our efforts to recruit newly graduated pharmacists, we have once again hired a record number of new ones and have achieved the top level of hiring of pharmacists in the dispensing pharmacy and drugstore industry.

No.1 in the dispensing pharmacy and drugstore industry
398 hires
(Recruited number of pharmacists for fiscal 2019)

* Research by Jiho, Inc.
Number of pharmacists entering main chain store companies in the spring of 2019, and target number of hires for spring 2020

Conveying Workplace And Career Information

We created a recruitment website for each occupational category and provide abundant information with regard to employee interviews and careers. Also offered is a rich variety of contents, such as movies, that clearly demonstrate the daily routine of employees. We also offer an official LINE (popular social media app) account that works to proactively convey information to pharmacy students.



Internship

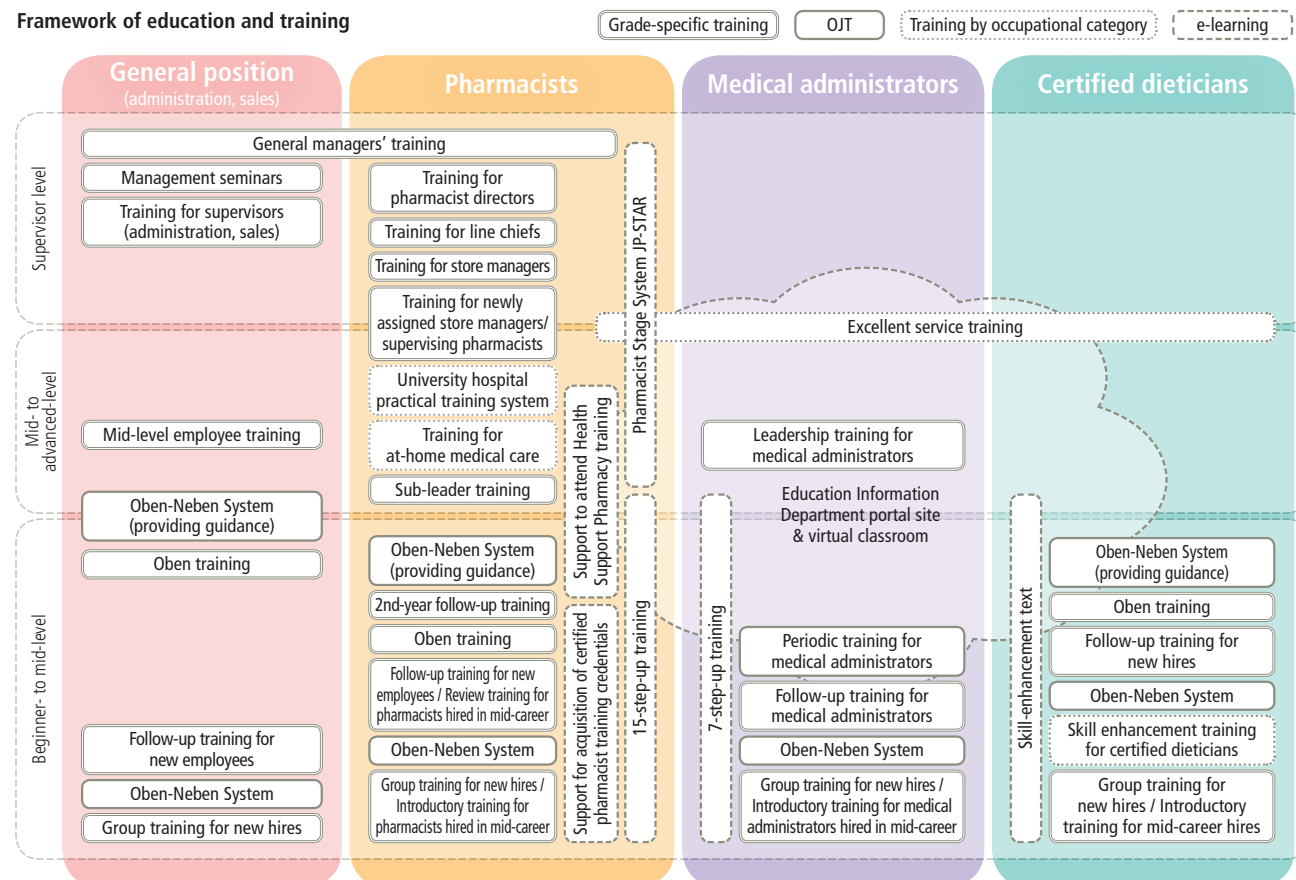
We offer internships in all of our occupational categories, providing opportunities for interns to experience working and career opportunities at Nihon Chouzai, by respective job type. This also provides a venue where interns can interact with employees. A total of over 1,200 people participate in this internship program for pharmacist students.



Development of Human Resources

Regardless of what position a person fills, at the heart of Nihon Chouzai's stance on human resources is the "medical professional." These are individuals that possess a keen awareness of responsibility to provide medical care and a sense of mission, while responding to the growing medical needs that confront an ultra-aging society. We aim to develop human resources that aggressively work to find solutions to social issues, such as keeping medical costs in check, thereby becoming an essential presence for patients, their families and the local community while contributing to healthcare in Japan and to society. Conducted by job type as well as grade seniority, we offer training by individual topic and career planning, and we provide opportunities for each and every employee to acquire necessary knowledge and skills.

Framework of education and training



Training for New Hires

We endeavor to provide new employees with meaningful training that will form their foundation as members of society and medical professionals. Training programs offer practical content and focus on role playing and discussions, and seek to sharpen the knowledge and skills needed in each occupational category.



Leadership Training

We actively work to nurture leaders, from store managers tasked with the management of their businesses to the human talent who will become the next generation of management. We strive to raise the abilities that will be required of leaders, in line with specific grade, covering topics such as leadership, finance, management analysis and marketing. At the same time, we emphasize the building of human relations within the Company.

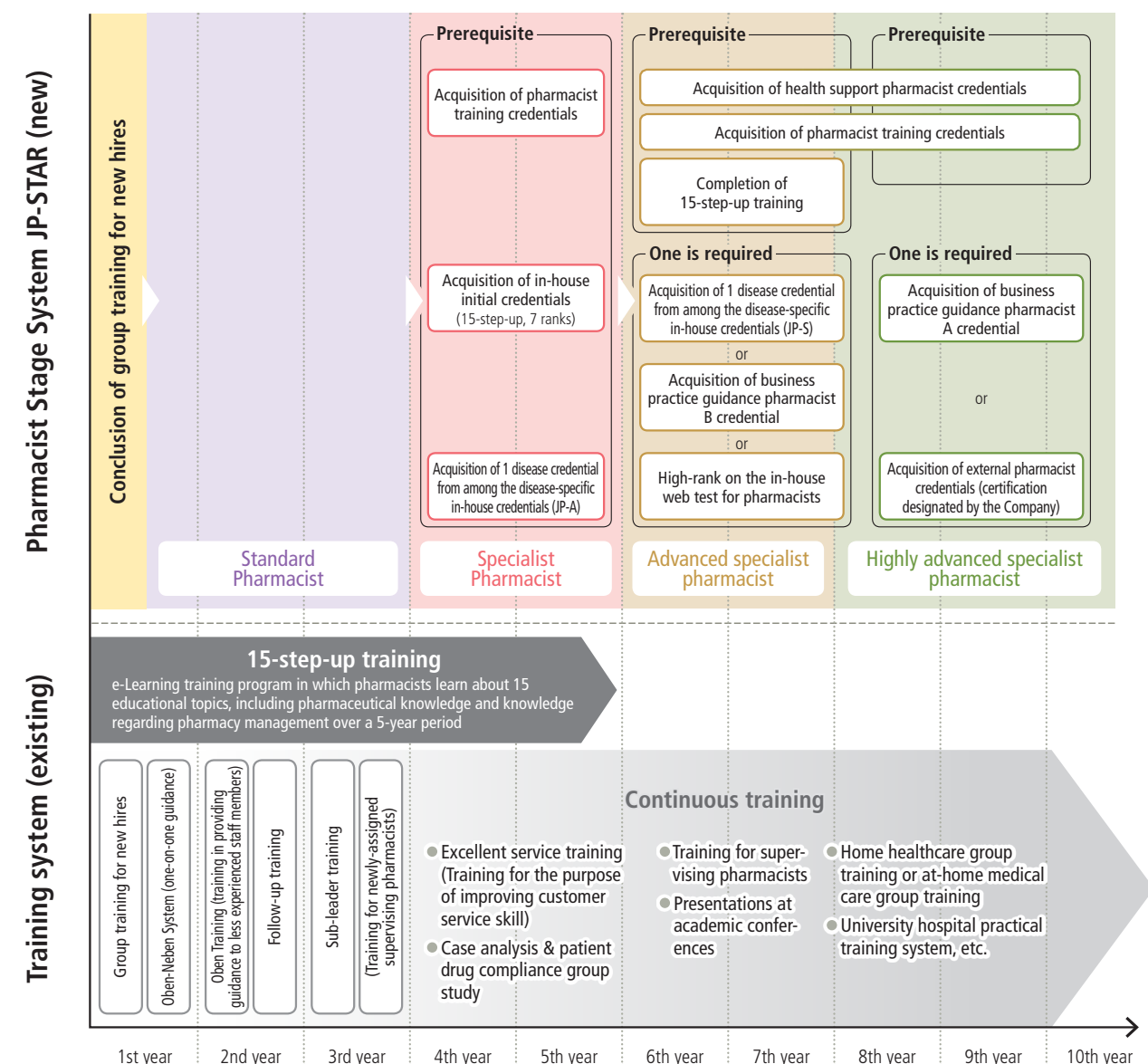


Evaluation

Twice-a-year evaluations and feedback sessions are an opportunity to support Nihon Chouzai employees in their development as talented human resources, and for their own career planning. Given that pharmacists are expected to have ever-higher levels of expertise in line with evolving pharmacist duties and pharmacy functions, we evaluate pharmacists in recognition of their respective stage and according to their knowledge and experience, as well their level of expertise. Also evaluated are the levels of service and care employees provide. Employees are commended based on these evaluations.

Pharmacist Stage System

Nihon Chouzai created the internal Pharmacist Stage System JP-STAR to evaluate and raise the specialized expertise of pharmacists with regard to their knowledge and skills. As requirements to advance to the next higher stage, the pharmacist should acquire disease-specific in-house credentials for the five major diseases the Japanese government targets for priority measures, as well as for palliative care, at-home medical care and dementia. In addition, it will also be mandatory for the pharmacist to obtain certification for the higher stage with external pharmacist credentials, demonstrating a high level of specialized expertise. In addition to education gained through the existing training system, evaluation of the pharmacist's advanced level of knowledge, skills and patient treatment facilitates an increased degree of motivation and enhanced skills.



Evaluation

External Pharmacist Credentials

Given the increasing demand for pharmacists who possess specialized expertise, and looking ahead to collaboration with specialist medical institutions, we evaluate the expertise of pharmacists who have obtained the seven external credentials listed to the right and also furnish them with allowances.

- (1) Accredited Pharmacist of Outpatient Cancer Chemotherapy
- (2) Board Certified Nephrology Pharmacy Specialist
- (3) Nutrition Support Team Professional
- (4) Certified Diabetes Medication Therapy Pharmacist
- (5) Board Certified Pharmacist in Palliative Pharmacy
- (6) Certified Oncology Pharmacist
- (7) Board Certified HIV Pharmacy Specialist

Customer Satisfaction (CS) Award

More than just a high level of expertise to provide outstanding medical services, we believe it vital to offer outstanding care and to communicate with skill. Through the use of customer satisfaction surveys, we select those pharmacies and staff that excel at providing services, and after evaluating their care and service we recognize them with the JP-CS Award, and we provide the JP-CS Role Play Award to those who have demonstrated role playing service to patients. Every year we offer a variety of programs to individual recipients of awards, such as training or actual experience to learn hospitality, which provides an opportunity for them to further enhance their skills.

Best pharmacy of branch

Award for pharmacies that provide superior service

Every year we select and recognize those pharmacies that have provided superior services. This selection is based on our customer satisfaction survey of patient-supplied questionnaires, which are checked by a supervisor who then provides a recommendation. This is followed by a final check from the person in charge of customer satisfaction.

Best service staff

Award for staff who provide superior service

Every year we select and honor staff who have provided superior services. Selected pharmacy staff are primarily those who have been highly rated according to patient questionnaires. The supervisor then performs a "blind" check.

Role-play awards

Award for staff who have superior care capabilities

The Role Play Award selection process consists of a first-round comprised of 100 participants, which is narrowed down to 20 in the main selection. Performances of care giving to patients are judged and awards are provided. Recipients are selected for the Grand Prize, Outstanding Performance Award in the Pharmacist Category, Outstanding Performance in the Operator Category, the Empathy Award, and Proposal Ability Award.

Engagement

Amidst rising expectations placed on pharmacists and pharmacies as providers of sustainable medical care, it is becoming ever more important to put in place an environment in which all employees can exercise their abilities and play a role. Work-style reforms, health management, and diversity and inclusion—it is through these initiatives that we work to support diverse human resources and ways of working and aim to be a highly engaged organization.

Work-Style Reform

Planned paid leave system

We have introduced a system whereby employees can take paid leave in a planned manner. This system works to support the taking of paid leave based on an employee's preferences, and it facilitates the creation of an environment in which paid leave can be taken.

Work-Style Reform Committee

We have established a Work-Style Reform Committee so as to address changes in the law and further enhance workplace productivity. This committee follows up with employees who work long hours and responds to issues of work safety and health.

Health Management

Influenza immunization subsidy

From fiscal 2018 we have strengthened measures with regard to disease prevention. In addition to the health insurance association providing subsidies to those employees who have received their influenza immunization, Nihon Chouzai also grants a subsidy.

Influenza immunization subsidy payment (for the insured)

$$\begin{array}{|c|} \hline \text{¥1,500} \\ \hline \text{(Company subsidy)} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{¥1,500} \\ \hline \text{(Health insurance} \\ \text{association subsidy)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{¥3,000} \\ \hline \text{(subsidy total)} \\ \hline \end{array}$$

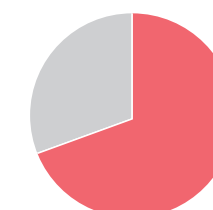
Diversity & Inclusion

Promoting women's advancement in the workplace

More than ever, the pharmacist profession has a high ratio of females, and of the pharmacists employed at Nihon Chouzai 64% are female. For that reason we endeavor to support the careers of female employees and raise awareness among management, and take Company-wide efforts to promote their active participation. The roles female employees play has become an important management issue for corporate growth. We are moving forward on providing opportunities for education, regardless of gender, and nurturing women who will be store managers and supervisors.

Ratio of full-time female employees

Female: **69.5%**
As of March 31, 2019



No. of female store managers

Female store managers: **196**
As of March 31, 2019

Acquisition of the highest level of "Eruboshi" certification

As a result of our ongoing efforts to create opportunities for both men and women to play a role in the Company, and with the development of an easy-to-work-in environment for females, we have obtained Grade 3, the highest level, of "Eruboshi,"* a certification, recognizing excellent companies for the active participation of women, that is based on the Act of Promotion of Women's Participation and Advancement in the Workplace.



Eruboshi mark (Grade 3)

* Eruboshi, or "L Star" (the L represents Lady, Labour and Laudable), is a certification under the Act on Promotion of Women's Participation and Advancement in the Workplace. The Minister of Health, Labour and Welfare (delegated to the Labour Bureau head) grants Eruboshi certification to corporations with an outstanding implementation of their action plan for initiatives to promote the active participation of women. There are five evaluation criteria, namely, recruitment, employee retention, working hours and other work conditions, rate of women in management, and diversity of career progression, with three levels of certification based on the number of criteria met. At Nihon Chouzai we have fulfilled all criteria and have received Grade 3, the highest level of certification.

Receiving the Forbes JAPAN WOMEN AWARD, a first for the pharmacy and drugstore industry

Nihon Chouzai placed 10th in the company category (over 1,000 employees) of the Forbes JAPAN WOMEN AWARD, which recognizes companies that enthusiastically create easy-to-work-in environments for motivated women, and women who perform proactively to carve out their own path forward. We were the first in the pharmacy and drugstore industry to receive this award.



Honored with the Forbes JAPAN WOMEN AWARD 2018

Engagement

Diversity & Inclusion

Support for work and life balance

We provide support to employees who, having experienced a life event, can continue on with their jobs. This support is provided through a variety of systems and initiatives that facilitate the balance between an employee's work and personal life.

Work-life balance support measures we have introduced

Cooperation with various childcare facilities

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

Corporate contracts with babysitter services

- No initial fee or annual fees
- Subsidy program for employees

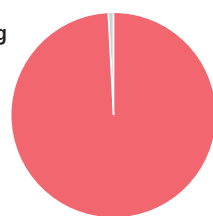
Payment of various subsidies

- Childcare facility vouchers
- Monthly childcare facility subsidies

Retention rate of employees returning from childcare leave

99.2%

FY2018



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

315

FY2018

No. of Employees Taking Maternity Leave

202

FY2018

Career design training for female employees currently raising children

In February 2019 we provided career design training for female employees working at headquarters and the Yokohama Branch who are currently raising children. The goal of this training was to have participants clarify what direction they saw their careers taking and promote a more forward-looking vision from the current "child-rearing" stage of their lives.



Flexibility of career plans

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

Hiring of returnees

We have created a system which will enable employees to smoothly return to the Company after they have retired on account of compelling personal reasons, such as marriage, child-birth, child rearing, caregiving, or the work transfer of a spouse.

Using sign language to provide care and dosage guidance

Pharmacists who are deaf provide service at their pharmacies using sign language. In addition, we provide e-learning contents within the Company so that pharmacists can learn the sign language required for providing the pharmacy services needed to assist deaf people.

Promoting hiring of the disabled

We employ approximately 100 workers with disabilities. Disabled employees account for 2.47% (as of June 1, 2019) of the Company's employees, which is a level that surpasses the statutory employment rate. Presently, while promoting active employment, we also expand relevant occupational areas.

Expansion of occupational categories

In addition to the traditional occupational categories of pharmacist, medical administrator and office worker, the employee who is tasked with being the driver when a pharmacist is making a home visit under the pharmacist home-visit service will also support at-home medical care.

Women's Voice and Leadership

Post-maternity Leave Career Advancement while Child Rearing

Mori, Store Manager and Supervising Pharmacist

I was told about becoming the store manager after having returned to work from maternity and childcare leave, while at the same time I was using the working time reduction system. I felt that it would be a good opportunity that would lead to boosting my career, but on the other hand, I initially had concerns about whether or not as a store manager I would be able to carry out my duties while taking care of my children. However, what pushed me forward was my supervisor saying, "We'll follow up after you go home or if you suddenly need time off." These were powerful words for me. When I was new in the Company I saw with my own eyes my trainer working with great energy, balancing work and home life, and what has also been a big impact are the people around me who created an atmosphere in which I don't need to feel bad when I suddenly need to take time off or leave early to take care of my child, now that I've returned to work.

Since being put in charge of pharmacy management as a store manager, I've come to think a lot about the policies I convey to employees, giving them directions and providing them with feedback. While it's been trial and error, I enjoy the process, and it feels rewarding for all of us to be working toward the same goals.

Sometimes it's a struggle to balance raising a child with work, but being needed by the staff and patients is tied to my own motivation, and it's given me confidence.

In the future, regardless of raising children or short working hours, I'd like there to be an environment in place where all employees, including those raising children, can think it natural to become store managers or management. As for myself, just as my supervisor gave me courage, I'd like to be someone who my juniors can rely on when they are having trouble balancing work with raising a child.

Profile >>>

Joined the Company in 2011 and worked as a pharmacist at pharmacies in Hokkaido and Ibaraki Prefecture. After having twice taken maternity and childcare leave, while using the WTR system, from 2018 has worked as a store manager. Following childbirth, she took an interest in pediatric healthcare and obtained certification as a pediatric pharmacotherapy pharmacist. "I have the opportunity to participate in a recruitment event from a position as a 'pharmacist mom.' When I connect with the students I meet there and after they join, I like to watch them mature, and to see what kind of journey they take."



Leveraging Diverse Experiences to Fulfill a Role in Management

Inoue, Chief and Area Manager

I've been working as an area manager for the past three and a half years. After entering the Company as a pharmacist, I gained experience as a store manager, and following that, I was in charge of branch training. Then, once again, I returned to being a store manager, and later was appointed as area manager. That's the career arc I've had, but more than just advancing with a clear vision of where my career was going, I'm here now, I think, because I was totally absorbed in the opportunities granted to me, and this is where my career took me.

At the time it was determined that I would be appointed area manager, it's not that I wasn't concerned if I would be up to the job, but it's not the kind of job where one can easily get experience, so I took the stance that, since I'm going to do it, I'm going to enjoy myself. Most of my job is management level, looking after the budget and staff at the stores in the area for which I am responsible. But it feels rewarding when the area as a whole meets its goals, or when the staff have relied on me. One of my other joys is when I sense the staff's motivation and growth.

My gender is not something I think about that often, but I do feel that being in a workplace where there are a lot of women makes it easy for us to confide and consult among ourselves. Anyway, there's also an understanding of reading a situation, whether it is if someone wants you to lend an ear, or if they want you to solve a problem, or what they are expecting from you as another woman.

In the future I'd be happy if more female area managers could be turned out from the areas that they themselves are responsible for. I also want to enjoy my work so as to have people feel that the job of an area manager "looks enjoyable," and "you seem motivated."

Profile >>>

After entering the Company in 2002, worked as a pharmacist at a pharmacy in Kanagawa Prefecture. Following experience as a store manager, she was transferred to the Education and Information Division at the Yokohama Branch where she engaged in employee education, primarily for pharmacists. After returning to a pharmacy, where she once again worked as a store manager, she was appointed as area manager. "When I was promoted to chief, as a celebration everyone in the area gave me a bottle of plum liquor with my name on the label. That really impressed me."



Social

Together with Local Communities

Health Check Stations: **63** Stores (as of March 31, 2019)

Nihon Chouzai began actively operating Health Check Stations in its pharmacies in fiscal 2016. In fiscal 2018 we established them in 27 stores, making for 63 stores with these stations nationwide.

Health Check Stations provide services for pre-symptomatic diseases and disease prevention for local residents. In addition to hosting a variety of health-related events and consultation services on drugs, our main pharmacies are also staffed by national registered dieticians who provide nutrition-related consultation and other services to support the improved health and lives of local residents. From prevention prior to becoming sick and pre-symptomatic stages to at-home medical care, as a pharmacy with close ties to the local community, we will continue to support local residents with a wide range of services.



Health Events Held: **1,202** times (April 2018 to March 2019)

While being active with our Health Check Stations, we participate in local events and hold a number of our own health-related events as well. In fiscal 2017 we held events 515 times, and in the one-year period of fiscal 2018, this number jumped significantly, to 1,202 times.

There are also Health Check Stations in our pharmacies staffed by resident national registered dieticians who provide dietary and lifestyle consultation service. We continue to perform in a way that gives us a presence the local community can rely upon and contribute to maintaining health and preventing disease among local residents.

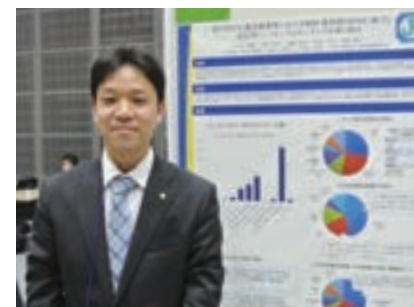
Pharmacist Experience: participation by **40** children (July 2018)

We held our very popular Children's Pharmacist Experience event again in July 2018. This event continues to provide children with valuable information about medications, including the importance of taking medicine safely and how pharmacists contribute to maintaining the health of local residents through easy-to-understand "pharmacist experience" activities.

In 2018, 40 children participated, exceeding the previous year's number. Using tempting candies that stood in for actual drugs, the children experienced putting together dosages of pills and powder medications, and blending ointments. As a company that offers medical services, Nihon Chouzai will continue to actively create opportunities that provide information on medications and health management to local communities.



Conference Presentations: **61** presentations delivered at **15** academic conferences (April 2018 to March 2019)



At the 56th Annual Meeting of the Japan Society of Clinical Oncology held in October 2018, a Nihon Chouzai pharmacist presented "Telephone Follow-ups between Consultations, and their Results, According to Protocol-Based Pharmacotherapy Management (PBPM) Provided through Insurance Pharmacies."

The contents of the presentation details included the results of telephone follow-up calls made in accordance with guidance that Nihon Chouzai's outpatient oncology-certified pharmacists had given to such patients and confirmed that it was possible to determine the severity of side effects by listening to the patient and to maintain uniform quality, regardless of which pharmacist was responding. In addition, with severe side effects from anti-cancer medication, or minor side effects where the patient was experiencing them at home but was having trouble coping, it was possible to discover and address such issues early.

* Period: April 2018 to March 2019

Together with Shareholders and Investors

General Meeting of Shareholders

The 39th General Meeting of Shareholders was held on June 26, 2019. The 39th Period, or fiscal 2018, was the year in which drug prices and dispensing fees were revised, and the revision to prescription dispensing fees that went into effect in April 2018 had a significant impact on our business results. On the other hand, having absorbed the cost burden associated with getting a large-scale plant up and running, we secured earnings that were higher than initially anticipated in the Pharmaceutical Manufacturing and Sales Business, and we feel that this was a fiscal year that set us on a course for continued growth. In such a period of major change, investing in human resources and other actions that lead to growth has influenced future management policy. We also submitted seven proposals, which were all approved.



Rehearsal for the General Meeting of Shareholders



Results Briefing

The Results Briefing for fiscal 2018 was held on May 9, 2019, with over 100 people attending, including institutional investors, and those from financial institutions and the media. We briefed these participants on our management strategy to deal with disruption to the business environment, demonstrating our commitment to addressing major changes, including systemic changes such as the Revision to the Pharmaceutical and Medical Device Act, and to transforming our own corporate character. We also explained how being actively involved in and aggressively promoting the spread of formularies through the Formulary Business Promotion Division, newly established in April, will lead to enhanced control of medical costs. Furthermore, investment in human resources is another area we discussed, as well as the progress of the different measures we are taking to prepare for major changes in the future.

Investor Relations

In April 2018, the Nihon Chouzai Group announced its Long-Term Vision for 2030. Under this Vision, it is anticipated that we will move forward on more initiatives, at a faster pace than ever before given systemic changes to medical care and the pharmaceutical industry, as well as rapid-fire government policies. Traditionally, the Group has formulated and disclosed medium-term management plans that covered a three-year period. In light of current conditions with the medical care and pharmaceutical industry expected to go through major changes, we have announced the Long-Term Vision for 2030. It portrays our vision of the Group after successfully emerging from a period of great transformation.

Since announcing this Vision, we have received numerous questions from investors, both in and outside of Japan. Through a variety of IR activities we are providing clear explanations, including with regard to the background of the Vision's formulation. In fiscal 2018 we held meetings with institutional investors in London, Edinburgh, and New York, mainly providing explanations of the Group's overall management strategy and long-term vision. Each of these meetings was characterized by vigorous exchanges that helped deepen investors' understanding of the Nihon Chouzai Group. Moreover, against the large cost burden associated with getting Tsukuba Plant No. 2 online, the Pharmaceutical Manufacturing and Sales Business outperformed initial projections and the better-than-expected operating profit garnered much interest and many questions from investors.

The initiatives below are implemented as needed

- Company briefings for individual investors
- Small meetings with institutional investors
- Individual meetings with institutional investors (domestic and overseas)
- Conference calls with institutional investors (domestic and overseas)
- Conferences held for institutional investors

Governance

Corporate Governance

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

Basic concept of corporate governance*

1

Increase management transparency and clarify management responsibility

2

Speedy decision-making

3

Strengthen management oversight function

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

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

* Corporate governance is a mechanism to assist a company in transparent, fair, speedy, and decisive decision-making whilst taking into account the positions of the company's shareholders as well as customers, employees, members of the community at large, and others.

Initiatives for stronger corporate governance

Internal control system	May 2006 Established basic policy on creation of internal control system	June 2016 Revised the basic policy
Internal reporting system	March 2011 Established "Nihon Chouzai Hotline" internal reporting system	
Information Security Committee	April 2012 Established Information Security Committee	
Corporate conduct code	February 2014 Established corporate conduct code	April 2018 Revised the conduct code
Ethical conduct guidelines	February 2014 Established ethical conduct guidelines	April 2018 Revised the guidelines
Compliance Promotion Committee	February 2014 Established Compliance Promotion Committee	
Medical Safety Committee	October 2014 Established Medical Safety Committee	
Outside directors	June 2015 Brought in an outside director	
Risk Management Committee	March 2016 Established Risk Management Committee	
Company with an audit and supervisory committee	June 2016 Switched from a company with a board of corporate auditors to a company with an audit and supervisory committee	
Privacy Mark	November 2016 Privacy Mark certified business	
Business continuity plan	May 2017 Established business continuity plan	

Corporate governance structure (As of June 27, 2019)

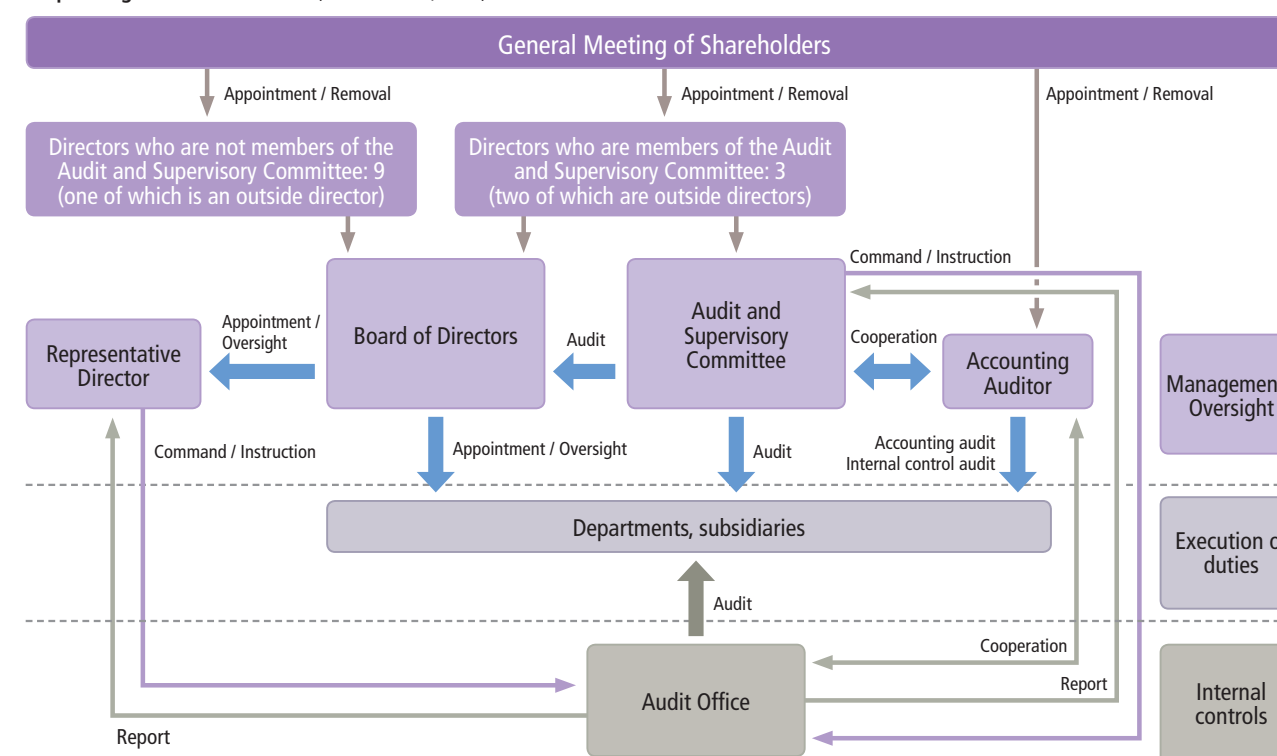
Directors	9 directors one of which is an outside director (independent officer)
Audit and Supervisory Committee	3 directors two of which are outside directors (independent officers)

At the 36th Ordinary General Meeting of Shareholders held on June 28, 2016, Nihon Chouzai switched from a company with a board of corporate auditors to a company with an audit and supervisory committee. The Board of Directors consists of 9 directors (excluding the Audit and Supervisory Committee members), one of which is an outside director, and three other directors that serve as the Audit and Supervisory Committee members, two of which are outside directors, and it determines important matters stipulated by laws and provides oversight of the directors' execution of their duties.

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

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

Corporate governance structure (As of June 27, 2019)



Management status of the Board of Directors

Convening of Board of Directors meeting	In principle, once a month or as necessary
Number of times convened	14 times (April 1, 2018–March 31, 2019)
Matters discussed	<ul style="list-style-type: none"> Closing or opening pharmacies / M&A Budget / Results Personnel / Labor Fund procurement Establishment of rules Organizational changes Corporate governance Others

Status of Corporate Governance Code Practice

Japan's Corporate Governance Code is a collection of principles designed to contribute to the effective corporate governance practice. We believe that the application of these principles in Company activities not only contributes to sustained growth and greater corporate value over the medium- to long-term, but also to its customers, employees, and local society at large. Below is a description of the ways the Corporate Governance Code is appropriately applied in various Company activities.

Ensuring Shareholder rights

In order to practically ensure the rights of Company shareholders such as voting rights at the General Meeting of Shareholders, the Board of Directors, at the conclusion of the General Meeting of Shareholders, conducts an annual analysis of votes against Company-proposed resolutions and explores the possible need to engage shareholders in discussion and/or take other action as necessary.

Exercise of shareholders' rights in General Meetings of Shareholders

The Company recognizes that the General Meeting of Shareholders is a place for constructive dialogue with the shareholders, and has made efforts to build an appropriate environment related to the exercise of shareholders' rights from the perspective of the shareholders. This includes the early notice of the General Meeting of Shareholders, use of the Company website, TDnet and other electronic methods for electronic disclosure, and use of the electronic voting rights exercise platform.

Strategic shareholding

The Company may possess as cross-shareholdings companies' shares deemed necessary for maintaining and strengthening business relationships. Every year, the Company holds meetings of the Board of Directors to examine in detail whether the purpose of ownership for individual cross-shareholdings is appropriate, whether the benefits and risks associated with these holdings are commensurate with the cost of capital, etc., to verify the suitability of cross-shareholdings. This year, at the Board of Directors meeting in June, after clarifying the number of shares, acquisition prices, book values and market prices for each issue, the Company, having deliberated on the suitability of cross-shareholdings from the above viewpoints, and having taken into consideration the significance and rationality of these holdings, it was decided to sell, in light of the timing of such transactions, the cross-shareholdings for which the rationale for holding them had weakened. For the exercise of voting rights pertaining to policy-holding stocks, the Company's policy is to make decisions based on its viewpoint regarding how votes would contribute to the enhancement of the corporate value of the company invested in, combined with due consideration of the purpose of the holding.

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.

Establishment of management philosophy as the foundation for medium- to long-term enhancement in corporate value, and establishment and practice of company codes of conduct

After establishing a corporate conduct code and ethical conduct guidelines in February 2014, the Company, in consideration of revisions to the Keidanren's (Japan Business Federation) Charter of Corporate Behavior (delivering on the SDGs through the realization of Society 5.0) and revisions to various laws, has revised its own corporate conduct code and ethical conduct guidelines as of April 2018. The Board of Directors oversees the forming of a corporate culture and environment that keeps these codes in high esteem and, if necessary, discusses methods for rectifying any lack thereof.

Sustainability issues, including social and environmental problems

The Company is engaged in a number of initiatives to fulfill the responsibility assumed by the Group to contribute to the realization of a sustainable society in the interests of the planet's future. These include (1) strict adherence to garbage separation rules, (2) establishment of managerial standards defining guidelines for oversight of rational use of energy, drafting of regular reports on energy use status, and election of an Energy Management Control Officer and Energy Management Planning Promoter, all based on the Act on Promotion of Global Warming Countermeasures and the Act on the Rational Use of Energy, and (3) corporate contributions to the Keidanren Nature Conservation Fund.

Internal Reporting System

In keeping with the Whistleblower Protection Act, the Company has established the Internal Reporting System Operation Regulations and the Nihon Chouzai Hotline for accepting reports and consultations about improper activity within the organization, and provided all employees with contact information for reporting via the Mission Statement & Compliance CARD and the Compliance Newsletter monthly circular issued by the Compliance Promotion Committee.



Mission Statement & Compliance CARD

Roles of corporate pension funds as asset owners

The Company has implemented a defined contribution company pension plan as of October 2011. It provides educational opportunities on a yearly basis for employees to learn about selection of pension fund managers and investment vehicles, as well as asset management. It also provides new hires with presentations on the defined contribution company pension plan.

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 and transmitted by using mediums such as the Shareholder Report and Securities Report. Please refer to this Corporate Report for more details.

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

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

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

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

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

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

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

Furthermore, the Company believes that it is important to cultivate successor candidates for its management team, and hold management seminars and coaching programs by guest lecturers for these candidates under the oversight of the Board of Directors.



Cultivating human resources for the next generation through management seminars

Standards for determining the independence of the independent outside directors and their qualification

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

Preconditions to ensure the effectiveness of the Board of Directors

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

In addition, the Board of Directors consists of 9 directors (excluding directors who are Audit and Supervisory Committee members) and three other directors that serve as Audit and Supervisory Committee members.

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

iii. The Company carried out a questionnaire survey on 21 items concerning the evaluation of the effectiveness of the Board of Directors such as the "Structure and Operation of the Board of Directors," etc. among directors between May and June 2019 based on the opinions of an outside consultant and analyzed and evaluated the effectiveness of the entire Board of Directors in the Board of Directors meeting. An outline of the results showed good conclusions in the evaluation of all items as with the last fiscal year, and the effectiveness of the Board of Directors has been judged to be excellent. Compared with the last fiscal year, utilization of independent outside directors somewhat improved while additional constructive opinions were presented; therefore, the Company will continuously strive to improve the effectiveness of the entire Board of Directors based on the evaluation results at this time.

Directors' training

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

Status of Corporate Governance Code Practice

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.



Fiscal 2018 Results Briefing

Basic Concept of Internal Control System and Its Development Status

Standards for determining the independence of the independent outside directors and their qualification

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

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

Status of internal audit and audit committee audit

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

The Audit and Supervisory Committee currently consists of three members, two of which are outside directors. Regular meetings are held once a month. Each member is a law and corporate

auditing professional who strictly and productively monitors the directors' execution of their duties from their individual perspectives.

Progress in establishment of risk management system

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

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

Basic concept of internal control system

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

- (1) The structure concerning the storage and management of information on the directors' execution of their duties
- (2) Regulations and other structure concerning the management of Nihon Chouzai Group's risk of loss
- (3) The structure to ensure that the Group's directors' execution of their duties has been efficiently conducted
- (4) The structure to ensure that the Group directors' and employees' execution of their duties has conformed to the laws and regulations as well as the Articles of Incorporation
- (5) The structure to report matters concerning our subsidiary company directors' and others' execution of their duties to the Company
- (6) Matters concerning the directors and employees who should assist the Audit and Supervisory Committee's duties
- (7) Matters concerning the securing of independence of the directors and employees who should assist the Audit and Supervisory Committee's duties from other directors (excluding the directors who are the Audit and Supervisory Committee members) as well as the securing of the effectiveness of the instructions given to the said directors and employees
- (8) The structure for the directors (excluding the directors who are the Audit and Supervisory Committee members) and employees to make a report to the Audit and Supervisory Committee and the structure for reports to the Audit and Supervisory Committee
- (9) The structure for our subsidiary company directors, auditors, etc. and employees or those who received reports from these persons to make a report to the Company's Audit and Supervisory Committee
- (10) The structure to ensure that those who made a report to the Audit and Supervisory Committee will not receive unfair treatment on the grounds of making the said report
- (11) Matters concerning the procedures for making an advance payment or reimbursement of the cost generated in executing the Audit and Supervisory Committee members' duties (limited to the ones concerning the Audit and Supervisory Committee's execution of their duties) and the policy concerning other costs or debts generated in executing the said duties
- (12) The structure to ensure that the Audit and Supervisory Committee's audit will be effectively conducted

Development and operation status of internal control system

- (1) Establishment of rules and their dissemination
To ensure that the Group operates properly, we have established measures such as rules, operation flowcharts and manuals, Mission Statement & Compliance CARD, business continuity plan (BCP) and a disaster-response pocket manual, and are thoroughly disseminating them through the publication on the intranet, circulation, education and training.

(2) Risk management and compliance promotion

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

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



The purpose of each committee and related departments

Compliance Promotion Committee

- Purpose
To rigorously enforce compliance and improve society's trust in the Company
- Related departments
 - General Affairs Department
 - System Department I, System Department II
 - Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department)
 - Accounting Department
 - Human Resources Department
 - Public Relations Department
 - Audit and Supervisory Committee

Risk Management Committee

- Purpose
To implement risk management
- Related departments
 - Same as Compliance Promotion Committee

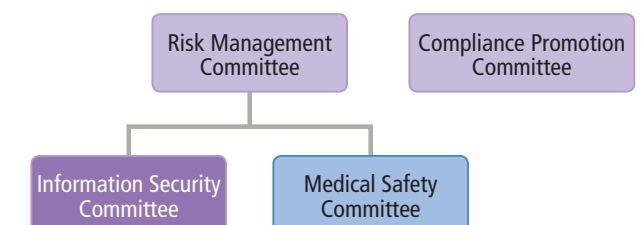
Information Security Committee

- Purpose
To establish, permeate, and entrench information security management structures
- Related departments
 - Same as Compliance Promotion Committee

Medical Safety Committee

- Purpose
To promote appropriate medical safety management and contribute to safe provision of medical care
- Related departments
 - Pharmaceutical Headquarters (Pharmaceutical Administration Department, Education and Information Department)
 - General Affairs Department
 - Audit and Supervisory Committee

Organization Chart



Board of Directors

(As of June 27, 2019)



President & CEO
Yosuke Mitsuvara

September 1999
April 2001
January 2005
April 2006
October 2006
June 2007
June 2010
June 2013
June 2014

Joined the Company
General Manager of Corporate Planning Department
Director of Nihon Generic Co., Ltd.
General Manager of Sales Promotion Department
Director of Medical Resources Co., Ltd.
Director, General Manager of Business Promotion Department
Resigned the Director
Director of Japan Medical Research Institute Co., Ltd. (to present)
Director of the Company, Director of Nihon Generic Co., Ltd. (to present)

June 2015
June 2017
June 2019

Managing Director
Senior Managing Director
President & CEO of the Company (to present)
President & CEO of Medical Resource Co., Ltd. (to present)
President & CEO of Nihon Generic Co., Ltd. (to present)
President & CEO of Japan Medical Research Institute Co., Ltd. (to present)
Chairman of the Board of Choseido Pharmaceutical Co., Ltd. (to present)



Managing Director
Katsuhiko Fukai

May 1994
April 1995
June 2006
March 2008
June 2008
April 2012
June 2012
June 2013
June 2015
January 2019

Joined the Company
Manager of Pharmaceutical Department, Kyushu Branch
Branch Manager, Kyushu Branch
General Manager of Pharmaceutical Headquarters
Director of the Company, General Manager of Pharmaceutical Headquarters
Director of the Company, Manager of Pharmaceutical Headquarters
Resigned the Director
Manager of Pharmaceutical Headquarters
Director of the Company, General Manager of Contract Dispensing Service Department
Managing Director, General Manager of Contract Dispensing Service Department
Managing Director (to present)



Managing Director
Naoto Kasai

April 2013
October 2013
June 2015
April 2016
June 2016

Joined the Company
Manager of Sales Management Department
General Manager of Sales Promotion Department
Director of the Company, General Manager of Sales Promotion Department
Director of the Company, General Manager of Sales Management Department
Managing Director, General Manager of Sales Management Department (to present)



Director
Noriaki Miyata

January 1992
January 2004
April 2004
April 2007
June 2007
April 2016

Joined the Company
Manager of Sales Department, Osaka Branch
Branch Manager, Manager of Sales Department, Osaka Branch
General Manager of Sales Management Department
Director of the Company, General Manager of Sales Management Department
Director of the Company, General Manager of Sales Promotion Department (to present)



Director
Toshiyuki Koyanagi

July 1990
April 2000
December 2004
December 2009
April 2012
June 2012
January 2014

Joined the Company
Manager of Pharmaceutical Department, Tohoku Branch
General Manager of East Japan Pharmaceutical headquarters
General Manager of Purchasing Department, Pharmaceutical Headquarters
General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
Director of the Company, General Manager of Pharmaceutical Headquarters and General Manager of Purchasing Department, Pharmaceutical Headquarters
Director of the Company, General Manager of Pharmaceutical Headquarters (to present)



Director
Kazunori Ogi

May 2008
April 2009
April 2015
June 2015

Joined the Company
Manager of Finance Department
General Manager of Finance Department
Director of the Company, General Manager of Finance Department (to present)
Director of Medical Resource Co., Ltd. (to present)



Director
Yoshihisa Fujimoto

January 2011
October 2013
June 2016
April 2019

Joined the Company
General Manager of Sales Department for Public Institutions
General Manager of General Affairs Department
Director of the Company, General Manager of Administration Department and General Affairs Department
Director of the Company, General Manager of Administration Department (to present)



Director
Keiso Masuhara

July 2001
February 2006
April 2007
May 2017
August 2017
August 2017
June 2018
April 2019
June 2019

Director of Department of Pharmacy of St. Marianna University Hospital
Director of Department of Pharmacy of Kawasaki Municipal Tama Hospital
Visiting Professor of Pharmacy and Health Science at Graduate School of Showa Pharmaceutical University Graduate School
Visiting Professor of St. Marianna University
Joined Japan Medical Research Institute Co., Ltd.
General Manager of the Hospital Consulting Group of Japan Medical Research Institute Co., Ltd.
Director of Japan Medical Research Institute Co., Ltd.
General Manager of Formulary Business Promotion Department
Director of the Company, General Manager of Formulary Business Promotion Department (to present)



Director,
Audit Committee member
Nobuyuki Hatakeyama

September 1987
June 2000
June 2006
December 2009
February 2016
June 2018

Joined the Company
Director of the Company
Branch Manager, Nagoya Branch
Branch Manager, Yokohama Branch
General Manager of Operational Audits Department at Nihon Chouzai Co., Ltd.
Director of the Company (Audit Committee member) (to present)
Auditor of Nihon Generic Co., Ltd. (to present)
Auditor of Medical Resources Co., Ltd. (to present)
Auditor of Japan Medical Research Institute Co., Ltd. (to present)
Auditor of Choseido Pharmaceutical Co., Ltd. (to present)



Outside Director,
Audit Committee member
Arata Toyoshi

April 1998
August 2007
July 2013
July 2014
December 2016
July 2017
November 2017
November 2017
February 2018
May 2018
December 2018
June 2019

Registered as Certified Public Accountant
Partner of Tohmatsu & Co. (Currently Deloitte Touche Tohmatsu Limited)
Director and Executive Council of Certified Public Accountants' Corporate Pension Fund
Director of Tohmatsu Challenged Co., Ltd.
Resigned from Deloitte Touche Tohmatsu Limited
Auditor-Secretary of Seikeikai Alumni Association (to present)
Registered as Licensed Tax Accountant
Outside Auditor of Kids Smile Project inc. (to present)
Auditor-secretary of Tax Accountant Tamagawa
Auditor-secretary of The Yuumi Memorial Foundation for Home Health Care (to present)
Substitute Audit & Supervisory Board Member of Japan Private REIT Inc. (to present)
Outside Director of the Company (Audit Committee member) (to present)



Outside Director
Yoshimitsu Onji

April 1977
April 1994
September 1998
December 1999
March 2000
June 2007
June 2010
October 2016
December 2016
March 2018
June 2018

Joined The Daiei, Inc.
General Manager of Corporate Planning Department of The Daiei, Inc.
Executive Vice President of RE PARTNERS
Director of OZ-corporation (Representative) (to present)
Executive Officer of Office RECOF Co., Ltd. (Currently RECOF Corporation)
Director and Senior Executive Officer of RECOF Corporation
President and CEO of RECOF Corporation
Chairman of the Board of RECOF Corporation
Director of M&A Capital Partners Co., Ltd.
Outside Director of Tokyo Tatemono Co., Ltd. (to present)
Outside Director of the Company (to present)



Outside Director,
Audit Committee member
Tadashi Urabe

April 1983
April 1999
April 2003
January 2006
February 2009
June 2011
June 2019

Registered as attorney (Tokyo Bar Association)
Partner of Meitetsu Law Offices (to present)
External Auditor of JPN COLLECTION SERVICE CO., LTD.
Instructor of Civil Law, Legal Training and Research Institute of Japan
Outside Auditor of JPN Holdings Co., Ltd.
Outside Auditor of EBARA CORPORATION
Outside Director of the Company (Audit Committee member) (to present)



Director,
Audit Committee member
**Nobuyuki
Hatakeyama**

Outside Director,
Independent Officer
Yoshimitsu Onji

Nihon Chouzai's Corporate Governance from an Audit Committee Member's Point of View

Director, Audit Committee member **Nobuyuki Hatakeyama**

Viability of corporate governance structure

It has been three years since Nihon Chouzai became a company with an audit and supervisory committee, and three years since it began applying the Corporate Governance Code. The Company has been working hard to further strengthen its corporate governance structure and to ensure transparency in its management structure. We intend to remain stalwart in following our corporate philosophy, remaining focused on and mindful of compliance as we seek corporate profit, enable information sharing between departments, and respond to changes in our industry.

Nihon Chouzai's corporate philosophy calls for the achievement of "true separation of drug prescribing and dispensing services." By doing this, we can support an unparalleled universal health insurance system and make headway toward becoming a corporate linchpin for society and the public at large. I see strengthening the viability of our corporate governance structure as an absolutely critical supporting activity in enabling this vision.

The Company's Audit and Supervisory Committee is comprised of three members, two of which are outside directors. One of these audits and supervises our activities from an accounting perspective as a Certified Public Accountant and Licensed Tax Accountant, while the other does so in the interests of legal compliance as legal counsel.

Members of the Audit and Supervisory Committee not only attend monthly meetings of the Board of Directors and participate in the resolution process there, but they also observe in key meetings, supervising our activities so that there are no issues with our agenda items and discussions. Further, the Audit and Supervisory Committee also holds its own meetings a minimum of once a month and a minimum of fifteen times a year (held fifteen times in FY2018). At these meetings, members evaluate whether or not there are issues present in the execution of our operations, and hold hearings with executive directors and other key stakeholders about the execution of our operations and any issues that may be present.

As a full-time Audit and Supervisory Committee member, I intend to leverage my many years in the medical and pharmaceutical industries to strengthen our corporate governance in service to the Company.

Nihon Chouzai's Corporate Governance from an Outside Director's Point of View

Outside Director, Independent officer **Yoshimitsu Onji**

I feel that the question at the core of corporate governance is, can we uphold our corporate philosophy in any situation we find ourselves in, and can we build a company atmosphere that allows for this? I see this question clearly in the recent and frequent occurrence of extremely regretful, improper activities by companies that have sought to beat their competition at all costs, allowing the fear of tight capital markets to drive them to bend their carefully-crafted corporate philosophies and seek profits at the expense of everything else, or have resorted to hiding information that should have been disclosed and publishing false information.

Nihon Chouzai has set the lofty goal of "achieving true separation of drug prescribing and dispensing services." I see this company as always considering what must be done to contribute to better health of the Japanese people.

It must also be noted that the dispensing pharmacy industry is one whose performance swings greatly with changes in national policy. Securing and cultivating pharmacists is an issue faced by management. In an industry where it's two steps forward and one step back, management must be extremely tenacious.

At meetings of the Board of Directors, this tenacity is well-noted; officers analyze details of monthly management of each Group company, conduct root cause analyses of figures presented and discuss potential policies to take going forward, and check on legal ramifications, feasibility of plans, and whether or not the way we operate is appropriate. I have experience in the management of the retail-focused Daiei Group and the M&A firm RECOF, both organizations that take their corporate philosophies and their mandate from society very seriously. That mindset became an engine that drove them to maintain their awareness of compliance and to attain appropriate levels of growth. I feel quite similarly about Nihon Chouzai, with the added unique quality of a sharp, refreshing governance strategy that emphasizes blazing an inimitable, unshackled path forward. I hope that I can help as an Outside Director to push Nihon Chouzai to even greater heights of corporate governance going forward.

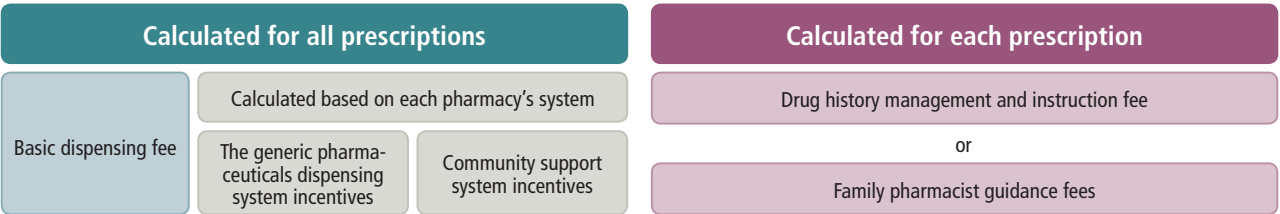
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Main Dispensing Fee Revisions

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



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

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

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

Main Dispensing Fee Revisions

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

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

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

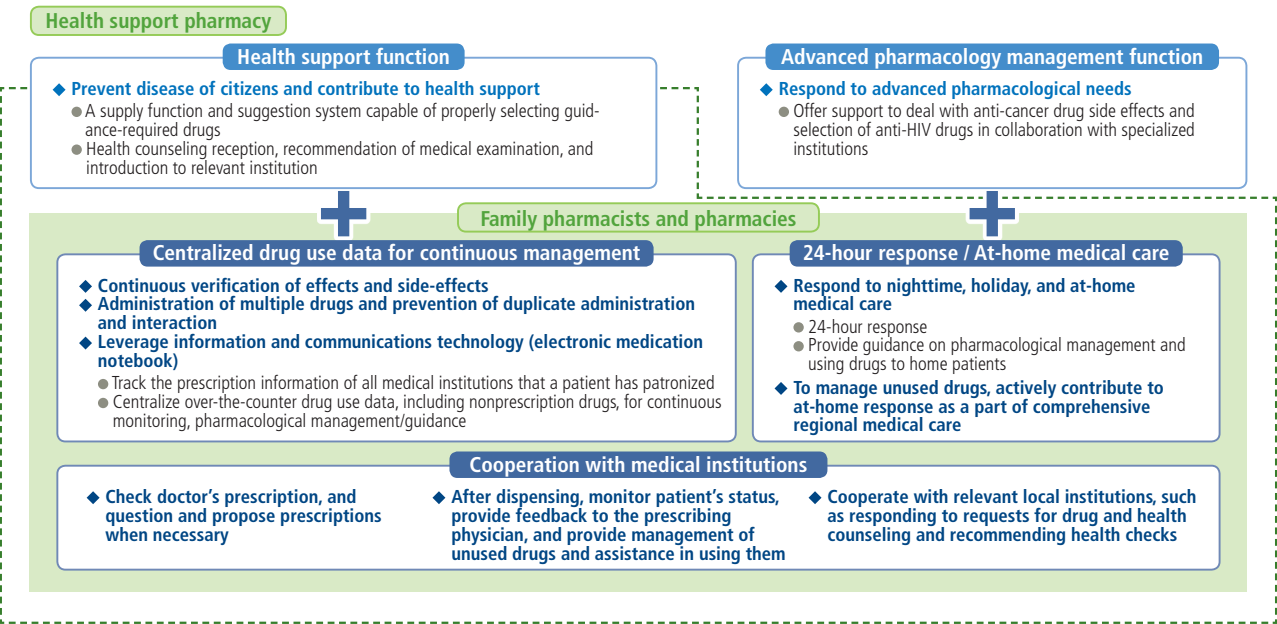
	FY2016 medical service fees	FY2018 medical service fees
Incentive for preventing harmful drug interactions and duplicate prescriptions	30 points ● Calculated only when prescription inquiries are made to doctors and the prescription is changed	40 points ● Changes due to factors other than unused drug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

Explanation of Terminology

A Vision of Pharmacies for Patients

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

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



Family pharmacist

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

(1) Pharmacist understands drugs collectively

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

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

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

(3) Nighttime/holiday response and counseling

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

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

Family pharmacists and pharmacies

In A Vision of Pharmacies for Patients, the three functions required of family pharmacists and pharmacies are explained, but there are no facility standards for pharmacies and notification to Regional Bureau of Health and Welfare 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 notify in advance. The Ministry of Health, Labour and Welfare's goal is to register 10,000 to 15,000 health support pharmacies by 2025. The vision also attempts to achieve the separation of the roles of drug prescribing and dispensing for patients who live locally. The vision also indicates the approach that dispensing pharmacies should take and the functions required.

- 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

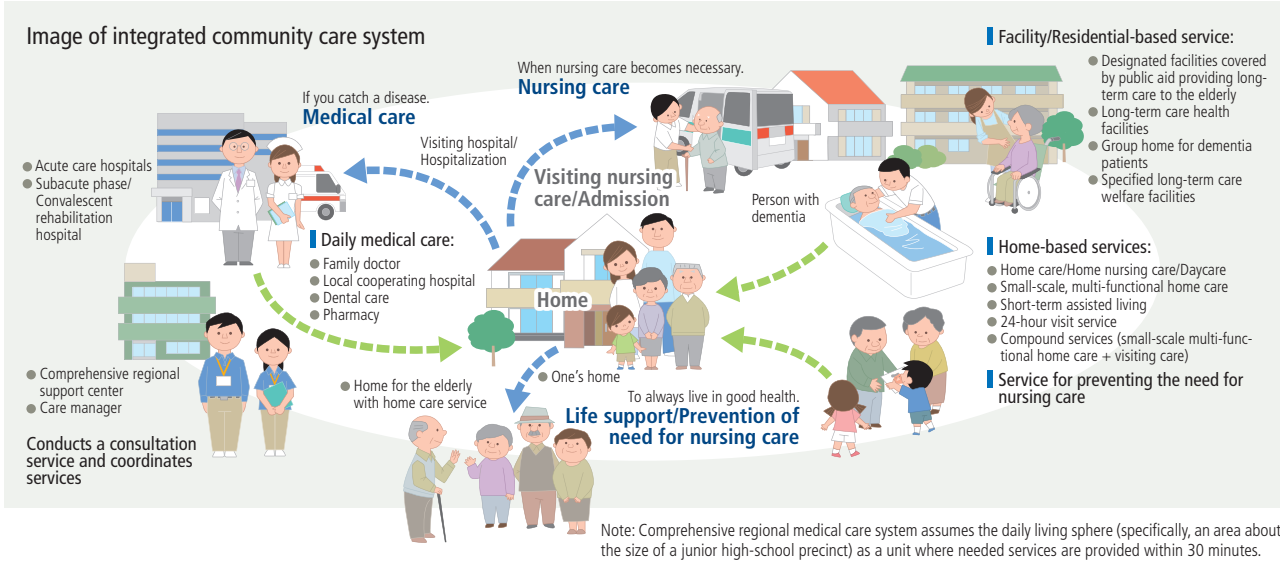
Explanation of Terminology

Integrated community care system

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

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

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



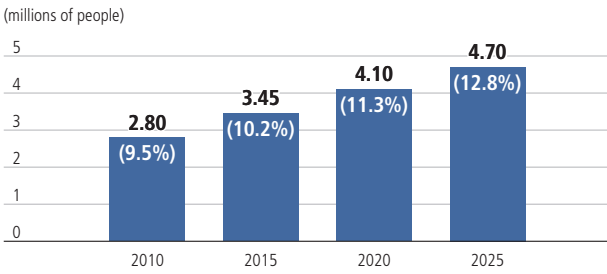
Review of elderly population

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)

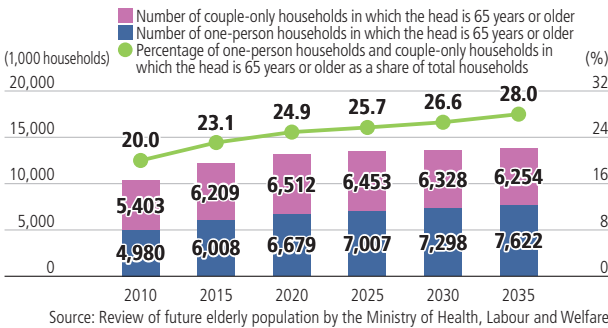


Separation of drug prescribing and dispensing

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.

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



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 revisions

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. Medical service fees are reviewed once every two years.

Prescription dispensing fee revisions

This refers to the portion of revised medical service fees that is utilized for prescription dispensing services. Dispensing fees are revised once every two years.

Drug price revisions

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. In October 2019, drug prices are expected to be revised at the same time that the consumption tax rate is raised from 8% to 10%. Starting in April 2020, drug prices are scheduled to be revised annually.

Basic dispensing fee

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

Premium for generic drug dispensing system

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

Community support system incentives

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

At-home medical care

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

Hospital-front pharmacies

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

Hybrid-type pharmacies

Pharmacies that combine the functions of both a *Mentaio* pharmacy that was opened in front of a train station or in a shopping district and meets prescription demand from a relatively wide area,

without being limited to prescriptions from specific medical institutions, and a medical center (MC) pharmacy in a medical mall where a number of medical institutions are located and meets the prescription demand of those medical institutions.

Dispensing pharmacies in hospital premises (On-site pharmacies)

It became possible to open pharmacies within hospital premises (on-site pharmacies) following the easing of restrictions on the structural independence of pharmacies and medical institutions in October 2016. These pharmacies can cooperate with hospitals is possible and support for advanced medicine is required. On the other hand, the basic dispensing fee has been set at 10 points (100 yen), which is lower than hospital-front pharmacies.

Okusuri Techo (Medication notebook)

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

Electronic Okusuri Techo (Electronic medication notebook)

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

Health Check Station*

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

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

Formularies

These are guidelines for drug use formulated by medical institutions and regions based on a comprehensive scientific assessment of the efficacy and safety of drugs, as well as their economic efficiency. The goal is to promote standard drug treatment based on guidelines for the use of high-quality, inexpensive drugs. The spread of regional formularies is expected to curb the continuing increase in medical costs. These guidelines have already been introduced in Europe and the US, but in Japan, they are being gradually introduced in anticipation of an effect on curbing rising medical costs.

GMP

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

Dispatching act

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

10-Year Summary of Financial and Non-financial Data

(millions of yen)

Consolidated performance indicators	FY2009	FY2010	FY2011		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
✓ Fiscal year in which revisions to prescription dispensing fees and NHI drug prices were made		✓			✓		✓		✓		✓
Business results (for the year)											
Net sales	98,260	112,128	130,041		139,466	165,347	181,844	219,239	223,468	241,274	245,687
Gross profit	16,283	19,182	22,038		21,494	25,623	31,929	39,068	39,258	43,837	41,975
Selling, general and administrative expenses	12,733	14,398	16,574		18,248	20,878	25,281	28,578	30,738	33,250	35,242
Operating profit	3,549	4,784	5,464		3,245	4,744	6,647	10,489	8,519	10,587	6,733
EBITDA ¹	5,719	7,118	8,492		6,837	8,570	10,278	14,951	13,260	15,801	13,037
Ordinary profit	3,098	4,358	4,941		2,855	4,188	6,003	9,878	7,976	10,138	6,077
Profit attributable to owners of parent	1,404	1,821	2,085		184	1,901	2,778	6,329	4,638	6,104	3,790
Cash flows (for the year)											
Cash flows from operating activities	3,833	6,723	7,127		2,885	6,243	5,831	19,327	(940)	23,141	13,572
Cash flows from investing activities	(5,338)	(8,269)	(9,694)		(6,422)	(14,510)	(8,437)	(7,823)	(28,444)	(13,843)	(1,770)
Cash flows from financing activities	3,434	1,109	7,920		5,496	8,782	1,422	7,031	18,205	(2,034)	(10,516)
Financial position (at year-end)											
Total assets ²	64,678	72,701	86,615		95,140	117,295	130,141	157,609	178,347	186,573	178,677
Net assets	11,405	12,780	14,716		14,702	15,849	17,635	32,473	36,447	41,506	41,073
Cash and cash equivalents	7,636	7,200	12,554		14,513	15,027	13,844	32,380	21,200	28,464	29,749
Merchandise and finished goods	5,231	8,595	8,419		11,908	12,165	15,911	15,328	21,455	20,873	22,272
Interest-bearing debts ³	32,190	33,891	42,279		48,281	62,037	68,327	66,794	86,524	87,611	81,302
Per share information											
Net assets per share ⁴ (yen)	796.64	893.41	1,023.97		1,017.04	1,090.63	1,257.59	2,030.22	2,278.70	2,595.00	2,739.04
Net income per share ⁴ (yen)	96.13	127.57	145.46		12.84	131.24	194.48	432.85	290.03	381.69	243.47
Financial and non-financial data											
Sales growth rate (%)	14.4%	14.1%	16.0%		7.2%	18.6%	10.0%	20.6%	1.9%	8.0%	1.8%
Selling, general and administrative expenses ratio (%)	13.0%	12.8%	12.7%		13.1%	12.6%	13.9%	13.0%	13.8%	13.8%	14.3%
Operating margin (%)	3.6%	4.3%	4.2%		2.3%	2.9%	3.7%	4.8%	3.8%	4.4%	2.7%
ROA ⁵ (%)	2.3%	2.7%	2.6%		0.2%	1.8%	2.2%	4.4%	2.8%	3.3%	2.1%
ROE ⁶ (%)	12.7%	15.1%	15.2%		1.3%	12.0%	16.6%	25.3%	13.5%	15.7%	9.2%
Equity ratio ⁷ (%)	17.6%	17.6%	17.0%		15.5%	13.5%	13.6%	20.6%	20.4%	22.2%	23.0%
Interest coverage ratio ⁸ (times)	7.8	12.8	13.0		4.9	8.6	7.1	24.4	–	37.1	25.8
D/E ratio ⁹ (times)	2.8	2.7	2.9		3.3	3.9	3.8	2.1	2.4	2.1	2.0
Capital expenditure	5,885	7,885	8,961		5,566	9,069	12,279	8,073	23,344	15,316	5,254
Depreciation	2,169	2,333	3,028		3,591	3,825	3,631	4,461	4,741	5,214	6,304
R&D expenses	807	985	1,224		1,023	1,534	1,767	1,913	2,388	2,784	2,764
Number of employees ¹⁰	1,881	2,112	2,304		2,488	3,009	3,283	3,435	3,781	4,075	4,383

* 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. Figures before FY2017 are not retroactively adjusted in accordance with the change of the accounting standard.
3. Interest-bearing debt = loans + lease obligations + installment account payable + bonds
4. 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 2009.

5. ROA = profit attributable to owners of parent ÷ average of total assets at the beginning and end of the fiscal year
6. ROE = profit attributable to owners of parent ÷ average equity at the beginning and end of the fiscal year
7. Equity ratio = shareholders' equity ÷ total assets
8. Interest coverage ratio = operating cash flow ÷ interest payments. This figure is not presented when operating cash flow is in negative territory.
9. D/E ratio = interest-bearing debt ÷ net assets
10. 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

Status of Sales and Profits

Net sales

Net sales totaled 245,687 million yen (up by 1.8%, or 4,412 million yen year on year). The fact that Nihon Chouzai secured a gain in net sales despite the April 2018 revisions to drug prices and dispensing fees driving competitors to post a drop in sales for the year should be considered a success.

In the Dispensing Pharmacy Business, though reductions in drug prices and dispensing fees served to hamper sales, factors such as the steady progress in opening our own pharmacies and tightly-controlled M&A activities helped to increase net sales by 1.7% year on year.

In the Pharmaceutical Manufacturing and Sales Business, expanded internal sales from promotion of generic prescriptions and additional pharmacy locations in the Dispensing Pharmacy Business led to a 6.8% year on year gain in net sales. Further, the permeation of a sales strategy emphasizing profitability helped to keep prices above a certain level.

In the Medical Professional Staffing and Placement Business, net sales increased 9.3% year on year, mainly as a result of the increase in job listings and placements on the back of the shortage of pharmacists as well as the expansion of the business of introducing doctors to medical institutions. This business in particular is seeing greater results thanks to the expansion of sales bases and an increase in sales staff.

These initiatives have resulted in securing increased sales in all business segments.

Costs of sales and selling, general, and administrative expenses

Cost of sales totaled 203,711 million yen (up by 3.2%, or 6,274 million yen year on year). Drug price negotiations became fiercely competitive after the April 2018 enactment of the Revised Distribution Guidelines. This, combined with greater personnel costs on the back of the record number of pharmacists employed, led to higher cost of sales. Selling, general, and administrative expenses totaled 35,242 million yen (up by 6.0%, or 1,991 million yen) due to the development of pharmacies for functional differentiation, the increased hiring and education of pharmacists anticipating expanded interpersonal services, the increased numbers of sales bases and sales staff to handle the growing business of doctor introduction, and other proactive upfront investments anticipating future growth.

Operating profit

Operating profit totaled 6,733 million yen (down by 36.4%, or 3,853 million yen year on year), with operating margin at 2.7% (down by 1.7%). Major dispensing pharmacy chains took a major blow with the dispensing fee revisions of April 2018. Lower dispensing technical fees and more intense hiring of pharmacists anticipating expanded interpersonal services added to costs. These

are considered as necessary, forward-thinking upfront investments in anticipation of future growth.

Profit attributable to owners of parent company

Profit attributable to owners of parent company totaled 3,790 million yen (down by 37.9%, or 2,314 million yen year on year). Though return on equity (ROE) fell from 15.7% the previous fiscal year to 9.2% in the fiscal year under review, this result was largely due to the effects of a decline in profit levels from proactive upfront investment in addition to revised drug prices and dispensing fees.

Status of Each Business Segment

Dispensing Pharmacy Business

Net sales in this business totaled 208,622 million yen (up by 1.7%, or 3,430 million yen year on year), with operating profit at 8,707 million yen (down by 29.8%, or 3,703 million yen).

Though the aforementioned revisions resulted in decreased drug prices and technical fees, greater effort put into various initiatives has helped coax this business toward recovery. Further, initiatives related to family pharmacists/pharmacies and at-home medical care combined with positive effects from newly-opened pharmacies led to a 3.3% year on year increase in the number of prescriptions.

While intensified hiring has resulted in a dramatic increase in new graduate pharmacist hires and subsequently an increase in cost of sales, this is considered a critical investment in talent in the interest of upcoming growth. Other major factors behind increased SG&A expenses include upgrading of pharmacy facilities required for function differentiation.

Pharmaceutical Manufacturing and Sales Business

Net sales were 40,659 million yen (up by 6.8%, or 2,593 million yen year on year), with operating profit at 1,885 million yen (up by 57.8%, or 690 million yen), an increase in both sales and profit.

While net sales were negatively impacted by lower prices of generic drugs due to revised drug prices, expansion of operations in the Dispensing Pharmacy Business and use of generic drugs led to increased internal sales and, in sum, to an increase in net sales.

Operating profit increased significantly due to such factors as continued progress in sales strategies emphasizing profitability, reduction in expenses at manufacturing plants, and sales at appropriate prices pursuant to the Revised Distribution Guidelines. Capital investment has peaked, and the Company is moving away from a period of upfront investment into one of investment recovery.

Medical Professional Staffing and Placement Business

Net sales in this business totaled 13,083 million yen (up by 9.3%, or 1,113 million yen year on year), with operating profit at 1,478 million yen (down by 19.7%, or 363 million yen).

Net sales were bolstered by factors such as the continued shortage of pharmacists and the resulting steady results of the staffing business and the expansion of the doctor introduction business in which the Company had made upfront investments.

Turning to profits, while salaries of pharmacists continued to rise in areas with particularly tight labor markets, resulting in higher costs of sales, the gross profit margin declined only 0.7% year on year thanks to growth in the pharmacist and doctor placement business. For expenses, the establishment of sales bases and the augmenting of sales staff to handle the growing doctor placement business increased selling, general, and administrative expenses by 25.7%, or 710 million yen year on year. As a result, the operating margin dropped from 15.4% the previous fiscal year to 11.3%, a 4.1% decline, but this is viewed positively as an upfront investment ahead of growth in the business.

Analysis of Financial Position

Assets

Total assets decreased by 7,891 million yen, or 4.2%, from 186,569 million at the end of the previous fiscal year to 178,677 million yen at the end of the current fiscal year.

Current assets were 80,132 million yen, a decrease of 1,481 million yen (1.8%), from 81,613 million yen at the end of the previous fiscal year. This was mainly attributable to a decrease in accounts receivable — trade. Non-current assets decreased by 6,411 million yen (6.1%), from 104,956 million yen at the end of the previous fiscal year to 98,545 million yen. The fall in property, plant, and equipment was primarily caused by sale of the Kasukabe Plant in the interest of consolidation and streamlining. This resulted in decreases in buildings and structures, and land. Intangible assets fell primarily because of reduced goodwill in the Dispensing Pharmacy Business, etc.

Liabilities

Total liabilities decreased by 7,458 million yen (5.1%), from 145,062 million yen at the end of the previous fiscal year to 137,604 million yen at the end of this fiscal year.

Current liabilities decreased 1,209 million yen (1.7%), from 70,310 million yen at the end of the previous fiscal year to 69,100 million yen. This was mainly attributable to a decrease in income taxes payable. Non-current liabilities decreased by 6,248 million yen (8.4%), from 74,752 million yen at the end of the previous fiscal year to 68,504 million yen. This was mainly attributable to a decrease in long-term loans payable. Capital investment has peaked in the Pharmaceutical Manufacturing and Sales Business, and the Company is moving away from a period of upfront investment into one of investment recovery.

Net assets

Net assets decreased by 433 million yen (1.0%), from 41,506 million yen at the end of the previous fiscal year to 41,073 million yen at the end of this fiscal year. This was mainly attributable to an increase in treasury shares due to share buybacks. As a result, the equity ratio improved to 23.0%.

Status of Cash Flows

Net cash provided by operating activities was 13,572 million yen, net cash used in investing activities was 1,770 million yen, and net cash used in financing activities was 10,516 million yen. Cash flow from financing activities remains in an outflow trend since the previous fiscal year. As a result, there was a net increase of 1,284 million yen in cash and cash equivalents from the end of the previous fiscal year to 29,749 million yen at the end of March 2019. Each cash flow status is as follows.

Cash flows from operating activities

A major source of cash inflow was profit before income taxes of 6,777 million yen, while the primary use of cash outflow was 4,908 million yen in income taxes paid.

Cash flows from investing activities

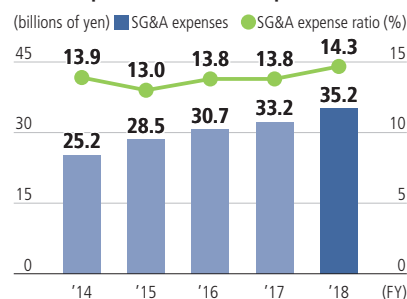
A major source of cash inflow was gain on transfer of business of 4,093 million.

This was accrued due to the sale of the Kasukabe Plant in the Pharmaceutical Manufacturing and Sales Business. On the outflow side, the primary use of cash outflow was payment of 5,303 million yen for the purchase of property, plants, and equipment incidental to opening new pharmacies in the Dispensing Pharmacy Business and capital investments in the Pharmaceutical Manufacturing and Sales Business. The amount decreased significantly because the upfront investment in the Pharmaceutical Manufacturing and Sales Business exceeded the peak.

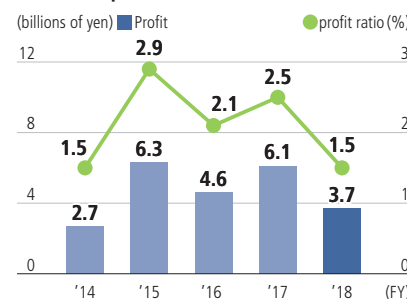
Cash flows from financing activities

The primary source of cash inflow was proceeds from long-term loans payable of 10,625 million yen, while cash was used mainly for payments of 15,694 million yen in repayments of long-term loans payable. Although net cash inflow from financing activities continued due to ongoing upfront investments in the Pharmaceutical Manufacturing and Sales Business, an outflow trend remains as there was an outflow of 2,034 million yen in the previous fiscal year and 10,516 million yen this fiscal year in financing activities. Going forward, the Company will seek to strengthen its financial structure as it moves into an investment recovery period.

SG&A expenses and SG&A expense ratio

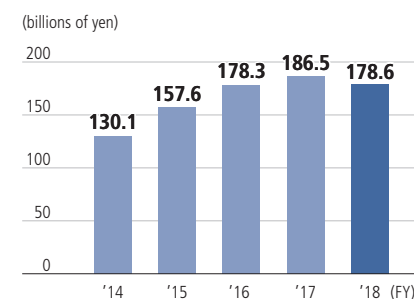


Profit and profit ratio

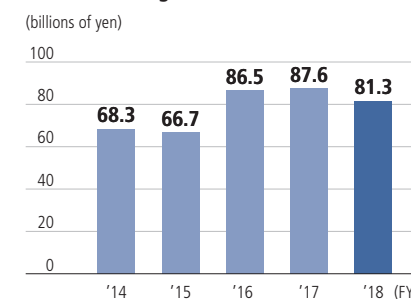


* Profit: Profit attributable to owners of parent

Total assets

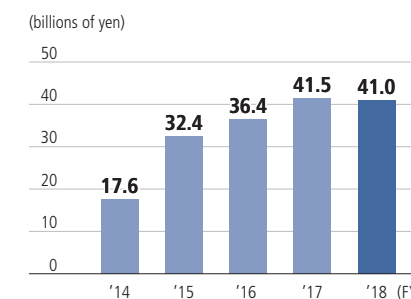


Interest-bearing debt

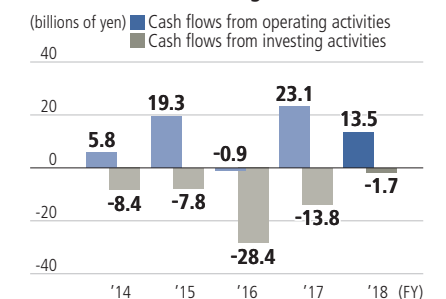


* Interest-bearing debts shows the total amount of loans payable, lease obligations, accounts payable — installment purchase, and bonds.

Net assets



Cash flows from operating activities Cash flows from investing activities



Consolidated Balance Sheet

Nihon Chouzai Co., Ltd. and subsidiaries March 31, 2018 and 2019

(millions of yen)

Assets	FY2017	FY2018
Current assets		
Cash and deposits	28,464	29,749
Notes receivable — trade	213	134
Accounts receivable — trade	19,902	16,249
Electronically recorded monetary claims — operating	1,115	1,465
Merchandise and finished goods	20,873	22,272
Work in process	1,304	1,173
Raw materials and supplies	6,047	6,020
Other	3,698	3,071
Allowance for doubtful accounts	(6)	(5)
Total current assets	81,613	80,132
Non-current assets		
Property, plant and equipment		
Buildings and structures	53,483	52,956
Accumulated depreciation	(19,064)	(20,582)
Buildings and structures, net	34,418	32,374
Machinery, equipment and vehicles	14,129	19,246
Accumulated depreciation	(3,543)	(4,539)
Machinery, equipment and vehicles, net	10,585	14,707
Land	19,357	16,961
Leased assets	2,943	2,888
Accumulated depreciation	(1,858)	(2,094)
Leased assets, net	1,084	794
Construction in progress	6,750	1,133
Other	14,816	16,399
Accumulated depreciation	(11,352)	(12,564)
Other, net	3,464	3,835
Total property, plant and equipment	75,662	69,806
Intangible assets		
Goodwill	15,418	14,552
Other	2,534	2,353
Total intangible assets	17,952	16,906
Investments and other assets		
Investment securities	20	17
Long-term loans receivable	738	687
Lease and guarantee deposits	7,049	7,357
Deferred tax assets	2,290	2,610
Other	1,242	1,160
Total investments and other assets	11,341	11,833
Total non-current assets	104,956	98,545
Total assets	186,569	178,677

(millions of yen)

Liabilities	FY2017	FY2018
Current liabilities		
Accounts payable — trade	36,203	37,274
Electronically recorded obligations — operating	3,770	3,081
Current portion of long-term loans payable	15,309	16,143
Lease obligations	311	261
Income taxes payable	3,040	1,478
Provision for bonuses	2,775	3,023
Provision for directors' bonuses	137	86
Asset retirement obligations	4	10
Other	8,759	7,739
Total current liabilities	70,310	69,100
Non-current liabilities		
Long-term loans payable	68,372	62,470
Lease obligations	697	436
Long-term accounts payable — installment purchase	1,991	1,349
Provision for directors' retirement benefits	1,048	1,093
Net defined benefit liability	1,503	1,695
Asset retirement obligations	821	1,145
Other	316	313
Total non-current liabilities	74,752	68,504
Total liabilities	145,062	137,604
Net assets	FY2017	FY2018
Shareholders' equity		
Capital stock	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	26,816	29,815
Treasury shares	(47)	(3,498)
Total shareholders' equity	41,648	41,196
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Remeasurements of defined benefit plans	(144)	(127)
Total accumulated other comprehensive income	(144)	(127)
Non-controlling interests	2	4
Total net assets	41,506	41,073
Total liabilities and net assets	186,569	178,677

Growth towards achieving true separation of drug prescribing and dispensing services

Business performance

Base that supports Nihon Chouzai

Data section

Consolidated Statement of Income

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019

(millions of yen)

	FY2017	FY2018
Net sales	241,274	245,687
Cost of sales	197,437	203,711
Gross profit	43,837	41,975
Selling, general and administrative expenses	33,250	35,242
Operating profit	10,587	6,733
Non-operating income		
Interest income	0	0
Commission fee	151	50
Rent income	436	430
Other	193	178
Total non-operating income	781	659
Non-operating expenses		
Interest expenses	635	525
Commission fee	44	13
Rent expenses	328	355
Loss on retirement of non-current assets	45	221
Other	175	198
Total non-operating expenses	1,230	1,315
Ordinary profit	10,138	6,077
Extraordinary income		
Gain on sales of non-current assets	0	231
Gain on sales of investment securities	360	8
Gain on transfer of business	48	1,092
Total extraordinary income	408	1,332
Extraordinary losses		
Loss on sales of non-current assets	10	24
Impairment loss	491	607
Total extraordinary losses	501	632
Profit before income taxes	10,045	6,777
Income taxes — current	4,272	3,308
Income taxes — deferred	(331)	(324)
Total income taxes	3,940	2,984
Profit	6,104	3,792
Profit attributable to non-controlling interests	—	2
Profit attributable to owners of parent	6,104	3,790

Consolidated Statement of Comprehensive Income

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019

(millions of yen)

	FY2017	FY2018
Profit	6,104	3,792
Other comprehensive income		
Valuation difference on available-for-sale securities	(263)	0
Remeasurements of defined benefit plans, net of tax	17	16
Total other comprehensive income	(245)	16
Comprehensive income	5,858	3,809
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	5,858	3,806
Comprehensive income attributable to non-controlling interests	—	2

Consolidated Statement of Changes in Net Assets

Nihon Chouzai Co., Ltd. and subsidiaries

(millions of yen)

For the year ended
March 31, 2018

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

For the year ended
March 31, 2019

	Shareholders' equity					Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Accumulated other comprehensive income		
Balance at beginning of current period	3,953	10,926	26,816	(47)	41,648	0	(144)	(144)	2	41,506
Changes of items during period										
Dividends of surplus			(791)		(791)					(791)
Profit attributable to owners of parent			3,790		3,790					3,790
Purchase of treasury shares				(3,451)	(3,451)					(3,451)
Net changes of items other than shareholders' equity						0	16	16	2	19
Total changes of items during period	—	—	2,998	(3,451)	(452)	0	16	16	2	(433)
Balance at end of current period	3,953	10,926	29,815	(3,498)	41,196	0	(127)	(127)	4	41,073

Consolidated Statement of Cash Flows

Nihon Chouzai Co., Ltd. and subsidiaries For the years ended March 31, 2018 and 2019

(millions of yen)

	FY2017	FY2018
Cash flows from operating activities		
Profit before income taxes	10,045	6,777
Depreciation	5,214	6,304
Amortization of long-term prepaid expenses	126	160
Impairment loss	491	607
Amortization of goodwill	1,326	1,487
Increase (decrease) in allowance for doubtful accounts	(3)	(0)
Increase (decrease) in provision for bonuses	225	245
Increase (decrease) in provision for directors' bonuses	20	(50)
Increase (decrease) in net defined benefit liability	202	188
Increase (decrease) in provision for directors' retirement benefits	98	45
Interest and dividend income	(21)	(2)
Interest expenses	635	525
Loss (gain) on sales of non-current assets	10	(206)
Loss (gain) on sales of investment securities	(360)	(8)
Loss (gain) on transfer of business	(48)	(1,092)
Decrease (increase) in notes and accounts receivable—trade	6,691	3,485
Decrease (increase) in inventories	1,442	(1,314)
Increase (decrease) in notes and accounts payable—trade	(1,399)	342
Decrease (increase) in prepaid expenses	(111)	(74)
Increase (decrease) in accrued expenses	324	(82)
Decrease (increase) in accounts receivable—other	(354)	998
Increase (decrease) in accounts payable—other	390	(791)
Other, net	1,553	1,460
Subtotal	26,500	19,004
Interest and dividend income received	21	2
Interest expenses paid	(623)	(525)
Income taxes paid	(2,756)	(4,908)
Net cash provided by (used in) operating activities	23,141	13,572
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,076)	(5,303)
Proceeds from sales of property, plant and equipment	46	1,723
Purchase of intangible assets	(656)	(591)
Proceeds from sales of investment securities	999	10
Increase in long-term prepaid expenses	(95)	(123)
Payments for transfer of business	(585)	(368)
Proceeds from transfer of business	114	4,093
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,126)	(785)
Payments for loans receivable	(448)	(92)
Collection of loans receivable	88	85
Payments for lease and guarantee deposits	(251)	(699)
Proceeds from collection of lease and guarantee deposits	172	281
Other, net	(25)	(0)
Net cash provided by (used in) investing activities	(13,843)	(1,770)
Cash flows from financing activities		
Proceeds from long-term loans payable	13,000	10,625
Repayments of long-term loans payable	(13,408)	(15,694)
Repayments of lease obligations	(391)	(311)
Repayments of installment payables	(433)	(893)
Purchase of treasury shares	(1)	(3,451)
Cash dividends paid	(799)	(791)
Net cash provided by (used in) financing activities	(2,034)	(10,516)
Net increase (decrease) in cash and cash equivalents	7,264	1,284
Cash and cash equivalents at beginning of period	21,200	28,464
Cash and cash equivalents at end of period	28,464	29,749

Risks of Businesses

Within the matters regarding business status and accounting status described in this “Corporate Report 2019,” 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 27, 2019, 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 production facility for Nihon Generic Co., Ltd. in Tsukuba City, Ibaraki 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 27, 2019.

(2) Securing pharmacists

Regarding dispensing pharmacies, Article 19 of the Pharmacists Act forbids, in principle, dispensing by anyone other than pharmacists. By “Law for Ensuring the Quality, Efficacy, and Safety of Drugs and Medical Devices” (“Pharmaceutical and Medical Devices Act” is used as an abbreviation. This was

called “Pharmaceutical Affairs Act” before amendment) and an Ordinance of the Ministry of Health, Labour, and Welfare, not only pharmacist arrangement in a pharmacy, but also the number of arranged pharmacists is strictly regulated, and it is required to arrange one pharmacist per 40 sheets of received prescriptions a day. Therefore, in case of failure to secure the required number of pharmacists, our store opening plans and performance may be affected.

(3) Dispensing operation

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

2. The business environment in the Dispensing Pharmacy Business

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

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

(2) Reform of the medical care system

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

[2] Other reforms of systems

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

3. Business development

Regarding the dispensing pharmacy business, we have a policy to increase the number of stores including acquisition of stores,

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

4. Seasonal variation of sales

The sales in the dispensing pharmacy business also account for much of the total sales of the Nihon Chouzai Group in the current consolidated fiscal year, and the performance changes of the dispensing pharmacy business we operate greatly affect the performance changes of the Group.

Regarding the said dispensing pharmacy business, depending on increasing prescriptions for influenza, etc., 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.

maceutical 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 section of generic drugs manufacture and sales 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.

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

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.

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.

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.

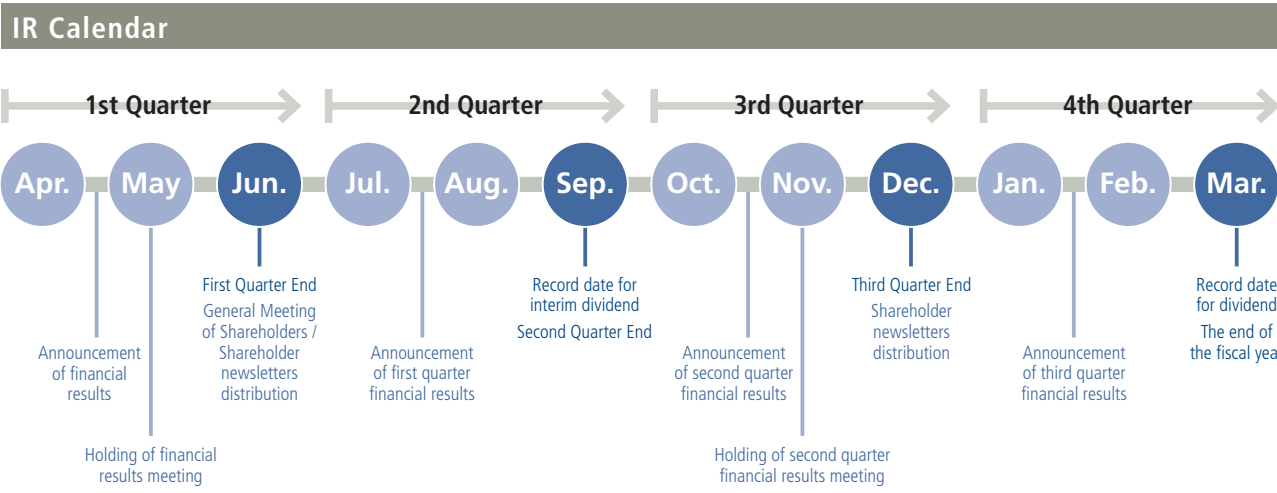
Regarding the Pharmaceutical Manufacturing and Sales Business of the Group, we productize and sell generic drugs with development costs relatively less than those of new drugs. For the actual manufacturing process, we furthered manufacturing products at our own factory from October 2010. The legal risks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

Company Profile

(As of March 31, 2019)

Company Profile		Shareholder Information	
Trade name NIHON CHOUZAI Co., Ltd.		Total number of authorized shares 44,192,000 shares	
Established March 1980		Total number of issued shares 16,024,000 shares	
Headquarters 37F GranTokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo 100-6737 +81-(0) 3-6810-0800 (general)		Number of shareholders 5,790 shareholders	
Capital 3,953.02 million yen		Annual general meeting of shareholders June	
Consolidated net sales 245,687 million yen (FY2018)		Administrator of shareholder registry Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikko-cho, Fuchu City, Tokyo 183-0044 0120-232-711 (toll-free)	
Consolidated Number of employees Regular employees: 4,383 Part-time employees and others: 727 <small>* Part-time employees and others are yearly average number of persons employed based on 8-hour conversion. (As of March 31, 2019)</small>		Stock exchange for listing Tokyo Stock Exchange (TSE) First Section	
Main financing banks Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, MUFG Bank, Ltd., Resona Bank, Ltd.		Securities code 3341	
Our business Management of health insurance dispensing chain pharmacies		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)
April 2014	Choseido Pharmaceutical Plant No. 2 completed
October 2016	Opened Sapporo Logistics Center, the fourth logistics center established following those in East Japan, West Japan, and Kanto
February 2017	Formed business partnership with Dai-ichi Life Insurance Company, Limited
December 2017	Tsukuba Plant No. 2 of Nihon Generic Co., Ltd. completed
June 2018	Tsukuba Research Laboratory of Nihon Generic Co., Ltd. relocated to Tsukuba Northern Industrial Park
March 2019	Headquarter of Medical Resources Co., Ltd. relocated to 1-9-1, Marunouchi, Chiyoda-ku, Tokyo

The law amendment or system changes are written in blue.

Growth towards achieving true separation of drug prescribing and dispensing services

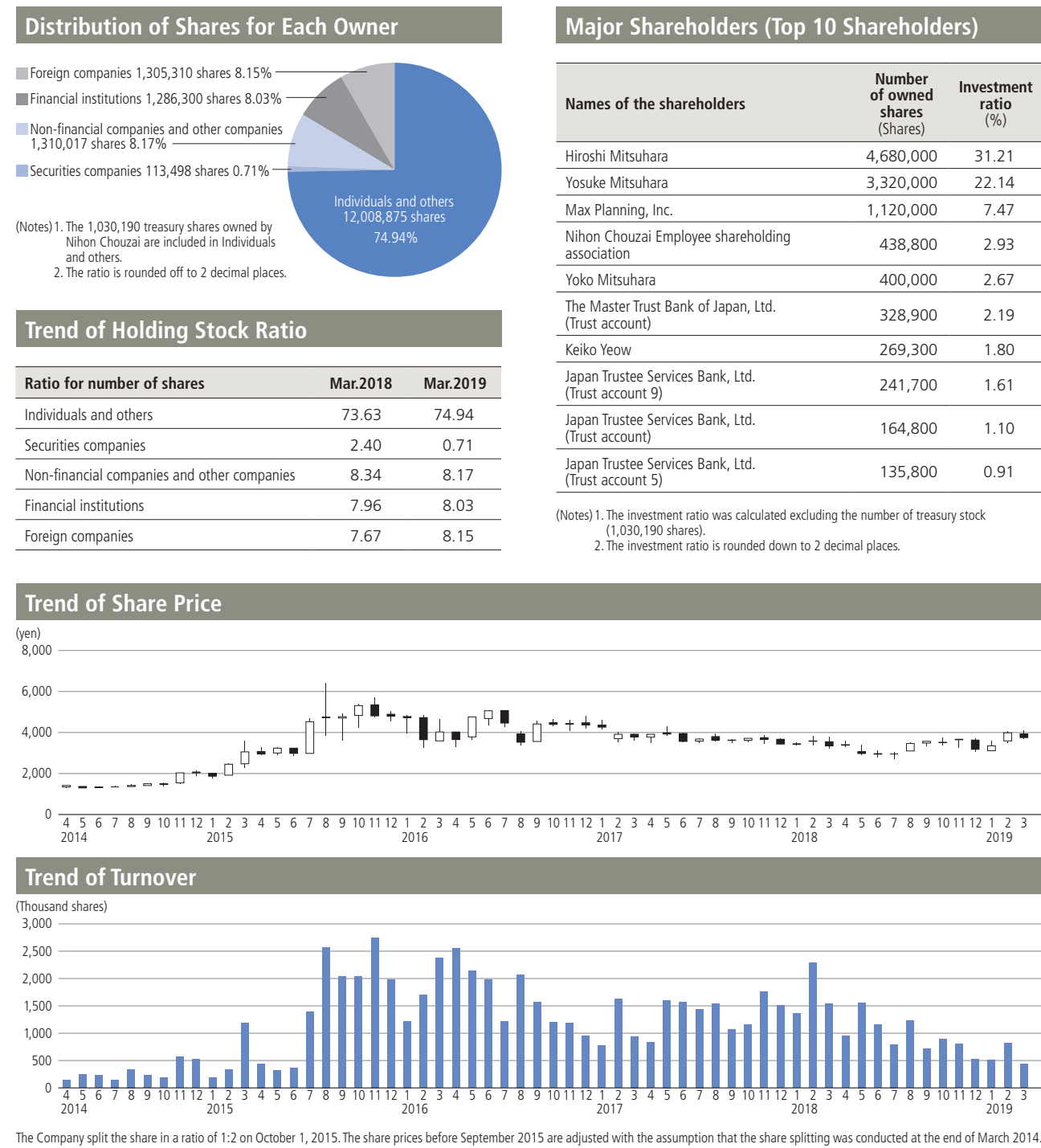
Business performance

Base that supports Nihon Chouzai

Data section

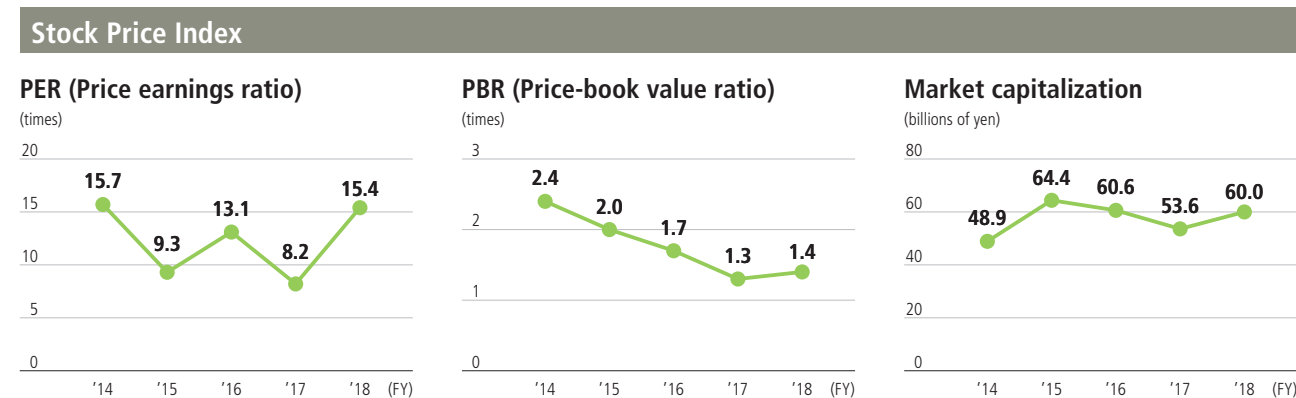
Stock Information

(As of March 31, 2019)



Trend of Share Price

Trend of Turnover



Reference Pages for Major Contents

Content	Sections of this report	Web links https://www.nicho.co.jp/corporate/
Corporate philosophy	Corporate philosophy	Company Profile ▶ Corporate philosophy https://www.nicho.co.jp/corporate/profile/philosophy/
Business characteristics and strengths	Business model Business performance	Company Profile ▶ Nihon Chouzai Group https://www.nicho.co.jp/corporate/profile/group/ Businesses https://www.nicho.co.jp/corporate/business/
Management objectives	Toward a Long-term Vision for 2030	
Management strategy	Message from the President	IR information ▶ Management information ▶ Message from the President https://www.nicho.co.jp/corporate/ir/message.html
Relevant laws and regulations	Main Dispensing Fee Revisions Explanation of Terminology	IR information ▶ Management information ▶ Business environment and issues to be addressed by the Company https://www.nicho.co.jp/corporate/ir/management.html
Relationship with stakeholders	Social Human	Company Profile ▶ Social Contribution Activities by Nihon Chouzai https://www.nicho.co.jp/corporate/profile/contribution/
Corporate governance	Corporate governance	IR information ▶ Management information ▶ Corporate governance https://www.nicho.co.jp/corporate/ir/governance.html
Financial data	Financial highlights Data section	IR information ▶ Financial highlights https://www.nicho.co.jp/corporate/ir/highlight.html IR information ▶ IR library https://www.nicho.co.jp/corporate/ir/irlibrary.html

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