

※ Notes

- (1) Changes in material subsidiaries during the first half of fiscal year ending March 2018: N.A.
 (Changes in special subsidiaries accompanying a change in the scope of consolidation)
 Inclusion —(Company name:) Exclusion —(Company name:)
- (2) Application of accounting process which is peculiar to the compilation of consolidated quarterly financial statements: N.A.
- (3) Changes in accounting policies and changes in accounting estimates, and correction and restatement
 (i) Changes in accounting policies with revisions in the accounting standards, etc.: N.A.
 (ii) Changes in accounting policies other than those under the item (i): N.A.
 (iii) Changes in the accounting estimates: N.A.
 (iv) Correction and Restatement: N.A.

(4) Number of shares outstanding (Common stock)

(i) Number of shares outstanding at end of fiscal year
 (Including common stock for treasury)

First Half of FY Ending March 2018	78,270,142	FY Ended March 2017	78,270,142
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(ii) Number of treasury stocks at end of fiscal year

First Half of FY Ending March 2018	9,766,778	FY Ended March 2017	9,518,069
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(iii) The average number of shares during the first half

First Half of FY Ending March 2018	68,598,227	First Half of FY Ended March 2017	68,612,080
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* This quarterly earnings report is exempt from the quarterly review.

* Explanation of Appropriate Use of Performance Projections and Other Items Requiring Special Description

Any forward-looking statements contained in this report, including performance projections, are based on information currently available to the Company as well as certain assumptions that the Company determined to be rational at the time of the release of this report, and it is not intended that the Company undertake to achieve such results. Actual results may differ significantly from the projections above, due to a variety of factors. Please refer to Qualitative Information on Projected Consolidated Results of Operations on page 3 of the Attached Document for the suppositions on which the performance projections are based and points that have to be borne in mind for the use of such projections.

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1. Qualitative Information on Financial Results for the First Half of Fiscal Year Ending March 2018

(1) Explanation of Management Results

The prescription pharmaceuticals market continued to decline during the first half under review, following the negative growth in the previous fiscal year. Adversely affected by the substantially scaled-down market for curative drugs for hepatitis C on a year-on-year comparison, the Company also recorded negative growth. And yet, net sales, operating income, ordinary income, and profit attributable to owners of parent during the term under review were all above their respective budgeted figures. The Group has, as a corporate group engaged in the areas of medical care, healthcare, and nursing care, continued to strive to enhance profitability by accelerating a shift to a business model that focuses on value-added services that should offer solutions to problems faced by patients, medical institutions and specialists etc. in the fields of home healthcare and nursing care, as well as by promoting the optimization of personnel and organizations and operational efficiency. In anticipation of the era in which generic drugs account for 80% or more of the off-patent pharmaceuticals market on a volume basis, KYOSOMIRAI PHARMA which was established in November 2016, received an approval of manufacturing and sales for 6 ingredients/ 15 products of generic drugs as “KYOSOMIRAI PHARMA” brand products, for the first time in August 2017. Furthermore, KYOSOMIRAI PHARMA launched 2 ingredients/ 5 products under its own brand in September, making the total number of new generic drugs under its own brand 6 ingredients / 19 products. The Company’s operating results for the consolidated first half of the fiscal year ending March 2018 recorded 595,962 million yen for net sales (a decrease of 3.2% on a year-on-year basis), 5,458million yen for operating income (a decrease of 28.6% on a year-on-year basis), 8,408 million yen for ordinary income (a decrease of 20.4% on a year-on-year basis), and 5,132 million yen for profit attributable to owners of parent (a decrease of 25.5% on a year-on-year basis).

The outline of operating results by business segment is as follows:

In the pharmaceutical wholesaling business, we focused on ensuring a fair level of profit through measures such as promoting unit price negotiations per single item based on the price system in accordance with the value of each product, while also endeavoring to strengthen the foundations of the business. Moreover, as a significant earnings source, we actively developed and proposed customer support systems that will help offer solutions to the problems faced by patients and medical institutions as well as enhancing profitability. Specifically, we strived to win contracts for “initial examination reservation service” and “ENIFvoice SP/SP+A”. As a result, in the first half of the current fiscal year, the pharmaceutical wholesaling business posted net sales of 570,639 million yen (a year-on-year decrease of 3.6%) and segment income (operating income) of 5,001 million yen (a year-on-year decrease of 36.3%).

In the dispensing pharmacy business, we endeavored to improve profitability by further responding to the dispensing fee revision as well as by promoting the standardization and efficiency of store operations through measures such as personnel optimization and utilization of the Company’s customer support systems.

Consequently, the first half of the current fiscal year, the dispensing pharmacy business posted net sales of 48,204 million yen (a year-on-year increase of 2.2%) and segment income (operating income) of 1,305 million yen (a year-on-year increase of 590.1%).

In the SMO operations, net sales for the first half of the current fiscal year amounted to 164 million yen (a year-on-year decrease of 1.4%) and segment income (operating income) was 50 million yen (a year-on-year decrease of 4.1%). In the information equipment sales operations, net sales for the first half of the current fiscal year totaled 692 million yen (a year-on-year increase of 13.3%), with segment loss (operating loss) of 52 million yen.

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets as of the end of September 2017 increased 7.0% from the end of the previous consolidated fiscal year to 457,052 million yen, due to an increase in cash and deposits of 33,668 million yen, and a decrease in notes and accounts receivable-trade of 3,155 million yen. Noncurrent assets as of the end of September 2017 increased 2.7% compared with the end of the preceding consolidated fiscal year to 176,531 million yen, due mainly to an increase in investment securities of 4,591 million yen, and an increase in property, plant and equipment of 1,361 million yen, and a decrease in goodwill of 947 million yen. As a result, consolidated net assets increased 5.8% from a year earlier, to 633,584 million yen.

(Liabilities)

Current liabilities increased 7.1% from the end of the previous consolidated fiscal year to 394,962 million yen with an increase in notes and accounts payable-trade of 24,746 million yen. Noncurrent liabilities increased 9.2% from the end of the previous consolidated fiscal year to 45,680 million yen with an increase in long-term loans payable of 4,132 million yen. As a result, total liabilities increased 7.3% year-on-year to 440,642 million yen.

(Net assets)

Total net assets increased 2.5% from the end of the previous consolidated fiscal year to 192,941 million yen, with an increase in retained earnings of 4,118 million yen and an increase in valuation difference on available-for-sale securities of 1,087 million yen.

(Analysis of the Cash Flow Position)

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated first half increased 33,638 million yen from the end of the preceding consolidated fiscal year. As a result, the balance at the end of this first half was 61,360 million yen (an increase of 25,132 million yen on a year-on-year basis). The following describes the three categories of consolidated cash positions during this consolidated first half, as well as the factors responsible.

(Cash Flows from Operating Activities)

Cash flow from operating activities was an inflow of 39,009 million yen (an increase of 21,776 million yen on a year-on-year basis). Although the inflow was secured by some positive factors such as the income before income taxes of 8,359 million yen, depreciation and amortization of 2,191 million yen, amortization of goodwill of 1,018 million yen, decrease in notes and accounts receivable-trade of 3,198 million yen, and increase in notes and accounts payable-trade of 24,746 million yen these were somewhat offset by negative factors including increase in inventories of 2,650 million yen.

(Cash Flows from Investing Activities)

Cash flow from investing activities was an outflow of 6,576 million yen (a decrease of 2,981 million yen on a year-on-year basis), which is mainly attributable to purchase of property, plant and equipment of 3,054 million yen, and purchase of investment securities of 2,991 million yen.

(Cash Flows from Financing Activities)

Cash flow from financing activities was an outflow of 1,205 million yen (an increase of 6,469 million yen on a year-on-year basis), which is mainly attributable to a net increase in long-term loans payable of 3,771 million yen, a decrease in repayments of finance lease obligations of 926 million yen and cash dividends paid of 1,031 million yen.

(3) Explanation of Projections of Consolidated Operating Results for Fiscal Year Ending March 2018

There are no changes in the projected consolidated results of the full-term of the year published on May 11, 2017.

2. Quarterly Consolidated Financial Statements and Main Notes
 (1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2017)	End of this consolidated first half (As of September 30, 2017)
Assets		
Current assets		
Cash and deposits	31,966	65,634
Notes and accounts receivable-trade	284,205	281,049
Merchandise and finished goods	73,575	76,226
Other	37,616	34,457
Allowance for doubtfulaccounts	-312	-315
Total current assets	427,052	457,052
Noncurrent assets		
Property, plant and equipment	86,371	87,733
Intangible assets		
Goodwill	4,300	3,352
Other	2,998	2,785
Total intangible assets	7,298	6,138
Investments and other assets		
Investment securities	68,781	73,373
Other	11,972	11,928
Allowance for doubtfulaccounts	-2,605	-2,641
Total investments and other assets	78,148	82,660
Total noncurrent asset	171,818	176,531
Total assets	598,871	633,584

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2017)	End of this consolidated first half (As of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	349,039	373,786
Short-term loans payable	4,216	3,716
Income taxes payable	3,020	3,190
Provision for bonuses	3,506	3,645
Provision for directors' bonuses	75	34
Provision for sales returns	324	317
Asset retirement obligations	—	1
Other	8,575	10,270
Total current liabilities	368,758	394,962
Noncurrent liabilities		
Bonds payable	15,041	15,033
Long-term loans payable	1,962	6,094
Net defined benefit liabilities	1,786	1,824
Asset retirement obligations	1,078	1,081
Negative goodwill	49	35
Other	21,923	21,609
Total noncurrent liabilities	41,841	45,680
Total liabilities	410,599	440,642
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	47,856	47,874
Retained earnings	128,123	132,241
Treasury stock	-16,051	-16,611
Total shareholders' equity	170,577	174,154
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,836	22,923
Revaluation reserve for land	-4,287	-4,304
Total accumulated other comprehensive income	17,548	18,618
Subscription rights to shares	145	168
Total net assets	188,271	192,941
Total liabilities and net assets	598,871	633,584

(2) Quarterly Consolidated Profit and Loss Statement and Quarterly Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Profit and Loss Statement
 [Period for the consolidated first half]

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)	Period for this consolidated first half (from April 1, 2017 to September 30, 2017)
Net sales	615,778	595,962
Cost of sales	560,101	542,754
Gross profit	55,677	53,208
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	20,852	20,684
Provision for bonuses	3,604	3,609
Provision for directors' bonuses	38	34
Retirement benefit expenses	121	112
Welfare expenses	3,904	3,962
Vehicle expenses	543	543
Provision of allowance for doubtful accounts	61	53
Depreciation	2,208	2,191
Amortization of goodwill	1,107	1,018
Rent expenses	3,451	3,528
Taxes and dues	898	860
Expense before deduction of temporary consumption tax payment	2,629	2,615
Other	8,613	8,533
Total selling, general and administrative expenses	48,036	47,749
Operating income	7,640	5,458
Non-operating income		
Interest income	37	32
Dividend income	677	726
Commission fee	1,522	1,539
Amortization of negative goodwill	13	13
Equity in earnings of affiliates	21	28
Other	1,059	942
Total non-operating income	3,332	3,283
Non-operating expenses		
Interest expenses	52	24
Expenses of real estate rent	273	207
Other	77	102
Total non-operating expenses	403	333
Ordinary income	10,569	8,408

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)	Period for this consolidated first half (from April 1, 2017 to September 30, 2017)
Extraordinary income		
Gain on sales of noncurrent assets	153	1
Gain on liquidation of subsidiaries and affiliates	—	39
Other	8	2
Total extraordinary income	162	44
Extraordinary loss		
Loss on disposal of noncurrent assets	99	42
Impairment loss	12	47
Directors' retirement benefits	35	—
Other	2	4
Total extraordinary loss	149	93
Income before income taxes	10,581	8,359
Income taxes-current	3,458	3,237
Income taxes-deferred	232	-11
Total income taxes	3,691	3,226
Current net income	6,890	5,132
Profit attributable to owners of parent	6,890	5,132

Quarterly Consolidated Statements of Comprehensive Income
 [Period for the consolidated first half]

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)	Period for this consolidated first half (from April 1, 2017 to September 30, 2017)
Current net income	6,890	5,132
Other comprehensive income		
Valuation difference on available-for-sale securities	-791	1,079
Share of other comprehensive income of associates accounted for using equity method	-5	7
Total other comprehensive income	-796	1,087
Comprehensive income	6,093	6,219
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,093	6,219
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)	Period for this consolidated first half (from April 1, 2017 to September 30, 2017)
Net cash provided by (used in) operating activities		
Income before income taxes	10,581	8,359
Depreciation and amortization	2,208	2,191
Impairment loss	12	47
Amortization of goodwill	1,107	1,018
Amortization of negative goodwill	-13	-13
Increase (decrease) in net defined benefit liability	50	38
Increase (decrease) in provision for sales returns	-92	-6
Increase (decrease) in provision for bonuses	149	139
Increase (decrease) in provision for directors' bonuses	-38	-41
Increase (decrease) in allowance for doubtful accounts	46	39
Interest and dividend income	-715	-759
Interest expense	52	24
Loss (gain) on sales and retirement of noncurrent assets	-53	40
Loss (gain) on sales and valuation of investment securities	—	-0
Decrease (increase) in notes and accounts receivable-trade	51,542	3,198
Decrease (increase) in inventories	172	-2,650
Decrease (increase) in other assets	1,319	1,000
Increase(decrease) in notes and accounts payable-trade	-36,984	24,746
Increase (decrease) in other liabilities	-602	871
Increase (decrease) in accrued consumption taxes	-794	345
Other loss (gain)	-2,110	-2,042
Subtotal	25,839	36,546
Interest and dividends incomereceived	713	756
Interest expenses paid	-110	-62
Income taxes paid	-11,435	-245
Other	2,226	2,014
Net cash provided by (used in) operating activities	17,233	39,009

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)	Period for this consolidated first half (from April 1, 2017 to September 30, 2017)
Net cash provided by (used in) investment activities		
Payments into time deposits	-632	-648
Proceeds from withdrawal of time deposits	630	619
Purchase of property, plant and equipment	-1,167	-3,054
Proceeds from sales of property, plant and equipment	590	1
Purchase of intangible assets	-637	-278
Proceeds from sales of intangible assets	1	—
Purchase of investment securities	-337	-2,991
Proceeds from sales and redemption of investment securities	499	1
Purchase of stocks of subsidiaries and affiliates	-2,133	-30
Payments for asset retirement obligations	-11	-11
Payments of loans receivable	-429	-253
Collection of loans receivable	72	47
Other	-38	21
Net cash provided by (used in) investment activities	-3,595	-6,576
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	-1,722	18
Proceeds from long-term loans payable	217	5,000
Repayment of long-term loans payable	-1,749	-1,228
Purchase of treasury stock	-0	-625
Repayments of finance lease obligations	-979	-926
Cash dividends paid	-1,029	-1,031
Net cash provided by (used in) financing activities	-5,264	1,205
Net increase (decrease) in cash and cash equivalents	8,373	33,638
Cash and cash equivalents at beginning of year	27,854	27,721
Cash and cash equivalents at the end of first half	36,228	61,360

(4)Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning Premise of a Going Business)

Not applicable.

(Notes concerning Material Changes in Shareholders' Equity)

Period for this consolidated first half (from April 1, 2017 to September 30, 2017)

Not applicable.

(Segmental Information)

I Period for previous consolidated first half (from April 1, 2016 to September 30, 2016)

1. Information about sales and profit or loss by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales							
(1) Net sales to external customers	568,158	46,962	166	490	615,778	—	615,778
(2) Inter-segment internal net sales or transfers	23,528	190	—	120	23,839	-23,839	—
Total	591,687	47,152	166	611	639,618	-23,839	615,778
Segment profit	7,854	189	53	-35	8,061	-420	7,640

(Note) 1. The amount of the adjustments for segment profits shows the elimination of internal transactions and unrealized profit and corporate expenses not attributable to any reportable segment.

2. The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statement.

2. Information about impairment losses on noncurrent assets or goodwill by each business segment
Not applicable.

II Period for this consolidated first half (from April 1, 2017 to September 30, 2017)

1. Information about sales and profit or loss by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales							
(1) Net sales to external customers	547,253	48,008	164	535	595,962	—	595,962
(2) Inter-segment internal net sales or transfers	23,385	195	—	156	23,738	-23,738	—
Total	570,639	48,204	164	692	619,701	-23,738	595,962
Segment profit	5,001	1,305	50	-52	6,304	-846	5,458

(Note) 1. The amount of the adjustments for segment profits shows the elimination of internal transactions and unrealized profit and corporate expenses not attributable to any reportable segment.

2. The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statement.

2. Information about impairment losses on noncurrent assets or goodwill by each business segment
Not applicable.