

Summary of Consolidated Financial Results for the First Half of Fiscal Year Ending March 2015

November 6, 2014

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Scheduled Submission Date for Quarterly Report: Nov 14, 2014 Planned Date of Dividends Payment: Dec 5, 2014

Quarterly Supplemental Explanatory Material Prepared: Applicable

Quarterly Results Briefing Held: Applicable (For Institutional Investors and Analysts)

(Amounts are truncated to the nearest million yen.)

1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 2015

(from April 1, 2014 to September 30, 2014)

(1) Consolidated Results of Operations (Cumulative)

(Percentages indicate the rate of change compared with the preceding fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Current Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First Half of Fiscal 2015	560,916	-3.2	2,622	-50.5	5,558	-33.7	3,019	-38.6
First Half of Fiscal 2014	579,175	4.1	5,298	-10.3	8,387	-2.9	4,914	-4.5

(Note) Comprehensive income: First Half of Fiscal 2015: 7,964 million yen (154.1%); First Half of Fiscal 2014: 3,133 million yen (-42.6%)

	Current Net Income per Share	Current Net Income per Share - Diluted
	Yen	Yen
First Half of Fiscal 2015	40.05	40.04
First Half of Fiscal 2014	66.73	66.73

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity per share
	Million yen	Million yen	%
First Half of Fiscal 2015	560,129	154,439	27.6
Fiscal 2014	580,137	147,190	25.4

(Reference) Shareholder's equity: First Half of Fiscal 2015: 154,401 million yen ; Fiscal 2014 : 147,162 million yen

2. Historical Payment of Dividends

	Annual Cash Dividend per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2014	—	10.00	—	10.00	20.00
Fiscal 2015	—	12.00			
Fiscal 2015 (Projected)			—	12.00	24.00

(Note) Revision of the dividend forecasts most recently announced: None

Breakdown of cash dividends for the first half of fiscal 2015 Commemorative dividend: 2yen Ordinary dividend: 10yen

3. Consolidated Projected Results of Operations during Fiscal Year 2015 (from April 1, 2014 to March 31, 2015)

(Percentages indicate the rate of change compared with the preceding fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,161,000	-2.4	8,900	-27.8	14,500	-20.8	11,700	12.4	155.20

(Note) 1. Revision of consolidated projected results of operations most recently announced: Applicable

※ Notes

- (1) Changes in material subsidiaries during the first half of fiscal 2015: 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.: Applicable
 (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
 For details, please refer to (3) Changes in Accounting Policies and Changes in Accounting Estimates, and Correction and Restatement in the section 2. Matters Concerning Summary Information (Notes) on page 3 of the Attached Document.

(4) Number of shares outstanding (Common stock)

- (i) Number of shares outstanding at end of fiscal year
 (Including common stock for treasury)
- (ii) Number of treasury stocks at end of fiscal year
- (iii) The average number of shares during the first half

First Half of FY2015	78,270,142	FY2014	78,270,142
First Half of FY2015	2,881,630	FY2014	2,881,129
First Half of FY2015	75,388,770	First Half of FY2014	73,650,079

* Indicates quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure under the Financial Instruments and Exchange Act. The quarterly financial statements are under the quarterly review procedure process at the time of disclosure of this report.

* 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 this report (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 2015

(1) Explanation of Management Results

The prescription pharmaceuticals market during the second quarter of fiscal 2015 experienced NHI drug price reductions by 2.65% on average on the basis of NHI drug prices inclusive of the increased portion of the consumption tax effective from April 2014 (or by 5.64% on average exclusive of tax) when medical treatment fees and NHI drug prices were revised in April this year. As the use of generic drugs has been promoted further in the wake of the medical treatment fee revisions, the sales of long-listed drugs have decreased more than expected. In addition, due to the control of consulting a doctor by the increase of the consumption tax and bad weather as well as the backlash of the last-minute demand with the consumption tax hike, the market volume as a whole posted a 3.4% decrease from the previous quarter period (estimated by CRECON Research & Consulting Inc.). Under these circumstances, the pharmaceutical wholesaling business promoted the reform into value-added service model such as expanding fee business and the dispensing pharmacy business tackled pharmacy management that corresponded to dispensing fee revisions and improvement measures for profitability. Meanwhile, the expenditure preceded cost-cutting that was expected by efficiency in business.

As a result, the Company's operating results for the consolidated cumulative second quarter of the fiscal year ending March 2015 recorded 560,916 million yen for net sales (a decrease of 3.2% on a year-on-year basis), 2,622 million yen for operating income (a decrease of 50.5% on a year-on-year basis), 5,558 million yen for ordinary income (a decrease of 33.7% on a year-on-year basis), and 3,019 million yen for net income (a decrease of 38.6% on a year-on-year basis).

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

In the pharmaceutical wholesaling business, thanks to its proposal-based marketing and sales activities, which are centered on the unique customer support systems, the TOHO HOLDINGS Group further strengthens the relationship with medical institutions and also makes efforts to improve distribution problems, for purposes of promoting the early conclusion of negotiations, ensuring total value transactions, and correcting the gaps between NHI prices and market prices and other issues. Nevertheless, net sales have been far below the forecast partly because the category change from long-listed drugs to generic drugs was done faster than expected.

Although it has been sure to get the stable profit from fee business toward a change into a value-added service model and the comprehensive reform of marketing and distribution through distribution centers and call centers has had the steady effect, the Company was not able to accomplish cost-cutting by the operation efficiency during this period.

As a result, in the first half of the current fiscal year, the pharmaceutical wholesaling business posted net sales of 536,204 million yen (a year-on-year decrease of 3.6%) and segment income (operating income) of 2,630 million yen (a year-on-year decrease of 42.6%).

In the dispensing pharmacy business, though this business segment has been promoting business expansion, enhancement of management efficiency, and higher-added value, the expenses for setting up new pharmacies and employing pharmacists have increased and the standardization of pharmacy operation and the labor-saving by consolidating to the headquarters have been behind schedule. Consequently, the first half of the current fiscal year, the dispensing pharmacy business posted net sales of 44,867 million yen (a year-on-year increase of 6.3%) and segment income (operating income) of 72 million yen (a year-on-year decrease of 86.7%).

In the SMO operations, net sales for the first half of fiscal 2015 amounted to 140 million yen (a year-on-year decrease of 49.9%) and segment income (operating income) was 37 million yen.

In the information equipment sales operations, net sales for the first half of fiscal 2015 totaled 559 million yen (a year-on-year decrease of 15.2%), with an operating loss of 90 million yen.

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets as of the end of September 2014 decreased 6.6% from the end of the previous consolidated fiscal year to 388,193 million yen, due to an increase in cash and deposits of 5,514 million yen, and a decline in notes and accounts receivable-trade and merchandise and finished goods by 20,193 million yen and by 14,405 million yen.

Noncurrent assets as of the end of September 2014 increased 4.4% compared with the end of the preceding consolidated fiscal year to 171,936 million yen, due mainly to an increase in investment securities of 8,588 million yen.

As a result, consolidated net assets decreased 3.4% from a year earlier, to 560,129 million yen.

(Liabilities)

Current liabilities decreased 6.8% from the end of the previous consolidated fiscal year to 363,632 million yen with a decrease in notes and accounts payable-trade of 25,304 million yen, and a decrease in short-term loans payable of 2,387 million yen.

Noncurrent liabilities increased 1.4% from the end of the previous consolidated fiscal year to 42,057 million yen with a decrease in long-term loans payable of 2,072 million yen.

As a result, total liabilities decreased 6.3% year-on-year to 405,690 million yen.

(Net assets)

Total net assets were up 4.9% from the end of the previous consolidated fiscal year, to 154,439 million yen, with an increase in retained earnings of 2,295 million yen, and an increase in valuation difference on available-for-sale securities of 4,945 million yen.

(Analysis of the Cash Flow Position)

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated first half increased 5,399 million yen from the end of the preceding consolidated fiscal year. As a result, the balance at the end of this first half was 19,657 million yen (a decrease of 946 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 15,184 million yen (an increase of 35,879 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 5,458 million yen, depreciation and amortization of 2,315 million yen, amortization of goodwill of 1,263 million yen, decrease in notes and accounts receivable-trade of 20,586 million yen, and a decrease in inventories of 14,675 million yen, these were somewhat offset by negative factors including the decrease in notes and accounts payable-trade of 25,846 million yen, and income taxes paid of 3,902 million yen.

(Cash Flows from Investing Activities)

Cash flow from investing activities was an outflow of 4,236 million yen (an increase of 1,092 million yen on a year-on-year basis), which is mainly attributable to purchase of property, plant and equipment of 1,390 million yen, purchase of investment securities of 476 million yen, and purchase of stocks of subsidiaries and affiliates of 2,311 million yen.

(Cash Flows from Financing Activities)

Cash flow from financing activities was an outflow of 6,286 million yen (a decrease of 15,093 million yen on a year-on-year basis), which is mainly attributable to a net decrease in short-term loans payable of 1,260 million yen, net decrease in long-term loans payable of 3,279 million yen, repayments of finance lease obligations of 992 million yen, and cash dividends paid of 754 million yen.

(3) Qualitative Information on Projected Consolidated Results of Operations

The Company has revised its consolidated full-year earnings forecast for the fiscal year ending March 2015 (April 1, 2014 - March 31, 2015) announced on May 9, 2014, taking into consideration the recent trends in performances. As for the details, please refer to the Notice regarding the Revision of the Full-year Earnings Forecasts for the Fiscal Year ending March 2015 announced today (November 6, 2014).

2. Matters Concerning Summary Information (Notes)

(1) Changes in Material Subsidiaries during the First Half of Fiscal 2014

Not Applicable.

(2) Application of Accounting Process which is Peculiar to the Compilation of Consolidated Quarterly Financial Statements

Not Applicable.

(3) Changes in Accounting Policies and Changes in Accounting Estimates, and Correction and Restatement (Change in the Accounting Policies)

With regard to the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, dated May 17, 2012; hereinafter referred to as the “Retirement Benefits Accounting Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, dated May 17, 2012; hereinafter referred to as the “Guidance on Retirement Benefits”), the Company has adopted the provisions stipulated in the texts of Section 35 of the Retirement Benefits Accounting Standard and of Section 67 of the Guidance on Retirement Benefits from this consolidated first quarter onward. Accordingly, the Company reviewed methods for calculating retirement benefit obligations and changed its method for deciding the discount rate from the traditional method in which the bond duration period as the benchmark for deciding the discount rate shall be set as the number of years that approximates the employees’ average remaining service period to a new method in which the Company adopts a single weighted average discount rate that reflects both expected payment periods for retirement benefits and the amount for each expected payment period.

As for the application of the Retirement Benefits Accounting Standard and the like, the Company adjusted retained earnings at the beginning of this consolidated first half by reflecting the effect of the change in the method of calculating retirement benefit obligations, in accordance with the transitional treatment as stipulated in Section 37 of the Retirement Benefits Accounting Standard.

As a result, provision for retirement benefits increased by 43 million yen, while retained earnings decreased by 28 million yen at the beginning of this consolidated first half. Also please note that the effect on the profit and loss for the cumulative period for this consolidated first half is minor.

3. Quarterly Consolidated Financial Statements
 (1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	Fiscal 2014 (As of March 31, 2014)	End of consolidated this first half (As of September 30, 2014)
Assets		
Current assets		
Cash and deposits	18,362	23,876
Notes and accounts receivable-trade	281,742	261,548
Securities	502	502
Merchandise and finished goods	81,424	67,019
Other	34,046	35,772
Allowance for doubtful accounts	-649	-526
Total current assets	415,429	388,193
Noncurrent assets		
Property, plant and equipment	85,574	84,923
Intangible assets		
Goodwill	10,590	10,121
Other	3,419	3,441
Total intangible assets	14,009	13,563
Investments and other assets		
Investment securities	57,071	65,659
Other	9,698	9,562
Allowance for doubtful accounts	-1,644	-1,772
Total investments and other assets	65,125	73,448
Total noncurrent asset	164,708	171,936
Total assets	580,137	560,129

(Unit: million yen)

	Fiscal 2014 (As of March 31, 2014)	End of consolidated this first half (As of September 30, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	361,976	336,672
Short-term loans payable	12,200	9,812
Income taxes payable	3,285	2,263
Provision for bonuses	3,562	3,660
Provision for directors' bonuses	80	39
Provision for sales returns	302	300
Asset retirement obligations	45	11
Other	8,845	10,872
Total current liabilities	390,299	363,632
Noncurrent liabilities		
Long-term loans payable	12,308	10,236
Net defined benefit liability	1,527	1,625
Asset retirement obligations	1,080	1,033
Negative goodwill	464	176
Other	27,267	28,985
Total noncurrent liabilities	42,647	42,057
Total liabilities	432,947	405,690
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	47,814	47,814
Retained earnings	83,898	86,194
Treasury stock	-3,437	-3,438
Total shareholders' equity	138,962	141,220
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,547	17,492
Revaluation reserve for land	-4,311	-4,311
Total accumulated other comprehensive income	8,236	13,181
Subscription rights to shares	28	37
Total net assets	147,190	154,439
Total liabilities and net assets	580,137	560,129

(2) Quarterly Consolidated Profit and Loss Statement and Quarterly Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Profit and Loss Statement
 [Cumulative period for the consolidated second quarter]

(Million of yen)

	Cumulative period for previous consolidated second quarter (from April 1, 2013 to September 30, 2013)	Cumulative period for this consolidated second quarter (from April 1, 2014 to September 30, 2014)
Net sales	579,175	560,916
Cost of sales	527,954	509,718
Gross profit	51,221	51,197
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	21,361	21,598
Provision for bonuses	3,641	3,641
Provision for directors' bonuses	55	39
Provision for accrued retirement benefits	118	—
Retirement benefit expenses	—	108
Welfare expenses	3,903	3,968
Vehicle expenses	790	792
Provision of allowance for doubtful accounts	5	-60
Depreciation	1,566	2,315
Amortization of goodwill	1,194	1,263
Rent expenses	3,500	3,517
Taxes and dues	588	598
Expense before deduction of temporary consumption tax payment	1,471	2,468
Other	7,726	8,322
Total selling, general and administrative expenses	45,923	48,574
Operating income	5,298	2,622
Non-operating income		
Interest income	48	22
Dividend income	572	640
Commission fee	1,497	1,425
Amortization of negative goodwill	428	287
Equity in earnings of affiliates	44	0
Other	1,009	1,088
Total non-operating income	3,600	3,464
Non-operating expenses		
Interest expenses	182	179
Expenses of real estate rent	268	295
Other	59	54
Total non-operating expenses	510	528
Ordinary income	8,387	5,558

(Million of yen)

	Cumulative period for previous consolidated second quarter (from April 1, 2013 to September 30, 2013)	Cumulative period for this consolidated second quarter (from April 1, 2014 to September 30, 2014)
Extraordinary income		
Gain on sales of noncurrent assets	230	44
Gain on transfer of business	—	96
Other	29	9
Total extraordinary income	260	150
Extraordinary loss		
Loss on disposal of noncurrent assets	209	84
Impairment loss	—	157
Other	11	8
Total extraordinary loss	221	250
Income before income taxes	8,427	5,458
Income taxes-current	3,291	2,476
Income taxes-deferred	220	-36
Total income taxes	3,512	2,439
Income before minority interests	4,914	3,019
Current net income	4,914	3,019

Quarterly Consolidated Statements of Comprehensive Income
 [Cumulative period for the consolidated second quarter]

(Million of yen)

	Cumulative period for previous consolidated second quarter (from April 1, 2013 to September 30, 2013)	Cumulative period for this consolidated second quarter (from April 1, 2014 to September 30, 2014)
Income before minority interests	4,914	3,019
Other comprehensive income		
Valuation difference on available-for-sale securities	-1,769	4,920
Share of other comprehensive income of associates accounted for using equity method	-11	24
Total other comprehensive income	-1,780	4,945
Comprehensive income	3,133	7,964
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,133	7,964
Comprehensive income attributable to minority interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Million of yen)

	Cumulative period for previous consolidated second quarter (from April 1, 2013 to September 30, 2013)	Cumulative period for this consolidated second quarter (from April 1, 2014 to September 30, 2014)
Net cash provided by (used in) operating activities		
Income before income taxes	8,427	5,458
Depreciation and amortization	1,566	2,315
Impairment loss	—	157
Amortization of goodwill	1,194	1,263
Amortization of negative goodwill	-428	-287
Increase (decrease) in provision for retirement benefits	-486	—
Increase (decrease) in net defined benefit liability	—	49
Increase (decrease) in provision for sales returns	-8	-2
Increase (decrease) in provision for bonuses	14	96
Increase (decrease) in provision for directors' bonuses	-49	-41
Increase (decrease) in allowance for doubtful accounts	-0	-178
Interest and dividend income	-620	-662
Interest expense	182	179
Loss (gain) on sales and retirement of noncurrent assets	-21	40
Loss (gain) on sales and valuation of investment securities	3	—
Loss (gain) on transfer of business	—	-96
Decrease (increase) in notes and accounts receivable-trade	-2,806	20,586
Decrease (increase) in inventories	3,407	14,675
Decrease (increase) in other assets	-960	-1,199
Increase (decrease) in notes and accounts payable-trade	-23,003	-25,846
Increase (decrease) in other liabilities	-1,279	-511
Increase (decrease) in accrued consumption taxes	303	2,703
Other loss (gain)	-2,059	-2,013
Subtotal	-16,628	16,687
Interest and dividends income received	626	667
Interest expenses paid	-193	-260
Income taxes paid	-6,569	-3,902
Other	2,068	1,992
Net cash provided by (used in) operating activities	-20,695	15,184

(Million of yen)

	Cumulative period for previous consolidated second quarter (from April 1, 2013 to September 30, 2013)	Cumulative period for this consolidated second quarter (from April 1, 2014 to September 30, 2014)
Net cash provided by (used in) investment activities		
Payments into time deposits	-688	-642
Proceeds from withdrawal of time deposits	650	629
Purchase of property, plant and equipment	-4,690	-1,390
Proceeds from sales of property, plant and equipment	643	120
Purchase of intangible assets	-547	-471
Proceeds from sales of intangible assets	5	3
Purchase of investment securities	-58	-476
Proceeds from sales and redemption of investment securities	51	—
Purchase of stocks of subsidiaries and affiliates	-255	-2,311
Proceeds from sales of stocks of subsidiaries and affiliates	10	—
Payments for asset retirement obligations	—	-66
Payments of loans receivable	-24	-22
Collection of loans receivable	113	179
Other	-538	211
Net cash provided by (used in) investment activities	-5,329	-4,236
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	3,020	-1,260
Proceeds from long-term loans payable	3,175	280
Repayment of long-term loans payable	-4,114	-3,559
Redemption of bonds	-10	—
Purchase of treasury stock	-1	-1
Proceeds from disposal of treasury stock	7,601	—
Repayments of finance lease obligations	-299	-992
Cash dividends paid	-564	-754
Net cash provided by (used in) financing activities	8,806	-6,286
Effect of exchange rate change on cash and cash equivalents	54	—
Net increase (decrease) in cash and cash equivalents	-17,164	4,660
Cash and cash equivalents at beginning of year	37,368	14,257
Increase in cash and cash equivalents resulting from merger	58	42
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	341	697
Cash and cash equivalents at the end of first half	20,603	19,657

(4) Notes of Quarterly Consolidated Financial Statements

(Notes Concerning Premise of a Going Business)

Not applicable.

(Notes concerning Material Changes in Shareholders' Equity)

Cumulative period for this consolidated first quarter (from April 1, 2014 to September 30, 2014)

Not applicable.

(Segmental Information)

I Cumulative period for previous consolidated first quarter (from April 1, 2013 to September 30, 2013)

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	536,171	42,201	280	521	579,175	—	579,175
(2) Inter-segment internal net sales or transfers	20,192	8	—	137	20,338	-20,338	—
Total	556,364	42,209	280	659	599,514	-20,338	579,175
Segment income or loss	4,584	542	176	-16	5,287	10	5,298

(Note) 1. Adjustments represent elimination of internal transactions and unrealized profit.

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 Cumulative period for this consolidated first quarter (from April 1, 2014 to September 30, 2014)

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	515,524	44,839	140	410	560,916	—	560,916
(2) Inter-segment internal net sales or transfers	20,680	27	—	148	20,856	-20,856	—
Total	536,204	44,867	140	559	581,772	-20,856	560,916
Segment income or loss	2,630	72	37	-90	2,650	-28	2,622

(Note) 1. Adjustments represent elimination of internal transactions and unrealized profit.

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.