

※ Notes

- (1) Changes in material subsidiaries during the third quarter ended December 2017: 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)
- (ii) Number of treasury stocks at end of fiscal year
- (iii) The average number of shares during the third quarter

Third Quarter ended December 2017	78,270,142	Fiscal Year ended March 2017	78,270,142
Third Quarter ended December 2017	9,767,161	Fiscal Year ended March 2017	9,518,069
Third Quarter ended December 2017	68,566,442	Third Quarter ended December 2016	68,659,011

* 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 Third Quarter ended December 2017

(1) Explanation of Management Results

During the third quarter under review, the prescription pharmaceuticals market continued to face a tough environment due to the ongoing measures to curtail medical expenses, such as promoting the use of generic drugs. The Company was also substantially affected by the scaled-down market for curative drugs for hepatitis C. 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, demonstrating their business strengths.

The Group has, as a corporate group engaged in the areas of medical care, healthcare, and nursing care, continued to strive to enhance profitability in an integrated manner 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, etc. KYOSOMIRAI PHARMA, which was established in November 2016, has been making active efforts, such as launching 6 ingredients/14 products that include 4 ingredients/9 products of which manufacturing and sales had been approved as “KYOSOMIRAI PHARMA” brand products for the first time in December. In addition, in November 2017, the Company decided to build a new integrated logistics center within the Keihin Truck Terminal “DynaBASE” located in the center of Tokyo, in order to reinforce safe and secure pharmaceutical distribution systems that will ensure a steady supply of pharmaceuticals even in the event of a disaster. The Company’s consolidated operating results for the cumulative nine months ended December 31, 2017 recorded 923,450 million yen for net sales (a decrease of 1.7% on a year-on-year basis), 11,107 million yen for operating income (a decrease of 1.7% on a year-on-year basis), 15,718 million yen for ordinary income (a decrease of 0.1% on a year-on-year basis), and 9,916 million yen for net income attributable to the shareholders of the parent company (a decrease of 2.2% 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, we defined the Company’s unique customer support systems as a significant earnings source and strived to aggressively increase the number of contracts, while also striving to strengthen ties with medical institutions through our propositions. As a result, the pharmaceutical wholesaling business posted net sales of 885,362 million yen (a decrease of 1.9% on a year-on-year basis) and segment income (operating income) of 9,996 million yen (a decrease of 9.7% on a year-on-year basis).

In the dispensing pharmacy business, we endeavored to improve profitability by further responding to the dispensing fee revision as well as by continuously promoting the standardization and efficiency of store operations through measures such as personnel optimization and utilization of the Company’s customer support systems. As a result, the dispensing pharmacy business posted net sales of 73,271 million yen (an increase of 2.1% on a year-on-year basis) and segment income (operating income) of 2,472 million yen (an increase of 208.1% on a year-on-year basis).

In the SMO operations, net sales amounted to 228 million yen (a decrease of 18.1% on a year-on-year basis) and segment income (operating income) was 55 million yen (a decrease of 40.3% on a year-on-year basis).

In the information equipment sales operations, net sales totaled 1,123 million yen (a decrease of 0.6% on a year-on-year basis), with a segment loss (operating loss) of 58 million yen.

(Note) Segment net sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets increased 15.0% from the end of the previous consolidated fiscal year to 491,011 million yen with an increase in cash and deposits of 30,681 million yen, and an increase in notes and accounts receivable-trade of 22,909 million yen, and an increase in merchandise and finished goods of 11,588 million yen.

Noncurrent assets increased 8.0% from the end of the previous consolidated fiscal year to 185,559 million yen with an increase in investment securities of 12,137 million yen, and an increase in property, plant and equipment of 3,069 million yen, and a decrease in goodwill of 1,193 million yen.

As a result, consolidated net assets increased 13.0% from the end of the previous consolidated fiscal year to 676,570 million yen.

(Liabilities)

Current liabilities increased 15.8% from the end of the previous consolidated fiscal year to 427,048 million yen with an increase in notes and accounts payable-trade of 59,849 million yen.

Noncurrent liabilities increased 13.8% from the end of the previous consolidated fiscal year to 47,595 million yen with an increase in long-term loans payable of 4,021 million yen.

As a result, total liabilities increased 15.6% from the end of the previous consolidated fiscal year to 474,644 million yen.

(Net assets)

Total net assets increased 7.3% from the end of the previous consolidated fiscal year to 201,926 million yen with an increase in retained earnings of 7,697 million yen, and an increase in valuation difference on available-for-sale securities of 6,494 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 third quarter (As of December 31, 2017)
Assets		
Current assets		
Cash and deposits	31,966	62,648
Notes and accounts receivable-trade	284,205	307,114
Merchandise and finished goods	73,575	85,164
Other	37,616	36,398
Allowance for doubtful accounts	-312	-315
Total current assets	427,052	491,011
Noncurrent assets		
Property, plant and equipment	86,371	89,441
Intangible assets		
Goodwill	4,300	3,106
Other	2,998	2,621
Total intangible assets	7,298	5,728
Investments and other assets		
Investment securities	68,781	80,919
Other	11,972	12,088
Allowance for doubtful accounts	-2,605	-2,617
Total investments and other assets	78,148	90,390
Total noncurrent asset	171,818	185,559
Total assets	598,871	676,570

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2017)	End of this consolidated third quarter (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	349,039	408,888
Short-term loans payable	4,216	3,493
Income taxes payable	3,020	2,019
Provision for bonuses	3,506	1,710
Provision for directors' bonuses	75	51
Provision for sales returns	324	354
Other	8,575	10,529
Total current liabilities	368,758	427,048
Noncurrent liabilities		
Bonds payable	15,041	15,030
Long-term loans payable	1,962	5,983
Net defined benefit liabilities	1,786	1,828
Asset retirement obligations	1,078	1,095
Negative goodwill	49	30
Other	21,923	23,627
Total noncurrent liabilities	41,841	47,595
Total liabilities	410,599	474,644
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	47,856	47,874
Retained earnings	128,123	135,820
Treasury stock	-16,051	-16,612
Total shareholders' equity	170,577	177,731
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,836	28,330
Revaluation reserve for land	-4,287	-4,304
Total accumulated other comprehensive income	17,548	24,025
Subscription rights to shares	145	168
Total net assets	188,271	201,926
Total liabilities and net assets	598,871	676,570

(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 Third Quarter]

(Unit: million yen)

	Cumulative period for previous consolidated third quarter (From April 1, 2016 to December 31, 2016)	Cumulative period for this consolidated third quarter (From April 1, 2017 to December 31, 2017)
Net sales	939,238	923,450
Cost of sales	856,149	840,987
Gross profit	83,088	82,462
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	34,758	34,525
Provision for bonuses	1,666	1,684
Provision for directors' bonuses	56	51
Retirement benefit expenses	179	165
Welfare expenses	5,881	5,949
Vehicle expenses	817	819
Provision of allowance for doubtful accounts	49	32
Depreciation	3,317	3,315
Amortization of goodwill	1,648	1,485
Rent expenses	5,221	5,307
Taxes and dues	1,272	1,289
Expense before deduction of temporary consumption tax payment	3,996	3,966
Other	12,924	1,260
Total selling, general and administrative expenses	71,790	71,355
Operating income	11,298	11,107
Non-operating income		
Interest income	52	47
Dividend income	1,072	1,361
Commission fee	2,277	2,271
Amortization of negative goodwill	19	18
Equity in earnings of affiliates	28	41
Other	1,606	1,313
Total non-operating income	5,057	5,054
Non-operating expenses		
Interest expenses	72	40
Expenses of real estate rent	412	283
Other	130	119
Total non-operating expenses	615	443
Ordinary income	15,740	15,718

(Unit: million yen)

	Cumulative period for previous consolidated third quarter (From April 1, 2016 to December 31, 2016)	Cumulative period for this consolidated third quarter (From April 1, 2017 to December 31, 2017)
Extraordinary income		
Gain on sales of noncurrent assets	153	5
Gain on liquidation of subsidiaries and affiliates	—	39
Other	9	5
Total extraordinary income	162	50
Extraordinary loss		
Loss on disposal of noncurrent assets	149	71
Impairment loss	54	48
Other	82	4
Total extraordinary loss	286	124
Income before income taxes	15,617	15,644
Income taxes-current	4,149	4,920
Income taxes-deferred	1,326	807
Total income taxes	5,476	5,728
Current net income	10,140	9,916
Profit attributable to owners of parent	10,140	9,916

Quarterly Consolidated Statements of Comprehensive Income
[Cumulative Period for the Consolidated Third Quarter]

(Unit: million yen)

	Cumulative period for previous consolidated third quarter (From April 1, 2016 to December 31, 2016)	Cumulative period for this consolidated third quarter (From April 1, 2017 to December 31, 2017)
Current net income	10,140	9,916
Other comprehensive income		
Valuation difference on available-for-sale securities	1,892	6,492
Share of other comprehensive income of associates accounted for using equity method	9	1
Total other comprehensive income	1,902	6,494
Comprehensive income	12,042	16,410
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	12,042	16,410
Comprehensive income attributable to non-controlling interests	—	—

(3) 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 third quarter (from April 1, 2017 to December 31, 2017)

Not applicable.

(Segmental Information)

I Cumulative period for previous consolidated third quarter (from April 1, 2016 to December 31, 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) (Note 2)
	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	866,498	71,489	279	970	939,238	—	939,238
(2) Inter-segment internal net sales or transfers	35,884	259	—	160	36,303	-36,303	—
Total	902,382	71,748	279	1,130	975,541	-36,303	939,238
Segment profit	11,067	802	92	12	11,974	-676	11,298

(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 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 third quarter (from April 1, 2017 to December 31, 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) (Note 2)
	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	849,460	72,987	228	773	923,450	—	923,450
(2) Inter-segment internal net sales or transfers	35,901	283	—	350	36,535	-36,535	—
Total	885,362	73,271	228	1,123	959,985	-36,535	923,450
Segment profit	9,996	2,472	55	-58	12,465	-1,358	11,107

(Note) 1. The amount of the adjustments for segment profits or losses 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.