

※ Notes

- (1) Changes in material subsidiaries during the first half of fiscal year ending March 2019: N.A.
 (Changes in special subsidiaries accompanying with 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 accounting estimates, and correction and restatement
 (i) Changes in accounting policies accompanying with revisions in accounting standards, etc.: N.A.
 (ii) Changes in accounting policies other than the above 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)

Number of shares outstanding at the end of

(i) fiscal year (Including common stock for treasury)

(ii) Number of treasury stocks at the end of fiscal year

(iii) The average number of shares during the first half

First Half of FY Ending March 2019	78,270,142	FY Ended March 2018	78,270,142
First Half of FY Ending March 2019	11,736,215	FY Ended March 2018	9,767,201
First Half of FY Ending March 2019	67,406,951	First Half of FY Ended March 2018	68,598,227

*Summary of Consolidated Financial Results for the First Half of Fiscal Year Ending March 2019 is unaudited information.

* 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 Year Ending March 2019

(1) Explanation of Management Results

The prescription pharmaceuticals market during the first half of the fiscal year under review continued to face a severe environment as evidenced by the fact that NHI drug prices were slashed by 7.48% on a drug price basis, due primarily to the medical treatment fee revisions in April and the review of the promotional points addition system for new drug discovery, etc. carried out as part of the drastic reform of the drug pricing system.

The Group, as a corporate group engaged in the areas of medical care, healthcare, and nursing care, is making a concerted effort to accelerate the shift towards a business model centered on value-added services which are actually useful in a wide range of areas, by developing and proposing customer support systems to offer solutions to problems faced by patients, medical institutions, etc., and by contributing to the establishment of community comprehensive healthcare systems. In addition, by promoting consolidation and standardization of operations as well as the appropriate allocation of personnel, the Group is striving to improve productivity, secure stable profits and increase profit levels.

The Company launched Hokuriku Toho Co., Ltd. as its new operation base in the Hokuriku region on October 1, 2018, thereby laying out the framework for TOHO PHARMACEUTICAL CO., LTD. and its subsidiaries to cover all areas across Japan.

In November, TBC Hiroshima started operations as a new highly functional distribution center for distribution in the Chugoku, Shikoku, and Northern Kyushu regions. We are building full-scale systems, with the aim of both further enhancing our productivity by further advancing the automation technology we have developed so far, and even more, fulfilling our social mission of providing a steady supply of pharmaceuticals even during a disaster.

KYOSOMIRAI PHARMA CO., LTD., which was established with the aim of expanding the presence of generic drugs to account for 80% of its total products, has been steadily providing high-quality and high-value-added generic drugs, while also expanding and enriching its product lineup. As of the end of October 2018, it dealt with 34 ingredients in 74 products. For reference, since October 1, 2018, marketing approvals for 26 ingredients of prescription pharmaceutical as well as the sales rights for 30 ingredients of prescription pharmaceutical sold by the same company have gradually been succeeded from FUJIFILM Pharma Co., Ltd. to KYOSOMIRAI PHARMA CO., LTD.. The succession and sales transfer of all products will be completed by April 1, 2019.

The Company's operating results for the consolidated first half of the fiscal year ending March 2019 recorded 593,635 million yen for net sales (a decrease of 0.4% on a year-on-year basis), 4,804 million yen for operating income (a decrease of 12.0% on a year-on-year basis), 7,664 million yen for ordinary income (a decrease of 8.8% on a year-on-year basis), and 4,943 million yen for profit attributable to owners of parent (a decrease of 3.7% on a year-on-year basis). The progress rate compared to the forecasts for the fiscal year ending March 2019 is net sales of 49.7%, operating income of 39.7%, ordinary income of 43.3%, and net income attributable to the shareholders of the parent company of 48.9%.

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

In the pharmaceutical wholesaling business, we have continued to make an effort to conduct unit price negotiations per single item based on the value of each product and in accordance with the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies, and have pressed ahead with measures to decrease the number of express/frequent deliveries which impose a heavy burden on both the Company's and our customers' operations. We have also engaged in activities to promote and enhance sales of the Company's unique customer support systems such as the Appointment service for first patients and ENIFvoice SP+A / ENIFvoice Core.

As a result, in the first half of the current fiscal year, the pharmaceutical wholesaling business posted net sales of 571,243 million yen (an increase of 0.1% on a year-on-year basis) and segment income (operating income) of 5,498 million yen (an increase of 9.9% on a year-on-year basis).

In the dispensing pharmacy business, we endeavored to improve profitability by responding to the dispensing fee revision and increasing management efficiency through standardization of store operations and consolidation of some operations into the headquarters. However, adversely affected by the dispensing fee revisions, in the first quarter of the current fiscal year, the dispensing pharmacy business posted net sales of 45,427 million yen (a decrease of 5.8% on a year-on-year basis) and segment income (operating income) of 201 million yen (a decrease of 84.5% on a year-on-year basis).

In the SMO operations, net sales for the first half of the current fiscal year amounted to 150 million yen (a decrease of 8.5% on a year-on-year basis) and segment income (operating income) was 33 million yen (a decrease of 33.9% on a year-on-year basis). In the information equipment sales operations, net sales for the first half of the current fiscal year totaled 577 million yen (a decrease of 16.6% on a year-on-year basis), with segment loss (operating loss) of 46 million yen.

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets increased 0.8% from the end of the previous consolidated fiscal year to 461,295 million yen, due to an increase in cash and deposits of 19,992 million yen, and a decrease in notes and accounts receivable-trade of 11,750 million yen.

Noncurrent assets increased 6.7% from the end of the previous consolidated fiscal year to 200,710 million yen, due mainly to an increase in investment securities of 13,852 million yen.

As a result, consolidated net assets increased 2.5% from the end of the previous consolidated fiscal year, to 662,005 million yen.

(Liabilities)

Current liabilities decreased 3.4% from the end of the previous consolidated fiscal year to 377,565 million yen with a decrease in notes and accounts payable-trade of 9,720 million yen, and a decrease in income taxes payable of 3,370 million yen.

Noncurrent liabilities increased 46.4% from the end of the previous consolidated fiscal year to 69,085 million yen with an increase in bonds payable of 18,533 million yen.

As a result, total liabilities increased 2.0% from the end of the previous consolidated fiscal year, to 446,650 million yen.

(Net assets)

Total net assets increased 3.6% from the end of the previous consolidated fiscal year to 215,354 million yen, due to an increase in retained earnings of 3,630 million yen, and an increase in valuation difference on available-for-sale securities of 9,821 million yen, and an increase in treasury stock of 6,026 million yen.

(Analysis of the Cash Flow Position)

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated first half increased 19,990 million yen from the end of the previous consolidated fiscal year. As a result, the balance at the end of this first half was 83,662 million yen (an increase of 22,301 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 11,644 million yen (a decrease of 27,365 million yen on a year-on-year basis). Although the inflow was secured by some positive factors such as income before income taxes of 7,613 million yen, depreciation and amortization of 2,077 million yen, decrease in notes and accounts receivable-trade of 11,911 million yen these were somewhat offset by negative factors including decrease in notes and accounts payable-trade of 9,783 million yen.

(Cash Flows from Investing Activities)

Cash flow from investing activities was an outflow of 2,351 million yen (an increase of 4,224 million yen on a year-on-year basis), which is mainly attributable to purchase of property, plant and equipment of 746 million yen, and purchase of intangible assets of 523 million yen, and purchase of investment securities of 356 million yen, and purchase of stocks of subsidiaries and affiliates of 431 million yen.

(Cash Flows from Financing Activities)

Cash flow from financing activities was an outflow of 10,123 million yen (an increase of 8,918 million yen on a year-on-year basis), which is mainly attributable to an increase in proceeds from issuance of bonds of 20,100 million yen, a decrease in purchase of treasury stock of 7,377 million yen, repayments of finance lease obligations of 946 million yen and cash dividends paid of 1,027 million yen.

(3) Explanation of Projections of Consolidated Operating Results for Fiscal Year Ending March 2019

There are no changes in the projected consolidated results of the full-term of the year published on May 9, 2018.

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

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2018)	End of this consolidated first half (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	67,943	87,935
Notes and accounts receivable-trade	281,657	269,907
Merchandise and finished goods	73,088	72,673
Other	35,313	31,013
Allowance for doubtful accounts	-277	-234
Total current assets	457,724	461,295
Noncurrent assets		
Property, plant and equipment	90,709	89,787
Intangible assets		
Goodwill	2,614	1,995
Other	2,545	2,654
Total intangible assets	5,159	4,650
Investments and other assets		
Investment securities	81,718	95,571
Other	13,071	13,268
Allowance for doubtful accounts	-2,584	-2,567
Total investments and other assets	92,206	106,272
Total noncurrent assets	188,075	200,710
Total assets	645,799	662,005

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2018)	End of this consolidated first half (As of September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	369,179	359,458
Short-term loans payable	944	650
Income taxes payable	6,335	2,964
Provision for bonuses	3,541	3,621
Provision for directors' bonuses	69	34
Provision for sales returns	344	317
Asset retirement obligations	2	—
Other	10,410	10,517
Total current liabilities	390,827	377,565
Noncurrent liabilities		
Bonds payable	15,026	33,560
Long-term loans payable	5,898	5,840
Provision for retirement benefits	1,918	1,967
Asset retirement obligations	1,093	1,103
Negative goodwill	24	13
Other	23,238	26,600
Total noncurrent liabilities	47,200	69,085
Total liabilities	438,027	446,650
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	47,874	48,072
Retained earnings	140,317	143,948
Treasury stock	-16,612	-22,638
Total shareholders' equity	182,228	180,031
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	29,708	39,530
Revaluation reserve for land	-4,333	-4,375
Total accumulated other comprehensive income	25,374	35,154
Subscription rights to shares	168	168
Total net assets	207,772	215,354
Total liabilities and net assets	645,799	662,005

(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, 2017 to September 30, 2017)	Period for this consolidated first half (from April 1, 2018 to September 30, 2018)
Net sales	595,962	593,635
Cost of sales	542,754	541,252
Gross profit	53,208	52,383
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	20,684	20,723
Provision for bonuses	3,609	3,594
Provision for directors' bonuses	34	34
Retirement benefit expenses	112	116
Welfare expenses	3,962	3,957
Vehicle expenses	543	598
Provision of allowance for doubtful accounts	53	△58
Depreciation	2,191	2,077
Amortization of goodwill	1,018	827
Rent expenses	3,528	3,551
Taxes and dues	860	869
Expense before deduction of temporary consumption tax payment	2,615	2,553
Other	8,533	8,733
Total selling, general and administrative expenses	47,749	47,578
Operating income	5,458	4,804
Non-operating income		
Interest income	32	40
Dividend income	726	765
Commission fee	1,539	1,549
Amortization of negative goodwill	13	10
Equity in earnings of affiliates	28	22
Other	942	755
Total non-operating income	3,283	3,144
Non-operating expenses		
Interest expenses	24	15
Expenses of real estate rent	207	136
Other	102	132
Total non-operating expenses	333	283
Ordinary income	8,408	7,664

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2017 to September 30, 2017)	Period for this consolidated first half (from April 1, 2018 to September 30, 2018)
Extraordinary income		
Gain on sales of noncurrent assets	1	16
Gain on liquidation of subsidiaries and affiliates	39	—
Other	2	1
Total extraordinary income	44	18
Extraordinary loss		
Loss on disposal of noncurrent assets	42	33
Impairment loss	47	35
Other	4	0
Total extraordinary loss	93	69
Income before income taxes	8,359	7,613
Income taxes-current	3,237	2,968
Income taxes-deferred	-11	-298
Total income taxes	3,226	2,669
Current net income	5,132	4,943
Profit attributable to owners of parent	5,132	4,943

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

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2017 to September 30, 2017)	Period for this consolidated first half (from April 1, 2018 to September 30, 2018)
Current net income	5,132	4,943
Other comprehensive income		
Valuation difference on available-for-sale securities	1,079	9,739
Share of other comprehensive income of associates accounted for using equity method	7	81
Total other comprehensive income	1,087	9,821
Comprehensive income	6,219	14,765
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,219	14,765
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, 2017 to September 30, 2017)	Period for this consolidated first half (from April 1, 2018 to September 30, 2018)
Net cash provided by (used in) operating activities		
Income before income taxes	8,359	7,613
Depreciation and amortization	2,191	2,077
Impairment loss	47	35
Amortization of goodwill	1,018	827
Amortization of negative goodwill	-13	-10
Increase (decrease) in net defined benefit liability	38	49
Increase (decrease) in provision for sales returns	-6	-27
Increase (decrease) in provision for bonuses	139	74
Increase (decrease) in provision for directors' bonuses	-41	-34
Increase (decrease) in allowance for doubtful accounts	39	-70
Interest and dividend income	-759	-806
Interest expense	24	15
Loss (gain) on sales and retirement of noncurrent assets	40	17
Loss (gain) on sales and valuation of investment securities	-0	-0
Decrease (increase) in notes and accounts receivable-trade	3,198	11,911
Decrease (increase) in inventories	-2,650	502
Decrease (increase) in other assets	1,000	3,900
Increase(decrease) in notes and accounts payable-trade	24,746	-9,783
Increase (decrease) in other liabilities	871	-357
Increase (decrease) in accrued consumption taxes	345	-128
Other loss (gain)	-2,042	-1,913
Subtotal	36,546	13,891
Interest and dividends incomereceived	756	795
Interest expenses paid	-62	-39
Income taxes paid	-245	-5,228
Other	2,014	2,225
Net cash provided by (used in) operating activities	39,009	11,644

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2017 to September 30, 2017)	Period for this consolidated first half (from April 1, 2018 to September 30, 2018)
Net cash provided by (used in) investment activities		
Payments into time deposits	-648	-642
Proceeds from withdrawal of time deposits	619	641
Purchase of property, plant and equipment	-3,054	-746
Proceeds from sales of property, plant and equipment	1	117
Purchase of intangible assets	-278	-523
Purchase of investment securities	-2,991	-356
Proceeds from sales and redemption of investment securities	1	1
Purchase of stocks of subsidiaries and affiliates	-30	-431
Payments for asset retirement obligations	-11	—
Payments of loans receivable	-253	-186
Collection of loans receivable	47	51
Other	21	-275
Net cash provided by (used in) investment activities	-6,576	-2,351
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	18	-139
Proceeds from long-term loans payable	5,000	—
Repayment of long-term loans payable	-1,228	-484
Proceeds from issuance of bonds	—	20,100
Purchase of treasury stock	-625	-7,377
Repayments of finance lease obligations	-926	-946
Cash dividends paid	-1,031	-1,027
Net cash provided by (used in) financing activities	1,205	10,123
Net increase (decrease) in cash and cash equivalents	33,638	19,416
Cash and cash equivalents at beginning of year	27,721	63,671
Increase in cash and cash equivalents resulting from merger	—	573
Cash and cash equivalents at the end of first half	61,360	83,662

(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, 2018 to September 30, 2018)

Not applicable.

(Additional Information)

The Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 on February 16, 2018) etc. from the beginning of the first quarter of the consolidated fiscal year under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

(Segmental Information)

I Period for previous 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.

II Period for this consolidated first half (from April 1, 2018 to September 30, 2018)

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	547,794	45,252	150	438	593,635	—	593,635
(2) Inter-segment internal net sales or transfers	23,448	175	—	138	23,762	-23,762	—
Total	571,243	45,427	150	577	617,398	-23,762	593,635
Segment profit	5,498	201	33	-46	5,686	-882	4,804

(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.