MEDIPAL HOLDINGS CORPORATION

Change the 卸 next

Oroshi Innovate and Create

Integrated Report 2018

Fiscal year ended March 31, 2018

Contents

02 Management Philosophy

04 Growth Trajectory of the MEDIPAL Group

06 The MEDIPAL Group's Value Creation Process

08 Sources of the MEDIPAL Group's Growth

12 President's Message

18 At a Glance (Business Structure)

20 Business Overview

- 20 Prescription Pharmaceutical Wholesale Business
- 26 Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business
- 30 Animal Health Products and Food Processing Raw Materials Wholesale Business

32 The Important Issues of the MEDIPAL Group (Materialities)

33 SDGs for the MEDIPAL Group

34 Corporate Governance

40 Risk Management

42 Compliance

43 Pharmaceutical Affairs Management

44 Disaster Planning

46 Information Management

47 Respect for Human Rights

50 Environmental Conservation Initiatives

52 Social Initiatives

53 Dictionary

54 Eleven-Year Financial Highlights

56 Financial Review

60 Financial Section

82 Subsidiaries and Affiliated Companies

83 Corporate Data / Stock Information

84 Our mission is to deliver pharmaceuticals in Japan.



Editorial Policy

This integrated report has been compiled as a communication tool to comprehensively provide financial information, such as management strategies and results, and also non-financial information, such as our relationship with the environment and society, so that all we have our stakeholders understand the MEDIPAL Group's management approach to the creation of sustainable corporate value.

Forward-Looking Statements

This report contains forward-looking statements regarding the MEDIPAL Group's plans, policies, strategies, and earnings forecasts. Accordingly, please note that certain risks and uncertainties could cause actual results to differ materially from those stated herein.


Healthy and Prosperous Lives.
MEDIPAL GROUP

Management Philosophy

Contributing to people's health and the advancement of society through creation of value in distribution

Management Policy

1. Create a vitalized corporate culture to make the MEDIPAL Group trusted by society
2. Raise shareholder value and ensure thorough legal compliance
3. Faithfully create a free and open-minded corporate culture and train creative personnel

Business Fields

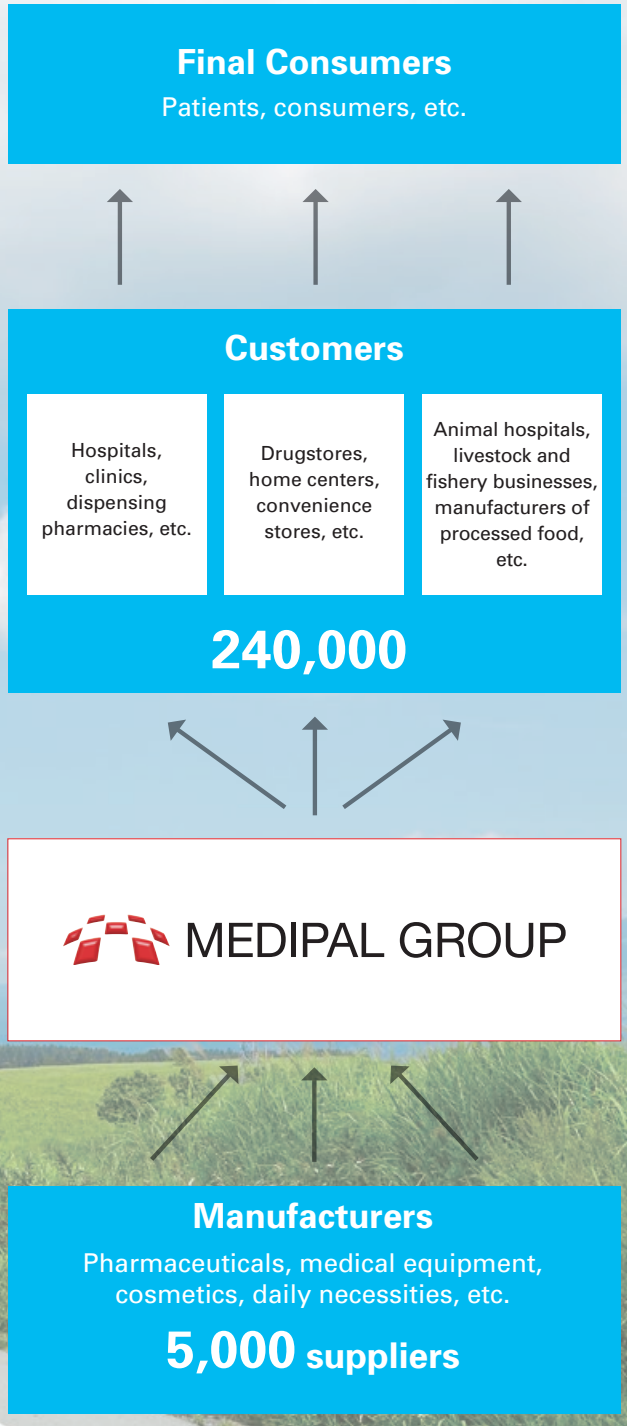
Pharmaceuticals, Health, and Beauty

Company Logo



The logo design represents people holdings hands and harmony, which symbolize cooperation, coexistence, and the strength to live. It also expresses that MEDIPAL is a company that grows with customers and business partners, expands broadly, and respects people.

MEDIPAL Group is one of the largest networking group linking manufactures, medical institutions, and retailers all across the nation in fields of pharmaceuticals, health, and beauty.



Growth Trajectory of the MEDIPAL Group

The MEDIPAL Group has since its foundation continued growing through wide-ranging innovations, under its unchanging mission of reliably delivering products essential to people's safety and peace of mind whenever they are needed, even during emergencies.

* Corporations that became wholly owned subsidiaries are shown by their name only. Corporate names and executives are shown as they were at the indicated date.



MEDICEO Holdings President Kumakura (left) and PALTAC President Mikita



Meeting of executives of all companies at launch of KURAYA SANSEIDO

Founded

2000~
Formation of Nationwide Distribution Network

Starting with KURAYA SANSEIDO Inc., built a distribution platform covering all parts of Japan through business integration and business alliances.

2005~
Expansion of Business Fields

With the addition of PALTAC CORPORATION, became a wholesaler group providing a wide range of support for everyday life, including cosmetics, daily necessities, and over-the-counter pharmaceuticals, based on the theme "pharmaceuticals, health, and beauty."



1898 Founding
1923 Sanseido Co., Ltd. established
1997 Sanseido Co., Ltd. listed its shares on the First Section of the Tokyo Stock Exchange

2000
KURAYA SANSEIDO Inc. formed
- Sanseido Co., Ltd., KURAYA CORPORATION, and TOKYO PHARMACEUTICAL Co., Ltd. merged

2003
- USHIODA SANGOKUDO YAKUHIN CO., LTD.
- IZUTSU PHARMACEUTICAL CO., LTD.
- HEISEI YAKUHIN CO., LTD.

2004
- Business alliance with YONYAKU CO., LTD. and NAKAZAWA UJIKE PHARMACEUTICAL CO., LTD.
- EVERLTH Co., Ltd., ATOL CO., LTD.
- NAKAGAWA SEIKODO CO., LTD.

2005
Business integration with PALTAC CORPORATION
- Comprehensive medical business alliance with Mitsubishi Corporation

2007
- MARUZEN YAKUHIN CO., LTD.

2008
- KOBASHOU CO., LTD.
- Business alliance with Toshichi Inc.

¥1,073.0 billion (2001/3)

¥5.4 billion (2001/3)

¥1.9 billion (2001/3)

1898 2000 2005



Kanagawa ALC (first ALC)

2019 MEDIPAL Medium-Term Vision

Change the 卸 (Oroshi) next

Innovate and Create

2009~ Business Innovation

Promoted the establishment of state-of-the-art distribution centers (Area Logistics Centers (ALCs)) nationwide while working to expand sales functions by increasing the number of MSs who have received MR certification and through other measures.

2011~ Creating New Value through New Businesses

Promoted development of new businesses utilizing nationwide infrastructure and human resources, and broadened business fields to include such areas as animal health products and food processing raw materials.



MEDIPAL HOLDINGS President Watanabe (left) and JCR Pharmaceuticals Chairman and President Ashida

2009
- Began establishing ALCs nationwide
- Initiated programs for employees to obtain MR certification
- Together with Mitsubishi Corporation, formed comprehensive alliance with Sinopharm Group
- Invested in Beijing Huahong

2010
- PALTAC CORPORATION listed its shares on the First Section of the Tokyo Stock Exchange.

2011
- Began PFM® Initiatives as new business.

2013
- MEDIE Co., Ltd.
- Invested in Tianxingpuxin

2014
- Sakurai Tsusho Corporation

2015
- Itohide Shoji Co., Ltd.
- MVC CO., LTD.

2016
- Concluded business and capital alliance with MTI Ltd.
- ASTEC Co., Ltd.
- SPLine Corporation established

2017
- More than 2,000 employees passed the MR qualifying examination
- Concluded business and capital alliance with JCR Pharmaceuticals Co., Ltd.

2018
- Joint venture was established in U.S. with JCR Pharmaceuticals Co., Ltd.

Net Sales
2018/3
¥3,146.3 billion

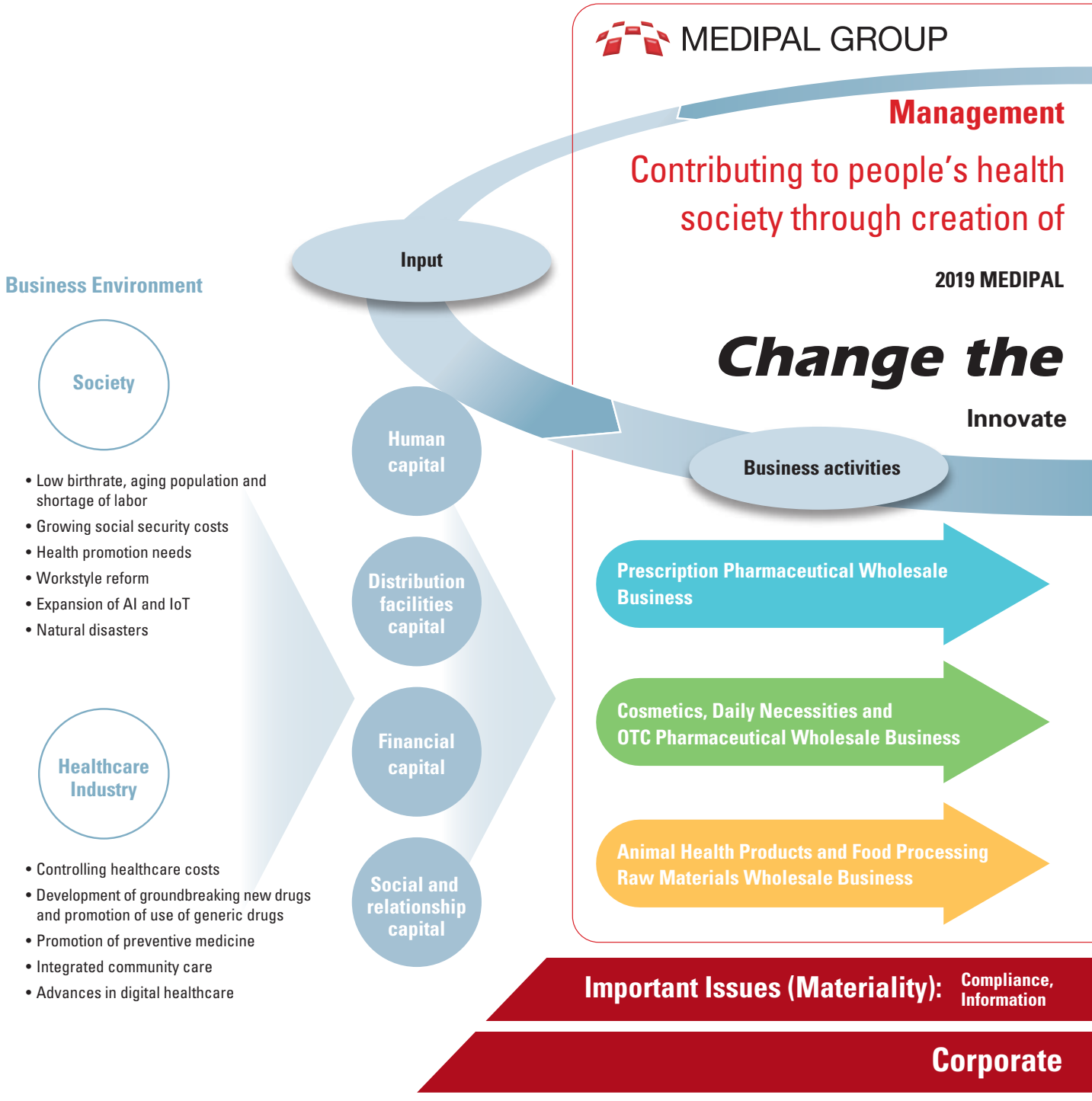
Ordinary Profit
2018/3
¥57.3 billion

Operating Profit
2018/3
¥44.3 billion

2010 — 2015 — 2018 (years ended March 31)

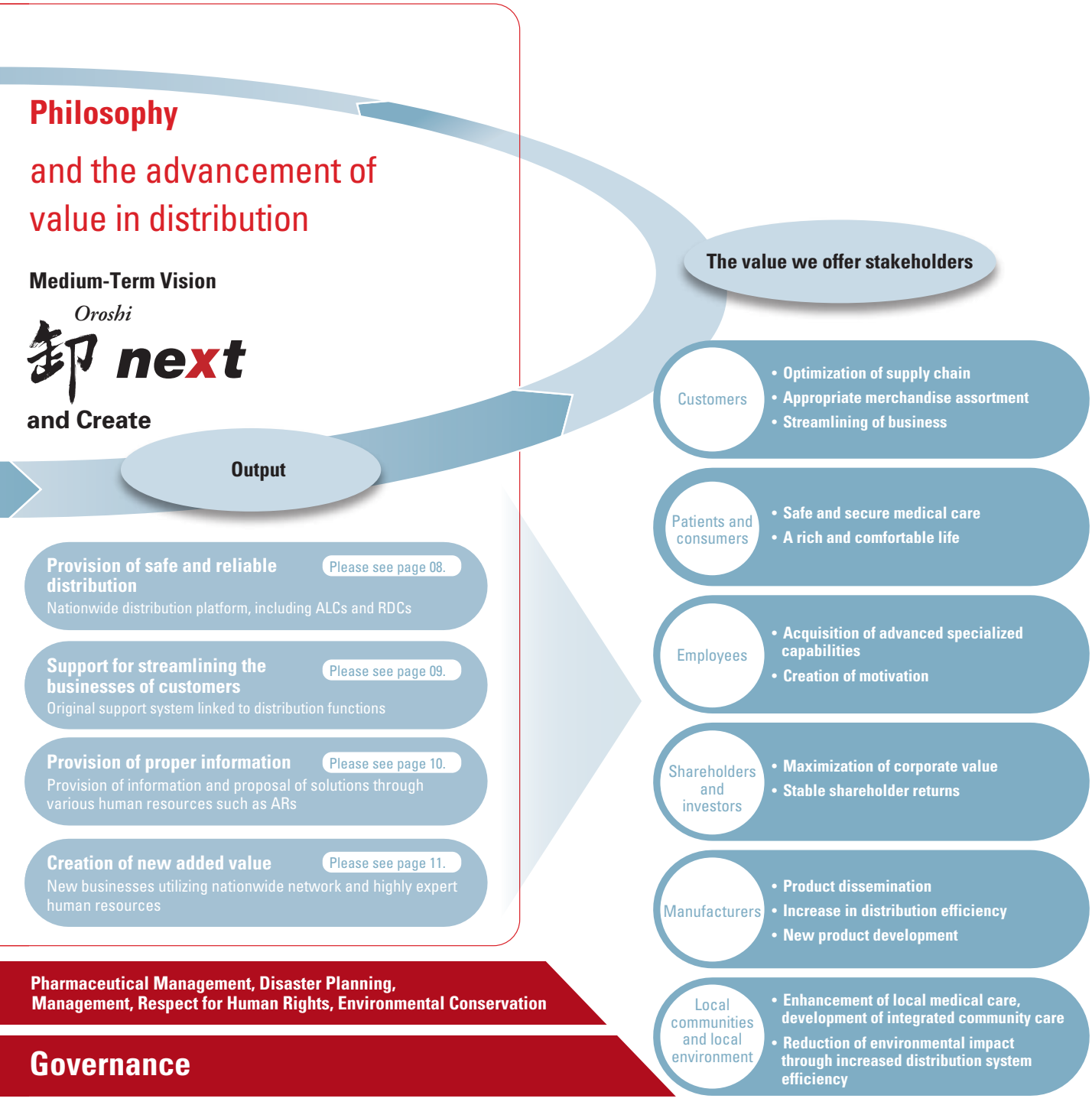
* Please refer to P53 for explanations of technical terms.

The MEDIPAL Group's Value Creation Process



The MEDIPAL Group's value creation process is supported by initiatives related to corporate governance and important issues (materiality). By making the most of our nationwide distribution platform and highly expert human resources, the Group offers information and a stable supply of indispensable products to meet the expectations of our diverse stakeholders.

Profits from these initiatives are reinvested to strengthen our business foundations which will create new value.



* Please refer to P53 for explanations of technical terms.

Sources of the MEDIPAL Group's Growth

Distribution Functions that Deliver Reliably and Efficiently

The MEDIPAL Group has built a system that efficiently and reliably delivers the required products at the required time, in just the required amount, by connecting manufacturers in the pharmaceuticals, health, and beauty fields with medical institutions, dispensing pharmacies and retailers all over the country, through its independently developed state-of-the-art distribution centers. With regard to the distribution functions that are one of our strengths, we are striving to further raise productivity and develop functions in order to respond to long-term environmental changes such as the decrease in the working-age population due to the declining birthrate and aging population, and the increase in specialty pharmaceuticals.

Distribution Functions that Optimize the Supply Chain as a Whole

The ALCs (Area Logistics Centers) and RDCs (Regional Distribution Centers), which are state-of-the-art distribution centers, are a vital distribution base that enables the MEDIPAL Group to fulfill its role in social infrastructure. We are working to achieve reliable delivery with no stock-outs or errors, and solid distribution channels that remain in operation even during emergencies, with the aim of optimizing the supply chain as a whole.

ALCs are urban distribution bases for the Prescription Pharmaceutical Wholesale Business. With a full line of inventory of over 20,000 items, including pharmaceuticals, medical equipment, and clinical diagnostics, ALCs bypass the store and deliver directly to customers. We now operate 9 ALCs in Japan, and plan to establish 3 new facilities to complete a distribution platform for prescription pharmaceuticals that covers the entire country.

RDCs, which are the distribution bases for the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, are operating in 16 locations in Japan. RDCs provide efficient, low-cost delivery of over 50,000 items necessary for daily life to suit a range of retail business formats and sales floors.

Developing Next-Generation Distribution to Further Enhance Productivity

At next-generation ALCs, picking productivity is 5 times higher thanks to the introduction of the AUPUS (Automatic Piece Picking Ultimate System), which automates work such as storage, dispatch, and sorting of products.

At RDCs, we are developing and introducing SPAID (Super Productivity Advanced Innovative Distribution), a next-generation distribution system that actively utilizes the newest technologies such as AI and robotics. With SPAID, we are able to do twice as work with the same number of workers as before through the use of AI case-picking robots that enable fully automated shipping operations from automatic case storage and retrieval warehouses, and adoption of our independently developed MUPPS (Multitaskcrane Piece Picking System) that moves products to specified locations, with no human intervention, in bulk picking areas where individual products are retrieved. The system has been operating since August 2018 at RDC Niigata, the first center to implement it.



AI case-picking robot

* Please refer to P53 for explanations of technical terms.

Features of ALCs

Demand forecasting



In order to properly manage over 20,000 widely varied products, we independently developed a demand forecasting system based on actual shipments, which has enabled a delivery ratio of over 99% with almost no stock-outs.

6σ (Six Sigma) shipping accuracy



We have achieved Six Sigma shipping accuracy as a result of reducing human error through measures such as adopting barcodes and a check system using electronic scales in all processes at ALCs.

* 6σ is a statistical term that indicates a rate of 3.4 defects per million opportunities.

Touch-free system



We have adopted the industry's first "completely packaged, touch-free system," so that no one touches the product inside the delivery box until it is in the hands of the customer.

Saving customers time



We provide support for streamlining of customers' operations through distribution functions that leverage high delivery accuracy supported by shortened inspection times by scanning delivery box SCMs* among others, and operational support systems linked to ALCs such as PRESUS® and McHIL®.

*SCM: Shipping Carton Marking

Responding to ultra-low temperature distribution needs



We have developed a storage and delivery system that can handle various temperature ranges, including ultra-low temperatures, to accommodate products such as orphan drugs. We are building a distribution platform with different temperature ranges that can deliver anywhere in Japan.

Nonstop distribution, even in emergencies



We are building a system to provide reliable delivery at all times. In preparation for emergencies such as earthquakes, we have taken measures such as installing seismic isolation structures, equipping our facilities with in-house power generators and keeping motorcycles for emergency delivery ready.

* Please refer to P53 for explanations of technical terms.

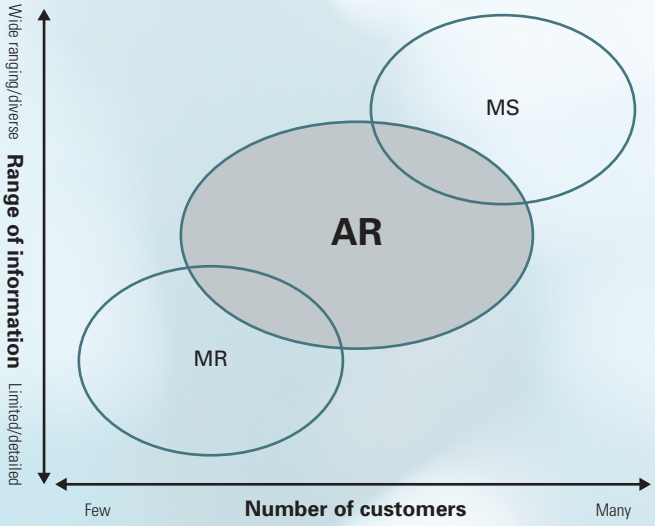
Human Resources that Create New Value in Distribution

The MEDIPAL Group is making focused efforts to "train creative personnel." In line with that goal, the Prescription Pharmaceutical Wholesale Business has been implementing its own education program since 2009 to support employees who take the MR (Medical Representative) qualification exam. MSs (Marketing Specialists) who pass the exam become ARs (Assist Representatives) and provide useful information on prescriptions.

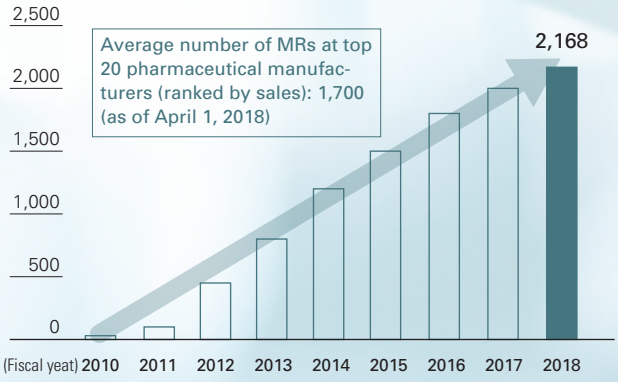
ARs Play Active Role in Specialty Pharmaceuticals Fields

While the number of MRs (Medical Representatives) at manufacturers is steadily declining, the MEDIPAL Group has more than 2,100 MRs, rivaling the number at major domestic pharmaceutical companies, who help the Group understand diseases, pathogenic mechanisms, and various characteristics of different drugs, and provide highly expert information. Using their advanced skills, ARs deliver helpful information on prescriptions to physicians and medical professionals. ARs also play an active role in distribution in specialty fields such as orphan drugs and regenerative medicine products.

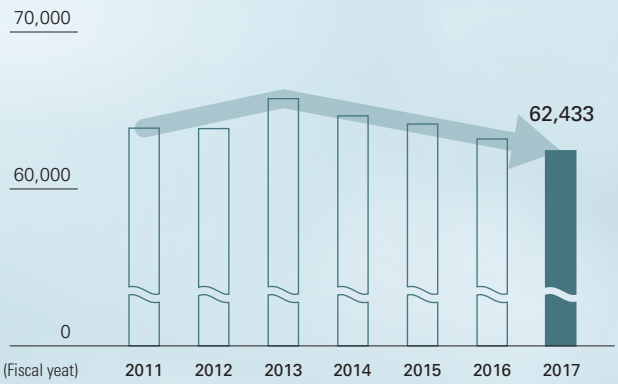
Positioning of ARs



Number of ARs at the MEDIPAL Group



Number of MRs in Japan



Source: 2018 White Paper on Medical Representatives, MR Education & Accreditation Center of Japan

New Businesses that Meet Needs and Create Markets

Drawing on our original distribution functions and diverse human resources with highly specialized knowledge, we create new businesses that meet the needs of medical institutions and manufacturers.

AR

ARs help create markets by delivering proper information to prescribers to supplement the detailing activities offered by manufacturers. ARs are also involved in distribution that requires expertise and specialization, such as for orphan drugs and regenerative medicine products.

PMS

PMS (post-marketing surveillance) consists of early post-marketing phase vigilance and post-marketing surveillance conducted after sale of pharmaceuticals and medical equipment in order to ensure their quality, efficacy and safety. The MEDIPAL Group handles some PMS services on contract.

PFM®

PFM® (project finance & marketing) is a business in which MEDIPAL HOLDINGS CORPORATION invests in development of new drugs by pharmaceutical companies in order to receive returns on investments after these drugs go to market (project finance), and sell and distribute them to medical institutions preferentially (marketing). We are currently selling more than 10 such products.

* Please refer to P53 for explanations of technical terms.

President's Message



渡辺秀一

Shuichi Watanabe
Representative Director, President and CEO
MEDIPAL HOLDINGS CORPORATION

Contributing to people's health and the advancement of society through creation of value in distribution

Our *Oroshi* Business

How do our stakeholders view the MEDIPAL Group? MEDIPAL is a corporate group mainly engaged in the wholesale business. While this might suggest we are a distributor or wholesaler, the work we carry out through our business provides diverse value to customers and broader society, contributing to safety and security. Moreover, we are capable of weathering changes in the times and market needs to ensure business continuity by employing different functions and systems. This is the essence of the "*Oroshi*" business and we believe our mission is to sustain this *Oroshi* functionality at all times to serve as social infrastructure underpinning the healthy lives of everyone.

Ensuring delivery of products and information

Distribution in the fields of "pharmaceuticals, health, and beauty" is the business of the MEDIPAL Group. The basis of the wholesale business is the sourcing of products from manufacturers and the subsequent delivery to customers. However, the pharmaceutical wholesaling in Japan differs from those in Europe and the United States in the way that there are many manufacturers and customers. The role of *Oroshi* is to not only efficiently connect both parties but also streamline the overall supply chain. That said, all of the products we handle are indispensable to supporting people's lives and healthy lifestyles. In particular, life-related products such as drugs, medical equipment, and clinical diagnostics must be used correctly, which is why our MSs (Marketing Specialists) swiftly provide all such necessary information to our customers. This role is unique to Japan and does not exist in Europe nor the United States. We ensure our MSs append information to each product and deliver our products to any place needed widely and attentively. We believe this is the most important role of the *Oroshi* business we are engaged in.



Shared values strengthen our corporate governance

Established in 1898, our Company has a long history of constantly instigating forward-looking innovation. Our culture of nurturing human resources and developing *Oroshi* functions has remained unchanged for 120 years and is entwined into the DNA of our Company today. The major turning point of the Group's evolution was the merger in 2000 among three pharmaceutical wholesalers—Sanseido Co., Ltd., KURAYA CORPORATION, and TOKYO PHARMACEUTICAL Co., Ltd. The newly formed company, KURAYA SANSEIDO Inc., forged a nationwide distribution network by bringing the leading wholesalers of each region under the Group umbrella. A total of 24 companies has joined the Group in just 10 years as a result of harmonious management integration mainly because they shared the same value of serving society and its people. Although our Group comprises various corporate cultures and diverse human resources, I think such shared values serve as the foundation of our ability to build rock-solid corporate governance.

Logistics innovation for the future

The MEDIPAL Group is working to strengthen distribution functionality—the lifeline of the *Oroshi* business. The catalyst was our business integration with cosmetics and daily necessities wholesaler PALTAC CORPORATION in 2005. Many observers at the time questioned our decision to pursue a cross-industrial alliance, but PALTAC's logistics system for efficiently delivering inexpensive products was rated highly by customers and the company had a solid earnings base. We challenged to harness PALTAC's know-how to completely revamp pharmaceutical wholesale distribution. We did this with the use of high-performance logistics centers called "area logistics centers," or ALCs. Our first ALC, located in Kanagawa Prefecture, started up in 2009 and drastically changed the state of distribution. With ample merchandise assortment and a scheme that literally anybody could dispatch goods from warehouse in no uncertain manner, we were able to reduce distribution hassles and delivery times, as well as provide complete packaging for each customer. The biggest advantage of our ALCs is that even if distribution volume increases, the costs remain the same. Thus, we were able to build out a forward-looking logistics scheme to efficiently distribute products without wasting resources for a healthcare industry that continues to curtail medical costs and encourage the use of generic drugs. Since then, we have made gradual progress such as expanding our ALCs nationwide and developing their functionality with automation-based energy-saving initiatives. We are also leveraging the same functions to develop and launch systems (PRESUS® for dispensing pharmacies and McHIL® for hospitals) to support customer operations. We are therefore steadily putting in place a framework that allows us to optimize the supply chain as a whole.

Nurturing personnel to whom we can entrust our future

Reorganizing our distribution system presented us with opportunities to improve the capabilities of our human resources. One example of this is the challenge to MR (Medical Representative) qualification exam. Pharmaceutical wholesale MSs (Marketing Specialists) had spent around 30% of their daily activities preparing and delivering products, but these tasks were greatly reduced when our ALCs came to operate at capacity. We decided to utilize the time saved there to provide training to our employees. Based on our concept that it would be a valuable idea for our MSs to develop their understanding of the physiological processes and the sideration mechanisms of diseases because we handle drugs that deal with people's lives, we developed an in-house training scheme with the use of e-learning and other tools to facilitate an environment of in-depth learning. As part of this training, we launched an initiative in 2009 for employees to challenge MR qualification exam. More than 2,100 of our

employees have passed the exam over the last 10 years, which is equivalent to the number of MRs held at a major Japanese pharmaceutical firm. There is a saying "*Seki Sho I Dai*" in Japan that the accumulation of small efforts leads to greater results. Having our employees challenge this exam every year enabled us to evolve into a group with a highly talented workforce.

Aiming for sustainable growth with our "Change the *Oroshi*" vision

The business environment enveloping Japan has become increasingly tough due to a globally unprecedented decline in birthrate coupled with an ageing population, ballooning social security costs, and shrinking working population. We expect these changes to have a lasting impact on our industry and the businesses of the MEDIPAL Group. Accordingly, we are formulating a policy to change how we conduct our wholesale business by reexamining conventional thinking and initiatives. Our policy is based on our current "2019 MEDIPAL Medium-Term Vision: Change the *Oroshi* next—Innovate and Create," which not only aims to reform existing wholesale functions and operations in each of our businesses, but seeks to establish an earnings structure impervious to administrative trends, such as changes to the health insurance system, by creating new businesses to generate new sources of revenue and realizing Group synergies. In fiscal 2017, the second year of our medium-term vision, both sales and profits increased in all three business segments and we chalked up a record-high profit on a consolidated basis. In light of these results, I think the performance of each business is tracking ahead of plan. The improvement in earnings came mainly from the full-scale leveraging of the strengths of our consolidated Group companies, particularly in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, and Animal Health Products and Food Processing Raw Materials Wholesale Business.

Supporting people's health and advancement of society through the value creation cycle

As medical technology continues to evolve, more and more innovative new drugs (specialty drugs) are appearing in the pharmaceuticals market. As part of the MEDIPAL Group's efforts, we have developed its capacity for delivering products at different temperatures, and established SPLine Corporation to handle order-made distribution requests for drugs with special attributes. These efforts allow us to reliably deliver pharmaceuticals that have particular management requirements. As a new line of business, we are investing in the development and commercialization of pharmaceuticals

2019 MEDIPAL Medium-Term Vision

Change the *Oroshi* next

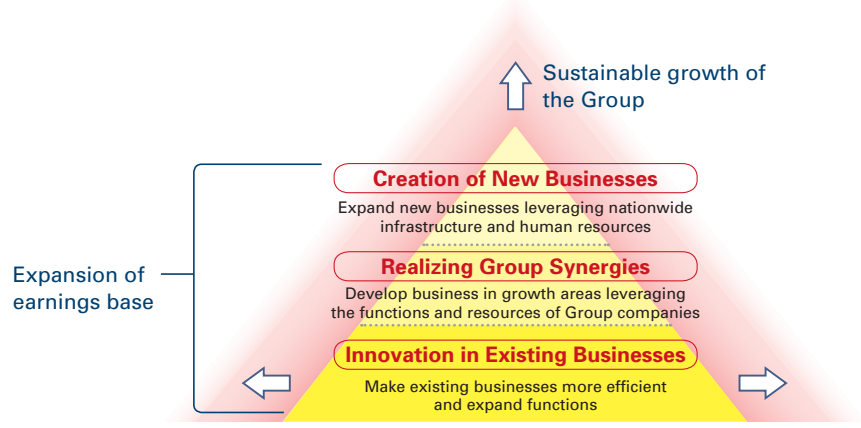
Innovate and Create

Basic Policy

We will expand our earnings base and achieve sustainable growth by pursuing a new *Oroshi* business model that benefits society with distribution in the fields of pharmaceuticals, health, and beauty.

Image of Overall Growth for the MEDIPAL Group

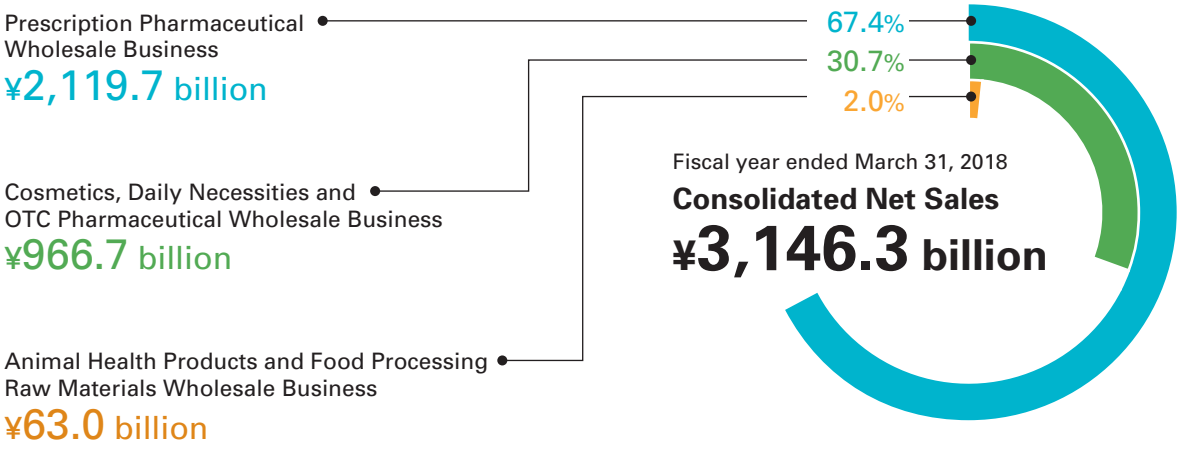
Expand our earnings base and realize further growth of the Group by implementing three growth strategies.

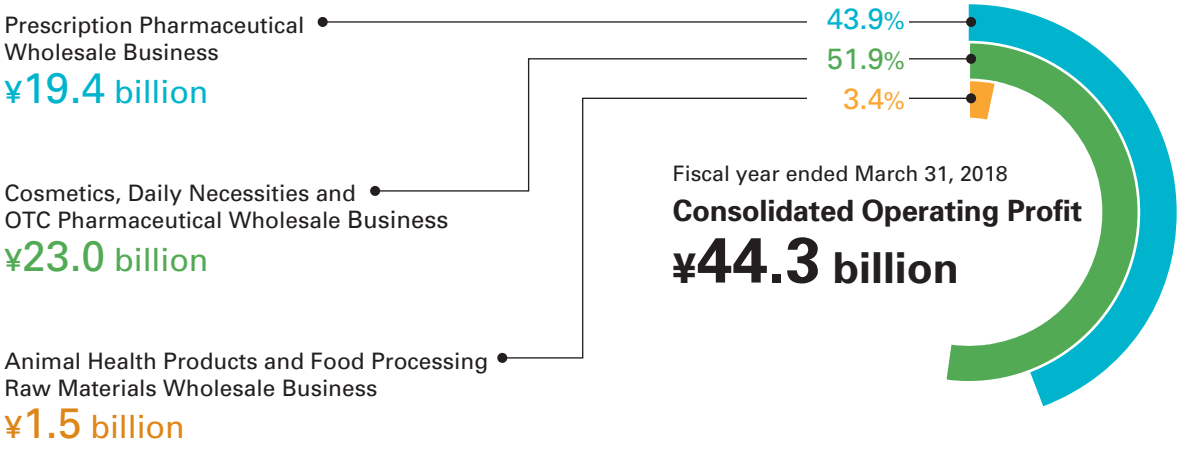


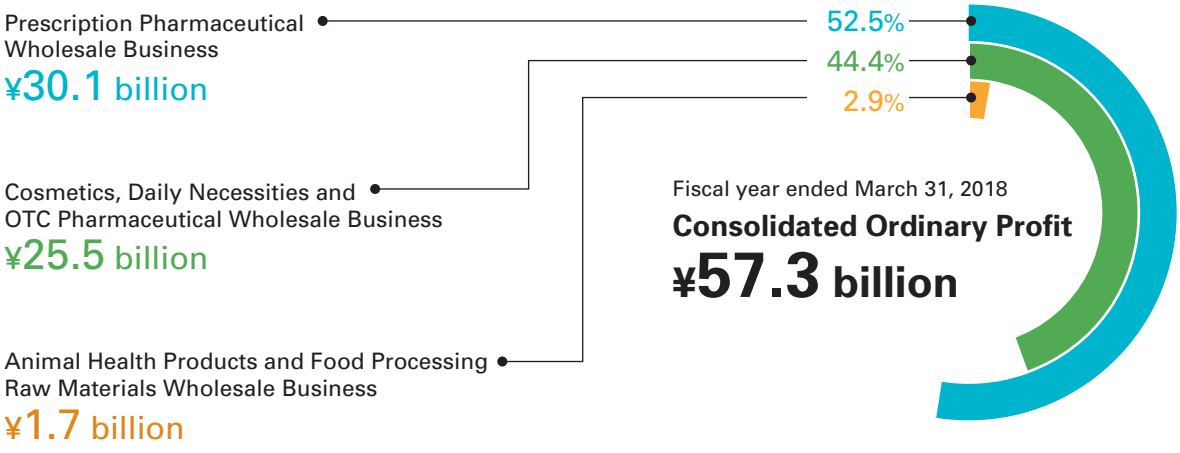
for still-incurable, rare diseases. At the same time, we are focusing on building a distribution system to ensure the safe and secure delivery of those drugs.

In 2016, TEMCELL®HS Inj., the first allogeneic regenerative medicine product in Japan was launched (manufactured and marketed by JCR Pharmaceuticals Co., Ltd.). This drug can treat severe complication arising from hematopoietic stem-cell transplant. This product requires ultra-low temperature storage and delivery at below –150°C, but a liquid nitrogen-based distribution system newly developed with JCR allowed us to safely deliver it to patients awaiting treatment. While we do not have the opportunity to directly interact with patients and consumers, we hold a strong feeling that we are standing by and extending our support to them. This feeling of closeness becomes even stronger and the unshakable force behind our business continuity for when natural disasters like earthquakes or torrential rains occur. For example, no matter how few the cases or how bad the road conditions are on a delivery route, it's our belief that it's all about our mission is to deliver medicine in Japan and that all medicines are devoid of meaning, if they are not made available for patients. The MEDIPAL Group works together like a relay team to support people's lives. The values *Oroshi* business generates support healthy living and make people happy. To fulfill this role, the MEDIPAL Group will continue to actively invest in the infrastructure such as human capital and logistics. And the profits we make from our businesses will be reinvested to make our infrastructure stronger and create new value. By maintaining this cycle, we expect to develop the MEDIPAL Group to a corporate group indispensable to society.

At a Glance (Business Structure)







The MEDIPAL Group is working to diversify earnings with our three pillars of "Prescription Pharmaceutical Wholesale Business," "Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business," and "Animal Health Products and Food Processing Raw Materials Wholesale Business."

Prescription Pharmaceutical Wholesale Business

Business Company

MEDICEO CORPORATION
EVERLTH Co., Ltd.
ATOL CO., LTD.
SPLine Corporation
MM CORPORATION
ASTEC Co., Ltd.
MVC CO., LTD.
MEDIE Co., Ltd.
M.I.C. (Medical Information College), INC.
Trim Co., Ltd.

Product range

Prescription pharmaceuticals
Medical supplies
Medical equipment
Clinical diagnostics

Customers

Hospitals
Clinics
Dispensing pharmacies

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Business Company

PALTAC CORPORATION

Product range

Cosmetics
Daily necessities
OTC Pharmaceuticals

Customers

Drugstores
Home centers
Convenience stores
Supermarkets
Discount stores

Animal Health Products and Food Processing Raw Materials Wholesale Business

Business Company

MP AGRO CO., LTD.
MEDIPAL FOODS CORPORATION

Product range

Animal health products
Raw ingredients for food processing

Customers

Animal hospitals
Manufacturers of processed food
Livestock and fishery businesses

Business Overview

Prescription Pharmaceutical Wholesale Business

We are switching to a profit structure that can sustain growth in any environment.

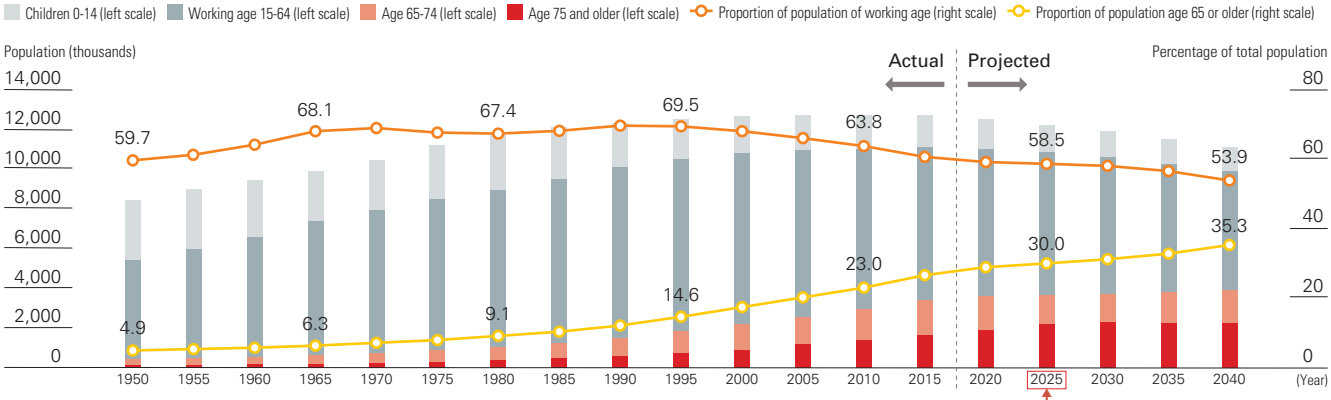


Business Environment

In Japan, where the population is shrinking and aging, the percentage of the population 65 years of age and over is expected to reach 30% by 2025. The share of healthcare costs for the elderly have risen to approximately 60% of total medical expenditures, and the further improvement in the efficiency and quality of healthcare is required, given the government's financial difficulties.

In these circumstances, Japan has set a goal of raising the share of generic drugs in use to at least 80% by 2020. While generic drugs continue to grow, long-listed drugs are in decline. Meanwhile, the focus of new drug development is shifting to specialty fields such as orphan drugs and regenerative medicine products.

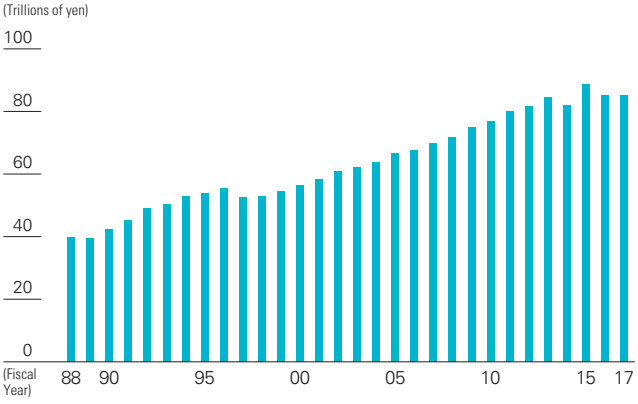
Changes in the Business Environment (Future Population Projections)



Source: Prepared by MEDIPAL HOLDINGS CORPORATION, with reference to Ministry of Health, Labour and Welfare materials
Actual values up to 2015 are from the Statistics Bureau, Ministry of Internal Affairs and Communications, Census.
Projected values for 2020 and after are from the National Institute of Population and Social Security Research, *Population Projections for Japan* (April 2017, medium-fertility and medium-mortality projections)

Baby-boomer generation enters 75 and older age bracket

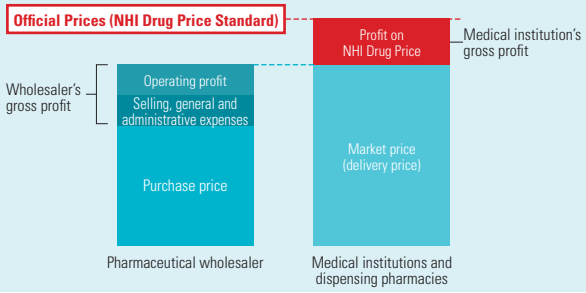
Pharmaceutical Wholesale Sales



Source: CRECON Research & Consulting Inc.

Japan's Drug Pricing System

In Japan, official prices (National Health Insurance (NHI) Drug Price Standard) for pharmaceuticals that can be used for insured medical treatment are stipulated by the Ministry of Health, Labour and Welfare and the Central Social Insurance Medical Council. Medical institutions and dispensing pharmacies bill the cost of pharmaceuticals used by patients at the official prices. However, delivery prices of pharmaceuticals sold to medical institutions and dispensing pharmacies by pharmaceutical wholesalers are the prevailing prices set by the market. The official prices of prescription pharmaceuticals are revised regularly to reflect market prices.



Number of locations

242

in 43 prefectures

ARs

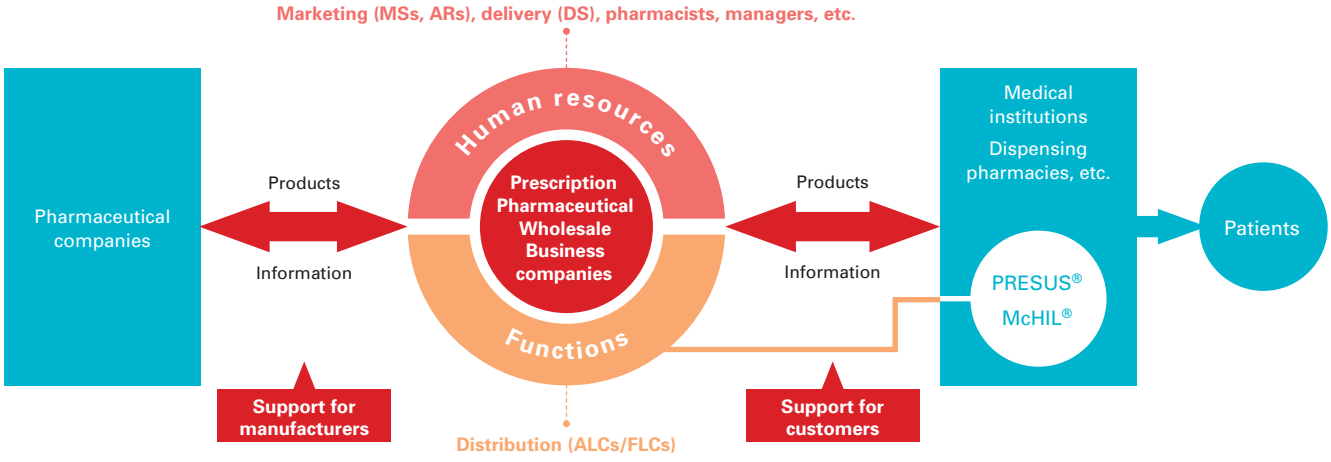
2,168

Employees with MR qualifications

Customers

230,000

Value Chain



Business Overview

The Prescription Pharmaceutical Wholesale Business procures not only prescription pharmaceuticals, but also healthcare products related to diagnostics, testing, treatment and delivery of medicine, including medical equipment and medical supply products, and clinical diagnostics, from over 1,000 manufacturers. We deliver these to approximately 230,000 medical institutions nationwide, including hospitals, clinics, and dispensing pharmacies, to support people's health and the advancement of society.

Distribution that Supports Stable Supply

The MEDIPAL Group provides safe, secure and efficient distribution services to customers across Japan through facilities equipped with a full range of safeguards to continue operating even in emergencies, in coordination with our 9 ALCs[*1] that enable reliable delivery with no stock-outs nor errors, and 219 FLCs[*2] established in areas near our customers. We are also building a distribution system adapted to product characteristics, such as distribution of products in various temperature ranges.

Support for Customers

Through PRESUS®, a support system for dispensing pharmacy operations, and McHIL®, a support system for logistics operations in hospitals, both of which apply the functions and know-how of ALCs, the MEDIPAL Group provides medical professionals both time and an environment that allows them to focus on their primary work.

Support for Manufacturers

ARs[*3] use their advanced skills in discussions with physicians and medical professionals to provide useful information on prescriptions. The MEDIPAL Group also handles some PMS[*4] services on contract for manufacturers. Furthermore, we also engage in PFM® based on a business model of investing in orphans drugs and other products where prompt development is expected, in order to receive returns on investments after placing these drugs on the market and distribute them to medical institutions preferentially.

*1 ALC: Area Logistics Center
*2 FLC: Front Logistics Center
*3 AR: Assist Representatives
*4 PMS: Post Marketing Surveillance

Business Environment Analysis

Strengths

- Nationwide distribution platform (ALCs/FLCs)
- Human resources with expertise (ARs)
- Business Continuity Plan (BCP) that anticipates various risks

Issues

- Profit structure that is easily affected by government's policies
- Further improvement in productivity

Opportunities

- Increase in healthcare needs due to aging of society
- Expansion of specialty pharmaceuticals
- Decrease in number of MRs at manufacturers

Risks

- Decline in working-age population
- Advance of policies to control healthcare costs
- Natural disasters

Business Strategies

In the Prescription Pharmaceutical Wholesale Business, we are switching to a profit structure that can grow sustainably, unaffected by changes in public systems. We will do this by enhancing productivity in distribution and marketing, and achieving rapid growth in new businesses.

Improving the Productivity of Product Distribution

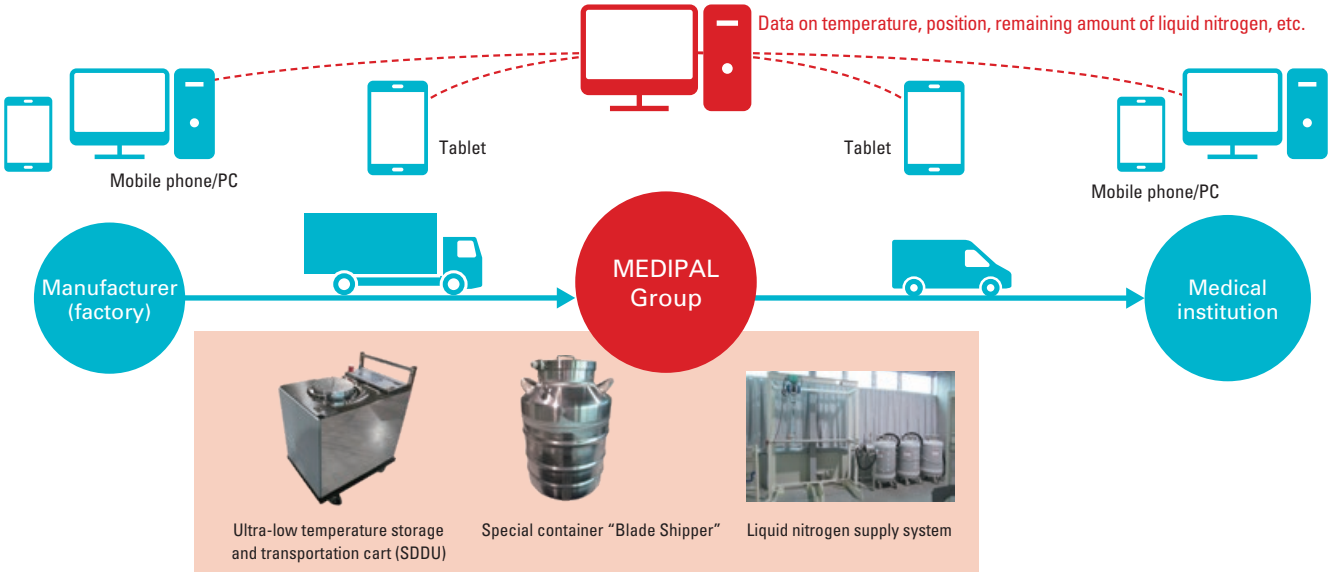
In order to strengthen our distribution capacity, we aim to further improve productivity by establishing next-generation ALCs while at the same time building our nationwide platform. We plan to establish 3 new ALCs to expand the platform nationwide.

Rapid Growth in New Businesses

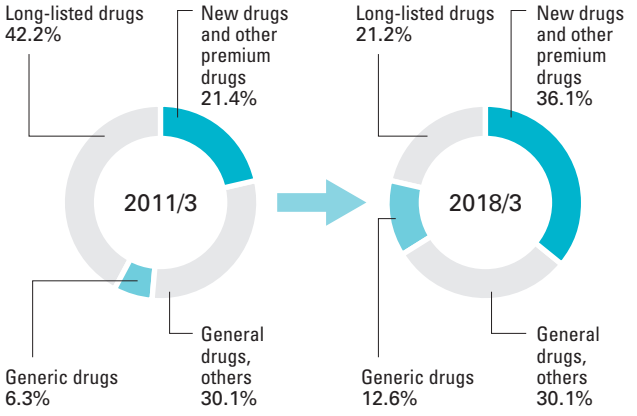
On the marketing front, we aim to strengthen our response to specialty pharmaceuticals and provision of proper information by cultivating ARs with advanced expertise, while expanding new businesses such as PMS and PFM®.

Ultra-low Temperature Distribution System

Quality assurance with strict temperature control, from manufacturer to immediately before use.

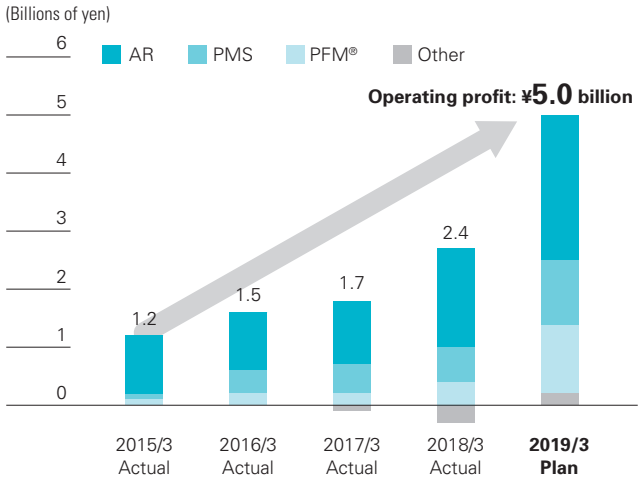


Sales composition of prescription pharmaceuticals (based on value)



* "General drugs, others" refers to patented pharmaceuticals other than new drugs and other premium drugs.

Profit Outlook for New Businesses



Operations in the Fiscal Year Ended March 31, 2018

Sales of prescription pharmaceuticals were solid, amid a flat market due to promotion of the use of generic drugs and a decrease in demand for drugs for the treatment of hepatitis C. The MEDIPAL Group strived to secure profits mainly through initiatives for new businesses despite an increase in selling, general and administrative expenses associated with establishment of new ALCs.

Under these circumstances, the MEDIPAL Group worked to demonstrate its wholesaling functions to the fullest extent possible by undertaking a wide range of initiatives aiming to optimize and increase the efficiency of the entire supply chain, from manufacturers to patients, as part of the social infrastructure supporting safe and secure medical care for the people.

Increasing Efficiency of Distribution

At Saitama ALC and Okayama ALC, which began operating in March 2017, advances in automation, including the introduction of an up-to-date automated warehouse system, have improved productivity compared to previous ALCs and helped further increase the efficiency of distribution.

In addition, with regard to rapidly increasing generic drugs, the MEDIPAL Group has selected recommended manufacturers and developed sales adapted to the needs of customers.

Creation of New Businesses

The MEDIPAL Group formed a business and capital alliance with JCR Pharmaceuticals Co., Ltd. in September 2017, and acquired 22% of outstanding shares in JCR Pharmaceuticals. The MEDIPAL Group also established a U.S.-based joint venture, JCR USA, Inc., in January 2018, with the aim of developing drugs using JCR Pharmaceuticals' original technologies.

In addition, the MEDIPAL Group formed a capital alliance with Clinical Platform Inc. in March 2018 in order to promote the adoption of cloud-based electronic medical records at clinics.

Initiatives for the Fiscal Year Ending March 31, 2019

We will continue efforts to address the shared industry challenge of improving distribution through measures such as negotiating prices commensurate with characteristics and value of individual products. Meanwhile, we are working to establish our Kanto ALC to improve productivity in distribution and sales.

We will also strive to expand our profit base through PMS and other initiatives with the aim of achieving rapid growth in new businesses.

Interview with the General Manager of Business Development Department



We anticipate rapid growth in new businesses by using the MEDIPAL Group's nationwide distribution platform.

Toshihide Yoda
Senior Managing Director
In charge of IR and General Manager of Business Development Department
MEDIPAL HOLDINGS CORPORATION

What are you aiming for in your new business initiatives?

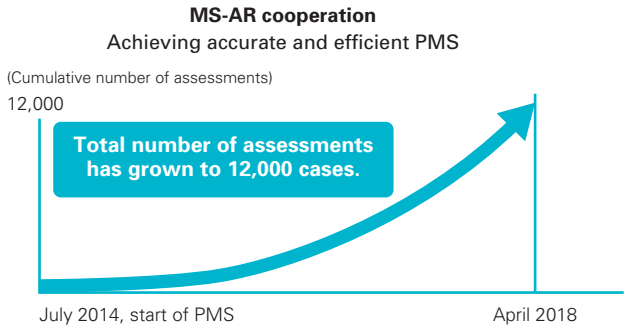
We have a prescription pharmaceuticals distribution platform that covers all of Japan. Fundamentally, we should use this platform to actively support provision of information to prescribers, but we had an urgent sense that we were not fully performing that function. What lies behind that is the increasing separation of prescribing and dispensing functions. There has been a shift from sales to hospitals and clinics, which have prescribing rights, to dispensing pharmacies, which do not. The result was a trend toward strengthening the distribution function rather than providing information, and we inevitably faced stiff competition.

The aim of our new businesses is therefore to enrich the distribution value that we create by taking a fresh look at the original functions of wholesaling, and bolstering our information provision capabilities together with our distribution capacity. Specifically, we position provision of proper information by ARs, PMS (post-marketing surveillance), and PFM® (project finance & marketing) as new businesses, and are going beyond our original trading framework to take a step into the finance domain.

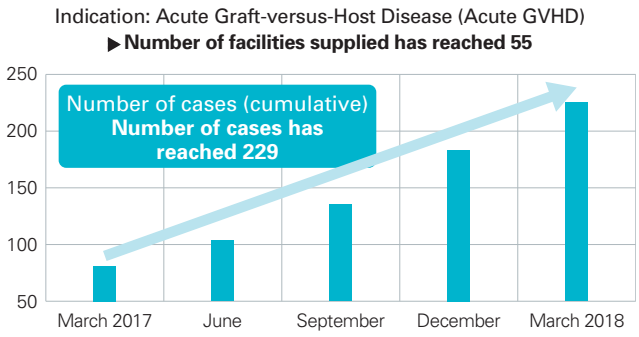
What kind of role are ARs playing in new businesses?

The role of ARs is to combine the functions of MSs and MRs, and focus mainly on approaching prescribers. The number of MRs is declining year by year as pharmaceutical manufacturers concentrate management resources on research and development. This is a major opportunity to expand the playing field for ARs. In particular, because PMS to confirm the efficacy and safety of new drugs launched by manufacturers has been legally mandated, the MEDIPAL Group's ARs are capturing demand by making up for the decline in the number of MRs at manufacturers.

Outcome assessments in PMS: Status of initiatives



TEMCELL® HS of JCR Pharmaceuticals



Isn't finance a very different area from the MEDIPAL Group's core business?

The PFM® business is not aimed solely at investment profit. The business is rooted in our sense of mission as a pharmaceuticals wholesaler to provide a stable supply even of orphan drugs, and of course this includes marketing activities. However, in contrast with the field of primary pharmaceuticals, where there are many patients, if the distribution for individual orphan drugs were divided among multiple companies, it would be inefficient and likely result in serious losses. It could even hinder the stability of supply. We therefore believe that a specific wholesaler should assume responsibility for distribution of these various drugs.

Therefore, our business concept with regard to orphan drugs with a limited number of patients is to build a stable profit foundation, starting with participation in the drug development phase in the form of financing, and singlehandedly take responsibility for bringing the new drugs to market, as well as information provision, distribution, and after-sales service. Furthermore, since we cannot make these drugs available without actively providing information to prescribers, ARs who have acquired MR certification will play an important role.

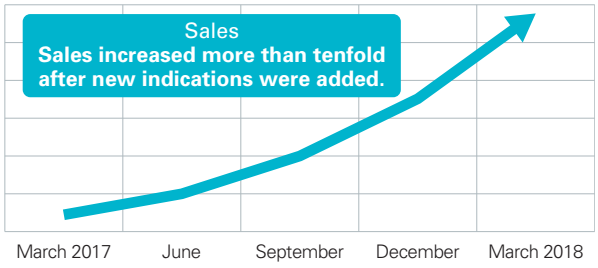
How big a stake do you think is appropriate when making investments?

Even though we are engaged in finance, our goal is not control of management of a company. We basically take about a 20% stake, which allows us to share the interests of the investee in terms of returns commensurate with risks, while also taking responsibility for distribution of the pharmaceutical. Our unique know-how with regard to recoverability of investments and evaluation of risks make this business difficult to imitate.

Nobelzin® Nobelpharma

Indications: Improvement of symptoms associated with hypozincemia

▶ **Raising awareness of zinc replacement therapy**



Why did the MEDIPAL Group invest in JCR Pharmaceuticals and Nobelpharma?

We partnered on a new drug development project in 2011 with JCR Pharmaceuticals Co., Inc., in which we acquired 22% of the shares in October 2017. JCR Pharmaceuticals launched TEMCELL® HS in 2016. Some leukemia patients, even if they have found a donor and are confident of a complete cure, develop Acute Graft-versus-Host Disease (Acute GVHD) when receiving a bone marrow transplant, and a certain percentage of these patients die. Moreover, a majority of these are children and the elderly, who have low immune resistance. We believed that TEMCELL® HS, which can save such patients, had to be delivered as quickly as possible. Therefore, we worked together with JCR Pharmaceuticals even before TEMCELL® HS was brought to market to jointly develop an ultra-low temperature transportation system using liquid nitrogen, and built a system to ensure stable supply even in the event of an emergency.

The market launch of this drug triggered a major change in behavior at the MEDIPAL Group's front lines of sales. It inspired a sense that we have a mission to save patients' lives, and prompted our representatives to take the initiative in visiting prescribers. This has been reflected in the rapid increase in the number of facilities to which we deliver TEMCELL® HS and in the number of case histories.

Similarly, with our investment in Nobelpharma Co., Ltd., we began a co-promotion of Nobelzin® tablets, a treatment for hypozincemia, in March 2017. It would be impossible to cover all doctors in Japan with Nobelpharma's MRs, but support from the MEDIPAL Group's ARs in the company's efforts to disseminate information regarding Nobelzin® tablets contributed to a significant increase in product recognition, and sales increased more than tenfold. We have been building a cooperative relationship with Nobelpharma since a 7% investment in 2012, and further increased our stake to 20% in May 2018, making Nobelpharma an equity-method affiliate.

Are you getting a sense of the potential of these new businesses?

We launched AR, PMS and PFM® as new businesses seven years ago, but we actually had trouble gaining understanding on the front lines of sales during the first three years. However, there was a change in awareness after four or five years, when we saw the results of TEMCELL® HS and Nobelzin® tablets. Profit from new businesses in the fiscal year ended March 31, 2018, amounted to ¥2.4 billion. We expect to increase this to ¥5.0 billion in the fiscal year ending March 31, 2019, by further strengthening our efforts.

Business Overview

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

We will further bolster our business foundation through aggressive investment to sustain a growth cycle.

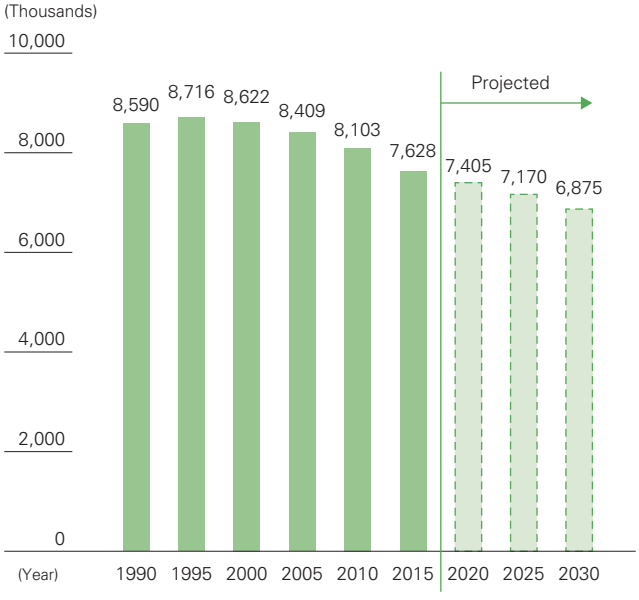


Business Environment

The environment in the domestic cosmetics, daily necessities and OTC pharmaceutical industry has been solid, due to an increase in consumer confidence and a recovery in personal spending against the backdrop of improvements in employment, as well as an increase in demand from visitors to Japan. On the other hand, we are faced with urgent issues such as coping with increasingly serious labor shortages associated with the decrease in the working-age population. Labor shortages are not only a limiting factor in terms of supply, but also suppress profits in the supply chain overall through increased labor costs, etc.

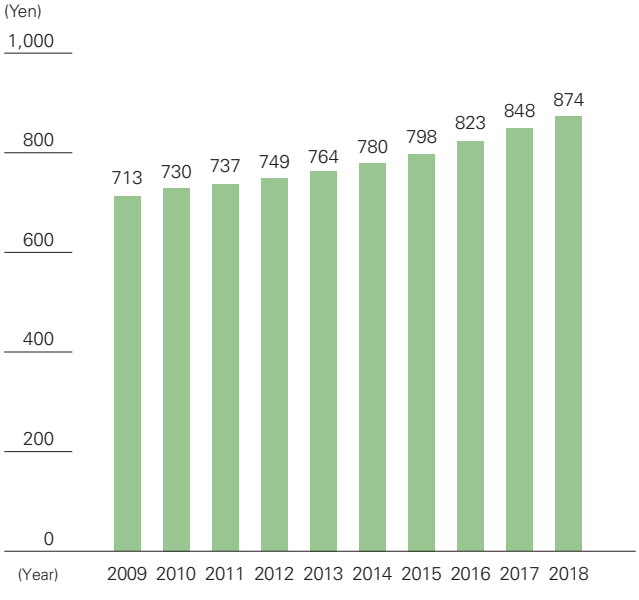
In such an environment, further optimization and streamlining of the entire supply chain, from manufacturer to retailer, is called for, and I believe that PALTAC CORPORATION ("PALTAC"), which stands in an intermediary position between manufacturing and retailing, will have an ever-larger role to play. Furthermore, it is precisely in such an environment that PALTAC will be able to contribute to the greater prosperity of our business partners by utilizing its accumulated know-how with regard to highly productive distribution.

Working-age Population



Source: Statistics Bureau, Ministry of Internal Affairs and Communications materials

Minimum Wage



Source: Ministry of Health, Labour and Welfare materials

Number of items handled

Total shipments

3.0 billion per year

25 items per year per person in Japan

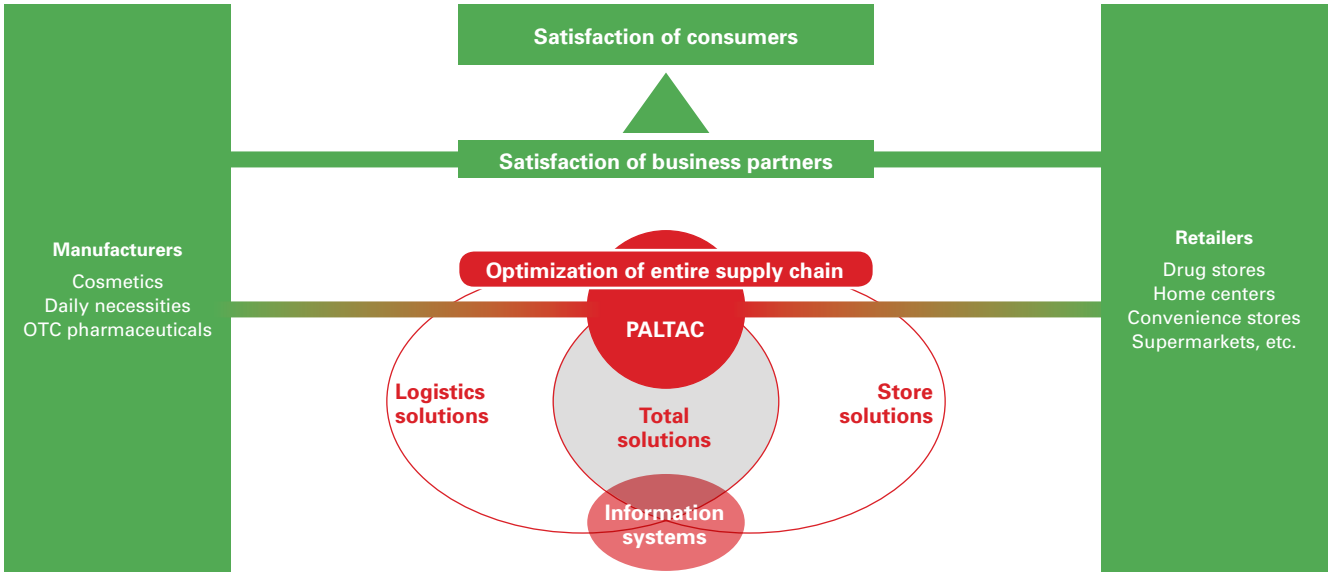
Business partners

1,800 companies

Number of state-of-the-art large-scale distribution centers

16 nationwide

Value Chain



Business Overview

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, the Group's consolidated subsidiary PALTAC has built a position as Japan's No. 1 wholesaler delivering daily necessities in the field of "beauty and health." Currently, PALTAC procures 51,000 types of products from approximately 1,000 companies, and has established a nationwide sales network comprising almost all the main retailers (approximately 800 companies), focused on drugstores, in an effort to optimize and increase the efficiency of its supply chains as a whole.

Store solutions

We do not just deliver products. Staff with expertise in each category provide comprehensive analysis of retailers' store location, POS information, etc., and help improve the productivity of sales floors through efficient and effective in-store merchandising, from product composition and shelf space allocation, to inventory management and new and discontinued products.

Logistics solutions

PALTAC operates 16 "RDC" large-scale distribution centers nationwide, which boast a shipping accuracy of 99.999%. We have achieved increased efficiency in distribution across the supply chain, from production to distribution and stores, through exhaustive rationalization including mechanized loading and unloading and introduction of a unit load system compatible with automation.

Business Environment Analysis

Strengths

- Highly efficient large-scale distribution centers
- Distribution systems development capabilities
- Cash flow generation capabilities
- Cost competitiveness

Issues

- Chronic labor shortages
- Rising labor costs

Opportunities

- Nationwide expansion and shift to chains by retailers
- Growing demand for increased efficiency of the entire supply chains
- Increase in foreign visitors to Japan

Risks

- Decreasing demand due to overall population decline
- Natural disasters

Business Strategies

PALTAC has set out initiatives based on four key strategies in order to respond to the issue of labor shortages by taking on research and development and new technology challenges that go beyond the boundaries of wholesaling, and to achieve sustainable growth as a social infrastructure company that delivers daily necessities.

The first of these key strategies is to further reinforce our business foundation by reinvesting business profits in distribution centers and other facilities in order to strengthen our shipment capacity and improve distribution efficiency.

The second is to take on the challenge of establishing a new distribution model that introduces the latest technologies such as AI and robotics, and fuses these with PALTAC's distribution know-how. In this way, we will realize "people-friendly distribution" that responds to the decrease in the working-age population and lightens the human workload while avoiding dangerous operations.

The third is to press ahead with steady improvements in productivity accompanied by quality through continued improvement activities at existing distribution centers, promotion of consolidation of operations and optimal allocation of human resources, so that we can build a business foundation capable of providing even higher quality and low-cost systems.

The fourth and last is to cultivate human resources who can act with initiative, and build an optimal organization where these human resources can work together and participate actively in order to demonstrate PALTAC's comprehensive strength, while collaborating on efforts with retailers, manufacturers and cooperating partners in pursuit of solutions to issues.

Four Key Business Strategies

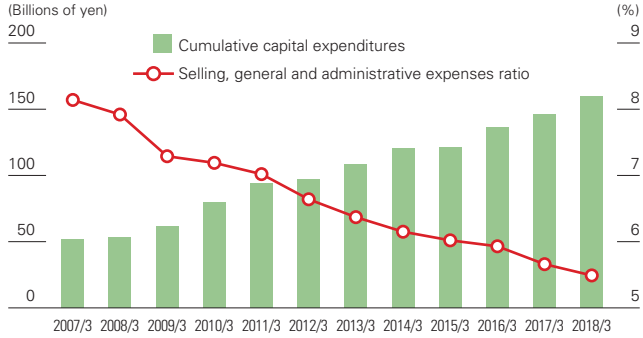
Reinvesting profit
to increase efficiency of the entire supply chains

Productivity improvements accompanied by quality
that enhance our strengths

Establishment of new distribution model
fusing new technologies and know-how

Strengthening human resources and organizations
that help resolve issues for our business partners

Promoting a low-cost system through prior capital investment



Note: Cumulative capital expenditures: Cumulative total from the fiscal period ended September 1998 (opening of RDC Kinki).

Operations in the Fiscal Year Ended March 31, 2018

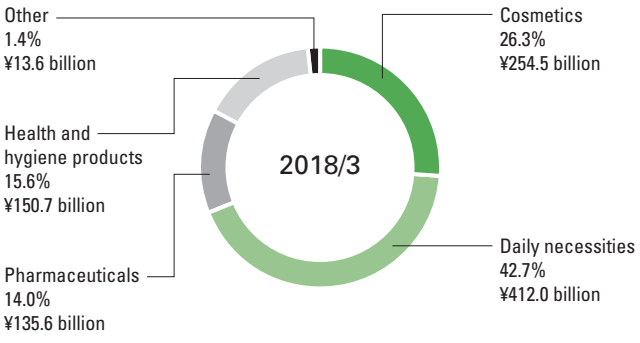
During the fiscal year under review, the market environment for the Cosmetics, Daily Necessities and OTC Pharmaceuticals Wholesale Business was stable due to a recovery in personal spending against the backdrop of increased consumer confidence, as well as an increase in demand from visitors to Japan. In this environment, PALTAC worked to enhance its sales structure of supporting the effective selection of products and sales activities at retailers, as well as to strengthen safe, secure, high-quality and low-cost distribution functions.

Specifically, we established FDC Hiroshima[*1], which began operating in May 2017, with the aim of improving delivery efficiency in the Chugoku area, and carried out an expansion of RDC Okinawa[*2], which began operating in November 2017, to expand our shipment capacity.

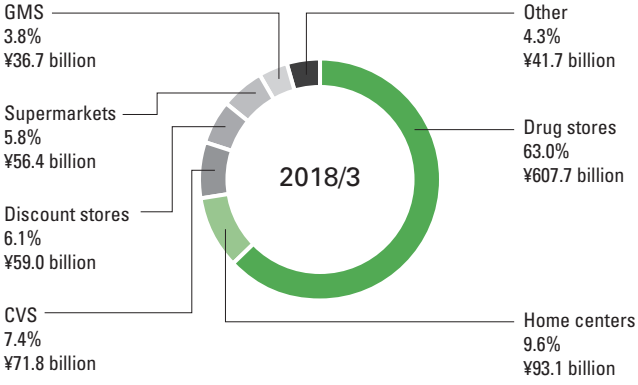
*1 FDC (Front Distribution Center): A distribution center that holds inventories of products in cases that are ordered frequently, thus providing support for RDCs.

*2 RDC (Regional Distribution Center): A large-scale distribution center that PALTAC operates nationwide. RDCs handle cosmetics, daily necessities, over-the-counter pharmaceuticals and other items.

Actual Net Sales by Product in Wholesale Business



Actual Net Sales by Business Format in Wholesale Business



Initiatives for the Fiscal Year Ending March 31, 2019

Through reinvestment of business profit in distribution centers and other facilities, PALTAC is strengthening its shipment capacity and promoting further improvement of distribution efficiency to strengthen its business foundation for sustainable growth.

In particular, we are addressing the labor shortages associated with the decline in the working-age population through practical application of a new distribution model that significantly improves productivity by fusing the latest technologies such as AI and robotics with our accumulated distribution know-how. Specifically, SPAID (Super Productivity Advanced Innovative Distribution), our independently developed, next-generation distribution system that can carry out picking with "no need for employees to walk and look for things," has been introduced at RDC Niigata and began operating in August 2018. Bulk picking, in which employees push a cart while retrieving individual products according to the order, currently accounts for 70% of operational costs in warehouses. SPAID automatically transports the product to the employee, reducing the need to walk around and look for things, while leaving dangerous and burdensome work to AI robots, and doubling employee productivity as a result. We plan to introduce SPAID at RDC Sugito, which has PALTAC's maximum scale shipment capacity (¥120.0 billion per year), with operations scheduled to start at the beginning of 2020.



RDC Niigata

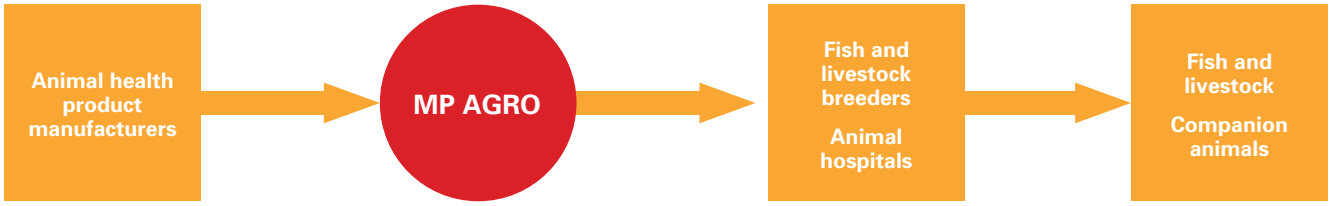
Animal Health Products and Food Processing Raw Materials Wholesale Business

We will leverage our original customer support functions and strengths as a nationwide wholesaler to further expand transactions.

Animal Health Products Wholesale Business

To become an essential presence protecting the health of animals in the fish and livestock, and companion animal* markets

Value Chain



Business Overview

In the Animal Health Products Wholesale Business, the MEDIPAL Group's consolidated subsidiary MP AGRO CO., LTD. boasts Japan's highest sales in animal health products, thanks to its nationwide sales branches and 6 distribution centers that provide a stable supply of products.

Business Strategies

The Group's consolidated subsidiary MP AGRO CO., LTD. is engaged in a wide range of initiatives, including introduction of an original online order information system (MP PLUS), handling of exclusively sold supplements, and launching outcome assessments in the PMS business, which are a first in the animal health products wholesale industry. With veterinarians and other technicians on staff, MP AGRO performs pathological testing, serum antibody testing, bacteria testing, and genetic testing. In addition, MP AGRO aims to expand its transactions by responding in detail to various customer needs, through measures such as enhancing its consulting services by leveraging its know-how with regard to HACCP* and various testing institutions.

* HACCP (Hazard Analysis and Critical Control Point): A scientifically based method by which food business operators manage hazards that can cause food poisoning or otherwise harm health throughout the entire process from reception of raw materials to shipping of products.

Operations in the Fiscal Year Ended March 31, 2018

Prices remained high in livestock markets throughout the fiscal year. The companion animal market was also strong as a result of animals living longer and being treated as part of the family. In this environment, we focused on vaccines and food additives in livestock markets. In the companion animal market, we promoted sales of new products for treating skin disease and worked to promote our online order information system for animal hospitals.

* Companion animal refers to an animal that has a companion-like presence and a close relationship with humans in daily life.

Initiatives for the Fiscal Year Ending March 31, 2019

We aim to expand transactions in the livestock and companion animal markets by establishing a distribution center to enable our full-fledged entry into the Kanto region, the largest market for animal health products. We will also work to differentiate ourselves from the competition by continuing to promote use of MP PLUS, strengthening sales of exclusively sold products, expanding the PMS business, and further increasing the efficiency of our distribution functions.

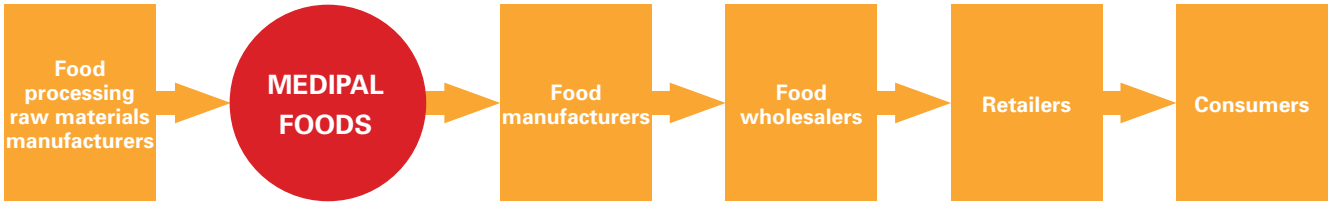




Food Processing Raw Materials Wholesale Business

To become a general trading company for food manufacturers, based on the themes of "food safety and security" and "great taste"

Value Chain



Business Overview

In the Food Processing Raw Materials Wholesale Business, the Group's consolidated subsidiary MEDIPAL FOODS CORPORATION has a lineup of approximately 33,000 products, ranging from raw materials for confectionery and bread, agricultural and marine products raw materials, seasonings and food additives, to industrial chemicals and packaging materials, and has established a nationwide supply system based on the themes of "food safety and security" and "great taste" with the aim of being a general trading company for food manufacturers.

Business Strategies

According to the 2017 Food Industry Change Survey by the Ministry of Agriculture, Forestry and Fisheries, the value of manufactured goods shipped in Japan's food manufacturing industry is ¥32 trillion, of which food processing raw materials is believed to account for 10% to 30%. The size of the food additive market has been estimated at ¥1,034.8 billion (Food Chemicals Newspaper, January 11, 2018). In this market, MEDIPAL FOODS CORPORATION uses its wide-ranging network with manufacturers to accurately analyze market trends and provide total support for customers, from product planning and raw materials procurement to manufacturing and distribution. In addition, we are working to further enhance the services we provide, including helping our customers acquire certification for international standards such as SQF*1 and FSSC 22000*2.

*1 SQF (Safe Quality Food): International regulations integrating primary production, transportation and distribution, to ensure the safety and quality of food across all food industry sectors.
*2 FSSC 22000: A management system standard, based on ISO 22000, to ensure the practice of more reliable food safety management.

Operations in the Fiscal Year Ended March 31, 2018

Amid growing public awareness of food safety and health, we steadily increased transactions with major customers by promoting the proposal-based sales activity using our information from across Japan and nationwide procurement routes.

Initiatives for the Fiscal Year Ending March 31, 2019

We are working to expand our customer support system to handle further expansion of support services for acquisition of international standards certification. We will also continue efforts to use our nationwide procurement routes to expand sales to major customers who are operating across large areas.

The Important Issues of the MEDIPAL Group (Materialities)

The MEDIPAL Group's social mission is to reliably deliver products to the people who need them, without fail. In order to achieve this mission, we believe that it is important to establish a solid business structure. From this perspective, the Group has defined six critical categories, or materialities: compliance, pharmaceutical management, disaster planning, information management, respect for human rights, and environmental conservation.

Relationship with CSR (handling of individual materialities)

The above six categories are CSR categories that have been defined by the MEDIPAL Group, and reflect our risk management perspective. The MEDIPAL Group has defined its corporate social responsibility as "conducting business activities with consideration for the economy, society, and the environment so that, by perpetually growing, the companies that make up the Group will realize the Group's Management Philosophy, and the results of those activities will also rightfully benefit society." Based on this shared understanding, we hold CSR General Meetings primarily for the chairmen of the CSR committees of Group wholesale operating companies, and carry out CSR initiatives.

Relationship with ESG, which supports our long-term corporate value

These six categories, along with the underlying corporate governance, correspond to the three themes of ESG (environment, society, and governance), which is an area of great interest to investors. We believe that the materialities we have selected are ESG elements that support the long-term improvement of the corporate value of the MEDIPAL Group, and that they have a practical impact on value creation.

Relationships between materialities, CSR, and ESG

Six materiality categories

	Examples of CSR activities	ESG category
Compliance	Whistleblowing system Bribery prevention	G
Pharmaceutical management	Pharmaceutical management system Education systems	S
Disaster planning	Natural disaster risk countermeasures Countermeasures against pandemics involving new strains of influenza	S
Information management	Information management policy/system Education systems	S
Respect for human rights	Personnel development initiatives Systems to provide a pleasant working environment Diversity initiatives Human right protection initiatives	S
Environmental conservation	CO_2 emissions reduction and initiatives to prevent global warming Waste processing and effective resource utilization	E
Social initiatives	Automated external defibrillators (AEDs), bone marrow donor leave, "Dementia Supporters" training programs, the Ecocap Movement, World Vaccine Books, Kuruma Kodomo 110 (vehicles that help keep children safe)	E/S

Corporate Governance

SDGs for the MEDIPAL Group

The Sustainable Development Goals (SDGs) defined by the U.N. as priority global issues to be addressed by the world during the years leading up to 2030 are closely connected to the efforts of the MEDIPAL Group to achieve its social mission through business, and to its materialities.



3. Good Health and Well-Being

1) We support people's lives and lifestyles by providing a stable supply of pharmaceuticals and living necessities nationwide.
2) We provide physicians and medical personnel with helpful information regarding pharmaceuticals, etc.

5. Gender Equality

We strive to ensure diversity by incorporating different experiences, abilities, and characteristics, such as through our appointment of three female outside directors (two in MEDIPAL HOLDINGS CORPORATION and one in PALTAC).

7. Affordable and Clean Energy

We strive to improve energy efficiency through measures such as the aggregation of logistics sites and improving delivery efficiency.

11. Sustainable Cities and Communities

We are thoroughly prepared to continuously supply pharmaceuticals and daily necessities in the event of emergencies such as large-scale disasters and pandemics.

13. Climate Action

We strive to conserve energy at our logistics centers, and to reduce CO_2 emissions through measures such as the introduction of high fuel efficiency vehicles.

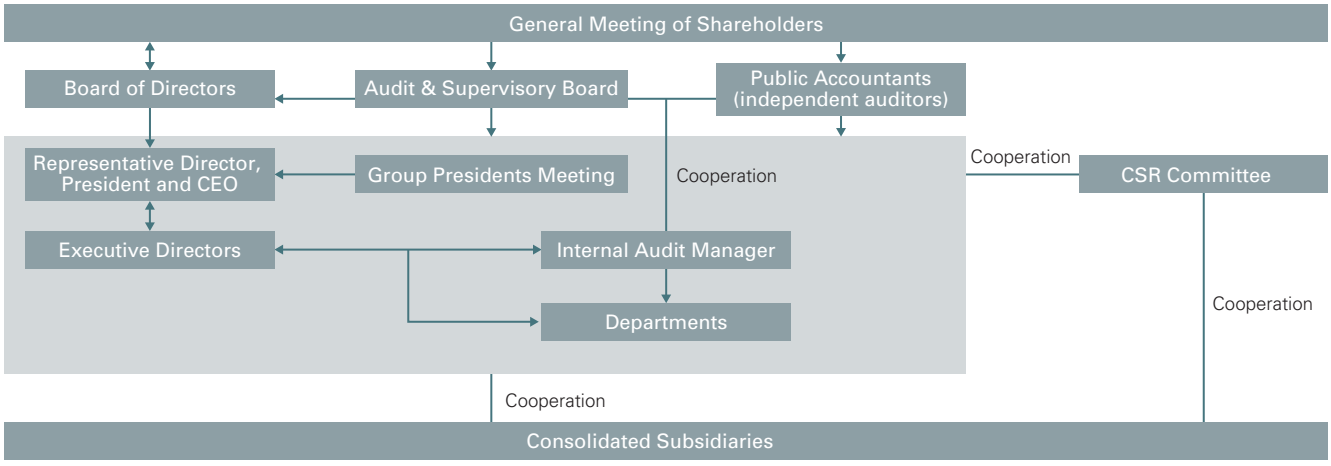


Corporate Governance

The MEDIPAL Group ensures sound, transparent management and places importance on maximizing corporate value.

The Group also believes that appropriately disclosing high-quality information is one of its responsibilities to stakeholders and enhances the soundness and transparency of management. Therefore, the Group proactively discloses quarterly explanations of financial results and other information.

Corporate Governance Structure (as of October 1, 2018)



System

Role and Composition of Board of Directors

The Board of Directors of MEDIPAL HOLDINGS CORPORATION (the Company) includes 10 Directors (8 men and 2 women ; 3 outside directors) and considers and decides matters stipulated by management policy and by law, as well as other important matters concerning corporate management, and also supervises the status of overall business execution. The Board holds monthly meetings and, when necessary, extraordinary meetings. Audit & Supervisory Board Members attend these meetings. Representative directors of main consolidated subsidiaries are appointed as directors of the Company to share information.

The Company has also adopted the executive officer system to clearly separate the functions of management decision making and supervision from business execution. Senior managers of main consolidated The MEDIPAL Group companies are appointed as executive officers of the Company with the objective of upgrading and improving the corporate governance system. They periodically exchange information, as well as deliberate and conduct studies, which helps maintain organizational unity.

In addition, to promote efficient Group management activities, representative directors, directors, and representative directors of consolidated subsidiaries designated by the president form the Group Presidents Meeting. Functioning as an advisory council, the Group Presidents Meeting convenes once a month, in principle, to share

information on the Group's management strategies and deliberate and consider business solutions. Meetings of the Board of Directors were held as follows in the fiscal year ended March 31, 2018.

Meetings of the Board of Directors for Fiscal 2018	Meetings:	11
	Outside director attendance rate:	100%
	Outside Audit & Supervisory Board member attendance rate:	97%

Role and Composition of Audit & Supervisory Board

The Company employs an audit & supervisory board system, to which it appoints 5 members (3 of whom are outside members). In addition to attending the above-mentioned meetings, Audit & Supervisory Board members strictly audit the legality and adequacy of business execution by Directors, based on the audit standards determined by the Audit & Supervisory Board, and exchange views with the independent auditors. The Audit & Supervisory Board members of the MEDIPAL Group's also exchange information and cooperate with each other. Meetings of the Audit & Supervisory Board were held as follows in the fiscal year ended March 31, 2018.

Meetings of the Audit & Supervisory Board for Fiscal 2018	Meetings:	11
	Audit & Supervisory Board member attendance rate:	97%

Support System for Outside Directors and Outside Audit & Supervisory Board Members

A system has been established to enable mutual cooperation between outside directors and outside Audit & Supervisory Board members and the internal audit manager, Audit & Supervisory Board members, and independent auditors. This system enables these parties to coordinate as necessary, either directly or indirectly, through methods such as via email or telephone. In addition, outside directors and outside Audit & Supervisory Board members issue statements at meetings of the Board of Directors, and express their frank opinions, through means such as creating opportunities for briefings ahead of important discussions. The Company also periodically provides opportunities to view worksites at subsidiaries.

Evaluating the Effectiveness of the Board of Directors

As a company that has established an Audit & Supervisory Board, the Company strives to ensure close communication between the Directors and Audit & Supervisory Board members, and hold regular meetings between them that include mutual feedback regarding the effectiveness of the Board of Directors.

In addition, outside directors and outside Audit & Supervisory Board members comment frankly on matters such as the organizational operation of the Board of Directors, through media including the annual report and shareholder newsletters.

Going forward, the Company will continue to consider the issue of analysis and assessment.

Compensation for Directors

The total amount of compensation for Directors is determined by a resolution of the General Meeting of Shareholders. Director compensation consists of base compensation and bonuses. Base compensation amounts are determined in advance by the Board of Directors, based on the Company's internal rules and regulations, in accordance with the position of each Director. Total bonus amounts are determined by the Board of Directors, based on consideration of the consolidated performance in each fiscal year. Individual bonus amounts are determined by the Representative Director, President and CEO. The total amount of compensation for Audit & Supervisory Board members is determined by a resolution of the General Meeting of Shareholders. Compensation amounts to be paid to individual Audit & Supervisory Board members are determined based on deliberations by the Audit & Supervisory Board members.

Corporate Officer Category	Total amount of compensation (Millions of yen)	Total amount of compensation by category (Millions of yen)		Number of relevant corporate officers
		Basic Compensation	Bonuses	
Directors (excluding outside directors)	217	160	57	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	48	48	—	2
Outside corporate officers	66	59	6	7

Note: Basic compensation includes the payment to one outside Audit & Supervisory Board member who retired from the position as of the close of the 108th General Meeting of Shareholders, which was held on June 27, 2017.

Responsible Dialog with Shareholders and Investors

General Meeting of Shareholders

In order to provide shareholders with sufficient time to make decisions on exercising their voting rights, on June 1, 2018, the Company issued the notice of convocation for the Annual General Meeting of Shareholders held on June 26, 2018, in which is 10 days earlier than the legal requirement. Prior to this, the Company also made an early disclosure of its notice of convocation for the General Meeting of Shareholders on its website on May 25, 2018. In addition, since the General Meeting of Shareholders held in June 2002, the Company has enabled voting rights to be exercised electronically via the internet or mobile phone, in order to ensure that voting rights are exercised promptly and actively. Since 2006, the Company has also joined the voting rights platform for institutional investors operated by ICJ, Inc. to create an environment in which institutional investors may directly exercise voting rights by electronic means. Other measures to invigorate the General Meeting of Shareholders and facilitate the exercise of voting rights include posting the notice of convocation and voting results on our website. At the General Meeting of Shareholders held on June 26, 2018, a total of 2,996 shareholders exercised voting rights (of whom, 2,839 did so in writing or via the internet), for a voting ratio of 77%.

Dialog with Institutional Investors

The Company actively maintains a dialog with institutional investors, including providing briefings for security analysts and institutional investors on financial results, as well as executive meetings by the President and corporate officer in charge of IR, implementation of overseas investor relations, and participation in conferences hosted occasionally by securities companies. Feedback received from investors is reported each week to management and the relevant departments, and utilized in management strategies, public relations, and IR activities.

The following IR events were held for institutional investors in the fiscal year ended March 31, 2018.

IR Event	Date Held	Presenter
Briefings on financial results	Each quarter (4 times/year)	President, corporate officer in charge of IR
Overseas investor relations	November 2017 (Europe)	President, corporate officer in charge of IR, IR representative
Conferences held by securities companies	November 2017 (Daiwa Securities)	Corporate officer in charge of IR
	March 2018 (SMBC Nikko Securities)	Corporate officer in charge of IR, IR representative
	March 2018 (Daiwa Securities)	Corporate officer in charge of IR, IR representative

The following individual IR interviews were held with institutional investors in the fiscal year ended March 31, 2018.

Number of interviews during year	163 (108 in Japan; 55 overseas)

* Figures represent cumulative numbers

Dialog with Individual Investors

The Company strives to promote understanding of its corporate philosophy and business strategy, holding corporate presentations for individual investors in major cities throughout Japan with the aims of improving recognition of the Company and establishing its brand.

The presentation is headed by the corporate officer in charge of IR or the department in charge of IR (Corporate Planning and Public Relations Department).

The following corporate presentations were given for individual investors in the fiscal year ended March 31, 2018.

Date Held	Location
April 2017	Fukuoka City
July 2017	Kyoto City
August 2017	Kagoshima City
January 2018	Nagoya City
March 2018	Osaka City

Group Governance

Special Circumstances with a Possible Major Effect on Corporate Governance

PALTAC CORPORATION ("PALTAC"), which is one of the Company's subsidiaries, is listed on the Tokyo Stock Exchange, and is engaged in the Cosmetics, Daily Necessities, and OTC Pharmaceutical Wholesale Business. As a subsidiary, while it coordinates with other subsidiaries of the MEDIPAL Group that are engaged in the Prescription Pharmaceutical Wholesale Business in order to generate synergy, PALTAC independently and proactively studies and determines its own business strategies, HR policies, etc. The Company believes that from the standpoint of Group management, it is preferable for PALTAC to increase its corporate value by ensuring its independence, procuring its own financing, and aggressively developing its business based on swift decision making. For the time being, the Company plans to retain a majority of PALTAC's shares and maintain its position as a consolidated subsidiary, while ensuring appropriate governance in accordance with its percentage of voting rights.

Interview with an Outside Director

I would like to leverage my knowledge of corporate management to contribute to improving corporate value by balancing centripetal and centrifugal force



Toshio Asano
Outside Director

Career Background
Mr. Asano joined Asahi Kasei Corporation in 1975. After being appointed Representative Director and President, as well as Presidential Executive Officer of Asahi Kasei Pharma Corporation in 2010, he was again appointed Representative Director and President of Asahi Kasei Corporation in 2014. Mr. Asano provides objective advice, based on his rich experience and broad outlook as a corporate manager.

To be a Presence that Provides an Occasional Supportive Push Forward

The Company is a team that is rich in diversity, which links to continuous growth by balancing delegation of authority to companies on the front lines (centrifugal force) with group governance (centripetal force). The Company is currently investing actively in businesses overseas, and it is further leveraging centrifugal force to expand its businesses. However, generally speaking, the more you apply centrifugal force, the more you increase the risk to group governance. Amid these circumstances, I plan to fulfill my function of supervising corporate management fully, from an independent standpoint that is not bound by internal shackles. This is the number-one role of an outside director. I also have experience striving to tackle a wide range of challenges as a corporate manager, including developing new businesses. I would like to use the knowledge I have gained to help increase the corporate value of the Company, by being a presence who provides management with an occasional supportive push forward.

An Ethical Viewpoint Has a Major Impact on Corporate Value

I feel very strongly that the Company's "ethical viewpoint" is fundamental to its long-term corporate value. Because the Company supports peoples' lives and livelihoods, the lack of an ethical viewpoint would be fatal. A problem in this area could erase the equivalent of a decade or more of profits, in an instant. That is why it is impossible to pursue profits without taking ethical viewpoint, even if policies to control healthcare costs become stronger. Furthermore, the MEDIPAL Group's "ethical viewpoint" is tied to its sense of mission of wanting to be of service to its customers and suppliers, and invisibly creates value for the Company. It not only helps risk management, but also powers growth. It is truly the other side of the coin from centripetal force. Education regarding an "ethical viewpoint" is continuously repeated in all activities, and management and worksites also hold frequent dialogs. I believe that this thoroughness is an extremely laudable part of the Company's group governance, and I strive to prevent centrifugal force from diluting this most important area.

Ensuring a High Level of Effectiveness of the Board of Directors

At the Company, top management is exercising its leadership to accelerate investment in growth. However, the Board of Directors of the Company decides matters after vigorous discussions, without hesitation, after first listening to feedback from outside the Company, including from us. Furthermore, the Board of Directors provides those of us from outside the Company with very kind and detailed briefings ahead of important discussions. Before attending Board of Directors meetings, I take particular care to look into the background of each proposal and check to determine whether it has been thoroughly discussed within the Company. By taking advantage of my perspective as an outsider, I feel that a high level of effectiveness of corporate governance is ensured, as a framework for transparent, fair, and resolute decision making.

Future challenges include a succession plan, as well as a Nomination and Compensation Committee. However, adopting these will have no meaning if the Company simply follows the crowd, or introduces them in name only. The Company strives for continuous growth by balancing centripetal with centrifugal force, and I think that the Company should discuss how incorporate these forces in a way that is suited to the Company's organizational management.

Management Team (as of October 1, 2018)

Members of the Board



Representative Director, President and CEO

Shuichi Watanabe

1979 Joined KURAYA CORPORATION (Currently, the Company)
1990 Director of KURAYA CORPORATION
1994 Managing Director of KURAYA CORPORATION
2000 Director of KURAYA SANSEIDO Inc. (Currently, the Company)
2004 President and Chief Executive Officer of KURAYA SANSEIDO Spin-off Preparation Inc. (Currently, MEDICEO CORPORATION)
2007 Managing Director of Mediceo Paltac Holdings Co., Ltd. (Currently, the Company)
2008 Senior Managing Director of Mediceo Paltac Holdings Co., Ltd.
2011 Representative Director, Executive Vice President of the Company
2012 Representative Director, President and CEO of the Company (Current)
Representative Director, Chairman of MEDICEO CORPORATION (Current)

Reason for selection
Mr. Watanabe has led the management of the MEDIPAL Group as Representative Director, President and CEO of the Company, has appropriately run the Board of Directors as Chairman, and has appropriately overseen the operational execution of the Directors. Based on the 2019 MEDIPAL Medium-Term Vision formulated in July 2016, he has pushed even more strongly for the transformation of existing businesses and creation of new businesses, and has worked to expand our earnings base and achieve sustainable growth. The Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.



Senior Managing Director

Yasuhiro Choufuku

In charge of Pharmaceutical Sales

1977 Joined Sanseido Co., Ltd. (Currently, the Company)
2004 Executive Officer of KURAYA SANSEIDO Inc. (Currently, the Company)
2007 Director of Mediceo Paltac Holdings Co., Ltd. (Currently, the Company)
2009 Director of MEDICEO CORPORATION
2010 Managing Director of MEDICEO CORPORATION
2012 Representative Director, President and CEO of MEDICEO CORPORATION (Current)
In charge of Pharmaceutical Sales of the Company (Current)
2016 Senior Managing Director of the Company (Current)

Reason for selection
Mr. Choufuku has deep insight in the Pharmaceutical Business segment, which is one of the core business segments of the MEDIPAL Group, and has been involved in operational execution as Representative Director, President and CEO of the MEDIPAL subsidiary, MEDICEO CORPORATION. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.



Senior Managing Director

Toshihide Yoda

In charge of IR and General Manager of Business Development Department

1985 Joined Nippon Kangyo Kakumaru Securities Co., Ltd.
1989 Joined UBS Securities Japan Co., Ltd.
1996 Joined Ing Barings Securities (Japan) Limited
2000 Joined Lehman Brothers Japan Inc.
2008 Joined Barclays Capital Japan Limited
Managing Director of Barclays Capital Japan Limited
2010 Director of the Company
2012 Managing Director of the Company
In charge of IR and General Manager of Business Development Department (Current)
2016 Director of SPLine Corporation (Current)
Director of MEDIE Co., Ltd. (Current)
Director of MEDICEO CORPORATION (Current)
2018 Director of JCR USA, Inc. (Current)
Senior Managing Director of the Company (Current)

Reason for selection
Mr. Yoda has utilized the insight he developed as a pharmaceuticals industry analyst in the financial industry to the fullest extent. Due to his steady progress in driving the creation of new business for the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.



Managing Director

Yuji Sakon

General Manager of Administration Division, Chairman of CSR Committee

1977 Joined Sanseido Co., Ltd. (Currently, the Company)
2008 Executive Officer of KURAYA SANSEIDO Inc. (Currently, MEDICEO CORPORATION)
2012 Executive Officer of the Company
Director of the Company
Chairman of CSR Committee (Current)
2013 General Manager of Administration Division of the Company (Current)
2016 Director of ASTEC Co., Ltd. (Current)
2017 Director of MM CORPORATION (Current)
2018 Manager, Corporate Planning and Public Relations Department, Administration Division of the Company
Senior Managing Director (Current)

Reason for selection
Mr. Sakon has a thorough knowledge of the MEDIPAL Group's operations, and has worked in his role as the General Manager of the Administration Division of the Company to ensure the sound governance of the MEDIPAL Group, while leveraging his management insight and extensive experience. The Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.



Director

Takuro Hasegawa

In charge of Liaison

1987 Joined Osuido Pharmaceuticals Co. Ltd. (Currently, EVERLTH Co., Ltd.)
1990 Director of Osuido Pharmaceuticals Co. Ltd. (Currently, EVERLTH Co., Ltd.)
1991 Director of OAK Yakuhin Co., Ltd. (Currently, EVERLTH Co., Ltd.)
1997 Director of EVERLTH Co., Ltd.
2004 Director of MEDICEO CORPORATION (Currently, the Company) (Current)
2009 Director of EVERLTH Co., Ltd.
2011 Representative Director, President and CEO of EVERLTH Co., Ltd. (Current)
2012 In charge of Liaison of the Company (Current)

Reason for selection
Mr. Hasegawa has worked to create connections with the industry groups to which the MEDIPAL Group belongs, and has been involved in operational execution as the Representative Director, President and CEO of the MEDIPAL subsidiary, EVERLTH Co., Ltd. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.



Director

Shinjiro Watanabe

General Manager of Information Systems Management Division and Manager of Drug Dispensing System Development Department

2008 Joined ATOL CO., LTD.
2009 Director of ATOL CO., LTD.
2013 Representative Director, President and CEO of ATOL CO., LTD. (Current)
Director of the Company (Current)
2016 In charge of the IT Business of the Company
2018 General Manager of Information Systems Management Division and Manager of Drug Dispensing System Development Department of the Company (Current)

Reason for selection
Mr. Watanabe has supervised the MEDIPAL Group's System, and has been involved in operational execution as the President and Representative Director of the MEDIPAL subsidiary, ATOL CO., LTD. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director and contribute to further increases in the corporate value of the Company.

Executive Officers

Senior Managing Executive Officers

Tomohiko Kimura

Deputy General Manager of Business Development Department
Representative Director, President and CEO, MP AGRO CO., LTD.
Director, MEDIPAL FOODS CORPORATION

Hiroshi Yarimizu

Manager, Corporate Planning and Public Relations Department, Administration Division
Director, ATOL CO., LTD.

Managing Executive Officers

Masaaki Shimizu

Manager of Secretarial Office, Administration Division
In charge of Industry Group

Masanori Kawahara

Representative Director and Vice President, OrphanPacific, Inc.



Director
Kunio Ninomiya

1978 Joined Paltac Corporation (Currently, PALTAC CORPORATION)
2004 Executive Officer, General Manager of Merchandise Headquarters of PALTAC CORPORATION
2008 Managing Executive Officer, General Manager of Chugoku Branch Office of PALTAC CORPORATION
2010 Senior Managing Executive Officer, General Manager of Kinki Branch Office of PALTAC CORPORATION
2012 Director, Senior Managing Executive Officer, General Manager of General Affairs Headquarters of PALTAC CORPORATION
2014 Director, Vice President, Executive Officer, General Manager of West Japan Sales Headquarters, and General Manager of Merchandise Headquarters of PALTAC CORPORATION
2015 Director, Vice President, Executive Officer, Director of Sales Headquarters of PALTAC CORPORATION
2016 Director of the Company (Current)
2017 Representative Director, Vice President, Executive Officer of PALTAC CORPORATION
2018 Representative Director, President, COO of PALTAC CORPORATION (Current)

Reason for selection
Mr. Ninomiya has extensive experience in the Cosmetics, Daily Necessities, and OTC Pharmaceutical Wholesale Business, which is one of the core businesses of the MEDIPAL Group, and has been involved in operational execution as Representative Director, President of the MEDIPAL subsidiary, PALTAC CORPORATION. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will perform his duties as Director and contribute to further increases in the corporate value of the Company.



Outside Director
Toshio Asano

1975 Joined Asahi Kasei Corporation
2003 Executive Officer of Asahi Kasei Pharma Corporation
2008 Director and Senior Executive Officer of Asahi Kasei Pharma Corporation
2010 Representative Director, President, Executive Officer of Asahi Kasei Pharma Corporation
2011 Executive Officer of Asahi Kasei
2014 Representative Director, President, Executive Officer of Asahi Kasei
2016 Director of Asahi Kasei
Permanent Consultant at Asahi Kasei (Current)
Advisor at the Company
Outside Director of Maruho Co., Ltd. (Current)
2017 Outside Director of the Company (Current)

Reason for selection
Mr. Asano has served as Representative Director, President of Asahi Kasei Pharma Corporation and Asahi Kasei Corporation, and uses his extensive experience and broad-ranging knowledge related to company management to provide valuable, objective, expert-level opinions and appropriate advice to the Board of Directors. We therefore find him suitable as an outside director.



Outside Director
Mitsuko Kagami

1985 Tokyo District Court assistant judge
1988 Akita District Court and Family Court assistant judge
1991 Yokohama District Court assistant judge
1995 Registered as Attorney-at-Law
1998 Part-time Lecturer at Faculty of Law of Keio University
2000 Part-time Lecturer at Faculty of Law of Toin University of Yokohama
2004 Professor of Keio University Law School
2007 Part-time lecturer of Keio University Law School
2014 Director of the Company (Current)
2015 Outside Director of Sotetsu Holdings, Inc. (Current)

Reason for selection
Ms. Kagami uses the extensive experience she has accumulated as an attorney and her specialized knowledge regarding corporate law to provide opinions from a broad-ranging perspective to the Company's Board of Directors, and will continue to reflect her knowledge in the Company's business management. We therefore find her suitable as an outside director. Although she has no previous experience regarding company management, for the above reasons, we also believe that she can appropriately perform the duties of an outside director.



Outside Director
Kuniko Shoji

1977 Joined Mochida Pharmaceutical Co., Ltd.
1986 Joined Johnson & Johnson K.K.
2002 Joined Terumo Corporation
2004 Executive Officer of Terumo Corporation
2007 Senior Executive Officer of Terumo Corporation
2010 Director and Senior Executive Officer of Terumo Corporation
2017 Director and Corporate Advisor of Terumo Corporation
Corporate Advisor of Terumo Corporation
2018 Independent Director of Nichirei Corporation (Current)
Outside Director of the Company (Current)

Reason for selection
Ms. Shoji has served as a director at Terumo Corporation, and has also been responsible for its pharmaceutical and clinical development departments. The Company expects that the extensive experience and specialized knowledge that this has provided her with will contribute to the supervision of the Company's business management, and believes that she is suitable as an outside director.

Audit & Supervisory Board Members



Full-time Audit & Supervisory Board Member
Akira Kise
Audit & Supervisory Board Member, MEDICEO CORPORATION



Full-time Audit & Supervisory Board Member
Toshio Hirasawa
Audit & Supervisory Board Member, MEDICEO CORPORATION, MP AGRO CO., LTD., and MEDIPAL FOODS CORPORATION



Outside Audit & Supervisory Board Member
Sachio Itasawa
Attorney-at-Law
Outside Audit & Supervisory Board Member, PILOT Corporation



Outside Audit & Supervisory Board Member
Tetsuo Kitagawa
Professor, Graduate School of International Management, Aoyama Gakuin University



Outside Audit & Supervisory Board Member
Tomoyasu Toyoda
Advisor, K.F. Planning Co., Ltd.
Audit & Supervisory Board Member, Nobelpharma Co., Ltd.

Executive Officers

Mitsuhiro Kyohgoku
Deputy General Manager of Administration Division (In charge of MEDICEO CORPORATION)
Director, MEDICEO CORPORATION
Director, ATOL CO., LTD.

Senjin Yanai
Deputy General Manager of Administration Division (In charge of EVERLTH Co., Ltd.)
Executive Officer, EVERLTH Co., Ltd.

Hisashi Tsutsui
Deputy General Manager of Administration Division (In charge of ATOL CO., LTD.)
Director, ATOL CO., LTD.

Tadashi Kashiwagi
Deputy General Manager of Information Systems Management Division

Kazuo Hashida
Manager of Finance & Accounting Department, Administration Division

Risk Management

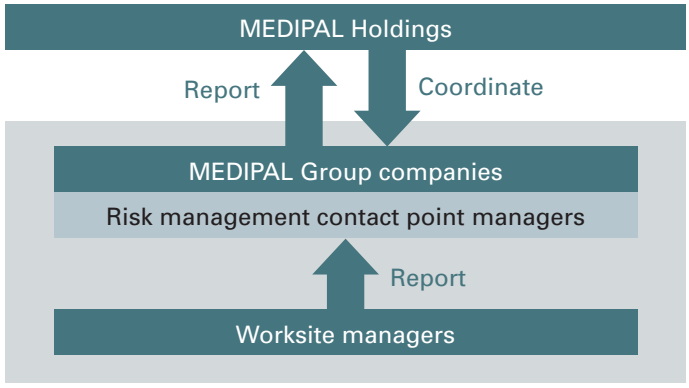


The MEDIPAL Group's risk management system includes the formulation of rules and guidelines, implementation of training, and creation of manuals, as well as activities to ensure thorough risk management awareness. Pre-appointed risk management officers take an active role when risks are forecast to become manifest, and have a significant impact on the MEDIPAL Group. The Group thoroughly prevents the involvement of antisocial forces in management activities by specifying a department that handles related matters under the leadership of the risk management officer, and implementing central management. With regard to the internal control reporting system for financial reporting, in accordance with the Financial Instruments and Exchange Act, each department has its own functions for maintaining and implementing internal control. Internal audit managers with the authority to perform monitoring are appointed, and they coordinate with the Group's internal auditing department to rapidly identify potential loss risks.

Risk Management Structure

Issues to be reported

- Compliance-related risks
  Legal and regulatory infractions
  Information leaks
  Internal fraud, etc.
- Risks related to natural disasters
- Other risks
  (issues which could have a significant impact on business activities)



Business risks

Matters with the potential to have a significant impact on investor decisions are as indicated below. Statements regarding the future represent the positions of the MEDIPAL Group in the fiscal year ended March 31, 2018.

About risks related to specific legal regulations, etc.

The MEDIPAL Group handles various types of pharmaceuticals and related products. Therefore, the Group conducts sales activities after receiving the necessary authorizations, registrations, designations and licenses from the local governments where business sites are located, pursuant to the Law for Ensuring the Quality, Efficacy and Safety of Drugs and Medical Devices and other laws. The business results of the Prescription Pharmaceutical Wholesale Business may be affected by the status of approvals and licenses issued by the competent authorities.

About medical system reform

In Japan, fiscal reconstruction is an urgent issue, and medical system reforms are being implemented as part of this. Depending on their content, these reforms may affect the business results of the Prescription Pharmaceutical Wholesale Business.

About NHI drug price standards

Prescription pharmaceuticals, the products handled by the Prescription Pharmaceutical Wholesale Business, are listed in the National Health Insurance (NHI) drug price standards, which stipulate the range of drugs that can be used in insured medical treatment and the billing prices of the drugs used. Therefore, the drug price standards act as a ceiling on selling prices. The prices set by the drug price standards are based on surveys of prevailing market prices and are generally revised every two years. Changes in these prices may affect the business results of the prescription pharmaceutical wholesale business.

About investment cost and unit selling prices

The MEDIPAL Group is expanding its competitive scale and scope. Increased investment costs associated with improvement and expansion of the distribution and information systems to handle this expansion or a larger than expected decrease in unit selling prices may affect business results.

About sales discontinuations, product recalls, etc.

Business results may be affected in the event of a situation such as the discontinuation of sales or recall of products due to factors such as unforeseen side effects or tampering with products sold.

About system trouble

The business operations of the MEDIPAL Group are heavily reliant on computer network systems. Discontinuation of functions due to a natural disaster, accident, intrusion of a computer virus or other occurrences may result in significant obstacles to sales and product distribution.

About default risk

Business results may be affected in the event that a default occurs due to the bankruptcy or civil rehabilitation, etc. of customers, in regard to the credits associated with ongoing transactions that the MEDIPAL Group conducts with such customers.

About merchandise inventory risk

Business results may be affected in the event that merchandise inventory held by the MEDIPAL Group declines in value or becomes unsaleable due to the bankruptcy or civil rehabilitation, etc. of suppliers.

About risks to financial condition and business performance from tie-ups, etc.

The MEDIPAL Group goes through ample and careful deliberation in forming business tie-ups and other partnerships. However, the Group's financial condition or business performance could be affected if the tie-up or other partnership is unable to proceed as originally planned as a result of these measures.

About litigation risk

The MEDIPAL Group may be a party to litigation requesting payment of damages in the course of conducting business activities.

About accident and disaster risk

The MEDIPAL Group has established crisis management systems and backup systems to prepare for natural disasters such as earthquakes and typhoons, an outbreak of a new strain of influenza, or other such events. However, if the Group's business operations are suspended in the event of a large-scale natural disaster, the Group's business performance could be affected due to decreased sales resulting from lost sales opportunities or an increase in recovery costs or other expenses.

About environmental risk

The MEDIPAL Group conducts environment-conscious business operations while complying with related laws and regulations, and promotes re-use of resources, reduction of carbon dioxide and other such measures. However, further changes in the environment in the future or changes in environmental laws and regulations could affect the Group's business performance due to increased costs of environmental measures or other factors.

About risk of information leaks

In storage of information assets held by the MEDIPAL Group, including customer information and confidential information, the Group works to maintain a management system to prevent information from leaking to parties outside the Group. However, if such an information leak occurs due to unforeseen circumstances, it could affect the Group's business performance due to a decrease in public trust or an increase in expenses.

Various risks other than these exist, and the risks described here are not all of the risks of the MEDIPAL Group.



The MEDIPAL Group has designated "rigorous compliance" as one of its business policies. In order to earn the trust of all of our stakeholders and continue to develop as a company, we consider it important for each and every MEDIPAL Group employee to respect not only the law, but also the rules and sensibilities of society, and to act in a highly ethical manner. Accordingly, the MEDIPAL Group takes ongoing steps to raise employee consciousness, in this regard.

Systems

In order for the MEDIPAL Group to remain a sound corporate group, it has defined a basic internal control policy based on the Japanese Companies Act, and coordinates with Group companies to build and maintain internal controls. In addition, the Group's internal control reporting system for financial reporting, in accordance with the Financial Instruments and Exchange Act, handles companies for which financial reporting is required, and strives to appropriately disclose information.

Whistleblowing System

In order to more rapidly identify and address problems within the MEDIPAL Group, on April 1, 2006, the Group established a Whistleblower Hotline, and protects whistleblowers while working to resolve various problems. The Group has established whistleblowing contact points both inside and outside of the Group, in order to make it easier for people to consult regarding issues.

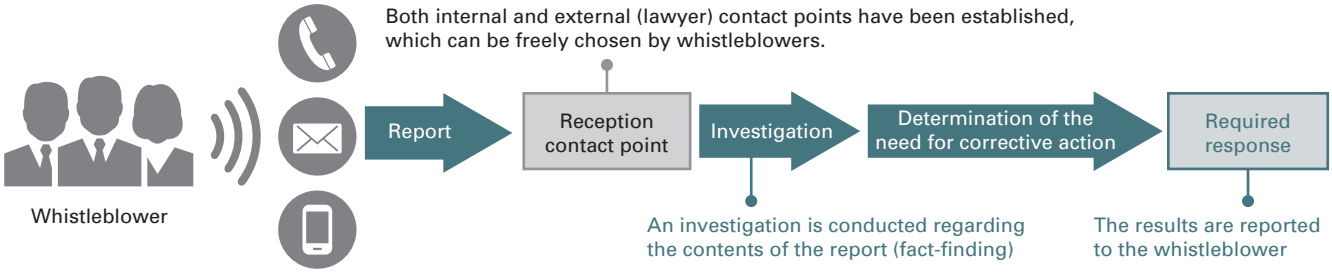
Approach toward Bribery Prevention

The MEDIPAL Group strictly prohibits all supplying of economic benefits by Group companies or third parties to civil servants, regardless of the amount, as improper inducements to maintain business, acquire new business, or receive other business benefits. All Group companies have formulated bribery prevention regulations.

Furthermore, in order to ensure a thorough awareness of publicly reported bribery issues and the thorough prevention of bribery, the Group strives to carry out training for employees, such as mandating all employees to complete online training (including video) regarding bribery once per year.

Whistleblower Hotline response process

The privacy of whistleblowers is strictly protected. Whistleblowers are subject to no adverse treatment.



Pharmaceutical Affairs Management



The MEDIPAL Group considers it its social mission to comply with pharmaceutical laws and regulations such as the Pharmaceutical and Medical Device Act, and to distribute safe, reliable prescription pharmaceuticals and medical equipment, etc. In order to accomplish this mission, we strive to implement thorough pharmaceutical affairs management, from product receipt to delivery to medical institutions, etc., to secure the efficacy, safety, and quality of delivered products.

Systems

In its management of the quality of the storage and distribution of pharmaceuticals, medical equipment, etc., the MEDIPAL Group complies with ministerial ordinances issued by the Ministry of Health, Labour and Welfare regarding prevention of the distribution of counterfeit drugs, as well as JGSP* and JGSP2008*. The Group creates manuals regarding logistics operations and supervising pharmacist operations, etc., and aims to develop appropriate storage systems and distribution systems based on these manuals.

* JGSP (Japanese Good Supplying Practice = practices regarding quality management and safety management in the supply of pharmaceuticals): Industry practices defined by The Federation of Japan Pharmaceutical Wholesalers Association in order to protect the safety of products and prevent their degradation due to temperature, humidity, sunlight, etc., during storage, shipping, and transport. JGSP applies to prescription pharmaceuticals, while JGSP2008 applies to over-the-counter pharmaceuticals. Many pharmaceutical storage warehouses now manage warehouse operations and transport in accordance with JGSP and JGSP2008.

Education System

The MEDIPAL Group offers training to marketing specialists and pharmacists on an ongoing basis, in order to cultivate the knowledge and qualifications necessary to appropriately gather and supply information regarding pharmaceuticals and medical equipment (20 hours per year; 60 hours per year for new employees).

For marketing specialists, we provide training and education through branch pharmacists regarding not only the efficacy of pharmaceuticals, but also the pathophysiology necessary to understand them, as well as related laws and regulations, such as the Pharmaceutical and Medical Device Act. We also have developed an environment that enables individual study through online training.

In addition, we regularly hold training sessions for pharmacists using highly specialized scientific resources in order to promote enlightenment and information sharing.

Why counterfeit drugs are not a growing concern in Japan

The spread of counterfeit drugs is becoming a severe problem worldwide.

However, there is no room for counterfeit drugs to enter the Japanese drug market.

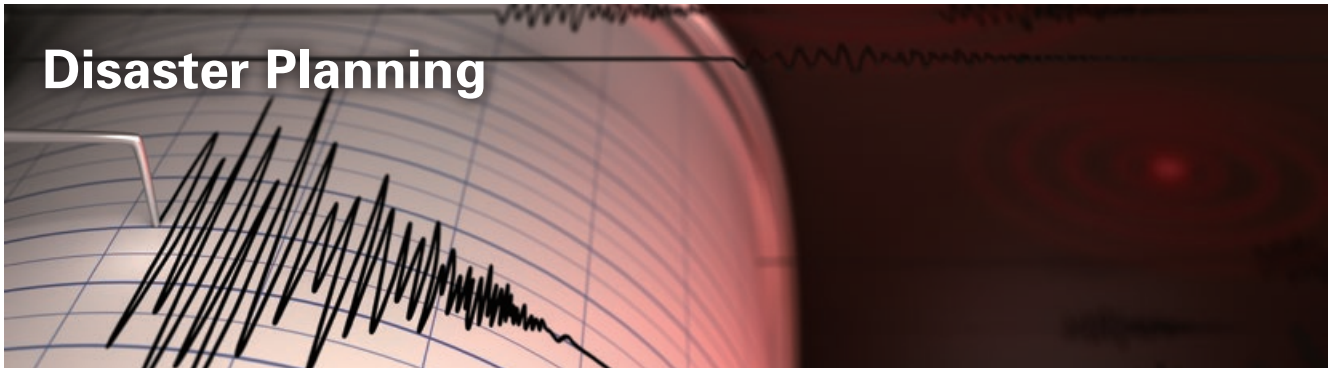
The main reasons for this are the development of laws (the Pharmaceutical and Medical Device Act, etc.) and compliance with these laws, as well as the fact that nearly all prescription pharmaceutical distribution (roughly 96%) is performed by pharmaceutical wholesalers.

The existence of wholesalers (1) simplifies distribution channels, (2) makes it possible to handle everything from purchase to delivery in-house, and (3) creates close relationships with all clients: pharmaceutical companies, medical institutions, and dispensing pharmacies.

High quality distribution is the key factor in preventing the spread of counterfeit drugs, and investment in such distribution is essential. In that sense, the Japanese pharmaceutical wholesale industry is also responsible for safety and social costs.

The MEDIPAL Group conducts lot traceability management, and employs a system that allows it to determine what has been sold, when, to whom, and in what quantities.

In the event of a voluntary product recall by a pharmaceutical company, this system allows the MEDIPAL Group, at the pharmaceutical company's request, to rapidly provide information to the medical institutions and other customers to whom the products have been sold, and recall those products.



Disaster Planning

The MEDIPAL Group anticipates various risks, and has drafted an effective Business Continuity Plan (BCP) that allows it to provide a steady supply of products, even in the event of large-scale natural disasters such as earthquakes and pandemics, equipping the Group to fulfill its role as a social infrastructure company.

Natural disaster risk countermeasures

In 2000, the MEDIPAL Group created a Disaster Response Manual (for Natural Disasters) that contains specific content regarding envisioned disaster damage, preparatory measures, operations in the event of a disaster, emergency organization structures, and the like, and has thoroughly informed all employees regarding the manual's contents. The manual was partially revised following the Great East Japan Earthquake.

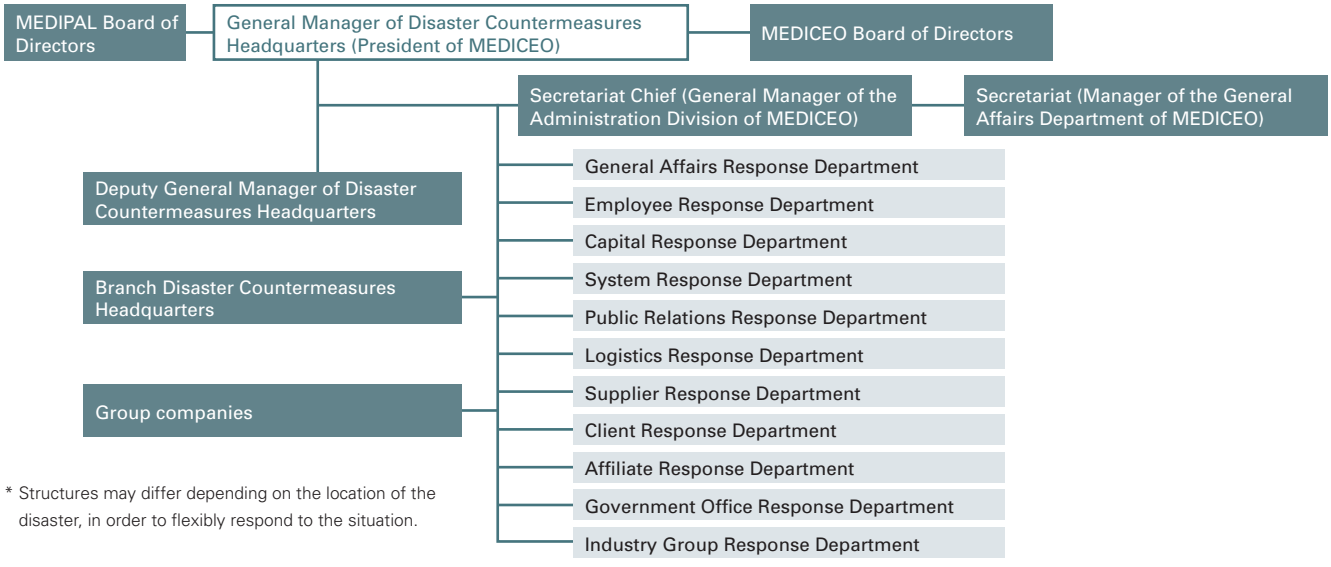
In the event of an earthquake with a seismic intensity of 6-lower or above, the Group immediately establishes the MEDIPAL Group Disaster Response Headquarters. This headquarters rapidly confirms the safety of Group company employees and their families in the affected areas, as well as the extent of damage to buildings, systems, and the like, and the state of lifelines. It also leads various response activities aimed at the business continuity.

Countermeasures against pandemics involving new strains of influenza

Highly virulent outbreaks of avian influenza occur frequently in Japan, and there are concerns regarding the possibility of a human pandemic of avian influenza. The MEDIPAL Group has created a Disaster Response Manual (for New Influenza Strains) and makes revisions, as necessary.

The MEDIPAL Group recognizes its role as a maintainer of social functions, and regards its social mission in the event of an outbreak of a new strain of influenza to include defining a response activity program, protecting the lives of employees and their families, maintaining a steady supply of pharmaceuticals, etc., and doing its utmost to support the disaster medical responses of medical institutions.

Disaster countermeasures headquarters example - Headquarters established by MEDICEO (Great East Japan Earthquake)



* Structures may differ depending on the location of the disaster, in order to flexibly respond to the situation.

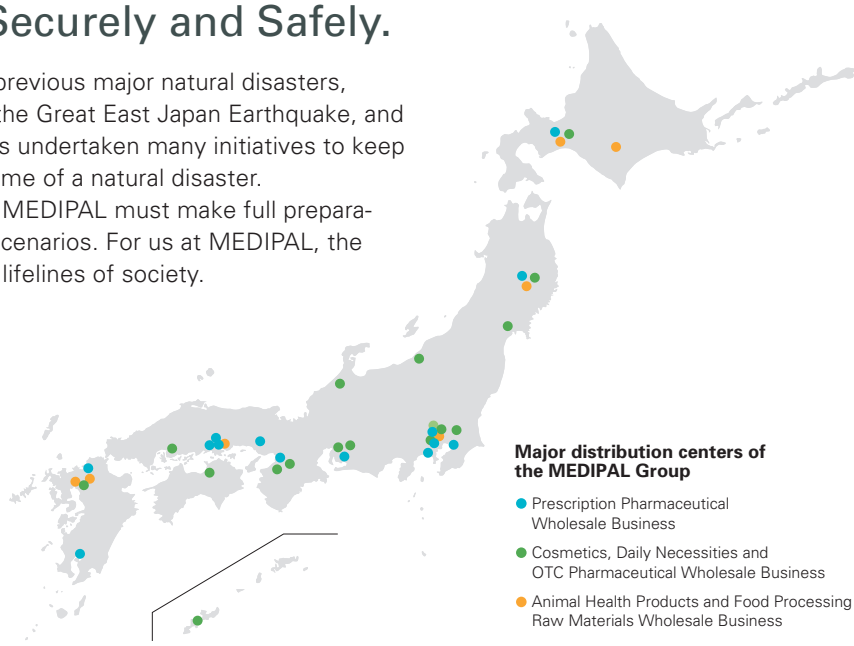
MEDIPAL's Mission in This Country Is to Deliver Pharmaceuticals Securely and Safely.

The MEDIPAL Group has gained experience in previous major natural disasters, including the Great Hanshin Awaji Earthquake, the Great East Japan Earthquake, and the series of earthquakes in Kumamoto, and has undertaken many initiatives to keep distribution channels in operation, even at the time of a natural disaster.

Because Japan is a land of natural disasters, MEDIPAL must make full preparations for dealing with a wide range of disaster scenarios. For us at MEDIPAL, the delivery of pharmaceuticals is a vital part of the lifelines of society.

BCP

The pharmaceuticals, daily necessities, and other items that MEDIPAL distributes are all essential for people to lead healthy lives. We believe that providing stable supplies of these items is the social mission of the MEDIPAL Group. For this reason, MEDIPAL has prepared disaster response manuals for dealing with major natural disasters, pandemics, and other contingencies. The specific activities and procedures to follow in such times of emergency are stated in these manuals.



Preparedness measures for times of emergency



To prepare for times when public transportation and transportation networks are cut off, motorcycles are kept ready at distribution centers and elsewhere. At times when roads to some areas have become blocked, motorcycles prove to be an important means of delivering pharmaceuticals.

In-house power generators



MEDIPAL's principal business locations, including the Head Office and distribution centers, are equipped with in-house electric power generators. Even in times of disaster, MEDIPAL is prepared to provide stable supplies of pharmaceuticals and other products.

In-house fueling stations



Based on our experience during times when gasoline was in short supply due to disasters, MEDIPAL's principal distribution centers are equipped with their own fuel supplies.

Seismic isolation structure



Distribution centers and other buildings are designed to have high earthquake resistance, in order to prevent products from falling from shelves and becoming damaged during disasters, and to prevent our distribution facilities from becoming inoperative.

Disaster cooperation with the Self-Defense Forces and local governments



MEDIPAL has signed pharmaceutical supply contracts with local governments and Japan's Self-Defense Forces, and periodic training drills are conducted during non-disaster times.

Organizational systems for dealing with disasters



In cases where an earthquake with a seismic intensity of 6-lower or higher occurs, the MEDIPAL Group Disaster Response Headquarters immediately goes into action.

The system developed by the MEDIPAL Group for providing deliveries in the event of a disaster was introduced in "Building National Resilience – Private Sector Initiative Case Studies," which was issued by the Cabinet Secretariat to assist with disaster planning. For details, please see the URL below.
http://www.cas.go.jp/jp/seisaku/kokudo_kyoujinka/minkan_torikumi/pdf/2043.pdf

Information Management



The MEDIPAL Group handles a variety of information, most notably the personal information of our clients. Managing and safeguarding this information is also an important social responsibility for the Group. In addition to taking measures to protect our systems and other hardware, we consider it important to educate the employees who handle information. In this manner, we take a range of precautions, on both the hardware and software sides, to ensure the rigor of our information management.

Policies and Systems

As a standard for information management, the MEDIPAL Group has established a Group-wide Information Security Policy. To ensure thorough information management, it has created an internal system, which is headed by the Chief Information Officer, with managers and personnel in each section.

Education System

The MEDIPAL Group considers the mentality of each and every employee who handles information to be the most critical element of information management. Accordingly, we raise awareness regarding information management by providing information security education through online training, etc. twice per year, periodically having employees carry out the "Information Security Oath," which consists of key points of note regarding the handling of information, and utilizing our internal network.

Initiatives for Information Protection

The MEDIPAL Group implements security measures to protect information and prevent its leakage, such as deploying antivirus measures and countermeasures against unauthorized access, and encrypting data on mobile computers in all Group companies.

Cyberterrorism countermeasures

Our cyberterrorism countermeasures include identifying suspicious email, blocking access to suspicious sites, using antivirus software, and keeping software updated to the most current versions. Furthermore, in order to deal with cases in which an attack breaks through these measures and attempts to steal data, we use counter-cyberterrorism software that monitors our systems 24 hours per day and immediately disconnects compromised systems, preventing data leakage.

Our countermeasures are not limited to these border measures. We also caution and provide warnings to employees as necessary, and foster an enhanced awareness of information security through periodic awareness-raising activities.



Respect for Human Rights

We respect the fundamental human rights of all persons, starting with our employees. Accordingly, we are striving to build a corporate culture of mutual acceptance. By creating an environment where all employees can demonstrate their individual strengths to the fullest, we increase the Group's vitality, and enable each employee to do their job with pride and satisfaction.

Personnel Development Measures

As expressed in the saying, "A company is its people," employee growth is essential for improving corporate value. One of the MEDIPAL Group's management policies is to "faithfully create a free, open-minded corporate culture, and train creative personnel," and we are actively and continuously engaged in the development of our personnel.

Training system

In order to train creative personnel, the MEDIPAL Group regularly provides level-specific training to department managers, section managers, etc. We also provide opportunities for personal development through a correspondence course that is available to all Group employees.

Personnel development measure	Objectives
New employee education	Provide employees with the basic conduct and knowledge needed as employees of the MEDIPAL Group, corporate employees, and members of society
Junior and mid-career employee training	Improve employee motivation and provide the knowledge and skills necessary to carry out business duties
Executive training	Provide executives with knowledge regarding management and personnel development
Correspondence course	Promote the improvement of skills, according to individual career development needs

Next generation leader development

The MEDIPAL Group invites outside instructors to provide education and training, with the aim of developing personnel who are open-minded, creative, and capable of formulating and implementing Group-wide strategies from a medium- to long-term perspective. Participants in this education and training have, through repeated discussions, developed new business plans, presented these plans to management personnel, and had their plans put into actual operation. This program has been held on an ongoing basis since 2011, and has been attended by a total of 62 employees (as of March 31, 2018).

Pleasant Working Environments

The MEDIPAL Group creates workplace environments in which employees can work without sacrificing their own lifestyles and values, and provides support to help them lead healthy, fulfilling lives, both mentally and physically.

Appropriate work management

The MEDIPAL Group has "No Overtime Days," etc., and encourages employees to leave at the end of their scheduled work hours. We believe that this increases the time they can spend with their families, and on their own hobbies and studies, and promotes a better work-life balance, while enabling them to work more systematically and efficiently, improving the quality of their work.

Workstyle optimization

We strive to create workplace environments in which it is easy for employees to use various systems (the childcare and nursing care leave systems, the childcare shift system, the short shift system, and the caregiving leave system), so that employees can achieve work-life balance in every life stage, managing their work and lifestyles themselves, and experiencing joy and fulfillment in their work.

Protecting physical and mental health

As a distribution group that supports the pharmaceutical, health, and beauty fields, the health of our employees is paramount. The MEDIPAL Group actively carries out initiatives to maintain both the physical and mental health of our employees.

The MEDIPAL Group provides regular health checkups for employees, to detect any illness early and to maintain and improve wellness.

In addition, the Group is dedicated to protecting the mental health of our employees, provides mental health education and performs awareness-raising activities at all Group companies, and has established an EAP Hotline*.

* EAP (Employee Assistance Program) Hotline: Consultation point that enables employees to consult with specialized counselors regarding a wide range of work-related and private concerns and worries.

Japan Health Master Exam

The Japan Health Master Exam, which has been administered since 2017 by the Japan Healthy Lifestyle Promotion Association, is promoting healthier business operation, and an increasing number of companies and local governments are engaging in efforts aimed at receiving certification. In the MEDIPAL Group, employees are taking the exam's expert course in order to improve their health literacy and contribute to society.

Thus far, at total of 3,727 employees have passed the exam (as of September 30, 2018).

健康マスター

Company tours

In response to a suggestion made via a CSR Post (see P. 52), we have begun offering company tours of Group company logistics centers and other workplaces to the family members of employees. These company tours provide valuable opportunities for family members to gain a better understanding of the work at the MEDIPAL Group, and contribute to the creation of more pleasant working environments.



MEDICEO CORPORATION



ATOL CO., LTD.

Companies offering tours:
MEDICEO CORPORATION,
ATOL CO., LTD.

Diversity Initiatives

The MEDIPAL Group has 120 years of history, reaching back to its founding in 1898. Since April 2000, a total of 24 companies have merged, and we have achieved continuous growth through expansion and innovation. The MEDIPAL Group has employees from a range of corporate cultures and with various experiences, providing it with a foundation that contributes to its efforts to promote diversity.

Employment diversification

The MEDIPAL Group uses various employment activities to invigorate the Group, as a whole. Through hiring categories such as new graduate hiring, mid-career hiring, hiring of employees with disabilities, and rehiring of employees who have reached retirement age, we are leveraging the uniqueness and strengths that each employee can provide. The average rate of employment of persons with disabilities in the MEDIPAL Group is 2.1% (as of August 2018), and we are continuing our efforts to actively hire and promote work activities by persons with disabilities.

Promotion of women's workplace participation

As a distribution group that supports the pharmaceutical, health, and beauty fields, the perspectives of women are indispensable. The ratio of female employees in the MEDIPAL Group is rising, and we aim to create workplaces that are more accommodating to women, through efforts such as workstyle optimization. This will contribute to our ability to provide an even greater level of service to customers.

Ratio of female employees in the MEDIPAL Group

March 31, 2017	March 31, 2018
27.6%	29.6%

* Included companies: MEDIPAL HOLDINGS CORPORATION, MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION, MP AGRO CO., LTD., MEDIPAL FOODS CORPORATION

The number of female department managers, section managers, and assistant managers has also risen compared to last year; however, the promotion of female employees remains an ongoing issue for the Group, and we are continuing our efforts in this area.

Number of female management level personnel in the MEDIPAL Group

	March 31, 2017	March 31, 2018
Director	3	3
Department Manager	7	8
Section Manager	64	69
Assistant Manager	85	89

* Included companies: MEDIPAL HOLDINGS CORPORATION, MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION, MP AGRO CO., LTD., MEDIPAL FOODS CORPORATION
* Two directors in MEDIPAL HOLDINGS and one in PALTAC

Women are also active as marketing specialists in MEDIPAL Group companies. As many women are working at medical institutions, these marketing specialists use their unique perspectives in their sales activities. We will continue to actively appoint female marketing specialists.

Human Rights Protection Initiatives

Establishment of a sexual harassment and interpersonal relations hotline

We have established a hotline that employees can use for consultations regarding sexual harassment, power harassment, gender harassment, interpersonal relations issues, and other workplace problems, in order to protect the human and working rights of our employees, and contribute to smoother work operations.

Development of harassment prevention regulations

In accordance with revisions to the Equal Employment Act and the Child Care and Family Care Leave Act (enacted on January 1, 2017), Group companies have established the necessary regulations for preventing sexual harassment, maternity harassment, and other forms of harassment in the workplace.



Environmental Conservation Initiatives

As a Group that contributes to human health, we strive to reduce greenhouse gas emissions and promote the appropriate disposal of waste, with the aim of preventing global warming and creating a recycling-oriented society.

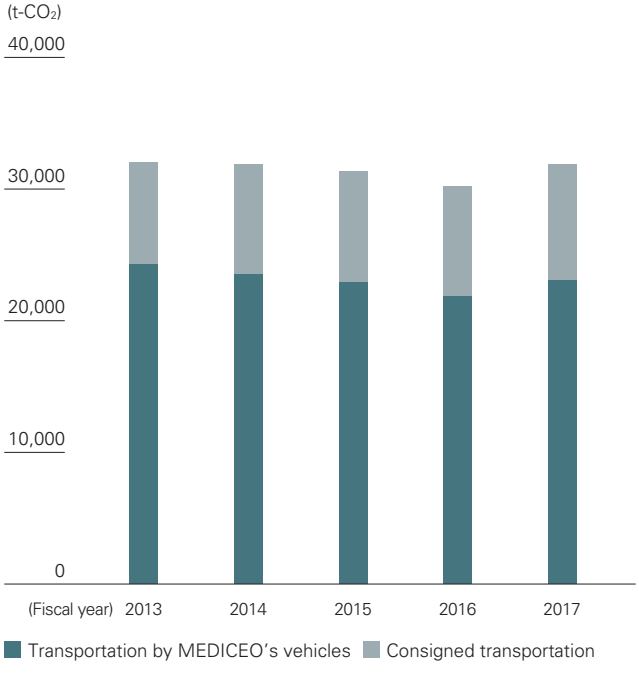
Efforts for Reducing CO_2 Emissions, Cutting Power Usage, and Preventing Global Warming

Emissions related to transportation

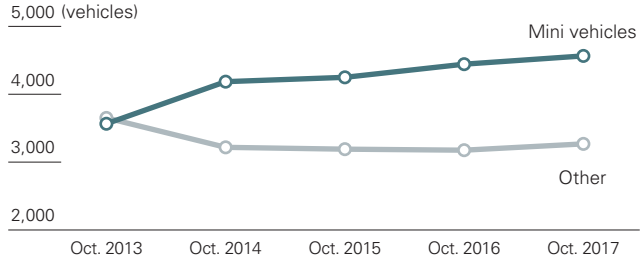
MEDICEO CORPORATION is designated as a specified consigner and specified freight carrier under the Energy Saving Act*, and tabulates the CO_2 emissions produced by its fleet of vehicles and consigned transport activities. The launch of Saitama ALC caused CO_2 emissions in fiscal 2017 to increase by 1,652 t-CO_2, compared with the previous fiscal year. In addition, the expansion of MEDICEO business functions resulting from the launch of Saitama ALC also increased our fleet size to 7,828 vehicles. However, we introduced highly fuel efficient mini vehicles with low environmental impact, and are working to prevent large increases in CO_2 emissions per fleet vehicle.

* Act on Rationalizing Energy Use

CO_2 emissions resulting from transportation (MEDICEO CORPORATION)



Number of mini vehicles in the fleet



* Included companies: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION

CO_2 emissions resulting from fleet vehicles

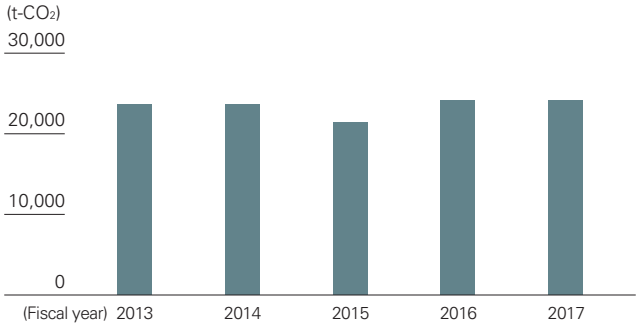
	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Amount of fuel (kl)	11,996	12,008	12,014	11,939	12,431
CO_2 emissions (t-CO_2)	27,851	27,879	27,892	27,718	28,862
Number of vehicles (as of October)	7,210	7,397	7,434	7,613	7,828
Emissions per vehicle (t-CO_2)	3.86	3.77	3.75	3.64	3.69

* Formula for calculating CO_2 emissions:
  Amount of fuel (kl) x 34.6 (GJ/kl: calorific value per unit) x 0.0183 (tC/GJ: emission coefficient) x 44/12
* Included companies: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION

CO_2 emissions from facilities

MEDICEO CORPORATION is a specified emitter under the Energy Saving Act, and tabulates the CO_2 emissions produced by its site facilities, such as ALC facilities. Its adjusted greenhouse gas emissions for fiscal 2017 were 22,105 t-CO_2, which is equivalent to its emissions during the previous fiscal year.

Total CO_2 emissions from facilities



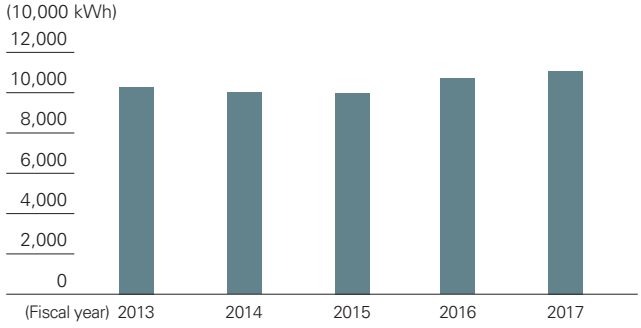
* Included companies: MEDICEO CORPORATION

Power usage

Each company in the MEDIPAL Group manages the power consumption amounts at its facilities. The main companies in the MEDIPAL Group used a total of 110,730,000 kWh of power in fiscal 2017.

MEDICEO CORPORATION installed demand monitoring devices in some of its buildings, in order to visualize power usage and reduce maximum demand power, etc.

Power usage of the entire Group



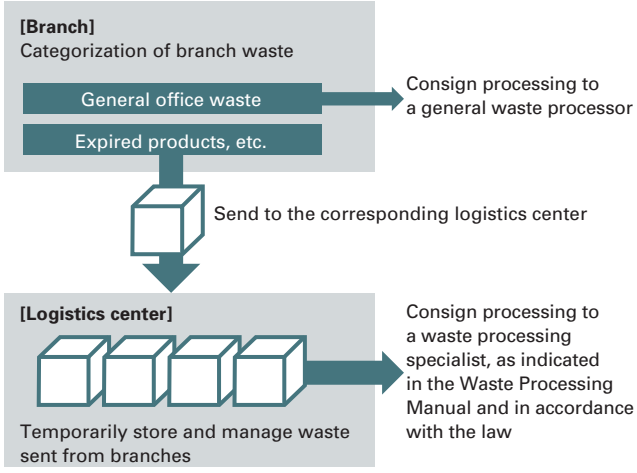
* Included companies: MEDIPAL HOLDINGS CORPORATION, MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION, MP AGRO CO., LTD., MEDIPAL FOODS CORPORATION

Waste Processing and Effective Resource Utilization

Waste processing

As a distribution group, the MEDIPAL Group has created a Waste Processing Manual detailing processing procedures for pharmaceuticals and other waste, in accordance with laws such as the Basic Act on Establishing a Sound Material-Cycle Society. The Group processes waste appropriately and in compliance with laws and regulations.

Waste processing procedure

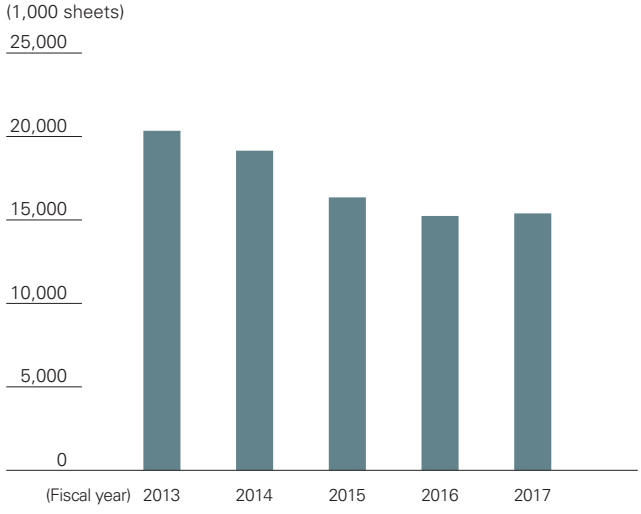


* Included companies: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION

Effective resource utilization

MEDICEO CORPORATION tabulates paper usage counts by multifunction printers, and strives to reduce paper waste. It is reducing paper consumption by promoting dual-sided printing and working to utilize resources effectively.

Multifunction printer paper usage counts



Social Initiatives



The MEDIPAL Group is highly aware that, as a corporate entity, it is also a member of society. Through its activities, it aims to be a company that is trusted widely by its stakeholders.

AED installation

The MEDIPAL Group has installed AEDs* at logistics centers and other locations where large numbers of employees gather and work.



* AED (Automated External Defibrillator): AEDs are medical devices that apply an electric shock to a heart that is undergoing ventricular fibrillation (quivering of the heart that prevents it from being able to circulate blood through the entire body), thereby restoring it to its normal state.

Establishment of bone marrow donor leave

The MEDIPAL Group has established a bone marrow donor leave system, enabling employees to take special paid leave for the registration, examinations, hospitalization, health diagnoses, etc., involved in bone marrow donation.

Promotion of participation in "Dementia Supporters" training programs

MEDIPAL HOLDINGS CORPORATION, MEDICEO CORPORATION, EVERLTH Co., Ltd., and ATOL CO., LTD. promote participation in "Dementia Supporters" training programs, which help to create communities that enable persons with dementia and their families to enjoy peace of mind. "Dementia Supporters" are persons with an accurate understanding of dementia, who provide warm support to persons suffering from dementia and their families. More than 1,000 employees have become Dementia Supporters.

Participation in the Ecocap Movement

Individual Group companies and workplaces take part in the "Ecocap Movement," recycling the caps from plastic bottles to provide vaccines for children in other countries.
Total as of March 31, 2018:
3,280,984 caps (Vaccinations for roughly 6,150 children)

Participation in the World Vaccine Books program

MEDIPAL HOLDINGS CORPORATION and ATOL CO., LTD. participate in the World Vaccine Books program, which collects books that are no longer needed and uses them to raise funds for vaccinations for children in developing countries.
Total as of March 31, 2018: Vaccinations for 2,449 children

Kuruma Kodomo 110 (vehicles that help keep children safe)

MEDICEO CORPORATION leverages its sales activities, which are closely linked to local communities, to contribute to safer environments for children by applying "Kuruma Kodomo 110 (vehicles that help keep children safe)" stickers to company-owned vehicles.





CSR Post

The MEDIPAL Group has created a contact point called "CSR Post," in order to promote voluntary employee participation in CSR activities and collect CSR-related ideas from a broad range of employees.



Dictionary

● Prescription Pharmaceutical Wholesale Business
● Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

A

● ALC: Area Logistics Center	A state-of-the-art distribution center in the Prescription Pharmaceutical Wholesale Business. ALCs provide highly functional logistics services to healthcare institutions, including a large selection of pharmaceuticals and related items, high shipping accuracy,- Saturday delivery, and partial lot sales.
● AR: Assist Representatives	A MEDIPAL Group employee who has passed the MR qualification exam and is engaged full-time in businesses such as PFM®.
● AUPUS: Automatic Piece Picking Ultimate System	A next-generation logistics system that automates product storage, issuing, and sorting.

F

● FDC: Front Distribution Center	Distribution centers that hold inventories of products in cases that are ordered frequently, thus providing support for RDCs.
● FLC: Front Logistics Center	A distribution and sales base that can provide the same quality of service as ALCs. To make our logistics services available to all healthcare institutions nationwide, FLCs operate mainly in areas that ALCs cannot cover directly

M

● McHIL®: Mediceo Hospital Innovative Logistics	A system that applies ALC functions and know-how to logistics in hospitals. Supports improvement of efficiency in hospital logistics operations.
● MR: Medical Representatives	Person in charge of drug information at pharmaceutical companies.
● MS: Marketing Specialist	Person in charge of sales in the Prescription Pharmaceutical Wholesale Business.
● MUPPS: Multitaskcrane Piece Picking System	A newly developed crane-based product-picking system. The system moves products to the location of the worker, thereby eliminating the need to walk and find each product with a cart. This system doubles productivity.

P

● PFM®: Project Finance & Marketing	PFM® is a business model developed by MEDIPAL. We invest in orphan drugs in the development stage and supply them to healthcare providers through preferential marketing rights after they are launched.
● PMS: Post Marketing Surveillance	Surveillance that the Japanese government requires companies to conduct after launching pharmaceuticals to verify their quality, efficacy, and safety. PMS consists of early post-marketing phase vigilance and Post-Marketing Surveillance.
● PRESUS®: Pharmacy Real-time Support System	An all-in-one system that functions together with ALCs to conduct automatic ordering and inventory management based on demand forecasts. This system supports the various operations of dispensing pharmacies.

R

● RDC: Regional Distribution Center	Large-scale distribution centers that PALTAC operates nationwide. RDCs handle cosmetics, daily necessities,over-the-counter pharmaceuticals and other items.

S

● SPAID: Super Productivity Advanced Innovative Distribution	A proprietary developed total-management and operation system for next-generation logistics centers based on the adoption of AI, cutting-edge robot technology, or MUPPS. This system yields twice the volume of conventional systems with the same number of workers.

Eleven-Year Financial Highlights

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31

	2008/3	2009/3	2010/3	2011/3	2012/3
Sales and Income:					
Net sales	¥ 2,254,936	¥2 ,463,570	¥ 2,546,030	¥ 2,662,822	¥ 2,750,233
Gross profit	191,654	187,237	191,091	188,147	192,568
Selling, general and administrative expenses	163,703	173,781	172,657	174,598	171,677
Operating profit	27,951	13,456	18,434	13,549	20,891
Profit attributable to owners of parent	27,794	12,510	1,958	1,705	11,651
Depreciation	10,057	11,225	11,441	12,158	12,661
Capital expenditures	17,219	19,877	28,927	22,708	16,678
Financial Position:					
Total assets	¥ 1,104,833	¥ 1,117,287	¥ 1,166,487	¥ 1,284,680	¥ 1,274,411
Total net assets	290,692	294,501	330,993	340,984	354,344
Cash Flows:					
Cash flows from operating activities	¥ 23,965	¥ 23,371	¥ 13,993	¥ 49,474	¥ (1,988)
Cash flows from investing activities	(12,436)	(21,835)	(29,845)	(24,101)	(12,166)
Cash flows from financing activities	(8,131)	(10,208)	10,195	(10,101)	(7,252)
Free Cash Flow	11,529	1,536	(15,852)	25,373	(14,154)
Per Share:					
Basic earnings	¥ 119.20	¥ 52.30	¥ 8.31	¥ 7.27	¥ 49.60
Total net assets	1,219.50	1,229.34	1,236.15	1,275.94	1,329.60
Cash dividends	18.00	18.00	18.00	18.00	18.00
Ratios (%):					
Ratio of gross profits to sales	8.5	7.6	7.5	7.1	7.0
Profit Ratio	1.2	0.5	0.7	0.5	0.8
Net worth ratio	26.31	26.36	24.86	23.30	24.34
Return on equity	10.07	4.28	0.67	0.58	3.82
Return on Assets	4.04	2.69	2.42	1.92	2.51
Payout ratio	15.1	34.4	216.7	247.7	36.3
Number of employees	11,391	11,451	11,363	11,661	11,194

Note: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥106.24 to U.S. $1.00, the approximate exchange rate on March 31, 2018.

					Millions of yen	Thousands of U.S. dollars (Note)
2013/3	2014/3	2015/3	2016/3	2017/3	**2018/3**	**2018/3**
¥ 2,810,960	¥ 2,947,799	¥ 2,872,906	¥ 3,028,187	¥ 3,063,901	**¥ 3,146,314**	**$ 29,615,155**
202,142	209,358	201,736	217,497	219,019	**228,100**	**2,147,026**
173,622	174,695	168,941	175,214	179,369	**183,839**	**1,730,413**
28,520	34,663	32,795	42,283	39,650	**44,261**	**416,613**
18,656	25,485	23,688	30,772	29,012	**34,781**	**327,381**
12,619	13,147	12,326	12,391	13,573	**14,898**	**140,230**
21,307	24,744	15,168	38,395	44,884	**20,653**	**194,399**
¥ 1,328,601	¥ 1,400,792	¥ 1,454,800	¥ 1,497,310	¥ 1,525,912	**¥ 1,621,574**	**$ 15,263,309**
381,892	407,481	457,604	488,329	521,165	**572,656**	**5,390,211**
¥ 61,769	¥ (73)	¥ 80,467	¥ 21,985	¥ 47,955	**¥ 63,559**	**$ 598,259**
(15,841)	(28,066)	(11,834)	(41,267)	(11,355)	**(43,065)**	**(405,356)**
(14,379)	(2,834)	(19,835)	6,093	(17,663)	**15,845**	**149,193**
45,928	(28,139)	68,633	(19,282)	36,600	**20,494**	**192,903**
¥ 82.24	¥ 112.77	¥ 104.73	¥ 135.89	¥ 128.12	**¥ 154.13**	**$ 1.451**
1,433.19	1,529.63	1,722.56	1,832.45	1,950.25	**2,154.93**	**20,277.6**
20.00	23.00	24.00	28.00	31.00	**34.00**	**0.3220**
7.2	7.1	7.0	7.2	7.1	**7.3**	
1.0	1.2	1.1	1.4	1.3	**1.4**	
24.33	24.69	26.81	27.71	28.94	**29.89**	
5.89	7.62	6.44	7.65	6.77	**7.51**	
3.09	3.68	3.14	3.76	3.55	**3.66**	
24.3	20.4	22.9	20.6	24.2	**22.0**	
11,115	10,930	10,930	10,959	13,252*	**14,151**	

* The main reason for the increase in employees in comparison to the end of the precious fiscal year is the partial change to employment practices, with a new system being introduced on October 1, 2016.

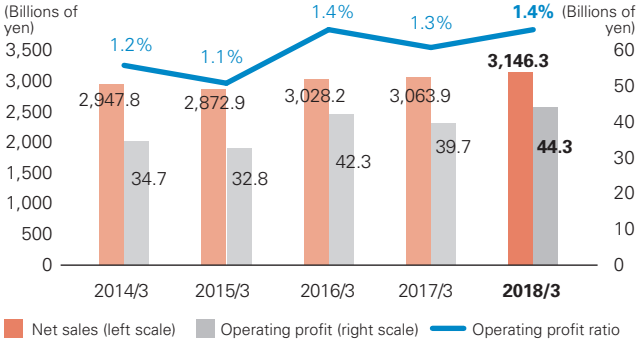
Financial Review

Management Environment and Strategies

In the fiscal year ended March 31, 2018, the Japanese economy continued on a moderate rising trend as a result of the positive impact of government economic policies and improvement in the employment and income environment. Amid this operating environment, the MEDIPAL Group has been engaged in initiatives in line with the 2019 MEDIPAL Medium-Term Vision, Change the *Oroshi* next – Innovate and Create to become a new type of wholesaler that contributes to society by distributing pharmaceuticals, health, and beauty. We are further enhancing the efficiency and functionality of existing businesses, promoting new businesses by leveraging our nationwide infrastructure and human resources, and developing business in growth fields by using the resources and functions of all our Group companies in order to enlarge profit bases and realize continuous growth.

Overview of Sales and Income

Net Sales, Operating Profit and Operating Profit Ratio



Net Sales

Net sales increased 2.7% year on year to ¥3,146,314 million. In the Prescription Pharmaceutical Wholesale Business, sales remained steady despite a flat market. In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business and the Animal Health Products and Food Processing Raw Materials Wholesale Business, sales were firm amid positive market environments.

Operating Profit

Operating profit reached a record high of ¥44,261 million, an increase of 11.6% year on year. The operating profit ratio also rose 0.1 percentage points from the previous fiscal year to 1.4%. This increase was due primarily to a rise in the ratio of gross profits to sales by 0.1 percentage points from the previous fiscal year to 7.3%.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased 19.9% year on year to ¥34,781 million due to reporting a gain on sales of shares of subsidiaries and associates.

Segment Profit or Loss

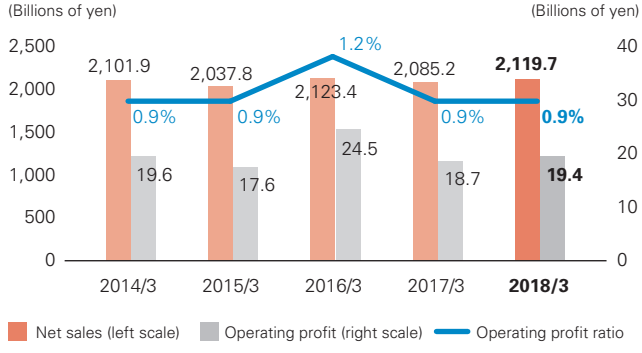
Note: Segment sales include internal sales among segments.

Prescription Pharmaceutical Wholesale Business

(Millions of yen)

Years ended March 31	2017	**2018**
Net sales	¥2,085,176	**¥2,119,660**
Operating profit	18,670	**19,435**
Assets	1,118,156	**1,169,428**
Depreciation	8,222	**9,641**
Capital expenditures	34,966	**6,898**

Net Sales, Operating Profit and Operating Profit Ratio

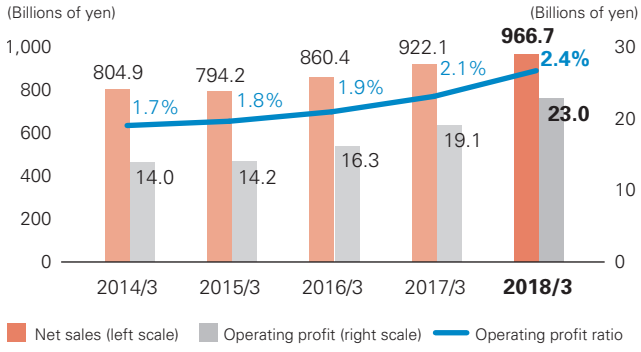


Net sales in the Prescription Pharmaceutical Wholesale Business increased 1.7% year on year to ¥2,119,660 million. Operating profit also increased by ¥765 million due to efforts to secure profits through new businesses, despite an increase in SG&A expenses accompanying the establishment of a new ALC.

Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

Years ended March 31	2017	2018
		(Millions of yen)
Net sales	¥922,095	**¥966,684**
Operating profit	19,115	**22,978**
Assets	354,129	**381,936**
Depreciation	4,929	**4,829**
Capital expenditures	9,792	**13,649**

Net Sales, Operating Profit and Operating Profit Ratio

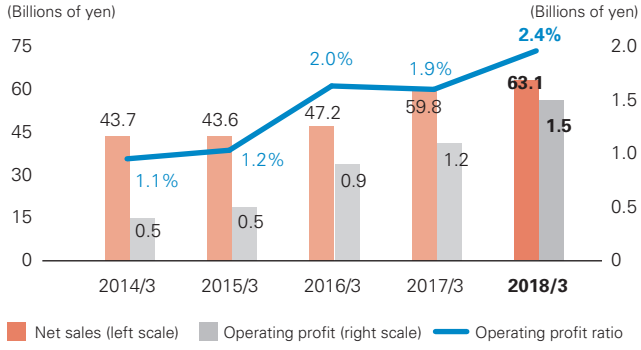


Net sales in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 4.8% year on year to ¥966,684 million. Operating profit also increased by ¥3,863 million due to strong sales of cosmetics, daily necessities and OTC pharmaceuticals.

Animal Health Products and Food Processing Raw Materials Wholesale Business

Years ended March 31	2017	2018
		(Millions of yen)
Net sales	¥59,762	**¥63,094**
Operating profit	1,151	**1,513**
Assets	22,626	**23,740**
Depreciation	156	**156**
Capital expenditures	91	**99**

Net Sales, Operating Profit and Operating Profit Ratio



Net sales in the Animal Health Products and Food Processing Raw Materials Wholesale Business increased 5.6% year on year to ¥63,094 million. Operating profit also increased by ¥362 million due to strong sales in both the Animal Health Products Wholesale Business and the Food Processing Raw Materials Wholesale Business.

Overview of Financial Position

Assets, Liabilities and Net Assets

Assets

As of March 31, 2018, total assets amounted to ¥1,621,574 million, an increase of ¥95,662 million from the previous fiscal year-end. Total current assets were ¥1,140,089 million, an increase of ¥44,936 million. This principally reflected an increase of ¥38,279 million in cash and deposits and an increase of ¥8,347 million in notes and accounts receivable-trade.

Total non-current assets were ¥481,485 million, an increase of ¥50,726 million. This principally reflected an increase of ¥46,564 million in investment securities. A business alliance with JCR Pharmaceuticals Co., Ltd. was formed, and its shares were acquired for ¥21,100 million in October 2017.

Liabilities

As of March 31, 2018, total liabilities amounted to ¥1,048,918 million, an increase of ¥44,171 million from the previous fiscal year-end. Total current liabilities were ¥940,729 million, an increase of ¥12,477 million. This primarily reflected an increase of ¥6,508 million in notes and accounts payable-trade and an increase of ¥6,000 million in short-term loans payable. Total non-current liabilities were ¥108,189 million, an increase of ¥31,694 million. This primarily reflected convertible bond-type bonds with share acquisition rights of ¥30,679 million that were issued by MEDIPAL in October 2017. The proceeds from this issue were mainly allocated to the acquisition of shares of JCR Pharmaceuticals Co., Ltd. and the purchase of treasury shares.

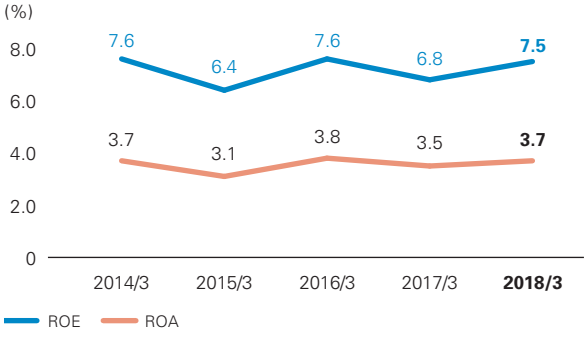
Net Assets

As of March 31, 2018, net assets stood at ¥572,656 million, an increase of ¥51,491 million from the previous fiscal year-end. This primarily reflected an increase in retained earnings of ¥27,115 million and an increase of ¥17,380 million in valuation difference on available-for-sale securities.

Capital Efficiency

The Group considers ROE (Return on Equity) and ROA (Return on Assets)* to be the key management indicators and aims for an ROE of 8%. In the fiscal year ended March 31, 2018, ROE rose by 0.7 percentage points from the previous fiscal year to 7.5% and ROA also rose by 0.2 percentage points to 3.7%. This rise in ROE was due primarily to a rise in the return on sales.

ROE/ROA



*ROA is calculated by using "ordinary profit + interest expenses" as the denominator.

Overview of Cash Flows

As of March 31, 2018, cash and cash equivalents (cash) amounted to ¥220,563 million, an increase of ¥38,001 million from the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥63,559 million, an increase of ¥15,604 million from the previous fiscal year. Principal factors accounting for this were profit before income taxes of ¥63,467 million, depreciation of ¥14,898 million, an increase in notes and accounts receivable-trade of ¥5,100 million, a decrease in inventories of ¥1,593 million, an increase in notes and accounts payable-trade of ¥3,322 million, and income taxes paid of ¥13,172 million.

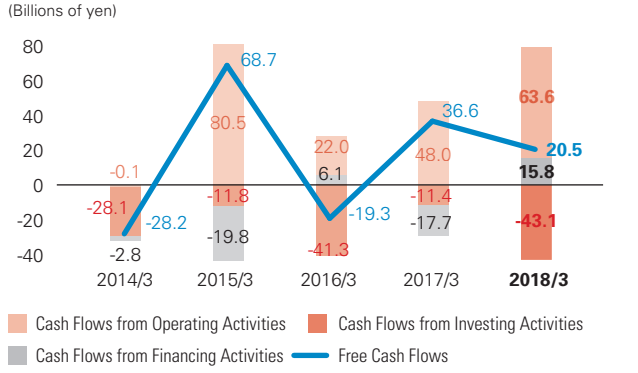
Cash Flows from Investing Activities

Net cash used in investing activities was ¥43,065 million, an increase of ¥31,710 million from the previous fiscal year. This primarily reflected expenditures of ¥25,598 million for the purchase of property, plant and equipment and of ¥21,450 million for the purchase of shares of subsidiaries and associates.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥15,845 million, compared with net cash used in financing activities of ¥17,663 million in the previous fiscal year. The principal factors were ¥30,722 million in proceeds from issuance of convertible bond-type bonds with share acquisition rights, cash dividends paid of ¥9,092 million and purchase of treasury shares of ¥2,936 million.

Cash Flows

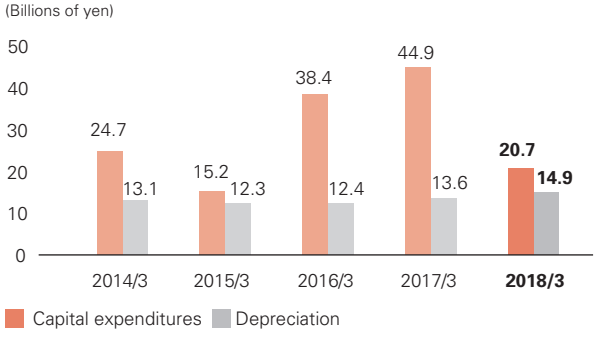


Capital Expenditures

Capital expenditures for the MEDIPAL Group in the fiscal year ended March 31, 2018, totaled ¥20,653 million, including ¥16,211 million for capital investments and ¥4,440 million for investment in software, mainly in the Prescription Pharmaceutical Wholesale Business and the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business to further reinforce the logistics functions and enhance its efficiency. The Company funded capital expenditures using internal capital resources and loans payable.

Major investments included capital investments of ¥2,743 million for construction of the Kanto ALC and an investment in software of ¥4,154 million for integration of the mainframe systems for sales and logistics in the Prescription Pharmaceutical Wholesale Business, as well as capital investments of ¥13,412 million for the construction of RDC Niigata in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business.

Capital Expenditures and Depreciation



Dividend Policy

The Company considers returns to shareholders one of its highest management priorities. The Company's basic policy for the distribution of profits is to provide dividends that are linked to profits from business activities, while securing the necessary internal reserves to strengthen its financial position and aggressively expand its businesses. The Company's basic objective is to pay stable dividends with a target consolidated payout ratio of 25%.

The Company's basic policy is to pay dividends twice a year, an interim and a fiscal year-end dividend from retained earnings.

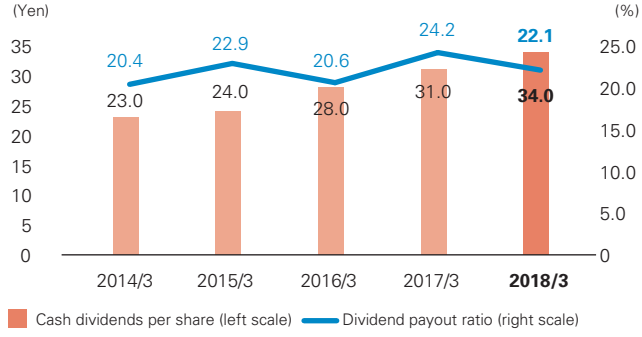
The amount of these dividends is decided by the Board of Directors.

Based on consideration of the Company's financial condition during the fiscal year under review and other factors, the Board has set cash dividends applicable to the fiscal year at ¥34.00 per share, including an interim dividend of ¥16.00 per share and year-end cash dividend of ¥18.00 per share. As a result, the consolidated payout ratio for the period ended March 31, 2018 was 22.1%.

Retained earnings will be used effectively for the purpose of strengthening the business base to cope with change, proceed with innovation aimed at business expansion, and other objectives. The Company will also make repurchases of its own shares, taking into account its financial condition, stock price, and other factors, to execute a flexible capital policy in response to changes in the corporate environment.

For the fiscal year ending March 31, 2019, the Company plans to pay dividends of ¥36 per share, consisting of an interim and a year-end dividend of ¥18 per share each.

Cash dividends per share / dividend payout ratio



Outlook for the Fiscal Year Ending March 31, 2019

The products handled by each business of the MEDIPAL Group are essential to the safe and secure lives of people. Therefore, a stable supply of these products is required in both normal times and times of emergencies. In order to grow further as part of the social infrastructure that fulfills this role, the MEDIPAL Group will continue to carry out initiatives in line with the "2019 MEDIPAL Medium-Term Vision: Change the *Oroshi* next – Innovate and Create" in each business. As a result of these efforts, for the fiscal year ending March 31, 2019, the MEDIPAL Group forecasts that it will record ¥3,156,000 million in net sales (up 0.3%), ¥46,000 million in operating profit (up 3.9%), ¥32,000 million in profit attributable to owners of parent (down 8.0%).

Consolidated Balance Sheets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2018**	2017	**2018**
Current assets:			
Cash and deposits (Notes 4, 5 and 17)	**¥ 203,547**	¥ 165,268	**$ 1,915,917**
Notes and accounts receivable–trade (Notes 4 and 7)	**697,581**	689,234	**6,566,086**
Securities (Note 4)	**18,770**	18,770	**176,675**
Merchandise and finished goods	**145,868**	147,273	**1,373,005**
Deferred tax assets (Note 20)	**5,558**	5,045	**52,316**
Accounts receivable–other (Note 4)	**65,211**	64,022	**613,808**
Other	**4,196**	6,200	**39,495**
Allowance for doubtful accounts	**(642)**	(659)	**(6,043)**
Total current assets	**1,140,089**	1,095,153	**10,731,259**
Property, plant and equipment (Note 11):			
Buildings and structures (Notes 9, 10 and 17)	**189,568**	186,988	**1,784,337**
Machinery, equipment and vehicles (Notes 10 and 13)	**52,113**	52,619	**490,521**
Land (Notes 9, 10, 12 and 17)	**117,669**	115,289	**1,107,577**
Construction in progress	**5,287**	558	**49,765**
Other (Note 9)	**27,814**	28,229	**261,804**
Total property, plant and equipment	**392,451**	383,683	**3,694,004**
Accumulated depreciation	**(143,200)**	(135,940)	**(1,347,891)**
Property, plant and equipment, net	**249,251**	247,743	**2,346,113**
Intangible assets:			
Software	**8,944**	9,720	**84,187**
Other	**5,968**	3,132	**56,174**
Total intangible assets	**14,912**	12,852	**140,361**
Investments and other assets:			
Investment securities (Notes 4, 6 and 17):			
Unconsolidated subsidiaries and associates	**42,557**	22,971	**400,574**
Other	**153,348**	126,370	**1,443,411**
Long-term loans receivable (Note 4)	**28**	48	**264**
Deferred tax assets (Note 20)	**328**	394	**3,087**
Net defined benefit asset (Note 16)	**5,585**	4,627	**52,570**
Other assets:			
Unconsolidated subsidiaries and associates (investment in capital of subsidiaries and associates)	**5,467**	5,871	**51,459**
Other	**11,315**	11,386	**106,504**
Allowance for doubtful accounts	**(1,306)**	(1,503)	**(12,293)**
Total investments and other assets	**217,322**	170,164	**2,045,576**
Total assets	**¥1,621,574**	¥1,525,912	**$15,263,309**

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Notes and accounts payable - trade (Notes 4, 7 and 17)	**¥ 867,111**	¥ 860,603	**$ 8,161,813**
Short-term loans payable (Notes 4 and 14)	**9,000**	3,000	**84,714**
Current portion of long-term loans payable (Notes 4 and 14)	**7,060**	8,150	**66,453**
Income taxes payable	**11,541**	6,238	**108,631**
Provision for bonuses	**8,914**	8,690	**83,904**
Provision for sales returns	**607**	634	**5,713**
Provision for loss on dissolution of employees' pension fund	**—**	320	**—**
Other	**36,496**	40,617	**343,525**
Total current liabilities	**940,729**	928,252	**8,854,753**
Non-current liabilities:			
Convertible bond-type bonds with share acquisition rights (Note 15)	**30,679**	—	**288,771**
Long-term loans payable (Notes 4 and 14)	**9,248**	15,464	**87,048**
Deferred tax liabilities (Note 20)	**33,942**	25,351	**319,484**
Deferred tax liabilities for land revaluation (Note 12)	**1,004**	1,004	**9,450**
Provision for loss on guarantees	**289**	285	**2,720**
Net defined benefit liability (Note 16)	**19,956**	19,978	**187,839**
Other	**13,071**	14,413	**123,033**
Total non-current liabilities	**108,189**	76,495	**1,018,345**
Contingent liabilities (Note 18)			
Net assets (Note 19):			
Shareholders' equity:			
Capital stock:			
Authorized—900,000,000 shares in 2018 and 2017			
Issued—244,524,496 shares in 2018 and 2017	**22,398**	22,398	**210,824**
Capital surplus	**134,362**	134,362	**1,264,703**
Retained earnings	**293,727**	266,612	**2,764,750**
Treasury shares— 19,613,084 shares in 2018 and 18,086,104 shares in 2017	**(24,419)**	(21,484)	**(229,848)**
Total shareholders' equity	**426,068**	401,888	**4,010,429**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 6)	**71,935**	54,555	**677,099**
Deferred gains or losses on hedges	**(10)**	6	**(94)**
Revaluation reserve for land (Note 12)	**(14,019)**	(14,019)	**(131,956)**
Foreign currency translation adjustment	**787**	609	**7,408**
Remeasurements of defined benefit plans (Note 16)	**(93)**	(1,428)	**(875)**
Total accumulated other comprehensive income	**58,600**	39,723	**551,582**
Non-controlling interests	**87,988**	79,554	**828,200**
Total net assets	**572,656**	521,165	**5,390,211**
Total liabilities and net assets	**¥1,621,574**	¥1,525,912	**$15,263,309**

Consolidated Statements of Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales	**¥3,146,314**	¥3,063,901	**$29,615,155**
Cost of sales	**2,918,214**	2,844,882	**27,468,129**
Gross profit	**228,100**	219,019	**2,147,026**
Selling, general and administrative expenses	**183,839**	179,369	**1,730,413**
Operating profit	**44,261**	39,650	**416,613**
Other income (expenses):			
Research fee income	**7,757**	7,526	**73,014**
Real estate rent, net	**413**	447	**3,887**
Interest and dividend income	**2,472**	3,341	**23,268**
Interest expenses	**(237)**	(303)	**(2,231)**
Loss on valuation of investment securities	**(80)**	(30)	**(753)**
Gain on sales of investment securities, net	**50**	3	**471**
Gain on sales of shares of subsidiaries and associates	**5,400**	3	**50,828**
Gain on change in equity	**1,562**	—	**14,703**
Share of profit of entities accounted for using equity method	**1,531**	1,929	**14,411**
Loss on liquidation of subsidiaries and associates	**—**	(2)	**—**
Subsidy income (Note 10)	**—**	1,718	**—**
Loss on reduction of non-current assets (Note 10)	**—**	(1,710)	**—**
Gain (Loss) on sales and retirement of non-current assets, net	**(130)**	577	**(1,224)**
Impairment loss (Note 9)	**(325)**	(1,065)	**(3,059)**
Office transfer expenses	**(360)**	(208)	**(3,389)**
Provision for loss on dissolution of employees' pension fund	**—**	(37)	**—**
Provision of allowance for doubtful accounts	**—**	(390)	**—**
Loss on disaster	**—**	(145)	**—**
Other, net	**1,153**	1,150	**10,854**
Total other income (expenses)	**19,206**	12,804	**180,780**
Profit before income taxes	**63,467**	52,454	**597,393**
Income taxes (Note 20):			
Current	**20,841**	15,031	**196,169**
Deferred	**(911)**	1,085	**(8,575)**
Total income taxes	**19,930**	16,116	**187,594**
Profit	**43,537**	36,338	**409,799**
Profit attributable to non-controlling interests	**8,756**	7,326	**(82,418)**
Profit attributable to owners of parent	**¥ 34,781**	¥ 29,012	**$ 327,381**

	Yen	U.S. dollars (Note 1)
Amounts per share of common stock:		
Basic earnings	**¥154.13**	¥128.12	**$1.451**
Diluted earnings*	**149.91**	—	**1.411**
Cash dividends applicable to the period	**34.00**	31.00	**0.320**

*Diluted earnings per share in 2017 is not disclosed because there are no shares that are dilutive.
The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	**¥43,537**	¥36,338	**$409,799**
Other comprehensive income (Note 21):			
Valuation difference on available-for-sale securities	**18,684**	2,946	**175,866**
Deferred gains or losses on hedges	**(31)**	49	**(292)**
Revaluation reserve for land	**—**	(0)	**—**
Remeasurements of defined benefit plans	**1,453**	1,066	**13,676**
Share of other comprehensive income of entities accounted for using equity method	**320**	(425)	**3,012**
Total other comprehensive income	**20,426**	3,636	**192,262**
Comprehensive income	**¥63,963**	¥39,974	**$602,061**
Comprehensive income attributable to:			
Owners of parent	**¥53,658**	¥32,140	**$505,064**
Non-controlling interests	**10,305**	7,834	**96,997**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				
Year ended March 31, 2017	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	¥22,398	¥134,363	¥243,054	¥(21,483)	¥378,332
Cumulative effects of changes in accounting policies			557		557
Restated balance	22,398	134,363	243,611	(21,483)	378,889
Changes of items during period					
Dividends of surplus			(6,793)		(6,793)
Change of scope of consolidation			(157)		(157)
Change of scope of equity method			939		939
Profit attributable to owners of parent			29,012		29,012
Purchase of treasury shares				(1)	(1)
Change in ownership interest of parent due to transactions with non-controlling interests		(1)			(1)
Reversal of revaluation reserve for land			(0)		(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(1)	23,001	(1)	22,999
Balance at end of period	¥22,398	¥134,362	¥266,612	¥(21,484)	¥401,888

	Millions of yen							
	Accumulated other comprehensive income							
Year ended March 31, 2017	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	¥51,773	¥(19)	¥(14,019)	¥1,179	¥(2,307)	¥36,607	¥73,390	¥488,329
Cumulative effects of changes in accounting policies							41	598
Restated balance	51,773	(19)	(14,019)	1,179	(2,307)	36,607	73,431	488,927
Changes of items during period								
Dividends of surplus								(6,793)
Change of scope of consolidation								(157)
Change of scope of equity method								939
Profit attributable to owners of parent								29,012
Purchase of treasury shares								(1)
Change in ownership interest of parent due to transactions with non-controlling interests								(1)
Reversal of revaluation reserve for land								(0)
Net changes of items other than shareholders' equity	2,782	25	0	(570)	879	3,116	6,123	9,239
Total changes of items during period	2,782	25	0	(570)	879	3,116	6,123	32,238
Balance at end of period	¥54,555	¥ 6	¥(14,019)	¥ 609	¥(1,428)	¥39,723	¥79,554	¥521,165

The accompanying notes are an integral part of these financial statements.

	Millions of yen				
	Shareholders' equity				
Year ended March 31, 2018	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	**¥22,398**	**¥134,362**	**¥266,612**	**¥(21,484)**	**¥401,888**
Changes of items during period					
Dividends of surplus			**(7,222)**		**(7,222)**
Change of scope of consolidation			**(444)**		**(444)**
Profit attributable to owners of parent			**34,781**		**34,781**
Purchase of treasury shares				**(2,935)**	**(2,935)**
Change in ownership interest of parent due to transactions with non-controlling interests		**(0)**			**(0)**
Net changes of items other than shareholders' equity					
Total changes of items during period	**—**	**(0)**	**27,115**	**(2,935)**	**24,180**
Balance at end of period	**¥22,398**	**¥134,362**	**¥293,727**	**¥(24,419)**	**¥426,068**

Year ended March 31, 2018	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	**¥54,555**	**¥ 6**	**¥(14,019)**	**¥609**	**¥(1,428)**	**¥39,723**	**¥79,554**	**¥521,165**
Changes of items during period								
Dividends of surplus								**(7,222)**
Change of scope of consolidation								**(444)**
Profit attributable to owners of parent								**34,781**
Purchase of treasury shares								**(2,935)**
Change in ownership interest of parent due to transactions with non-controlling interests								**(0)**
Net changes of items other than shareholders' equity	**17,380**	**(16)**	**—**	**178**	**1,335**	**18,877**	**8,434**	**27,311**
Total changes of items during period	**17,380**	**(16)**	**—**	**178**	**1,335**	**18,877**	**8,434**	**51,491**
Balance at end of period	**¥71,935**	**¥(10)**	**¥(14,019)**	**¥787**	**¥ (93)**	**¥58,600**	**¥87,988**	**¥572,656**

The accompanying notes are an integral part of these financial statements.

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	**$210,824**	**$1,264,703**	**$2,509,526**	**$(202,222)**	**$3,782,831**
Changes of items during period					
Dividends of surplus			**(67,978)**		**(67,978)**
Change of scope of consolidation			**(4,179)**		**(4,179)**
Profit attributable to owners of parent			**327,381**		**327,381**
Purchase of treasury shares				**(27,626)**	**(27,626)**
Change in ownership interest of parent due to transactions with non-controlling interests		**(0)**			**(0)**
Net changes of items other than shareholders' equity					
Total changes of items during period	**—**	**(0)**	**255,224**	**(27,626)**	**227,598**
Balance at end of period	**$210,824**	**$1,264,703**	**$2,764,750**	**$(229,848)**	**$4,010,429**

Year ended March 31, 2018	Thousands of U.S. dollars (Note 1)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	**$513,507**	**$ 57**	**$(131,956)**	**$5,732**	**$ (13,441)**	**$373,899**	**$748,814**	**$4,905,544**
Changes of items during period								
Dividends of surplus								**(67,978)**
Change of scope of consolidation								**(4,179)**
Profit attributable to owners of parent								**327,381**
Purchase of treasury shares								**(27,626)**
Change in ownership interest of parent due to transactions with non-controlling interests								**(0)**
Net changes of items other than shareholders' equity	**163,592**	**(151)**	**—**	**1,676**	**12,566**	**177,683**	**79,386**	**257,069**
Total changes of items during period	**163,592**	**(151)**	**—**	**1,676**	**12,566**	**177,683**	**79,386**	**484,667**
Balance at end of period	**$677,099**	**$ (94)**	**$(131,956)**	**$7,408**	**$ (875)**	**$551,582**	**$828,200**	**$5,390,211**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	**¥ 63,467**	¥ 52,454	**$ 597,393**
Adjustments to reconcile profit before income taxes to net cash provided by (used in) operating activities:			
Depreciation	**14,898**	13,573	**140,230**
Impairment loss	**325**	1,065	**3,059**
Amortization of goodwill	**477**	221	**4,490**
Increase (decrease) in provision for loss on guarantees	**4**	(84)	**38**
Increase (decrease) in provision for loss on dissolution of employees' pension fund	**(320)**	37	**(3,012)**
Increase (decrease) in provision for bonuses	**141**	(615)	**1,327**
Increase (decrease) in allowance for doubtful accounts	**(215)**	(87)	**(2,024)**
Increase (decrease) in provision for sales returns	**(27)**	(141)	**(254)**
Increase (decrease) in net defined benefit liability	**(69)**	281	**(649)**
Interest and dividend income	**(2,472)**	(3,341)	**(23,268)**
Interest expenses	**237**	303	**2,231**
Share of (profit) loss of entities accounted for using equity method	**(1,531)**	(1,929)	**(14,411)**
Loss (gain) on sales and retirement of non-current assets	**130**	(577)	**1,224**
Loss on reduction of non-current assets	**—**	1,710	**—**
Loss (gain) on sales of short-term and long-term investment securities	**(50)**	(3)	**(471)**
Loss (gain) on valuation of short-term and long-term investment securities	**80**	30	**753**
Gain on sales of shares of subsidiaries and associates	**(5,400)**	(3)	**(50,828)**
Loss (gain) on change in equity	**(1,562)**	—	**(14,703)**
Loss on disaster	**—**	145	**—**
Subsidy income	**—**	(1,718)	**—**
Decrease (increase) in notes and accounts receivable–trade	**(5,100)**	12,924	**(48,005)**
Decrease (increase) in inventories	**1,593**	(4,386)	**14,994**
Decrease (increase) in net defined benefit asset	**(958)**	(725)	**(9,017)**
Increase (decrease) in notes and accounts payable–trade	**3,322**	(4,815)	**31,269**
Increase (decrease) in accrued consumption taxes	**4,944**	(307)	**46,536**
Other, net	**1,083**	2,446	**10,193**
Subtotal	**72,997**	66,458	**687,095**
Interest and dividend income received	**3,971**	4,319	**37,378**
Interest expenses paid	**(237)**	(303)	**(2,231)**
Payments for loss on disaster	**—**	(76)	**—**
Income taxes paid	**(13,172)**	(22,443)	**(123,983)**
Net cash provided by (used in) operating activities	**63,559**	47,955	**598,259**
Cash flows from investing activities:			
Payments into time deposits	**(1,476)**	(1,576)	**(13,893)**
Proceeds from withdrawal of time deposits	**1,476**	5,176	**13,893**
Purchase of securities	**—**	(0)	**—**
Proceeds from sales of securities	**—**	18,772	**—**
Purchase of property, plant and equipment	**(25,598)**	(32,332)	**(240,945)**
Proceeds from sales of property, plant and equipment	**3,132**	2,015	**29,480**
Purchase of intangible assets	**(4,902)**	(3,506)	**(46,141)**
Purchase of investment securities	**(777)**	(4,062)	**(7,314)**
Proceeds from sales and redemption of investment securities	**472**	848	**4,443**
Purchase of shares of subsidiaries and associates	**(21,450)**	(98)	**(201,901)**
Proceeds from sales of shares of subsidiaries and associates	**5,560**	3	**52,334**
Payments of loans receivable	**(9)**	(9)	**(85)**
Collection of loans receivable	**33**	25	**311**
Proceeds from subsidy income	**—**	1,718	**—**
Other, net	**474**	1,671	**4,462**
Net cash provided by (used in) investing activities	**(43,065)**	(11,355)	**(405,356)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**6,000**	(21,080)	**56,476**
Proceeds from sales and leasebacks	**—**	6,569	**—**
Repayments of lease obligations	**(1,542)**	(549)	**(14,514)**
Proceeds from issuance of convertible bond-type bonds with share acquisition rights	**30,722**	—	**289,175**
Proceeds from long-term loans payable	**1,000**	14,000	**9,413**
Repayments of long-term loans payable	**(8,306)**	(8,096)	**(78,181)**
Purchase of treasury shares	**(2,936)**	(2)	**(27,636)**
Cash dividends paid	**(7,222)**	(6,793)	**(67,978)**
Dividends paid to non-controlling interests	**(1,870)**	(1,711)	**(17,602)**
Other, net	**(1)**	(1)	**(10)**
Net cash provided by (used in) financing activities	**15,845**	(17,663)	**149,143**
Effect of exchange rate change on cash and cash equivalents	**(10)**	(32)	**(94)**
Net increase (decrease) in cash and cash equivalents	**36,329**	18,905	**341,952**
Cash and cash equivalents at beginning of period	**182,562**	163,317	**1,718,392**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**1,672**	340	**15,738**
Cash and cash equivalents at end of period (Note 5)	**¥220,563**	¥182,562	**$2,076,082**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2018 and 2017

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

MEDIPAL HOLDINGS CORPORATION (the "Company") and its consolidated subsidiaries (the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Companies Act and the Financial Instruments and Exchange Act and their related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from the accounting and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. $1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (13 subsidiaries in the year ended March 31, 2018).

All significant intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries are recorded using the fair value at the time the Company acquired control of the respective subsidiaries.

B. EQUITY METHOD

Investments in associates (all those 20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method.

Unconsolidated subsidiaries and the other associates are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

C. INTANGIBLE ASSETS

Goodwill, which is the difference between the cost of investments and equity in their net assets at the date of acquisition, arising from consolidated subsidiaries is amortized over the estimated useful lives up to 20 years using the straight- line method, or is charged to income in the year incurred if it is immaterial.

Software for its own use is amortized over the estimated useful life (5 years) using the straight-line method.

D. CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

E. SECURITIES

Held-to-maturity debt securities are carried at amortized cost. Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost.

Available-for-sale securities with no available fair market values are stated at moving-average cost.

F. DERIVATIVES AND HEDGE ACCOUNTING

Derivatives for which the hedge accounting is not applied are stated at fair value.

The Companies use the following derivatives to hedge the risk of exchange rate fluctuations and to fix cash flows.

Hedging instruments:	forward foreign exchange contracts
Hedged items:	payables denominated in foreign currencies and forecasted transactions denominated in foreign currencies

As a policy, the Companies do not enter derivatives for speculative transactions.

The Companies apply deferral hedge accounting except for forward foreign exchange contracts which meet the special criteria for allocation method. The Companies evaluate hedge effectiveness of forward foreign exchange contracts by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. If major terms and conditions of a hedging instrument are consistent to those of an asset or liability as a hedged item, the Companies consider it is obvious that the hedge is 100% effective and omit the evaluation test.

G. INVENTORIES

Inventories, as shown as "Merchandise and finished goods" on the balance sheets, are stated at cost, primarily determined by the moving-average method, with book value written down as necessary to reflect any decrease in profitability.

Loss on valuation of inventories is recorded as cost of sales.

H. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, excluding leased assets, are stated at cost. Depreciation is computed by the declining-balance method at rates based on their estimated useful lives except for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which are depreciated by the straight-line method.

The estimated useful lives were as follows:

Buildings and structures: 3-50 years
Machinery, equipment and vehicles: 3-12 years

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method with the lease periods as the useful lives. The residual value is to be zero, unless the amount of residual value is agreed upon in the lease contract.

I. DEFERRED ASSETS

1) Bond issuance costs

Bond issuance costs are fully expensed when incurred.

J. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified items and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

K. PROVISION FOR BONUSES

Provision for bonuses is provided in the amount expected to be paid in respect of the calculation period ended on the balance sheet date.

L. PROVISION FOR SALES RETURNS

Provision for sales returns is provided in the amount estimated by multiplying the balance of notes and accounts receivable–trade as of the end of the fiscal period by the actual sales return ratio and gross margin ratio.

M. PROVISION FOR LOSS ON GUARANTEES

Provision for loss on guarantees is provided in the amount sufficient to cover probable losses on debt guarantees in consideration of the financial condition of the relevant associates.

N. PROVISION FOR LOSS ON DISSOLUTION OF EMPLOYEES' PENSION FUND

Provision for loss on dissolution of employees' pension fund is provided in the amount sufficient to cover probable losses arising from dissolution of the employees' pension fund.

O. ACCOUNTING METHOD FOR EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

1) The method of attributing expected retirement benefits to the fiscal period

In calculating the projected benefit obligations, the method of attributing expected retirement benefits to the fiscal period is based on the benefit formula basis.

2) The method of amortization of actuarial difference and prior service costs

Prior service costs are primarily amortized by the straight-line method over 3 to 5 years, which is not longer than the average remaining service period of the employees when the costs are incurred.

Actuarial difference is primarily amortized by the straight-line method over 3 to 10 years, which is not longer than the average remaining service period of the employees when the costs are incurred.

P. INCOME TAXES

The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

Q. AMOUNTS PER SHARE OF COMMON STOCK

The computation of earnings per share of common stock is based on the average number of shares outstanding during each fiscal period.

Cash dividends per share represent the actual amounts declared during the respective years.

R. RECLASSIFICATIONS

Certain prior year amounts have been reclassified and restated to conform to the current year presentation.

These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

- "Implementation Guidance on Tax Effect Accounting" (ASBJ, Guidance No. 28, February 16, 2018 (hereinafter, "Guidance No.28"))
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (hereinafter, "Guidance No.26"))

(1) Outline of changes

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type 1' according to the guidance.

(2) Date of adoption

The Companies plan to adopt the new guidances from the beginning of the fiscal year ending March 31, 2019.

(3) The effect of adopting the accounting standards

The Companies are currently assessing the effects of these new guidances on the consolidated financial statements.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Outline of changes

IASB and FASB co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Considering IFRS No. 15 will be applied from the fiscal year starting January 1, 2018 and Topic 606 from the fiscal year starting December 15, 2017, the ASBJ developed comprehensive Accounting Standard for Revenue Recognition and published them together with implementation guidance.

The fundamental policy for developing Accounting Standard for Revenue Recognition by the ASBJ was that the accounting standards would incorporate the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, which is one of the benefits of achieving consistency with IFRS No. 15. If there are matters to be taken into consideration in Japan in actual practice, etc., alternative handling will be added within a range that would not impair financial statement comparability.

(2) Date of adoption

The Companies are currently considering the effective date.

(3) The effect of adopting the accounting standards

The Companies are currently assessing the effects of these new standard and guidances on the consolidated financial statements.

4. FINANCIAL INSTRUMENTS

(1) Policy for financial instruments

As a matter of policy, the Companies limit fund management to the use of instruments including short-term deposits and raise money by borrowings from financial institutions. The Companies use derivatives to reduce the risk noted in (2), not for speculative transactions.

(2) Types of financial instruments and related risks

Notes and accounts receivable and other monetary claims on customers and counterparties expose the Companies to customer credit risk.

Securities and investment securities consist primarily of certificates of deposits, held-to-maturity debt securities and shares of companies with which the Companies do business. Certificates of deposits expose the Companies to the credit risk of issuers. The yield on certain held-to-maturity debt securities is structured to vary according to foreign exchange or interest rates, but this variability does not affect the principal. Investment securities expose the Companies to the risk of changes in market prices.

Long-term loans receivable expose the Companies to the credit risk of the borrowers.

Notes and accounts payable–trade are almost entirely due within one year.

Interest-bearing debt includes short-term loans payable to fund working capital requirements associated with operations, and long-term loans payable to fund capital expenditures.

Convertible bond-type bonds with share acquisition rights are to mainly fund share purchases.

The Companies use derivatives including forward foreign exchange contracts to hedge the risk of exchange rate fluctuations associated with trade payables denominated in foreign currencies.

(3) Risk management for financial instruments

1) Credit risk management

Credit risk is the risk of default by customers or counterparties. The Companies have procedures for managing receivable balances and due dates by counterparty and for regularly monitoring the financial condition of significant counterparties. The Companies mitigate the risks associated with certificates of deposits in accordance with internal policies and procedures for investments and fund management. The Companies also mitigate the risk of long-term loans receivable in accordance with internal policies and procedures for loans receivable.

2) Market risk management

As for investment securities, market prices of listed equity securities are monitored on a quarterly basis.

3) Liquidity risk associated with funding

Liquidity risk is the risk of being unable to make scheduled payments. The Companies manage liquidity risk by creating and updating a cash management plan based on reports from each of the Companies.

(4) Supplemental information on the fair value of financial instruments

The fair value of financial instruments is based on market prices or a reasonable estimate of fair value when market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions.

The following table summarizes the book value and the estimated fair values of financial instruments outstanding at March 31, 2018 and 2017. Financial instruments for which fair value is not readily determinable are not included in the following table. Note 2 provides information on financial instruments that are not included as their fair value is not readily determinable.

Millions of yen

March 31, 2018	Book value	Fair value	Difference
Cash and deposits	¥ 203,547	¥ 203,547	¥ —
Notes and accounts receivable–trade	697,581	697,581	—
Accounts receivable–other	65,208	65,208	—
Securities and investment securities:			
Held-to-maturity debt securities	1,200	1,220	20
Investment in subsidiaries and associates	28,405	62,336	33,931
Available-for-sale securities	165,548	165,548	—
Long-term loans receivable (including current portion)	40	40	0
Total assets	¥1,161,529	¥1,195,480	¥33,951
Notes and accounts payable–trade	¥ 867,111	¥ 867,111	¥ —
Short-term loans payable	9,000	9,000	—
Current portion of long-term loans payable	7,060	7,085	25
Convertible bond-type bonds with share acquisition rights	30,679	33,435	2,756
Long-term loans payable	9,248	9,187	(61)
Total liabilities	¥ 923,098	¥ 925,818	¥ 2,720
Derivatives*	¥ (29)	¥ (29)	¥ —

			Thousands of U.S. dollars (Note 1)
March 31, 2018	Book value	Fair value	Difference
Cash and deposits	**$ 1,915,917**	**$ 1,915,917**	**$ —**
Notes and accounts receivable–trade	**6,566,086**	**6,566,086**	**—**
Accounts receivable–other	**613,781**	**613,781**	**—**
Securities and investment securities:			
Held-to-maturity debt securities	**11,295**	**11,483**	**188**
Investment in subsidiaries and associates	**267,366**	**586,747**	**319,381**
Available-for-sale securities	**1,558,245**	**1,558,245**	**—**
Long-term loans receivable (including current portion)	**377**	**377**	**—**
Total assets	**$10,933,067**	**$11,252,636**	**$319,569**
Notes and accounts payable–trade	**$ 8,161,813**	**$ 8,161,813**	**$ —**
Short-term loans payable	**84,714**	**84,714**	**—**
Current portion of long-term loans payable	**66,453**	**66,688**	**235**
Convertible bond-type bonds with share acquisition rights	**288,771**	**314,712**	**25,941**
Long-term loans payable	**87,048**	**86,474**	**(574)**
Total liabilities	**$ 8,688,799**	**$ 8,714,401**	**$ 25,602**
Derivatives*	**$ (273)**	**$ (273)**	**$ —**

			Millions of yen
March 31, 2017	Book value	Fair value	Difference
Cash and deposits	¥ 165,268	¥ 165,268	¥ —
Notes and accounts receivable–trade	689,234	689,234	—
Accounts receivable–other	62,219	62,219	—
Securities and investment securities:			
Held-to-maturity debt securities	1,400	1,425	25
Investment in subsidiaries and associates	5,752	20,413	14,661
Available-for-sale securities	138,709	138,709	—
Long-term loans receivable (including current portion)	64	64	0
Total assets	¥1,062,646	¥1,077,332	¥14,686
Notes and accounts payable–trade	¥ 860,603	¥ 860,603	¥ —
Short-term loans payable	3,000	3,000	—
Current portion of long-term loans payable	8,150	8,198	48
Long-term loans payable	15,464	15,355	(109)
Total liabilities	¥ 887,217	¥ 887,156	¥ (61)
Derivatives*	¥ 16	¥ 16	¥ —

* The value of assets and liabilities arising from derivatives is shown at net value. Amounts in parentheses represent net liability.

Notes:1. Methods to determine the estimated fair value of financial instruments and other information for securities and derivatives

Assets

a. Cash and deposits, notes and accounts receivable–trade, and accounts receivable–other: Book value approximates fair value because of their short settlement period.

b. Securities and investment securities: As for certificates of deposits, book value approximates fair value because of their short settlement period. The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on quotes provided by financial institutions.

c. Long-term loans receivable (including current portion): The fair value of long-term loans receivable is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

Liabilities

a. Notes and accounts payable–trade and short-term loans payable: Book value approximates fair value because of their short settlement period.

b. Current portion of long-term loans payable and long-term loans payable: The fair value of long-term loans payable is calculated as discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

c. Convertible bond-type bonds with share acquisition rights: Market value of convertible bond-type bonds with share acquisition rights depends on the price presented by the correspondent financial institutions.

Derivatives

Please refer to Note 8. DERIVATIVE TRANSACTIONS of the notes to the consolidated financial statements.

Note: 2. Financial instruments for which fair value is not readily determinable at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
Unlisted equity securities	**¥19,522**	¥22,250	**$183,754**

Note: 3. The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2018 and 2017 were as follows:

				Millions of yen
March 31, 2018	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	**¥203,547**	**¥—**	**¥ —**	**¥—**
Notes and accounts receivable–trade	**697,581**	**—**	**—**	**—**
Accounts receivable–other	**65,208**	**—**	**—**	**—**
Securities and investment securities:				
Held-to-maturity debt securities:				
Government bonds, municipal bonds	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**1,200**	**—**
Other securities	**—**	**—**	**—**	**—**
Available-for-sale securities with contractual maturities:				
Equity securities	**—**	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	**—**
Other securities	**18,770**	**—**	**—**	**—**
Long-term loans receivable (including current portion)	**15**	**14**	**1**	**10**
Total	**¥985,121**	**¥14**	**¥1,201**	**¥10**

				Thousands of U.S. dollars (Note 1)
March 31, 2018	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	**$1,915,917**	**$ —**	**$ —**	**$—**
Notes and accounts receivable–trade	**6,566,086**	**—**	**—**	**—**
Accounts receivable–other	**613,781**	**—**	**—**	**—**
Securities and investment securities:				
Held-to-maturity debt securities:				
Government bonds, municipal bonds	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**11,295**	**—**
Other securities	**—**	**—**	**—**	**—**
Available-for-sale securities with contractual maturities:				
Equity securities	**—**	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	**—**
Other securities	**176,675**	**—**	**—**	**—**
Long-term loans receivable (including current portion)	**141**	**132**	**10**	**94**
Total	**$9,272,600**	**$132**	**$11,305**	**$94**

				Millions of yen
March 31, 2017	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	¥165,268	¥—	¥ —	¥—
Notes and accounts receivable–trade	689,230	4	—	—
Accounts receivable–other	62,219	—	—	—
Securities and investment securities:				
Held-to-maturity debt securities:				
Government bonds, municipal bonds	—	—	—	—
Corporate bonds	—	—	1,200	—
Other securities	—	—	—	200
Available-for-sale securities with contractual maturities:				
Equity securities	—	—	—	—
Debt securities	—	—	—	—
Other securities	18,770	—	—	—
Long-term loans receivable (including current portion)	22	35	7	—
Total	¥935,509	¥ 39	¥1,207	¥200

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2018	2017	2018
Cash and deposits	**¥203,547**	¥165,268	**$1,915,917**
Securities–certificate of deposits	**18,770**	18,770	**176,675**
Time deposits with maturities over three months	**(1,476)**	(1,476)	**(13,893)**
Other	**(278)**	—	**(2,617)**
Cash and cash equivalents	**¥220,563**	¥182,562	**$2,076,082**

6. INVESTMENT SECURITIES

(1) Held-to-maturity debt securities

The following tables summarize the book value and fair value of held-to-maturity debt securities as of March 31, 2018 and 2017.

			Millions of yen
March 31, 2018	Book value	Fair value	Difference
Securities whose fair value exceeds their book value:			
Government bonds, municipal bonds	**¥ —**	**¥ —**	**¥—**
Corporate bonds	**1,200**	**1,220**	**20**
Other securities	**—**	**—**	**—**
	¥1,200	**¥1,220**	**¥20**
Securities whose fair value does not exceed their book value:			
Government bonds, municipal bonds	**¥ —**	**¥ —**	**¥—**
Corporate bonds	**—**	**—**	**—**
Other securities	**—**	**—**	**—**
	¥ —	**¥ —**	**¥—**
Total	**¥1,200**	**¥1,220**	**¥20**

			Thousands of U.S. dollars (Note 1)
March 31, 2018	Book value	Fair value	Difference
Securities whose fair value exceeds their book value:			
Government bonds, municipal bonds	**$ —**	**$ —**	**$ —**
Corporate bonds	**11,295**	**11,483**	**188**
Other securities	**—**	**—**	**—**
	$11,295	**$11,483**	**$188**
Securities whose fair value does not exceed their book value:			
Government bonds, municipal bonds	**$ —**	**$ —**	**$ —**
Corporate bonds	**—**	**—**	**—**
Other securities	**—**	**—**	**—**
	$ —	**$ —**	**$ —**
Total	**$11,295**	**$11,483**	**$188**

			Millions of yen
March 31, 2017	Book value	Fair value	Difference
Securities whose fair value exceeds their book value:			
Government bonds, municipal bonds	¥ —	¥ —	¥—
Corporate bonds	1,200	1,221	21
Other securities	200	204	4
	¥1,400	¥1,425	¥25
Securities whose fair value does not exceed their book value:			
Government bonds, municipal bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other securities	—	—	—
	¥ —	¥ —	¥—
Total	¥1,400	¥1,425	¥25

(2) Available-for-sale securities with a fair value

The following tables summarize the acquisition cost and book value of available-for-sale securities with a fair value as of March 31, 2018 and 2017. Non-listed equity securities, in the amount of ¥5,370 million ($50,546 thousand) and ¥5,031 million as of March 31, 2017 and 2016, respectively, are not included in the tables below since no readily determinable market price is available and it is extremely difficult to determine their fair value.

			Millions of yen
March 31, 2018	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	**¥145,426**	**¥34,385**	**¥111,041**
Debt securities:			
Government bonds, municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other securities	**—**	**—**	**—**
Other securities	**—**	**—**	**—**
	¥145,426	**¥34,385**	**¥111,041**
Securities whose book value does not exceed their acquisition cost:			
Equity securities	**¥ 1,352**	**¥ 1,565**	**¥ (213)**
Debt securities:			
Government bonds, municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other securities	**—**	**—**	**—**
Other securities	**18,770**	**18,770**	**—**
	¥ 20,122	**¥20,335**	**¥ (213)**
Total	**¥165,548**	**¥54,720**	**¥110,828**

			Thousands of U.S. dollars (Note 1)
March 31, 2018	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	**$1,368,844**	**$323,654**	**$1,045,190**
Debt securities:			
Government bonds, municipal bonds	—	—	—
Corporate bonds	—	—	—
Other securities	—	—	—
Other securities	—	—	—
	$1,368,844	**$323,654**	**$1,045,190**
Securities whose book value does not exceed their acquisition cost:			
Equity securities	**$ 12,726**	**$ 14,731**	**$ (2,005)**
Debt securities:			
Government bonds, municipal bonds	—	—	—
Corporate bonds	—	—	—
Other securities	—	—	—
Other securities	**176,675**	**176,675**	—
	$ 189,401	**$191,406**	**$ (2,005)**
Total	**$1,558,245**	**$515,060**	**$1,043,185**

			Millions of yen
March 31, 2017	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	¥118,706	¥34,656	¥84,050
Debt securities:			
Government bonds, municipal bonds	—	—	—
Corporate bonds	—	—	—
Other securities	—	—	—
Other securities	—	—	—
	¥118,706	¥34,656	¥84,050
Securities whose book value does not exceed their acquisition cost:			
Equity securities	¥ 1,233	¥ 1,361	¥ (128)
Debt securities:			
Government bonds, municipal bonds	—	—	—
Corporate bonds	—	—	—
Other securities	—	—	—
Other securities	18,770	18,770	—
	¥ 20,003	¥20,131	¥ (128)
Total	¥138,709	¥54,787	¥83,922

(3) Available-for-sale securities sold during the year

Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	**2018**	2017	**2018**
Proceeds from sales	**¥288**	¥203	**$2,711**
Realized gains on sales	**50**	21	**471**
Realized losses on sales	**0**	18	**0**

For the years ended March 31, 2018 and 2017, the Companies recognized ¥80 million ($753 thousand) and ¥30 million in loss on valuation of investment securities, respectively, of which ¥80 million ($753 thousand) and ¥30 million applied to available-for-sale securities, respectively. The Companies recognize impairment of applicable equities as an unrealized loss on devaluation if the market value at the end of the fiscal period is 30% or more below the acquisition cost. The Companies recognize impairment of equities for which fair value is not readily determinable net of amount deemed recoverable if the net assets per share of the issuer fall 50% or more below the acquisition cost.

7. NOTES MATURING AT THE END OF CONSOLIDATED FISCAL YEAR

The Companies accounted for notes maturing on March 31, 2018 and 2017, which were bank holiday, as though settled.

Notes receivable and notes payable maturing on March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
notes receivable	**¥ 2,194**	—	**$ 20,651**
notes payable	**(4,597)**	—	**(43,270)**

8. DERIVATIVE TRANSACTIONS

For the years ended March 31, 2018 and 2017, there was no derivative transaction for which the hedge accounting was not applied.

Currency-related transactions for which the hedge accounting was applied for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

			Millions of yen	
Accounting method	Type	Hedged item	Notional amount	Fair value
Allocation method for foreign exchange forwards	Buy: US$	Accounts payable	**¥1,161**	**¥(29)**
Total			**¥1,161**	**¥(29)**

Year ended March 31, 2018

			Thousands of U.S. dollars (Note 1)	
Accounting method	Type	Hedged item	Notional amount	Fair value
Allocation method for foreign exchange forwards	Buy: US$	Accounts payable	**$10,928**	**$(273)**
Total			**$10,928**	**$(273)**

Year ended March 31, 2017

			Millions of yen	
Accounting method	Type	Hedged item	Notional amount	Fair value
Allocation method for foreign exchange forwards	Buy: US$	Accounts payable	¥1,151	¥16
Total			¥1,151	¥16

Note: Calculation of fair value is based on the prices provided by financial institutions.

9. IMPAIRMENT LOSS

Accumulated impairment losses are directly written off against the value of each asset based on the relevant rules for consolidated financial statements.

For business-use assets owned by the Companies that are idle, are not expected to be used in the future and have recoverable values less than book value, the Companies write down the book value to the recoverable value, and accounts for the amount of this write-down as an impairment loss in other income (expenses).

The Prescription Pharmaceutical Wholesale Business Segment has established region-based operating classification and groups its assets by region. Assets of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business Segment and the Animal Health Products and Food Processing Raw Materials Wholesale Business Segment are also grouped by region.

During the year ended March 31, 2018, the Companies recorded impairment loss of non-current assets for the following asset groups:

Application	Type	Location	Millions of yen	Thousands of U.S. dollars (Note 1)
Idle assets	Land and buildings, etc.	Kanto, 5 items	**¥216**	**$2,033**
		Others	**25**	**235**
Business assets	Land and buildings, etc.	Koshinetsu, 1 item	**83**	**781**
		Others	**1**	**10**
Total			**¥325**	**$3,059**

For the year ended March 31, 2018, the Companies measured the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes. The Companies consider the net sale value of an asset, which is deemed to be very difficult to sale or reuse, to be zero.

During the year ended March 31, 2017, the Companies recorded impairment loss of non-current assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and buildings, etc.	Kanto, 2 items	¥ 56
		Others	0
Business assets	Buildings, etc.	Hokkaido, 7 items	914
		Others	95
Total			¥1,065

For the year ended March 31, 2017, the Companies measured the recoverable value of assets using the net sale value. The net sale value is the amount calculated based on the appraised value determined by a real estate appraiser or the value assessed for property tax purposes. The Companies consider the net sale value of an asset, which is deemed to be very difficult to sale or reuse, to be zero.

For the years ended March 31, 2018 and 2017, impairment loss of noncurrent assets totaled ¥325 million ($3,059 thousand) and ¥1,065 million, respectively, as presented below.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Item	**2018**	2017	**2018**
Land	**¥152**	¥ 19	**$1,431**
Buildings and structures	**154**	911	**1,450**
Other	**19**	135	**178**
Total	**¥325**	¥1,065	**$3,059**

10. LOSS ON REDUCTION OF NON-CURRENT ASSETS

When a company acquires property, plant and equipment with funds from a national or local government subsidy, the transaction is qualified for deferred gain and reduced basis transactions ("Asshuku Kicho"). The accumulated amount of cost reduction as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Buildings and structures	**¥ 702**	¥ 702	**$ 6,608**
Machinery and vehicles	**359**	359	**3,379**
Land	**792**	792	**7,455**
Other	**1**	1	**9**
Total	**¥1,854**	¥1,854	**$17,451**

11. INVESTMENT AND RENTAL PROPERTY

The Companies own rental office buildings (including land) and idle land in Tokyo and elsewhere. For the years ended March 31, 2018 and 2017, net rent income totaled ¥413 million ($3,887 thousand) and ¥447 million, respectively. Rent income is included in other income and rent expense is included in other expenses. For the years ended March 31, 2018 and 2017, the Companies recorded impairment loss of investment and rental property of ¥241 million ($2,268 thousand) and ¥37 million, respectively.

The book value, net change and fair value of investment and rental property as of March 31, 2018 and 2017 were as follows:

				Millions of yen
			Book value	Fair value at
March 31, 2018	March 31, 2017	Net change	March 31, 2018	March 31, 2018
Investment and rental property	**¥5,681**	**¥319**	**¥6,000**	**¥10,097**

			Thousands of U.S. dollars (Note 1)	
			Book value	Fair value at
March 31, 2018	March 31, 2017	Net change	March 31, 2018	March 31, 2018
Investment and rental property	**$53,473**	**$3,003**	**$56,476**	**$95,040**

				Millions of yen
			Book value	Fair value at
March 31, 2017	March 31, 2016	Net change	March 31, 2017	March 31, 2017
Investment and rental property	¥5,495	¥186	¥5,681	¥7,857

Notes: 1. Book value represents the acquisition cost less accumulated depreciation and impairment loss.
2. Net change for the year ended March 31, 2018 mainly consisted of an increase due to transfer to investment and rental properties in the amount of ¥1,206 million ($11,352 thousand) and a decrease due to sale in the amount of ¥1,167 million ($10,985 thousand). Net change for the year ended March 31, 2017 mainly consisted of an increase due to reclassification of business assets to idle assets in the amount of ¥1,538 million and a decrease due to sale in the amount of ¥1,120 million.
3. Fair value of principal properties at March 31, 2018 and 2017 was mainly based on external appraisal values or property tax appraisal values.

12. LAND REVALUATION

Under the "Law on Land Revaluation," passed on March 31, 1998 and revised on March 31, 2001, the Company and some consolidated subsidiaries carried out a one-time revaluation of their own-use land to a value based on real estate appraisal information at March 31, 2002.

The resulting revaluation reserve for land represent unrealized appreciation of land and are accounted for as revaluation reserve for land, net of taxes in net assets.

13. LEASE

(1) Finance lease transactions

The Companies hold leased assets as a lessee under finance lease transactions that do not transfer ownership. Such leased assets are mainly machinery and equipment.

The annual maturities of finance lease obligations at March 31, 2018 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	**7.53%**	**¥2,292**	**$21,574**
2019	**2.32%**	**1,376**	**12,952**
2020	**2.32%**	**1,212**	**11,408**
2021	**2.32%**	**1,119**	**10,533**
2022	**2.32%**	**1,065**	**10,024**

(2) Operating lease transactions

The Companies also enters into operating lease contracts. Future minimum lease payments of non-cancellable operating lease contracts are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
Within one year	**¥2,528**	¥2,477	**$23,795**
Over one year	**5,294**	5,664	**49,831**
Total	**¥7,822**	¥8,141	**$73,626**

14. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

The Company has overdraft facilities with 17 banks in order to support effective financing. The unexecuted balance of overdraft facilities at March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
Total overdraft facilities	**¥194,090**	¥193,800	**$1,826,902**
Less amounts currently executed	**(9,000)**	(3,000)	**(84,714)**
Unexecuted balance	**¥185,090**	¥190,800	**$1,742,188**

Short-term loans payable including overdraft facilities at March 31, 2018 and 2017 principally bore annual average interest rates of 0.38% and 0.32% per annum, respectively.

Long-term loans payable at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2018**	2017	**2018**
Loans from banks	**¥16,308**	¥23,614	**$153,501**
	¥16,308	¥23,614	**$153,501**
Less current portion	**(7,060)**	(8,150)	**(66,453)**
Amount due after one year	**¥ 9,248**	¥15,464	**$ 87,048**

The annual maturities of long-term loans payable at March 31, 2018 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	**0.36%**	**¥7,060**	**$66,453**
2019	**0.35**	**5,710**	**53,746**
2020	**0.35**	**3,318**	**31,231**
2021	**0.35**	**220**	**2,071**
2022 and thereafter	—	—	—

15. BONDS PAYABLE

The Company has issued convertible bond-type bonds with share acquisition rights.

Company	MEDIPAL HOLDINGS CORPORATION
Description	Euro-yen convertible bond-type bonds with share acquisition rights due 2022
Date of Issuance	October 10, 2017
Maturity	October 7, 2022

	Millions of yen	Thousands of U.S. dollars (Note 1)
Balance at beginning of period	—	—
Balance at end of period	**¥30,679**	**$288,771**
Interest rate (%)	—	—
Collateral	**None**	—
Total	**¥30,679**	**$288,771**

(1) Details of convertible bond-type bonds with share acquisition rights

Type of stock to be issued upon exercise of the share acquisition rights	Common stock

	yen	U.S. dollars (Note 1)
Issue price of the share acquisition rights	—	—
Issue price of the shares*2	**¥2,307**	**$21.715**

	Millions of yen	Thousands of U.S. dollars (Note 1)
Total issue price	**¥30,750**	**$289,439**
Upon exercise of the share acquisition rights, total issue price to be issued common stock	—	—
Ratio (%)	**100**	**100**
Exercise period of the share acquisition rights	From October 24, 2017 To September 23, 2022	
Substitutive deposits	*1	

*1 Upon the exercise of the share acquisition rights, the bonds attached with the relevant share acquisition rights are contributed.

*2 The conversion price has been adjusted to ¥2,304.8 effective April 1, 2018 in accordance with the terms and conditions of the Euro-yen convertible bond-type bonds with share acquisition rights due 2022, with the Board of Directors held on May 14, 2018 approved a plan to pay year-end dividend of 18 yen per share, which resulted in an annual dividend of 34 yen per share for the fiscal year ended March 31, 2018.

(2) Redemption schedule of bonds for 5 years subsequent to March 31, 2018

Year ended March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	—	—
2019	—	—
2020	—	—
2021	—	—
2022	**¥30,679**	**$288,771**

16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

(1) Overview of retirement benefit plan

The Companies use a contract-type corporate pension plan and an unfunded lump-sum retirement benefit plan as a defined benefit plan system, and a defined contribution pension plan as a defined contribution plan system. In addition, the Companies may pay a premium severance payment when employees retire. Consolidated subsidiaries, except for a few, join in the multiemployer employees' pension fund plans. Of which, the plan, for which the amount of plan assets attributable to the Company's contributions cannot be reasonably determined, is accounted for in the same manner as for a defined contribution pension plan.

The Tokyo Pharmaceutical Industry Employee Pension Fund which the Companies are joining received authorization from the Minister of Health, Labour and Welfare on April 1, 2018 for returning the contracted-out portion to the country (for the past period), and has been transferred to the Tokyo Pharmaceutical Corporate Pension Fund, which was established on April 1, 2018 as a successor system of the Tokyo Pharmaceutical Industry Employee Pension Fund.

Furthermore, the Osaka Pharmaceutical Industry Employee Pension Fund which the Companies were joining received authorization from the Minister of Health, Labour and Welfare on March 28, 2018 for dissolution of the fund. Accordingly, the Company and its main consolidated subsidiaries have joined the Tokyo Pharmaceutical Corporate Pension Fund which is the successor system of the Tokyo Pharmaceutical Industry Employee Pension Fund.

The additional amount of burden is not expected to occur from returning the contracted-out portion nor from the dissolution of these funds.

Certain consolidated subsidiaries apply the simplified method to calculate net defined benefit liability and retirement benefit expenses. Under the simplified method, the amount of benefits payable to be accrued for the voluntary retirement of all employees at fiscal period end is used as the amount of projected benefit obligations.

(2) Defined benefit plans

(Excluding the plans accounted for using the simplified method)

1) Movement in projected benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Balance at beginning of period	**¥45,810**	¥45,578	**$431,193**
Service cost	**2,784**	2,839	**26,205**
Interest cost	**42**	40	**395**
Actuarial difference	**(44)**	(184)	**(414)**
Benefits paid	**(3,036)**	(2,385)	**(28,577)**
Decrease by corporate division	**—**	(78)	**—**
Balance at end of period	**¥45,556**	¥45,810	**$428,802**

2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Balance at beginning of period	**¥30,614**	¥29,855	**$288,159**
Expected return on plan assets	**521**	509	**4,904**
Actuarial difference	**716**	317	**6,739**
Contribution paid by the employer	**1,246**	1,280	**11,728**
Benefits paid	**(1,702)**	(1,347)	**(16,020)**
Balance at end of period	**¥31,395**	¥30,614	**$295,510**

3) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Funded projected benefit obligations	**¥25,799**	¥25,976	**$242,837**
Unfunded projected benefit obligations	**19,757**	19,834	**185,965**
Plan assets	**(31,395)**	(30,614)	**(295,510)**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥14,161**	¥15,196	**$133,292**
Net defined benefit liability	**¥19,746**	¥19,823	**$185,862**
Net defined benefit asset	**(5,585)**	(4,627)	**(52,570)**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥14,161**	¥15,196	**$133,292**

4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Service cost	**¥2,784**	¥2,839	**$26,205**
Interest cost	**42**	40	**395**
Expected return on plan assets	**(521)**	(509)	**(4,904)**
Amortization of actuarial difference	**1,421**	1,047	**13,375**
Amortization of prior service costs	**—**	—	**—**
Other	**180**	209	**1,695**
Retirement benefit expenses	**¥3,906**	¥3,626	**$36,766**

5) Remeasurements of defined benefit plans in other comprehensive income

The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Prior service cost	**¥ —**	¥ —	**$ —**
Actuarial difference	**2,181**	1,549	**20,529**
Total	**¥2,181**	¥1,549	**$20,529**

6) Remeasurements of defined benefit plans in accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Unrecognized prior service costs	**¥ —**	¥ —	**$ —**
Unrecognized actuarial difference	**(357)**	(2,538)	**(3,360)**
Total	**¥(357)**	¥(2,538)	**$(3,360)**

7) Plan assets

a. Components of plan assets

Percentage by major category of plan assets was as follows:

	2018	2017
Debt securities	**42%**	41%
Equity securities	**24%**	25%
Alternative investments (Note)	**17%**	17%
Life insurance general accounts	**13%**	13%
Other	**4%**	4%
Total	**100%**	100%

Note: Alternative investments mainly included investments in hedge funds.

b. Calculation of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the current and projected allocations and the long-term rate of returns on various categories of plan assets have been considered.

8) Actuarial assumptions

The major actuarial assumptions were as follows:

	2018	2017
Discount rate	**0.0 to 0.9%**	0.0 to 0.9%
Long-term expected rate of return on plan assets	**0.2 to 2.0%**	0.2 to 2.0%

(3) Defined benefit plans accounted for using the simplified method

1) Movement in net defined benefit liability for the plans accounted for using the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of period	**¥155**	¥ —	**$1,459**
Retirement benefit expenses	**21**	21	**198**
Benefits paid	**(13)**	(14)	**(122)**
Contribution to the plans	**—**	—	**—**
Increase due to new consolidated subsidiaries	**47**	148	**442**
Balance at end of period	**¥210**	¥155	**$1,977**

2) Reconciliation from projected benefit obligations and plan assets to net defined benefit liability and asset

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Funded projected benefit obligations	**¥ —**	¥ —	**$ —**
Unfunded projected benefit obligations	**210**	155	**1,977**
Plan assets	**—**	—	**—**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥210**	¥155	**$1,977**
Net defined benefit liability	**¥210**	¥155	**$1,977**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥210**	¥155	**$1,977**

3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method were ¥21 million ($198 thousand) and ¥21 million for the years ended March 31, 2018 and 2017, respectively.

(4) Defined contribution pension plans

The amount to be paid by the Companies to the defined contribution pension plans was ¥939 million ($8,838 thousand) and ¥927 million for the years ended March 31, 2018 and 2017, respectively.

(5) Funded status of the multiemployer employees' pension fund plans

1) The amount to be paid by the Companies to the multiemployer employees' pension fund plans was ¥1,284 million ($12,086 thousand) and ¥2,052 million for the years ended March 31, 2018 and 2017, respectively.

The funded status of these plans at March 31, 2018 and 2017 was as follows:

			Millions of yen
2018	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	**¥549,913**	**¥291,474**	**¥86,379**
Total of actuarial obligation and minimum actuarial reserve	**547,839**	**358,591**	**76,994**
Funded (unfunded) employees' retirement benefits	**¥ 2,074**	**¥ (67,117)**	**¥ 9,385**

			Thousands of U.S. dollars (Note 1)
2018	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	**$5,176,139**	**$2,743,543**	**$813,055**
Total of actuarial obligation and minimum actuarial reserve	**5,156,617**	**3,375,292**	**724,717**
Funded (unfunded) employees' retirement benefits	**$ 19,522**	**$ (631,749)**	**$ 88,338**

			Millions of yen
2017	Tokyo Pharmaceutical Industry Employee Pension Fund	Osaka Pharmaceutical Industry Employee Pension Fund	Other
Plan assets	¥531,917	¥306,491	¥124,132
Total of actuarial obligation and minimum actuarial reserve	538,161	365,489	111,818
Funded (unfunded) employees' retirement benefits	¥ (6,244)	¥ (58,998)	¥ 12,314

2) Percentage of plan assets ascribable to contributions by the Companies

The percentage of the assets of each of these plans ascribable to contributions by the Companies at March 31, 2018 and 2017 was as follows:

	2018	2017
Tokyo Pharmaceutical Industry Employee Pension Fund	**11.6%**	10.5%
Osaka Pharmaceutical Industry Employee Pension Fund	**4.6%**	4.5%
Other	**9.2%**	8.2%

17. PLEDGED ASSETS

The following assets were pledged as collateral as of March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2018	2017	2018
Cash and deposits	**¥ 860**	¥ 860	**$ 8,095**
Buildings and structures at net book value	**576**	589	**5,422**
Land	**209**	207	**1,967**
Investment securities	**50**	45	**470**
Total	**¥1,695**	¥1,701	**$15,954**

The liabilities associated with the pledged assets as of March 31, 2018 and 2017 were as follow:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2018	2017	2018
Notes and accounts payable–trade	**¥24,353**	¥23,751	**$229,226**

18. CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, associates and others in the amount of ¥1,664 million ($15,663 thousand) and ¥1,569 million at March 31, 2018 and 2017, respectively.

19. NET ASSETS

Under the Japanese Companies Act, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and the legal earnings reserve must be set aside as additional paid-in capital or a legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Japanese Companies Act, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit, or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and the legal earnings reserve may not be distributed as dividends. Under the Japanese Companies Act, however, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Companies Act.

At the Board of Directors meeting held on May 14, 2018, cash dividends amounting to ¥4,048 million ($38,102 thousand) were approved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2018.

20. INCOME TAXES

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated statutory tax rate was approximately 30.9% and 30.9% for the years ended March 31, 2018 and 2017, respectively.

The reconciliations for the years ended March 31, 2018 and 2017 are not presented because the difference between the statutory tax rate and the effective tax rate was less than or equal to 5%.

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2018	2017	2018
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 636**	¥ 705	**$ 5,986**
Impairment loss	**1,492**	1,591	**14,044**
Loss on valuation of investment securities	**1,497**	1,535	**14,091**
Accrued enterprise taxes	**971**	459	**9,140**
Provision for bonuses	**2,955**	2,888	**27,814**
Net defined benefit liability	**6,636**	6,638	**62,462**
Tax loss carry forward	**1,043**	1,308	**9,817**
Business investments	**1,504**	1,303	**14,157**
Other	**4,200**	4,613	**39,533**
Subtotal	**20,934**	21,040	**197,044**
Valuation allowance	**(4,964)**	(5,399)	**(46,724)**
Total deferred tax assets	**¥ 15,970**	¥ 15,641	**$ 150,320**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**(2,798)**	(2,946)	**(26,337)**
Valuation difference on available-for-sale securities	**(34,480)**	(26,259)	**(324,548)**
Other	**(6,748)**	(6,572)	**(63,516)**
Total deferred tax assets (liabilities)	**¥(44,026)**	¥(35,777)	**$(414,401)**
Net deferred tax liabilities	**¥(28,056)**	¥(20,136)	**$(264,081)**

Net deferred tax assets and liabilities included in the consolidated balance sheets consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2018	2017	2018
Deferred tax assets included in current assets	**¥ 5,558**	¥ 5,045	**$ 52,316**
Deferred tax assets included in non-current assets	**328**	394	**3,087**
Deferred tax liabilities included in other current liabilities	**—**	(224)	**—**
Deferred tax liabilities included in long-term liabilities	**(33,942)**	(25,351)	**(319,484)**

21. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Increase during the year	**¥26,953**	¥4,206	**$253,699**
Reclassification adjustments	**(48)**	1	**(452)**
Amount before income tax effect	**26,905**	4,207	**253,247**
Tax effect	**(8,221)**	(1,261)	**(77,381)**
Sub-total, net of tax	**18,684**	2,946	**175,866**
Deferred gains or losses on hedges:			
Increase (decrease) during the year	**(29)**	16	**(273)**
Adjustments of acquisition cost of assets	**(16)**	55	**(151)**
Amount before income tax effect	**(45)**	71	**(424)**
Tax effect	**14**	(22)	**132**
Sub-total, net of tax	**(31)**	49	**(292)**
Revaluation reserve for land:			
Tax effect	**—**	(0)	**—**
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	**760**	502	**7,154**
Reclassification adjustments	**1,421**	1,047	**13,375**
Amount before income tax effect	**2,181**	1,549	**20,529**
Tax effect	**(728)**	(483)	**(6,853)**
Sub-total, net of tax	**1,453**	1,066	**13,676**
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year	**320**	(425)	**3,012**
Total other comprehensive income	**¥20,426**	¥3,636	**$192,262**

22. SEGMENT INFORMATION

(1) General information about reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of resources to segments and assess segment performance.

The Company is aiming to create a new, customer-oriented business model, and therefore has three reportable segments by customer: the Prescription Pharmaceutical Wholesale Business; the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business; and the Animal Health Products and Food Processing Raw Materials Wholesale Business.

The Prescription Pharmaceutical Wholesale Business conducts wholesale business for hospitals, clinics, dispensing pharmacies and other customers.

The Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business conducts wholesale business for drugstores, home centers, convenience stores, supermarkets and other customers. The Animal Health Products and Food Processing Raw Materials Wholesale Business conduct wholesale business for animal hospitals, livestock or fisheries vendors, food processing manufactures and other customers.

As of the fiscal year ended March 31, 2018, segment assets of reportable segments are revised to more accurately reflect the operating conditions of the Company. Certain corporate assets that were previously included in Adjustment are allocated to the reportable segments.

Segment information for the fiscal year ended March 31, 2017 has been restated using this revised calculation method.

(2) Basis of measurement for reported segment profit or loss, segment assets, segment liabilities and other material items

The accounting methods for the reported business segments are generally the same as those in 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Segment profit corresponds to the operating profit of the consolidated statements of income. Intersegment sales and transfer prices are based on market prices.

(3) Information about reported segment profit or loss, segment assets, segment liabilities and other material items

Segment information as of and for the year ended March 31, 2018 was as follows:

Millions of yen

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net sales:						
(1) Sales to outside customers	**¥2,117,054**	**¥966,171**	**¥63,089**	**¥3,146,314**	**¥ —**	**¥3,146,314**
(2) Intersegment sales and transfers	**2,606**	**513**	**5**	**3,124**	**(3,124)**	**—**
Total sales	**2,119,660**	**966,684**	**63,094**	**3,149,438**	**(3,124)**	**3,146,314**
Segment profit (Operating profit)	**¥ 19,435**	**¥ 22,978**	**¥ 1,513**	**¥ 43,926**	**¥ 335**	**¥ 44,261**
Segment assets	**¥1,169,428**	**¥381,936**	**¥23,740**	**¥1,575,104**	**¥46,470**	**¥1,621,574**
Other						
Depreciation	**¥ 9,641**	**¥ 4,829**	**¥ 156**	**¥ 14,626**	**¥ 191**	**¥ 14,817**
Amortization of goodwill	**256**	**138**	**83**	**477**	**—**	**477**
Investment in affiliates accounted for using the equity method	**47,449**	**—**	**—**	**47,449**	**—**	**47,449**
Capital expenditures	**6,898**	**13,649**	**99**	**20,646**	**7**	**20,653**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net sales:						
(1) Sales to outside customers	**$19,927,090**	**$9,094,230**	**$593,835**	**$29,615,155**	**$ —**	**$29,615,155**
(2) Intersegment sales and transfers	**24,529**	**4,829**	**47**	**29,405**	**(29,405)**	**—**
Total sales	**19,951,619**	**9,099,059**	**593,882**	**29,644,560**	**(29,405)**	**29,615,155**
Segment profit (Operating profit)	**$ 182,935**	**$ 216,284**	**$ 14,241**	**$ 413,460**	**$ 3,153**	**$ 416,613**
Segment assets	**$11,007,417**	**$3,595,030**	**$223,457**	**$14,825,904**	**$437,405**	**$15,263,309**
Other						
Depreciation	**$ 90,747**	**$ 45,454**	**$ 1,468**	**$ 137,669**	**$ 1,798**	**$ 139,467**
Amortization of goodwill	**2,410**	**1,299**	**781**	**4,490**	**—**	**4,490**
Investment in affiliates accounted for using the equity method	**446,621**	**—**	**—**	**446,621**	**—**	**446,621**
Capital expenditures	**64,929**	**128,473**	**932**	**194,334**	**65**	**194,399**

Notes:
1. Adjustments were as follows:
   (1) The ¥3,124 million ($29,405 thousand) adjustment of net sales represents elimination of intersegment transactions.
   (2) The ¥335 million ($3,153 thousand) adjustment of segment profit represents elimination of intersegment transactions of ¥2,312 million ($21,762 thousand), minus corporate expenses of ¥1,977 million ($18,609 thousand) that are not allocated to reportable segments.
   (3) The ¥46,470 million ($437,405 thousand) adjustment of segment assets represents corporate assets of ¥50,935 million ($479,433 thousand) that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥4,465 million ($42,028 thousand).
   (4) The ¥191 million ($1,798 thousand) adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
   (5) The ¥7 million ($65 thousand) adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.
2. Segment profit is adjusted to operating profit as reported in the consolidated statements of income.

Segment information as of and for the year ended March 31, 2017 is as follows:

Millions of yen

Year ended March 31, 2017	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net sales:						
(1) Sales to outside customers	¥2,082,923	¥921,222	¥59,756	¥3,063,901	¥ —	¥3,063,901
(2) Intersegment sales and transfers	2,253	873	6	3,132	(3,132)	—
Total sales	2,085,176	922,095	59,762	3,067,033	(3,132)	3,063,901
Segment profit (Operating profit)	¥ 18,670	¥ 19,115	¥ 1,151	¥ 38,936	¥ 714	¥ 39,650
Segment assets	¥1,118,156	¥354,129	¥22,626	¥1,494,911	¥31,001	¥1,525,912
Other						
Depreciation	¥ 8,222	¥ 4,929	¥ 156	¥ 13,307	¥ 194	¥ 13,501
Amortization of goodwill	—	138	83	221	—	221
Investment in affiliates accounted for using the equity method	24,102	—	—	24,102	—	24,102
Capital expenditures	34,966	9,792	91	44,849	35	44,884

Notes:
1. Adjustments were as follows:
   (1) The ¥3,132 million adjustment of net sales represents elimination of intersegment transactions.
   (2) The ¥714 million adjustment of segment profit represents elimination of intersegment transactions of ¥3,224 million, minus corporate expenses of ¥2,510 million that are not allocated to reportable segments.
   (3) The ¥31,001 million adjustment of segment assets represents corporate assets of ¥39,756 million that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥8,755 million.
   (4) The ¥194 million adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
   (5) The ¥35 million adjustment of capital expenditures represents corporate assets that are not allocated to reportable segments.
2. Segment profit is adjusted to operating profit as reported in the consolidated statements of income.

(4) Information related to reportable segments

1) Information about products and services

The information about products and services is included in (3) Information about reported segment profit or loss, segment assets, segment liabilities and other material items.

2) Information about geographic areas

a. Net sales

Information about net sales was not shown since sales to outside customers in Japan were more than 90% of net sales presented in the consolidated statements of income.

b. Property, plant and equipment

Information about property, plant and equipment was not shown since there are no property, plant and equipment outside Japan.

3) Information about major customers

Information about major customers was not shown since net sales to any single customer were less than 10% of the amount of net sales presented in the consolidated statements of income.

(5) Information on impairment loss of non-current assets by reportable segment

Millions of yen

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	**¥242**	**¥83**	**¥0**	**¥ —**	**¥325**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	**$2,278**	**$781**	**$0**	**$ —**	**$3,059**

Millions of yen

Year ended March 31, 2017	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Impairment loss of non-current assets	¥953	¥108	¥4	¥ —	¥1,065

(6) Information on amortization of goodwill and unamortized balance by reportable segment

Millions of yen

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	**¥ 255**	**¥138**	**¥ 84**	**¥ —**	**¥ 477**
Unamortized balance	**1,626**	**345**	**146**	**—**	**2,117**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2018	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	**$ 2,400**	**$1,299**	**$ 791**	**$ —**	**$ 4,490**
Unamortized balance	**15,305**	**3,247**	**1,374**	**—**	**19,926**

Millions of yen

Year ended March 31, 2017	Prescription Pharmaceutical Wholesale Business	Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business	Animal Health Products and Food Processing Raw Materials Wholesale Business	Eliminations and Corporate	Total
Amortization of goodwill	¥ —	¥138	¥ 83	¥ —	¥221
Unamortized balance	—	483	229	—	712

23. TRANSACTIONS WITH RELATED PARTIES

The following are transactions between the Companies and a principal shareholder of the Company which owned more than a 10% interest for the years ended March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Principal shareholder	Takeda Pharmaceutical Company Limited		
Capital stock	**¥77,914**	¥65,203	**$733,377**
Principal business	Pharmaceutical product manufacturer		
Percentage of total shares	**10.2%**	10.1%	
Description of transactions:			
Purchase amount of pharmaceutical products	**270,610**	275,042	**2,547,157**
Balance of notes and accounts payable–trade at end of period	**56,396**	64,878	**530,836**

In accordance with Company policy, the purchase transactions were conducted after negotiations with due reference to actual market prices and other issues.

24. SUBSEQUENT EVENTS

CASH DIVIDENDS

On May 14, 2018, the Board of Directors approved the payment of a cash dividend of ¥18.00 ($0.169) per share to shareholders of record at March 31, 2018, for a total payment of ¥4,048 million ($38,102 thousand).

PURCHASE OF TREASURY SHARES

The Company has purchased treasury shares through the acquisition method concretely resolved by the Board of Directors on June 12, 2018, pursuant to Article 459, Paragraph 1 of the Companies Act.

(1) Reason for the purchase of treasury shares

The Company purchases treasury shares in order to execute a flexible capital policy in response to changes in the corporate environment as well as to enhance capital efficiency.

(2) Details of the purchase

1) Type of stock to be purchased: Common stock of the Company

2) Total number of shares to be purchased: Up to 2,445,200 shares

3) Total purchase price of shares: Up to ¥6,047 million ($56,918 thousand)

4) Purchase date: June 13, 2018

5) Purchase method: Through Tokyo Stock Exchange Trading Network System (ToSTNet-3)

(3) Result of the purchase of treasury shares

As a result of purchase above, the Company acquired 2,445,200 shares of the Company's common stock (total purchase price of ¥6,047 million ($56,918 thousand)) on June 13, 2018.

Independent Auditor's Report

To the Board of Directors of MEDIPAL HOLDINGS CORPORATION:

We have audited the accompanying consolidated financial statements of MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
July 27, 2018
Tokyo, Japan

Subsidiaries and Affiliated Companies

Company Name / Location	Common Stock (Millions of yen, unless other wise noted)	Voting Right Percentage (%)	Representative Director*1	Date Established	Business (Main areas of business)
Consolidated subsidiaries					
MEDICEO CORPORATION (Chuo-ku, Tokyo)	100	100.0	Yasuhiro Choufuku, Representative Director, President and CEO	April 2004	Sales of prescription pharmaceutical products, medical equipment and supplies, clinical diagnostics, etc. (Hokkaido, Tohoku, Kanto, Chubu, and Kinki areas)
EVERLTH Co., Ltd. (Naka-ku, Hiroshima)	1,510	100.0	Takuro Hasegawa, Representative Director, President and CEO	April 1950	Sales of prescription pharmaceutical products, medical equipment and supplies, clinical diagnostics, etc. (Chugoku area)
ATOL CO., LTD. (Higashi-ku, Fukuoka)	3,965	100.0	Shinjiro Watanabe, Representative Director, President and CEO	January 1947	Sales of prescription pharmaceutical products, medical equipment and supplies, clinical diagnostics, etc. (Kyushu and Okinawa areas)
SPLine Corporation (Chuo-ku, Tokyo)	100	100.0	Masaaki Katano, Representative Director, President and CEO	May 2016	Distribution planning for specialty pharmaceuticals
MM CORPORATION (Bunkyo-ku, Tokyo)	100	100.0	Hideaki Kitauchi, Representative Director, President and CEO	January 1951	Sales of medical equipment and supplies, etc.
ASTEC Co., Ltd. (Tsukuba-shi, Ibaraki)	10	100.0	Satoru Oba, Representative Director, President and CEO	July 1992	Sales of medical equipment and supplies, etc.
MVC CO., LTD. (Higashi-ku, Fukuoka)	100	100.0	Yoshihiro Takimoto, Representative Director, President and CEO	November 2007	Sales of medical equipment and supplies, etc.
MEDIE Co., Ltd. (Chuo-ku, Tokyo)	14	100.0	Yoshitaka Ichiyanagi, President and CEO	July 1980	Creation of a computerized medical supply database, creation of master product databases For medical facilities
M.I.C. (Medical Information College), INC. (Bunkyo-ku, Tokyo)	10	100.0	Hiroshi Niwa, Representative Director, President	August 1984	Health insurance claims review, medical coding dispatch, outsourcing, and remote education
Trim Co., Ltd. (Chuo-ku, Kobe)	90	100.0	Hisatake Kato, Representative Director, President	February 1999	Non-life insurance agency, operations related to life
PALTAC CORPORATION (Chuo-ku, Osaka)	15,869	50.2	Kunio Ninomiya, Representative Director, President and COO	December 1928	Sale of cosmetics, daily necessities, and OTC pharmaceuticals
MP AGRO CO., LTD. (Kitahiroshima-shi, Hokkaido)	44	100.0	Tomohiko Kimura, Representative Director, President and CEO	July 1956	Sales of animal health products, food additives, etc.
MEDIPAL FOODS CORPORATION (Chuo-ku, Sapporo)	60	100.0	Hiroshi Ohmae, Representative Director, President	March 1965	Sales of food processing raw materials, food additives, etc.
Unconsolidated subsidiaries accounted for by equity method					
TOKIMO CO., LTD. (Chiyoda-ku, Tokyo)	80	100.0	Mitsuo Sakiyama, Representative Director, President	June 1986	Cleaning management
Butsuryu 24, Inc. (Bunkyo-ku, Tokyo)	40	100.0	Kimihiko Tokushige, Representative Director, President	June 1998	Management and operation of distribution centers, commissioned delivery service, and worker dispatch
EVERLTH ODS Co., Ltd. (Asaminami-ku, Hiroshima)	10	100.0	Norio Okazaki, Representative Director, President	April 1987	Management and operation of distribution centers, commissioned delivery service, and worker dispatch
class A Network Co., Ltd. (Shibuya-ku, Tokyo)	10	70.0	Satoshi Akutsu, Representative Director, President	July 2006	Planning, management, administration, and product and service development for the Class A health dispensing pharmacies service brand
7 other companies					
Affiliated companies accounted for by equity method					
QoI Co., Ltd.*2 (Minato-ku, Tokyo)	2,828	22.3	Takashi Nakamura, Representative Director, President	October 1992	Operation of dispensing pharmacies
MC Healthcare, Inc. (Minato-ku, Tokyo)	548	20.0	Osamu Miyashita, Representative Director, President	April 2010	Operational support for hospitals
SHIKOKU YAKUGYO CO., LTD. (Iyo-gun, Ehime)	831	20.0	Eiichiro Nakazawa, Representative Director, President	October 2004	Sales of prescription pharmaceutical products, medical equipment and supplies, clinical diagnostics, etc. (Shikoku area)
YAKUJU HOLDINGS, Inc.*3 (Yamato City, Kanagawa)	75	40.0	Yuta Komori, Representative Director, President*3	July 2018 *3	Operation of dispensing pharmacies*3
PRESUSCUBE Corporation (Minato-ku, Tokyo)	100	49.0	Yuta Komori, Representative Director, President and CEO	July 2016	Management support and marketing support for dispensing pharmacies
JCR Pharmaceuticals Co., Ltd. (Ashiya, Hyogo)	9,061	23.6	Shin Ashida Chairman and President	September 1975	Manufacture and sales of prescription pharmaceutical products.
Sinopharm Group Beijing Huahong Co., Ltd. (Beijing, China)	RMB 350 million	20.0	Hua Weiqiang, Vice-Chairman	April 1998	Sales of prescription pharmaceutical products, etc. (Beijing, China)
Beijing Tianxingpuxin Bio-med Sinopharm Holding Co., Ltd. (Beijing, China)	RMB 100 million	20.0	Fan Hong, Vice-Chairman	July 2002	Sales of prescription pharmaceutical products, etc. (Beijing, China)
Affiliated companies not accounted for by equity method					
KURAYA (USA) CORPORATION (California, USA)	USD 300 thousand	49.0	Gerry Shishido, Representative Director, President	July 1997	Import and export of medical supplies, etc.
OrphanPacific, Inc. (Minato-ku, Tokyo)	100	34.0	Philippe Auvaro, Representative Director, President	May 2012	Manufacture and sales of prescription pharmaceutical products, etc.
5 other companies					

*1 As of July 1, 2018 *2 Changed Corporate Name to "QoI Holdings Co., Ltd." Starting October 1st *3 As of July 2, 2018

Corporate Data / Stock Information

Corporate Data (As of March 31, 2018)

Corporate Name	MEDIPAL HOLDINGS CORPORATION
Head Office	2-7-15, Yaesu, Chuo-ku, Tokyo 104-8461, Japan Tel: 81-3-3517-5800 (Representative) Fax: 81-3-3517-5811
Founded	October 8, 1898
Established	May 6, 1923
Paid-in Capital	¥22,398 million
Number of Employees	14,151 (Consolidated basis)
Stock Listing	Tokyo Stock Exchange, First Section
Ticker Code	7459
Trading Unit	100 shares
Transfer Agent for Common Stock	Sumitomo Mitsui Trust Bank, Limited
General Meeting of Shareholders	The Ordinary General Meeting of Shareholders is held annually in June.
Further Information	Corporate Planning and Public Relations Department Tel: 81-3-3517-5171
Stock Information	Number of Shares Authorized 900,000,000 Number of Outstanding Shares 244,524,496 Shareholders 10,813

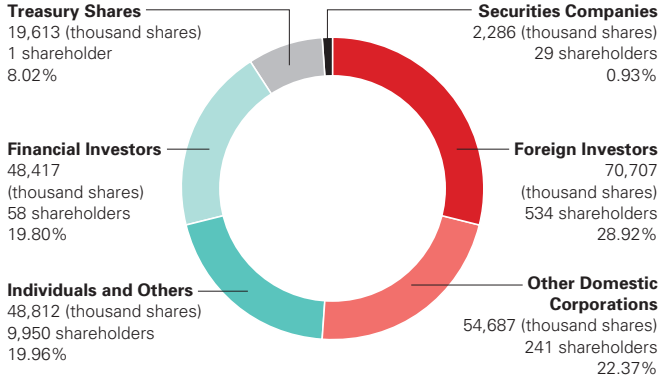
Stock Information (As of March 31, 2018)

Major Shareholders

Shareholders	Shares Held (Thousands)	Shareholding Ratio (%)
Takeda Pharmaceutical Company Limited	22,900	10.18
Japan Trustee Services Bank, Ltd. (Trust Account)	7,811	3.47
MEDICEO Employees Shareholders' Association of MP Group	7,577	3.37
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,168	3.19
Japan Trustee Services Bank, Ltd. (Eisai Co., Ltd. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Ltd.)	5,845	2.60
Kobayashi Pharmaceutical Co., Ltd.	5,074	2.26
NORTHERN TRUST CO. AVFC RE THE KILTEARN GLOBAL EQUITY FUND	4,560	2.03
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,771	1.68
STATE STREET BANK WEST CLIENT - TREATY 505234	3,296	1.47
Trust & Custody Services Bank, Ltd. as trustee for Daiichi Sankyo Company, Limited Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	3,274	1.46

Notes: 1. The Company holds 19,613 thousand shares of treasury shares, which are excluded from the major shareholders listed above.
2. Shareholding ratio is calculated after subtracting treasury shares from the number of outstanding shares.
3. Shares held as a percentage of total outstanding shares and shareholding ratio excluding treasury shares are rounded to the nearest hundredth.

Shareholder Composition



Rating Information (As of July 19,2018)

Rating firm	Rating
Rating and Investment Information, Inc. (R&I)	A+

Note: The above are issuer ratings. Issuer ratings are fixed symbols provided as information to investors regarding the overall ability of issuers to repay the financial obligations they have incurred, and the degree of certainty regarding payment of individual debts.

Adoption to Index (As of August 7,2018)

Since fiscal 2014, the MEDIPAL Group has been selected as JPX-Nikkei Index 400 composed of companies with high appeal for investors, which meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.

JPX-NIKKEI 400

この国で、
薬を届けるという使命。

メディパルは、医薬品、日用品を取り扱う流通グループ。

製薬会社と皆さんの町の医療機関、調剤薬局、ドラッグストアなど全国24万軒をつないでいます。

私たちのモットーは、必要なものを、必要な時に、必要な量だけ確実に運び届けること。

それは、災害時ならなおさらです。

私たちは、阪神・淡路大震災での被災経験から、災害時にも負けない流通を目指して、

様々な取り組みを重ねてきました。

東日本大震災や熊本地震で、大変な困難の中、被災地に必要なものを送ることができたのも、

普段からの備えがあればこそでした。

災害とは切り離せないこの国だからこそ、あらゆるシナリオに対し、万全の準備をしておく。

私たちにとって、薬を届けるということは、ライフラインを担うことなのです。

毎日の暮らしが、何かあった「その時」にも途切れることのないよう。

私たちの目に見えない挑戦は続きます。



［非常時の配送手段の整備］
公共交通機関や交通網が寸断された場合に備え、物流センターなどに緊急用バイクを配備。車両の通行が困難な場所に薬を届ける重要な配送手段となっています。

［　ホストコンピュータの二重化　］
災害によるデータの紛失・損壊などを防ぐためにホストコンピュータの二重化やデータのバックアップ、ホストコンピュータ設置建屋の耐震・防災・停電対策などを行い、災害時においても事業を継続できるよう備えています。

［ 非常用自家発電装置の設置 ］
本社・物流センターなど主要な拠点に非常用自家発電装置を設置し、災害時にも医薬品をはじめとする商品の安定供給が行えるよう備えています。

［自家給油設備の設置］
震災時のガソリン不足の経験をふまえ、主要な物流センターに自家給油設備を設置しています。

［　建屋の耐震・免震化　］
震災時に商品が落下損傷したり、物流設備が故障することを避けるため、物流センターをはじめ、全建屋の耐震・免震化を進めています。

Our mission is to deliver pharmaceuticals in Japan.

MEDIPAL is a distribution group that handles pharmaceuticals and daily necessities.

We are connecting pharmaceutical companies with 240,000 locations of healthcare institutions, dispensing pharmacies, and drug stores in every town and village all over the country.

Our motto is to reliably deliver required products at the required time in just the required amount.

This is all the more important when natural disasters strike.

The MEDIPAL Group has gained experience in previous major natural disasters, including the Great Hanshin-Awaji Earthquake, and has taken many initiatives to build distribution channels that are resilient even in times of natural disaster.

In the midst of terrible hardships during the Great East Japan Earthquake and the series of earthquakes in Kumamoto, we were able to deliver necessary items to the affected areas. This was entirely because we always keep ourselves ready for emergency situations.

Because Japan is a land of natural disasters,
MEDIPAL must make full preparations for dealing with a wide range of disaster scenarios.

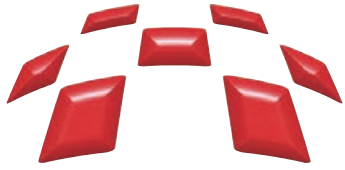
For us at MEDIPAL, delivery of pharmaceuticals is a vital part of the lifelines of society.

We are working to ensure that daily life is not interrupted “when an emergency occurs.”

Our unseen challenges will continue.

MEDICEO CORPORATION / EVERLTH Co., Ltd. / ATOL CO., LTD. / SPLine Corporation / MM CORPORATION /ASTEC Co., Ltd.
MVC CO., LTD / MEDIE Co., Ltd. / M.I.C. (Medical Information College), INC. / Trim Co., Ltd. / PALTAC CORPORATION / MP AGRO CO., LTD.
MEDIPAL FOODS CORPORATION / YONYAKU CO., LTD. / NAKAZAWA UJIKE PHARMACEUTICAL CO., LTD. / Toshichi Inc.

MEDIPAL HOLDINGS CORPORATION



SILVER
Clean Air Clean Water
環境保護印刷
S07-0028

VEGETABLE OIL INK

Printed in Japan