MEDIPAL HOLDINGS CORPORATION

Change the 卸 Future

Oroshi Innovation for the Future

Integrated Report 2019

Fiscal year ended March 31, 2019

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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 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.

Yen amounts on all pages except for the financial statements are rounded down to the nearest million yen. Yen amounts in the financial statements are rounded to the nearest million yen.

Management Philosophy

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

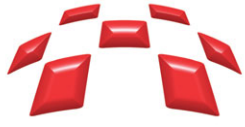
Management Policy

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

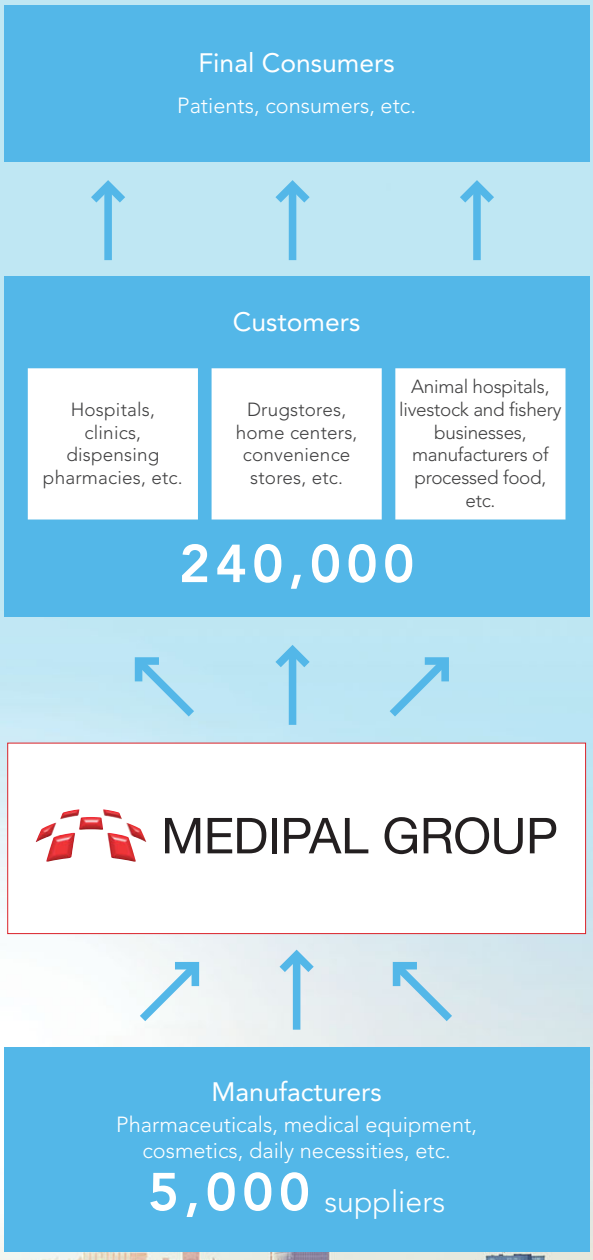
Company Logo



The logo design represents people holding 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.

Business Fields

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



Prescription Pharmaceutical Wholesale Business



Business Companies

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

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
Convenience stores
Discount stores
Home centers
Supermarkets

Animal Health Products and Food Processing Raw Materials Wholesale Business



Business Companies

MP AGRO CO., LTD. MEDIPAL FOODS CORPORATION

Product Range

Animal health products Raw ingredients for food processing

Customers

Animal hospitals Livestock and fishery businesses
Manufacturers of processed food

History of Value Creation

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.

Note: Corporate names and executives are shown as they were at the indicated date.



Sansiedo apothecary at time of foundation



Meeting of executives of all companies at launch of KURAYA SANSEIDO



MEDICEO Holdings President Kumakura (left) and PALTAC President Mikita

1898 Founded

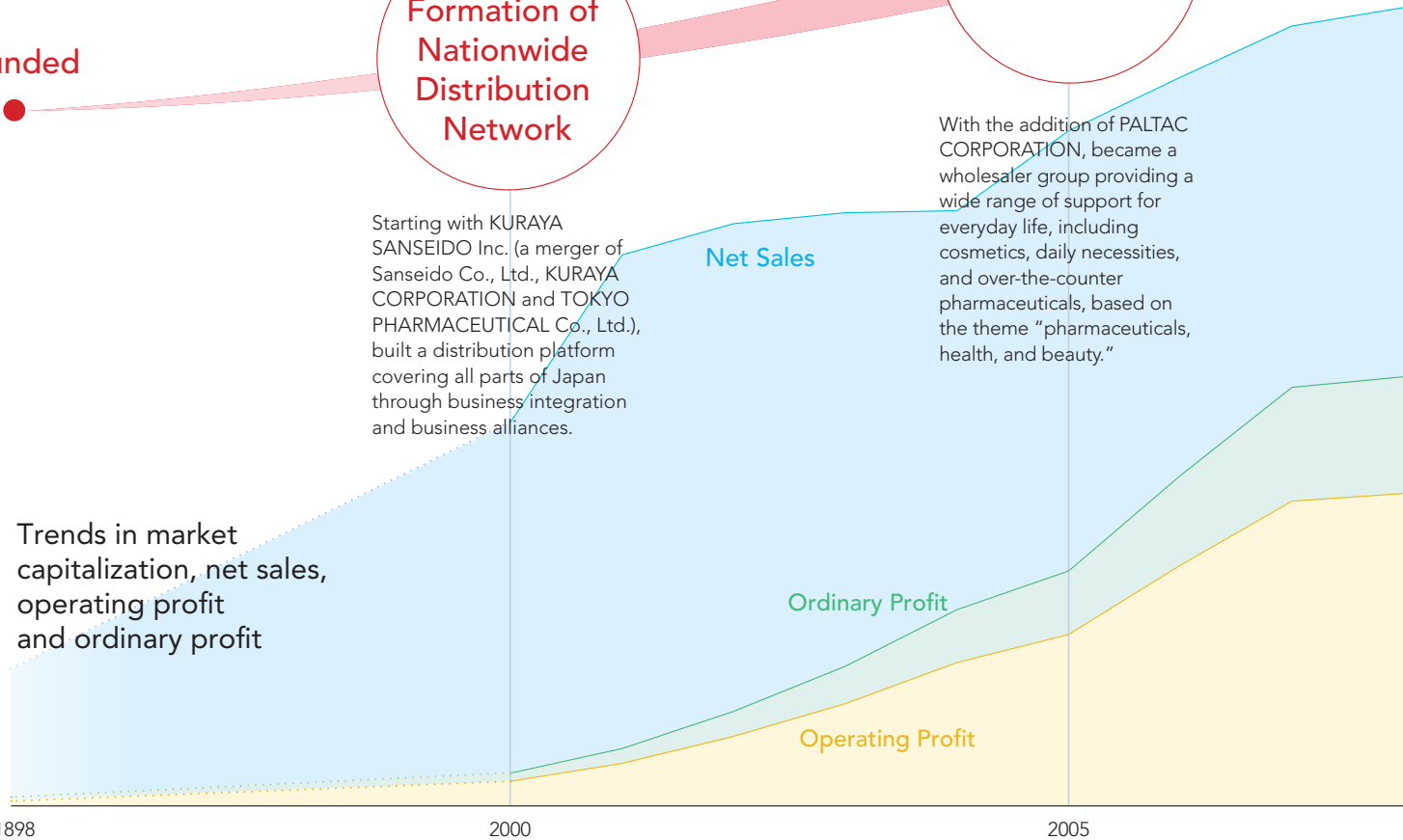
2000– Formation of Nationwide Distribution Network

Starting with KURAYA SANSEIDO Inc. (a merger of Sanseido Co., Ltd., KURAYA CORPORATION and TOKYO PHARMACEUTICAL Co., Ltd.), 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."

Trends in market capitalization, net sales, operating profit and ordinary profit





Kanagawa ALC (first ALC)



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

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.

2022 MEDIPAL Medium-Term Vision

Change the *Oroshi* 卸 Future

Innovation for the Future

Net Sales: ¥**3,181.9** billion (2019/3)

Market Capitalization: ¥**643.1** billion (As of March 31, 2019)

Ordinary Profit: ¥**63.9** billion (2019/3)

Operating Profit: ¥**49.8** billion (2019/3)

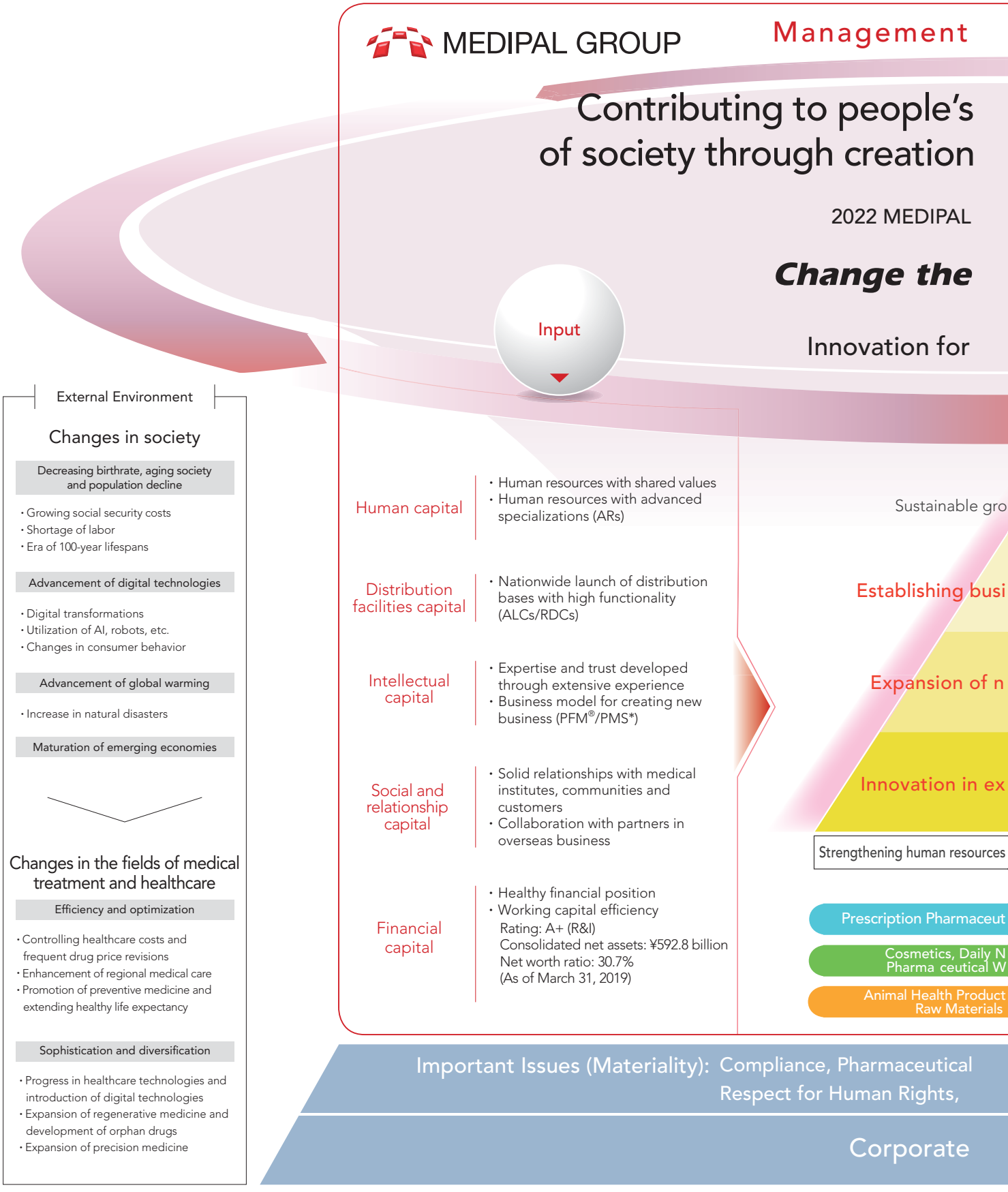
Trends in market capitalization of MEDIPAL HOLDINGS CORPORATION

Market Capitalization

2010 2015 2019

Note: For an explanation of terms, see the glossary on page 61.

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.

Philosophy

health and the advancement of value in distribution

Medium-Term Vision

Oroshi 卸 Future

the Future

wth of the Group

ness partnerships

ew businesses

isting businesses

and evolving our organization

ical Wholesale Business

ecessities and OTC holesale Business

s and Food Processing Wholesale Business

Output

The value we offer stakeholders

Provision of safe and reliable distribution

Nationwide distribution platform, including ALCs and RDCs

Support for streamlining the businesses of customers

Original support system linked to distribution functions

Provision of proper information

Provision of information and proposal of solutions through various human resources such as ARs

Creation of new added value

New businesses utilizing nationwide network and highly expert human resources

Customers
- Optimization of supply chain
- Streamlining of business
- Support of high-quality medical care

Patients and consumers
- Safe and secure medical care
- A rich and comfortable life

Employees
- A comfortable work environment
- Acquisition of advanced specialized capabilities
- Creation of motivation

Shareholders and investors
- Maximization of corporate value
- Stable shareholder returns

Manufacturers
- Product dissemination
- Increase in distribution efficiency
- New product development

Local communities and local environment
- Enhancement of local medical care, development of integrated community care
- Reduction of environmental impact through improved distribution efficiency

Management, Disaster Planning, Information Management, and Environmental Conservation

Governance

Please refer to page 61 for explanations of technical terms.

Source of Our Growth

Reliable and Efficient Distribution Functions
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

ALCs and RDCs with 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 vital distribution bases that enable 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.

We have a full line of over 20,000 items in stock, including pharmaceuticals, medical equipment and clinical diagnostics, and we deliver directly to customers without going through branches. As of the end of June 2019, this system was in operation at


Uni-Shuttle (high-speed automated storage and retrieval system)

Features of ALCs

Ultra-low temperature distribution

Below −150°C

We have developed a storage and delivery system that can handle various temperature ranges, including ultra-low temperatures, to accommodate products such as regenerative medicines that require handling at temperatures below –150°C. We are building a distribution platform with different temperature ranges that can deliver anywhere in Japan.

Delivery ratio

Over 99%

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.

Shortened inspection time

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 other procedures, and operational support systems linked to ALCs such as PRESUS® and McHIL®.

For example, for a customer who needs to deliver 40 cases in one batch, the inspection work previously took 60 minutes. However, it can now be completed in five minutes after introducing these systems.



11 locations in Japan, and by establishing two more new locations, we plan to complete a distribution platform for prescription pharmaceuticals covering the entire country.

RDCs, which are 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 five 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 much 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

Features of RDCs

Delivery accuracy
99.999%

The use of JAN and ITF codes during scanning and weight inspection results in minimal mistakes during delivery to stores. Also, we have introduced a high-precision system capable of handling EDI in distribution. This ensures speedy and waste-free logistics by eliminating delivery mistakes.

Number of patents
14

We are pursuing distribution technologies to achieve high productivity and low cost. In order to create a new distribution system that utilizes cutting-edge AI technology and robotics, we have applied for more than 30 patents, and have received patents for 14 devices and systems.

Enhanced productivity
2 times

The introduction of Super Productivity Advanced Innovative Distribution (SPAID) has doubled productivity without increasing the number of workers. Introducing robotic solutions for dangerous or labor intensive work has both strengthened our distribution functions and created distribution centers that are more comfortable for employees.

Please refer to page 61 for explanations of technical terms.



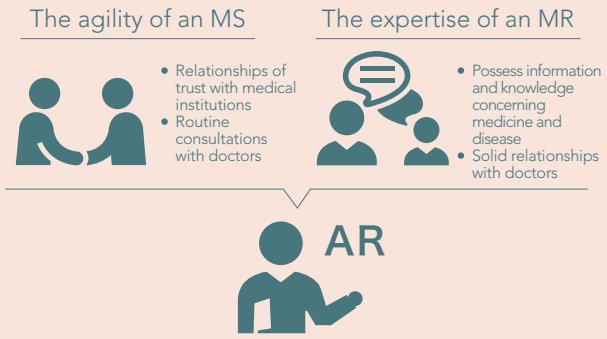
Human Resources

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 medical treatment.

Positioning of ARs

An AR combines the agility of an MS with the expertise of an MR. In addition to carrying out extensive and high-level sales activities, ARs also promote business as creators of new value.



New Businesses

New Businesses That Meet Needs and Create Markets

Drawing on the original distribution functions of ALCs and diverse human resources such as ARs with highly specialized knowledge, we create and cultivate new businesses that meet the needs of medical institutions and pharmaceutical companies.

Positioning of New Businesses

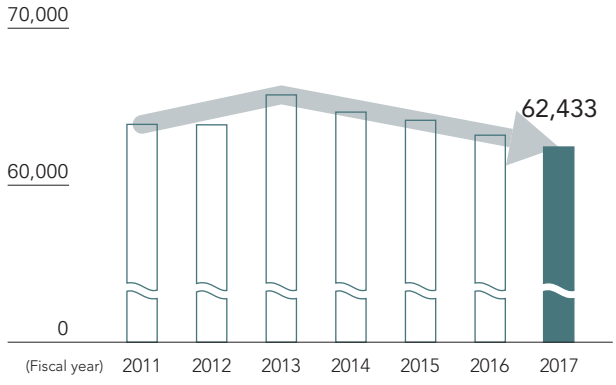
In the MEDIPAL Group, the aim of new businesses is to enrich the distribution value that we create through the original functions of wholesaling, and bolstering our information provision capabilities together with our distribution capacity. Specifically, we position the provision of proper information by ARs, PFM® (project finance & marketing) and PMS (post-marketing surveillance) as new businesses.



ARs Play Active Role in Specialty Pharmaceuticals Fields

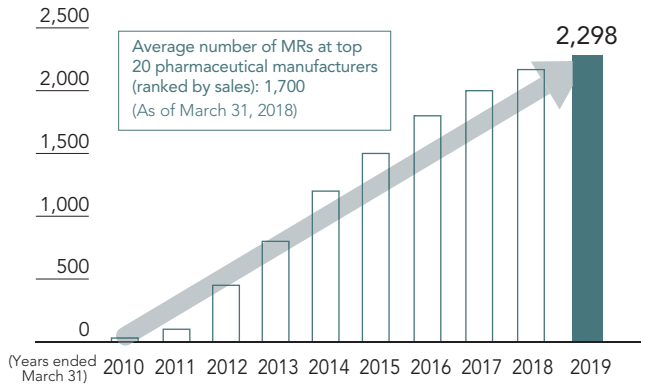
While the number of MRs (Medical Representatives) at pharmaceutical companies is steadily declining, the MEDIPAL Group has approximately 2,300 MRs, which is a large number even compared with major pharmaceutical companies in Japan. MRs help customers understand diseases, pathogenic mechanisms, and various characteristics of different drugs, and provide highly expert information. Using their advanced skills, ARs deliver useful 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.

■ Number of MRs in Japan



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

■ Number of ARs in the MEDIPAL Group



ARs

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

PFM®

PFM® (project finance & marketing) is a business in which MEDIPAL HOLDINGS CORPORATION invests in the development of new drugs by pharmaceutical companies in order to receive returns on investment after these drugs go to market (project finance), and sell and distribute them to medical institutions preferentially (marketing).

PMS

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

Please refer to page 61 for explanations of technical terms.



Taking on the Challenge of Transformation – "Change the *Oroshi*"

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

The business environment in Japan has become increasingly tough due to a globally unprecedented decline in the birthrate coupled with an aging society, ballooning social security costs, and a 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 operations – with a focus on reexamining conventional thinking and introducing initiatives through our "Change the *Oroshi*" vision. We have been working toward this goal since 2015.

2015 to 2017

2017 MEDIPAL Medium-Term Vision

Change the 卸 (*Oroshi*)

Innovate and Create

Basic Policy

"We will stabilize the MEDIPAL Group's earnings and achieve sustained growth by pursuing a new *Oroshi* business model that benefits customers and society."

Innovate: Further raise the efficiency and expand the functions of existing businesses

Create: Cultivate new businesses using our nationwide infrastructure and human resources

Key Strategies

- **Create new businesses**
  Effective use of assets, personnel, and capital of existing businesses, and make further use of external resources
- **Innovate existing business**
  Further strengthen businesses by enhancing logistics and sales functions

Main Management Targets

Consolidated Management Targets

Net sales	¥3.13 trillion
Operating profit	¥41.0 billion
Ordinary profit	¥53.0 billion
ROE	Eyeing 8% or higher in the future
Capital expenditures (Within 3-year operating cash flow range)	¥126.0 billion
Payout ratio	Stable dividends with target of 25%

Market Environment and Trends

- Increase in use of prescription pharmaceuticals due to the advent of a longevity society
- The number of working-age people paying into national insurance will decrease, while the number of elderly people receiving help with medical expenses will increase
- Drug price revisions and promotion of generic drugs will lead to tightening of control on medical expenses in Japan
- Rising demand as a result of increase in foreign visitors to Japan

2017 to 2019

2019 MEDIPAL

Change the *Oroshi*

Innovate

Basic Policy

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

Main Management Targets

Consolidated Management Targets

Net sales
Operating profit
Ordinary profit
ROE
Operating profit from new businesses
Ratio of operating profit in major growth fields
Capital expenditures
Payout ratio

Market Environment and Trends

Medium-Term Vision
Oroshi 卸 next
and Create

Key Strategies

- **Creation of new businesses**
  Expand new businesses leveraging nationwide infrastructure and human resources
- **Realizing Group synergies**
  Develop business in growth areas leveraging the functions and resources of Group companies
- **Innovation in existing business**
  Make existing businesses more efficient and expand functions

	¥3.26 trillion
	¥50.0 billion
	¥65.0 billion
	Eyeing 8% or higher in the future
	5.0 billion
	Eyeing 15% or higher in the future
	¥85.0 billion
	Stable dividends with target of 25%

2020 to 2022

2022 MEDIPAL Medium-Term Vision
Change the Oroshi 卸 Future
Innovation for the Future

Basic Policy

"We will expand our earnings foundation and achieve sustainable growth by building new frameworks that benefit customers and society."

Key Strategies

- **Establishing business partnerships**
  Create new frameworks
- **Expansion of new businesses**
  Strengthen the earnings foundation
- **Innovation in existing businesses**
  Resolve customer issues and increase productivity

Main Management Targets

Consolidated Management Targets

Ordinary profit	¥72.0 billion
Gross profit from new businesses*	¥10.0 billion
Payout ratio	Stable dividends with target of 30%
Planned investment in growth	Approx. ¥100.0 billion over three years

* Gross profit from new businesses that use the MEDIPAL Group's nationwide infrastructure and human resources. Includes profit from the sale of related products.

Market Environment and Trends

- Active efforts to control growth in social security costs
- Changes in the "ideal form of medical care," such as promotion of preventive medicine, self-medication and integrated community care
- Longer lives of companion animals*
- Growing public awareness of food safety and health

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

- Change in behavior of patients and consumers regarding health
- Change in healthcare delivery systems including home healthcare and online exams
- Globalization
- Use of ICT in medical care

2022 MEDIPAL Medium-Term Vision

Change the Oroshi Future – Innovation for the Future

The MEDIPAL Group has formulated a new medium-term vision, "2022 MEDIPAL Medium-Term Vision: Change the *Oroshi* Future – Innovation for the Future," covering the three-year period ending March 31, 2022. Details of the vision are summarized below.

The MEDIPAL Group's current operating environment is influenced by Japan's ballooning social security costs and labor shortages, which are projected to become even more severe due to the decreasing birthrate, aging society and declining population. In addition, the advancements in digital technologies in the so-called "Society 5.0" are giving rise to new business models, and they are expected to bring about major changes in consumer lifestyles and purchasing behavior.

Given these circumstances, over the three years of the vision the MEDIPAL Group will carry out further innovation in its existing businesses while shifting its new businesses from the "creation" to the "expansion" stage. At the same time, the MEDIPAL Group will build new frameworks that benefit customers and society through partnerships with companies in various fields, and by doing so, aims to further expand its earnings foundation and achieve sustainable growth.

Background of the Medium-Term Vision

Changes in society

Decreasing birthrate, aging society and population decline
- Growing social security costs
- Shortage of labor
- Era of 100-year lifespans

Advancement of digital technologies
- Digital transformations
- Utilization of AI, robots, etc.
- Changes in consumer behavior

Changes in the fields of medical treatment and healthcare

Efficiency and optimization
- Controlling healthcare costs and frequent drug price revisions
- Enhancement of regional medical care
- Promotion of preventive medicine and extending healthy life expectancy

Sophistication and diversification
- Progress in healthcare technologies and introduction of digital technologies
- Expansion of regenerative medicine and development of orphan drugs
- Expansion of precision medicine

Establish partnerships with various companies and contribute to resolving social issues

Basic Policy

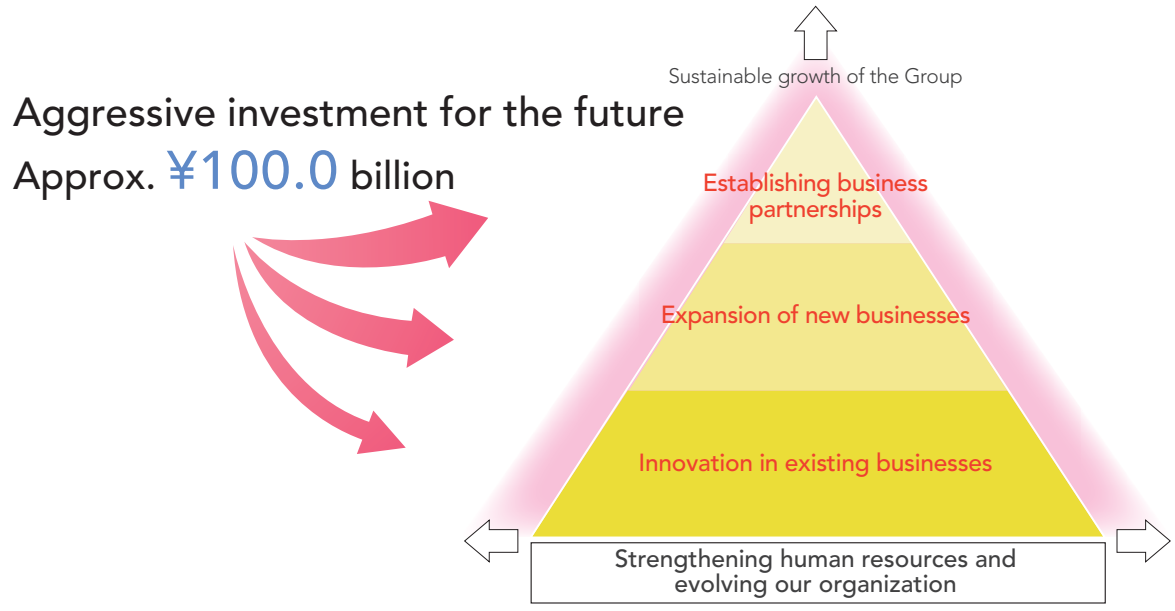
We will expand our earnings foundation and achieve sustainable growth by building new frameworks that benefit customers and society.

Management Targets

	Results for the Fiscal Year Ended March 2019	Three-year Targets
Ordinary profit	¥63.9 billion	¥72.0 billion
Gross profit from new businesses*	¥4.6 billion	¥10.0 billion
Payout ratio	24.7%	Stable dividends with target of 30%
Planned investment in growth	Approx. ¥100.0 billion over three years	

* Gross profit from new businesses that use the MEDIPAL Group's nationwide infrastructure and human resources. Includes profit from the sale of related products.

Image of Overall Growth



President's Message



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



Shuichi Watanabe
Representative Director, President and CEO
MEDIPAL HOLDINGS CORPORATION

Oroshi is infrastructure that supports safety and security

The MEDIPAL Group is primarily engaged in the wholesale business, efficiently connecting its many suppliers with its many customers in the fields of pharmaceuticals, health and beauty. The products we handle include prescription pharmaceuticals, medical equipment, cosmetics, daily necessities, animal health products and raw ingredients for food processing. What all of these businesses have in common is that they support people's healthy lifestyles. Therefore, we always endeavor to reliably deliver the required products at the required time in just the required amount. By living up to this commitment, which has remained constant throughout our 120-year history, we have earned the trust of suppliers and customers. The operating companies under the MEDIPAL Group umbrella carry out initiatives based on this commitment not just in ordinary times but in emergencies. We are proud that MEDIPAL is a corporate group with a high aspiration to support safe and secure infrastructure at all times.

Constantly improving logistics and human resources is our source of growth

The key factors in *Oroshi* functions are logistics and human resources. MEDIPAL is also taking steps to improve these two functions, both of which support the Group's growth.

In the Prescription Pharmaceutical Wholesale Business, we are making innovations in distribution with our Area Logistics Centers (ALCs). The catalyst for this was the "system that delivers inexpensive products efficiently and reliably" that was the advantage of PALTAC CORPORATION, which became a subsidiary of MEDIPAL through a merger in 2005. To further deliver value from that strength, we built ALCs, which are state-of-the-art distribution centers that offer a high level of convenience for customers and are resilient to disasters. We have steadily expanded our network of ALCs throughout Japan over the last decade, and plan to complete it with the opening of ALCs in Western Japan (Kinki area and part of Chugoku area). Their functions are integral to the overall optimization of the supply chain, as they save time for the healthcare professionals we deliver to, and improve work efficiency in both warehouses and hospitals.

In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, we are finishing up the nationwide development of large-scale distribution centers called Regional Distribution Centers (RDCs), and we are currently looking to establish a new distribution model that utilizes artificial intelligence, robots and other technology.

In addition to logistics innovations, we are focusing on human resource development. We have enhanced our in-house learning programs in the Prescription Pharmaceutical Wholesale Business, and each year sales representatives, who we call Marketing Specialists (MSs), take the Medical Representative (MR) qualification exam. Over 2,000 of them have passed the exam, and are now serving as Assist Representatives (ARs) who have the skills of both MSs and MRs. ARs are important assets who play a central role in sales. Their responsibilities include collecting data, providing proper information to medical institutions, and offering precisely targeted proposals for various services. The scope of their activities is steadily expanding, and many pharmaceutical companies have high expectations for their potential.

In a tough operating environment, we must evolve

The business environment in Japan remains extremely challenging amid trends such as the low birthrate, an aging population and labor shortages. Additionally, the industry environment is changing rapidly and substantially as a result of financial difficulties brought on by the need to control growing social security costs. To overcome these hurdles, rather than surrendering to the changes in the external environment, we devised a plan to change our wholesale business and earnings foundation by transforming MEDIPAL itself to achieve sustainable growth. That plan is our Group vision called "Change the *Oroshi*."

Starting in the year ended March 2015, we implemented two "Change the *Oroshi*" plans covering a total of five years. Under these plans, our efforts to establish high-quality distribution and human resources (innovation in existing businesses), and to use that platform to create new value (creation of new businesses) have started to pay off in terms of business performance. Changing familiar practices and ways of thinking was not easy, but we repeatedly explained to MEDIPAL Group employees the reasons for the change and what we needed to do, and their actions reflect a proper understanding of the goals of the vision.

Our future lies in merging the real and digital worlds

In our medium-term vision for the period ending March 31, 2022, we will continue to "Change the *Oroshi*" under the slogan, "Innovation for the Future," reflecting our determination to forge a path to the future through further innovation. The key to that lies in combining our real-world strengths with digital technology.

Change the *Oroshi* Future

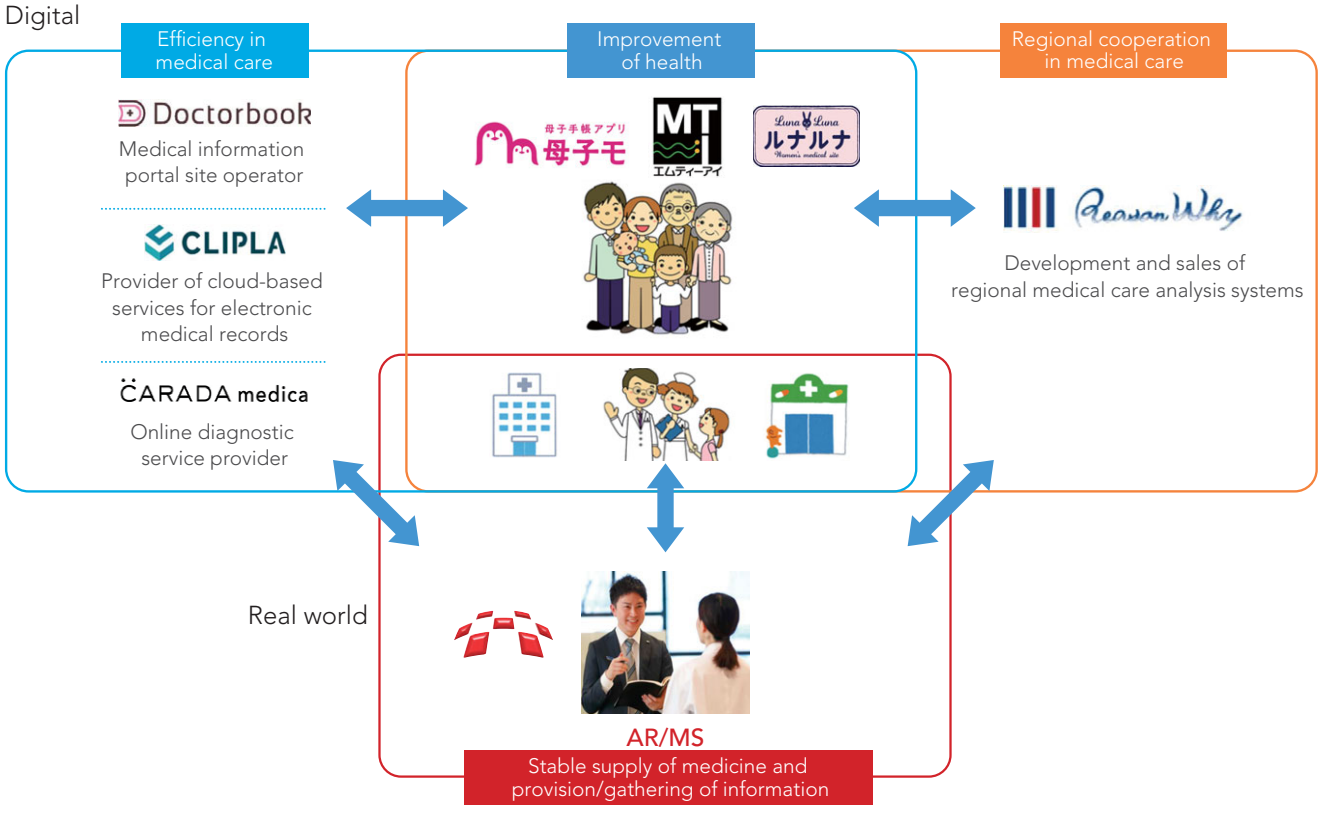
Innovation for the Future

We will expand our earnings foundation and achieve sustainable growth by building new frameworks that benefit customers and society.

Our real-world strengths are the ability to deliver products nationwide, communication capabilities that link people together, and our extensive networks with suppliers and customers. By combining these strengths with digital technologies, we will build a platform that can respond broadly to health-related needs, as the fields of medical treatment and healthcare move toward further efficiency and optimization as well as greater sophistication and diversification. We are already undertaking initiatives in partnership with IoT and ICT companies, including the opening of a specialized medical information portal site for doctors, and the promotion and expansion of the Boshi-mo (maternal and child health handbook) app. Cooperation with companies in various industries will be essential to our future, and we will actively and rapidly build new, outside-the-box partnerships.

The customers we currently serve are the medical institutions and retail stores that we do business with directly, but we will broaden our horizons to include consumers and patients as well. We will develop and provide services that offer a high level of convenience and value to society while asking ourselves what more we can do as an intermediate distributor.

■ Providing New Value through Collaboration with ICT Companies



Aggressive investment and stable shareholder returns



As part of our medium-term vision, we plan to invest approximately ¥100 billion for future growth. The bulk of that investment will go toward building partnerships and expanding new businesses. Our objective is to increase productivity with a medium-to-long-term perspective and further enhance corporate value through sustainable growth.

For shareholder returns, our policy is to pay dividends linked to profits from business activities, while securing the necessary internal reserves to strengthen our financial position and aggressively expand our business. We will strive to maintain stable dividends with a target consolidated payout ratio of 30 percent.

Supporting health and the advancement of society

As a wholesale company, we do not have the opportunity to interact directly with patients and consumers, but we have a strong feeling that we are standing by and extending our support to them. That feeling is even stronger and becomes an unshakeable force behind our business continuity when natural disasters such as earthquakes, typhoons or floods occur. For example, no matter how few the patients, or how bad the road conditions are on a delivery route, the MEDIPAL Group works together like a relay team to support people's lives by fulfilling our mission to deliver pharmaceuticals in Japan, driven by our awareness that all medicines are devoid of meaning if they are not made available for patients.

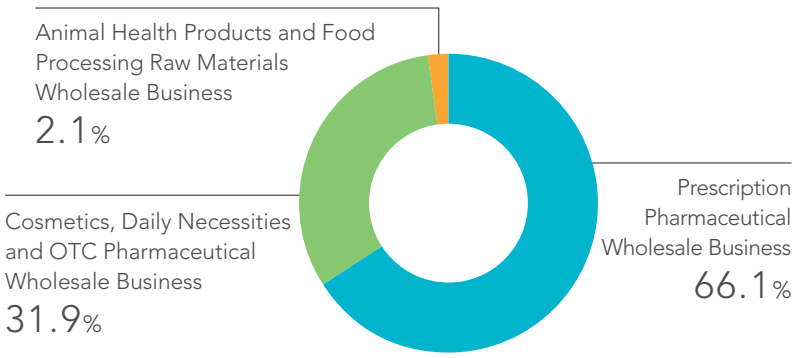
Oroshi includes the critical mission of supporting people's health and the advancement of society. Continuing business operations means continuing to accomplish that mission. MEDIPAL will fulfill this role by creating value in distribution that is beneficial to society. To that end, we will make aggressive investments, and the profits from our businesses will be used to make our infrastructure stronger and create new value. By continuing this cycle, we will develop MEDIPAL into a corporate group that is indispensable to people throughout 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."

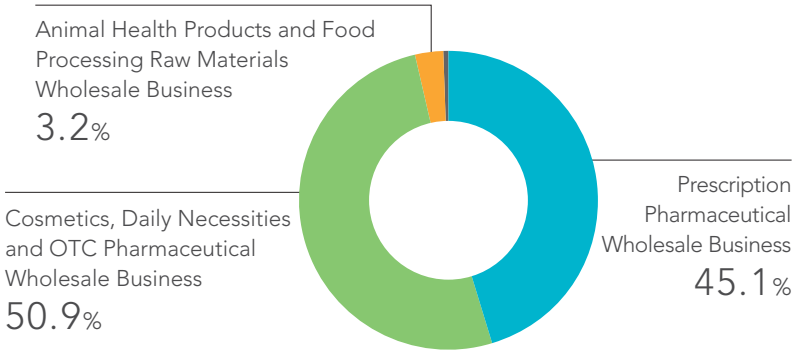
Consolidated Net Sales

¥3,181.9 billion



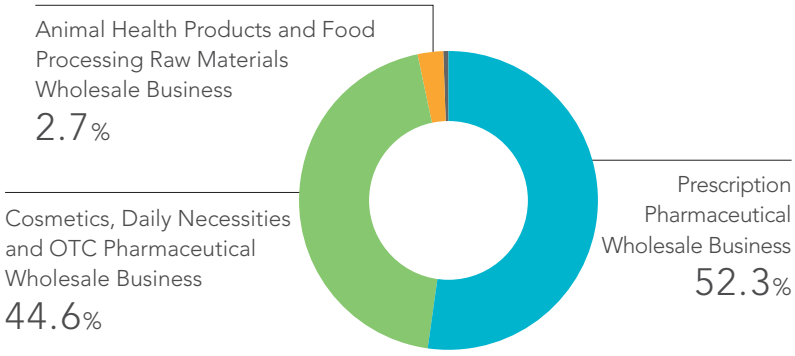
Consolidated Operating Profit

¥49.8 billion



Consolidated Ordinary Profit

¥63.9 billion

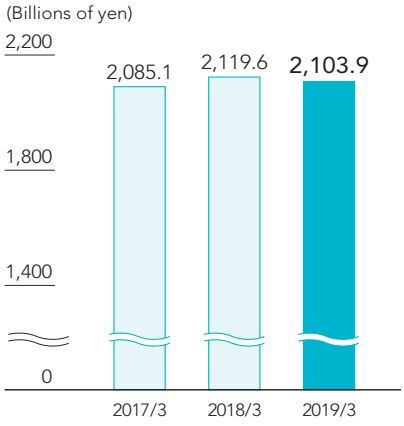


Note: Representative segment percentages are calculated after the elimination of intersegment sales and transfers. As a result, individual figures may not total 100%.

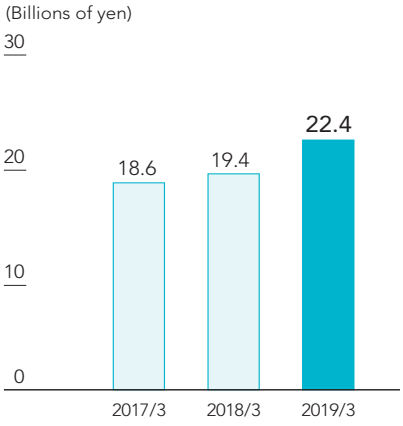
Prescription Pharmaceutical Wholesale Business

▶ P. 24-29

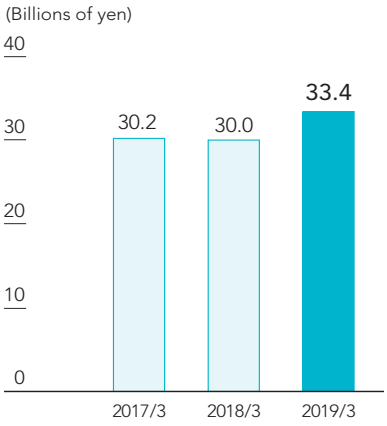
Net Sales



Operating Profit

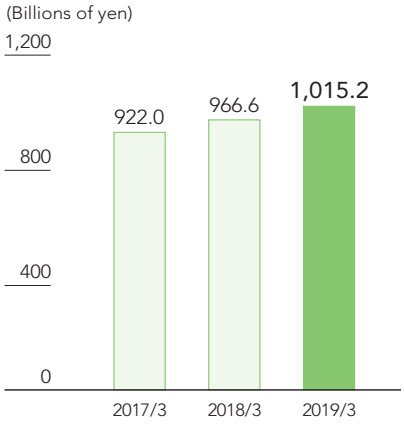


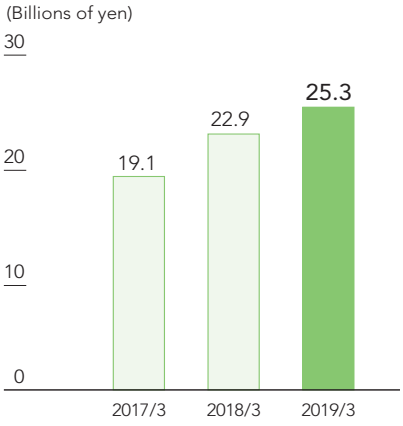
Ordinary Profit

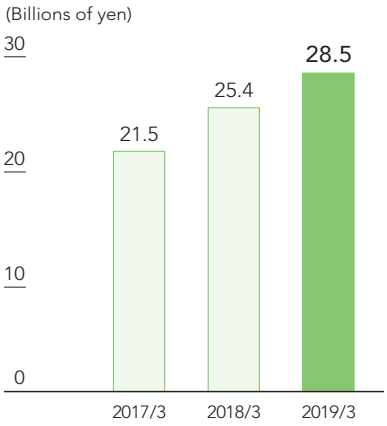


Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

▶ P. 30-33

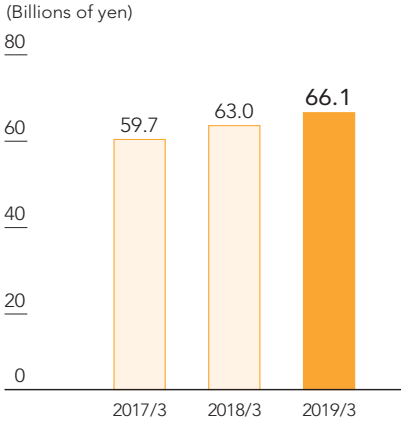


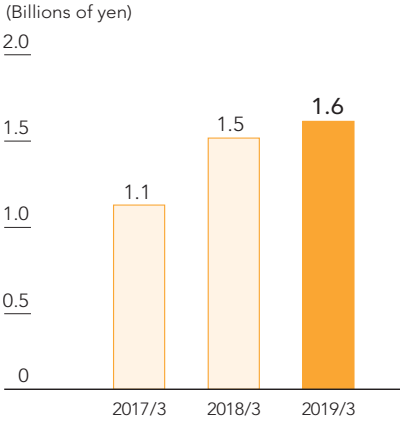


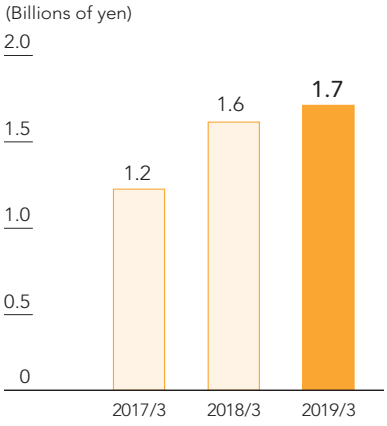


Animal Health Products and Food Processing Raw Materials Wholesale Business

▶ P. 34-35







Strategy by Business

Prescription Pharmaceutical Wholesale Business

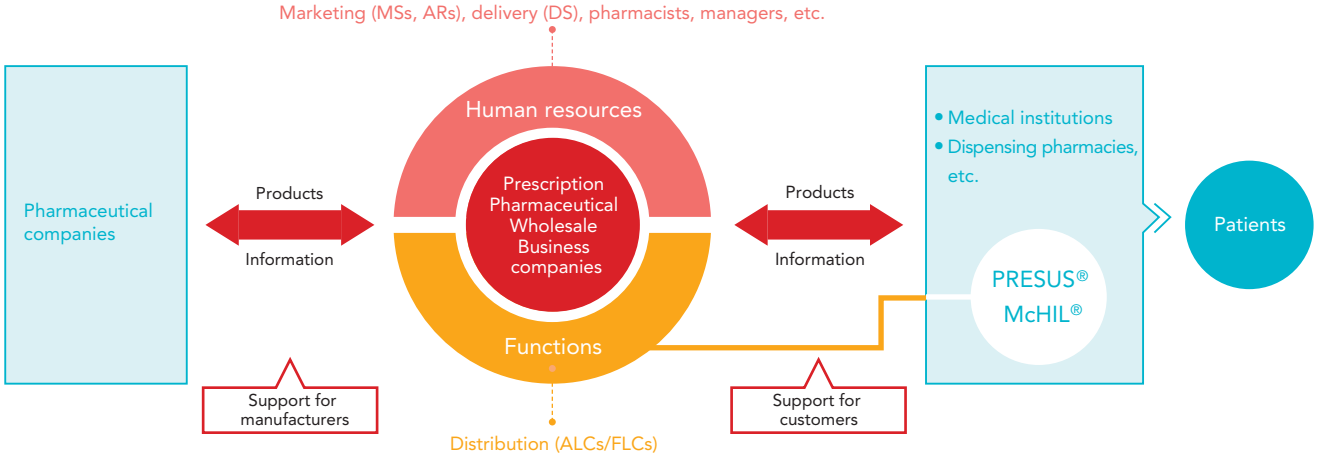
Business Overview

The Prescription Pharmaceutical Wholesale Business procures not only prescription pharmaceuticals, but also healthcare products related to diagnostics, testing, treatment and administration, including medical equipment and medical materials, and clinical diagnostics. We deliver these products to 230,000 medical institutions through a nationwide distribution system with 238 locations, including ALCs, state-of-the-art distribution centers and FLCs established in areas near our customers. We utilize this system to provide a stable supply of medical products to medical institutions, including hospitals, clinics and dispensing pharmacies.

In addition, we have a strong team of 2,300 ARs with MR qualifications, which is large number even compared with major pharmaceutical companies in Japan. Our ARs are the driving force in expanding new businesses such as PMS and PFM, which will support future business growth.

Number of locations	ARs	Customers
238 in 43 prefectures (As of April 1, 2019)	2,298 Employees with MR qualifications (As of April 1, 2019)	230,000

Value Chain



Support for Manufacturers

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

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.



SWOT Analysis

Strengths

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

Weaknesses

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

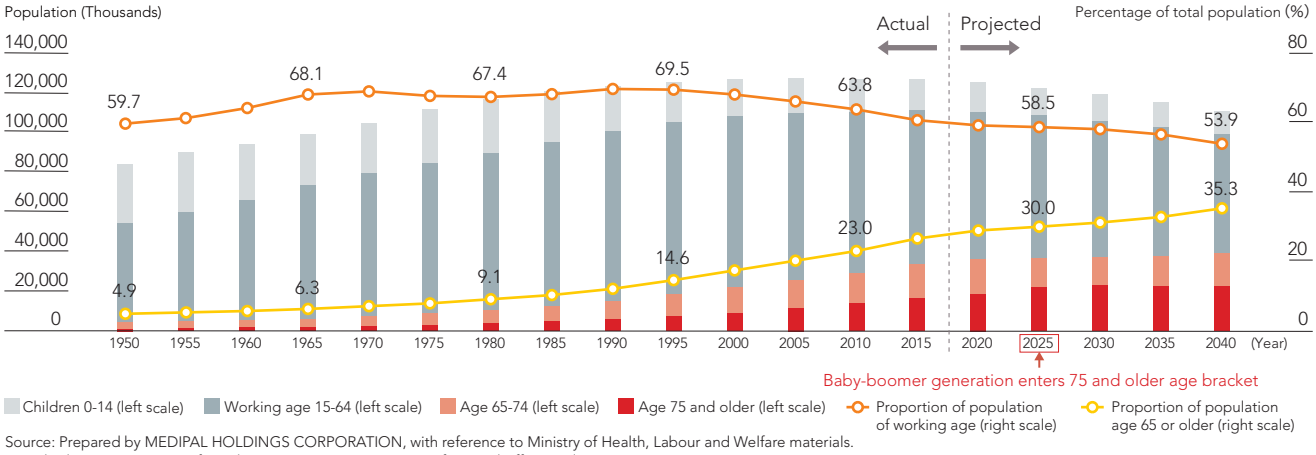
Opportunities

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

Threats

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

■ 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)

Business Environment

The rise in social security costs and labor shortage issues are anticipated to become even more severe as a result of the decreasing birthrate, aging society and declining population. In addition, the advancements in digital technology in the so-called "Society 5.0" are giving rise to new business models, and they are expected to bring about major changes in consumer lifestyles and purchasing behavior.

In the MEDICEO business, we will carry out further innovation in existing businesses, while facilitating progress from the "creation" to the "expansion" stage for new businesses.

We will continue to help resolve social issues in a variety of ways, including reducing environmental impact by raising the efficiency of distribution, providing safe and reliable supply of products during both usual conditions and emergency situations, investing in the development of orphan drugs, and engaging diverse human resources.

Business Strategies

2022 MEDIPAL Medium-Term Vision

Development of a Customer-Oriented Business Model

Key Strategies

We are implementing three key strategies and working to develop a customer-oriented business model.

1 Establishing business partnerships
Create new frameworks

We will develop business models that are not bound by existing frameworks while utilizing our various connections with medical institutions to support regional cooperation in medical care. We will achieve this through means such as partnerships with companies in various fields, medical institutions and local governments. We will also invest in ICT companies (digital healthcare field) in the medical and healthcare sectors.

2 Expansion of new businesses
Strengthen the earnings foundation

We have positioned our network of ARs, one of the largest in Japan, as the driving force for expanding new businesses. We are also working to strengthen our earnings foundation by facilitating the development and stable supply of orphan drugs in the PFM® business, which is a unique MEDIPAL initiative. We established a full range of consignment PMS services to strengthen our earnings foundation.

The Corporate Reliability Department, which was newly established in April 2019, oversees the operation of three pharmaceutical wholesalers and works to ensure the safe and reliable delivery of pharmaceuticals through means such as proper disclosure of information, compliance with GDP Guidelines and enhancement of PMS reliability.

3 Innovation in existing businesses
Resolve customer issues and increase productivity

Through the full establishment of the nationwide ALC platform, which is scheduled for completion during the period of the medium-term vision, we will pursue efficient operations with the aim of further increasing productivity.

In addition, as a result of work style reforms and advances in medical systems, improving management efficiency at medical institutions and dispensing pharmacies has become an urgent issue. We will work to develop distribution services to solve the management issues faced by our business partners.

Initiatives in the Fiscal Year Ended March 31, 2019 and Future Policies

Sales of prescription pharmaceuticals were flat compared with the same period of the previous fiscal year as factors including growth in sales of new drugs, including an anticancer agent and a hepatitis C drug, offset the impact of National Health Insurance (NHI) drug price revisions implemented on April 1, 2018 and promotion of the use of generic drugs.

The MEDIPAL Group worked to negotiate prices commensurate with the attributes and value of each product, based on the "Guidelines on the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesales, and Medical Institutions/Pharmacies" ("Distribution Improvement Guidelines") formulated by the Ministry of Health, Labour and Welfare (MHLW).

In this business, the MEDIPAL Group has been proactively implementing measures to fully utilize its wholesale functions, in order to optimize and raise the efficiency of the overall supply chain from pharmaceutical manufacturers to patients as social infrastructure that supports safe, secure medical treatment.

In strengthening its distribution infrastructure, the new Minami-Kyushu ALC (Kirishima-shi, Kagoshima Prefecture) of ATOL CO., LTD. commenced operation in November 2018. For ALCs, the MEDIPAL Group is creating a distribution platform that can handle all temperature ranges, including ultra-low temperatures, to safely, reliably and efficiently deliver regenerative medicine products and other products that require strict temperature control.

The MEDIPAL Group will continue to negotiate prices in line with the Distribution Improvement Guidelines. We aim to increase productivity for both our customers and the Group through the utilization of advanced logistics functions, including the Kanto ALC (Kazo City, Saitama Prefecture) that commenced operation in June 2019. We will also work to expand our earnings foundation through the provision of information by ARs as well as post-marketing surveillance (PMS), and new initiatives in the digital healthcare field.

Highlight

Establishing Business Partnerships:
Challenges in the Field of Digital Healthcare

In the "2022 MEDIPAL Medium-Term Vision," we set out three key strategies for the Prescription Pharmaceutical Wholesale Business (MEDICEO business) with a view to developing a customer-oriented business model. To continue supporting the health of people going forward, it will be necessary to collaborate with companies in various fields, medical institutions and local governments. We are establishing business partnerships, which is one of the three key strategies.

We plan to build a new platform through collaboration with ICT business partners in the field of digital healthcare and through connections with our customers. We will work to realize early detection and treatment of diseases, and create new frameworks for supporting local medical cooperation. In this way, we will contribute to medical advancement in Japan.

Boshi-mo (maternal and child health handbook) app

In cooperation with MTI Ltd., with whom we established a capital and business alliance in June 2016, we are engaged in activities to increase market share of the maternal and child health handbook app Boshi-mo.

This app not only enables management of maternal and child health information provided by local governments on smartphones but also offers various childcare support functions such as recording of health data of pregnant or new mothers and their children, display of weight and growth data in graphs, vaccination schedule management, advice pertaining to childbirth and childcare, sharing of childcare diaries with family members and communication of childcare information in the local community.

The MEDIPAL Group is engaged in promoting Boshi-mo at local governments around Japan, for creation of a society where all persons engaged in childcare are able to do so with safety, security and convenience. As of July 2019, the app has been adopted by more than 10% of local governments in Japan.

We plan to expand the application of Boshi-mo into disease awareness, patient support and services coordinated with pediatricians. This will extend the app's platform from maternal health to pediatric care.

By fully utilizing the information cross-sharing functionality and rapid communication characteristics of digital technology, we hope to alleviate the sense of isolation and anxiety that many in the child-raising generation feel and to improve the quality of maternal healthcare and increase the birthrate.

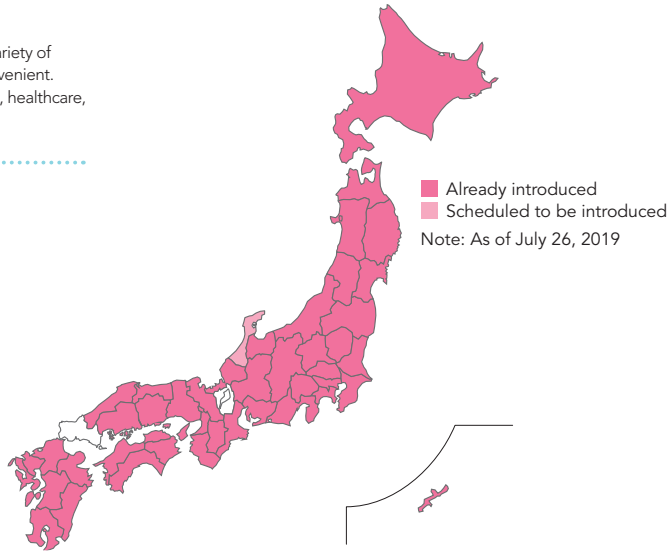
MTI エムティーアイ

Through its mobile app platform, MTI Ltd. offers a variety of services that make daily life more enjoyable and convenient. These services include apps for music, videos, books, healthcare, information for daily life and entertainment.

Boshi-mo

母子手帳アプリ 母子モ





Already introduced
Scheduled to be introduced
Note: As of July 26, 2019

Message from the General Manager of the Business Development Department



We will accelerate the development of new businesses centered on ARs, PFM® and PMS.

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

Creating New Businesses Contributes to Operating Results

Under the "2019 MEDIPAL Medium-Term Vision," we promoted unique measures to create new businesses. Gross profit from new businesses in the fiscal year ended March 31, 2019 was ¥4.6 billion, contributing to improved business results overall. The establishment of our business model has generally proceeded as planned.

Shifting New Businesses from the "Creation" to the "Expansion" Stage

Under the "2022 MEDIPAL Medium-Term Vision," we will shift from "creation" to "expansion" in new businesses by conducting further initiatives in the three businesses of ARs, PFM® and PMS.

ARs: Create New Value in Distribution

An AR combines the agility of an MS (a person in charge of sales in the Prescription Pharmaceutical Wholesale Business) with the expertise of an MR (a person in charge of drug information at a pharmaceutical company) to provide doctors and pharmacists with useful information on prescriptions. While the number of MRs at pharmaceutical companies is declining, the MEDIPAL Group's staff of ARs has increased to approximately 2,300 (as of April 1, 2019), making it one of the largest in Japan.

The "Guidelines on Activities to Provide Sales Information on Prescription Drugs " went into effect on April 1, 2019. Application of these guidelines is expected to expand the areas of activity where ARs can play a role in providing pertinent information from a neutral standpoint.

PFM®: Promote Development and Stable Supply of Orphan Drugs

The PFM® business, a unique MEDIPAL initiative, invests in the development of orphan drugs. As a result, we can obtain a post-launch return followed by preferential sales and distribution rights. This business model supports the development and stable supply of orphan drugs, which embodies the MEDIPAL Group's social mission of contributing to the treatment of patients suffering from disease. I have leveraged the knowledge I have gained as an analyst in the pharmaceutical sector to make investment decisions. These investments have resulted in the launch of 22 products as prescribed medicines.

TEMCELL® HS Inj. from JCR Pharmaceuticals Co., Ltd. is a typical example of PFM®. The drug is a regenerative medicine product that cultivates stem cells collected from humans. It must be distributed at ultra-low temperature, so we developed a cryogenic transportation system that uses liquid nitrogen. We have established a system for stable delivery of quality products promptly to medical practitioners throughout Japan, and we are the only pharmaceutical wholesaler in the world capable of stable distribution of allogeneic regenerative medicine products over such a wide area. Japan is very active in developing regenerative medicine products. As a result, some overseas companies are trying to rollout products in Japan in advance, prior to receiving approval in the United

States and Europe. Therefore, they tend to choose the MEDIPAL Group as a distribution partner in Japan. In March 2019, we invested in Promethera Biosciences SA, a regenerative medicine venture company in Belgium, to support commercialization of its products in Japan. Going forward, we aim to expand the lineup of products we handle in the regenerative medicine field, and will work to establish an optimized value chain for regenerative medicine.

PMS: Expand the PMS Business by Offering a Full Range of Consignment Services

As the MEDIPAL Group works to strengthen relationships with doctors and medical professionals, it is using the pharmacological knowledge and agility of its ARs to take PMS consignment services from pharmaceutical companies. Pharmaceutical companies are legally obligated to conduct PMS to confirm the efficacy and safety of new drugs, and with the decline in the number of MRs, who are responsible for PMS, we are capturing demand that these companies are unable to handle. Our track record is steadily growing – the cumulative number of our assessments has risen to 12,000 cases for 10 products from six companies (as of March 31, 2019).

Previously, we only handled a part of the PMS process, but from April 2019 it became possible to handle a full range of services from protocol design to report preparation. Our ability to carry out PMS services with a management system and staff at the same level as leading Japanese pharmaceutical companies will enable us to meet even higher expectations.

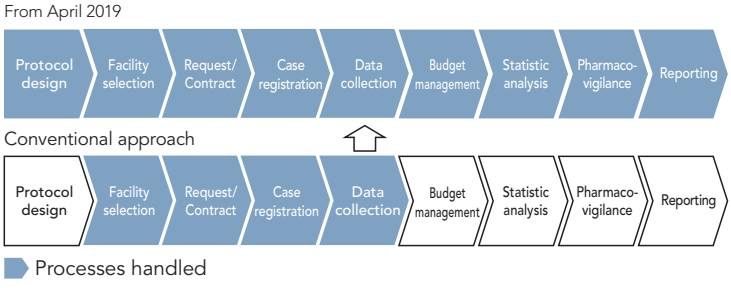
Overseas Business: Promote Strategies by Area

The MEDIPAL Group is steadily securing a foothold for overseas expansion. Since our investment in a Chinese pharmaceutical wholesaler in 2009, we have accumulated overseas business experience, know-how and cultivated human resources. We will use this know-how and these human resources to make inroads into ASEAN countries.

In the United States, JCR USA, Inc., our joint venture with JCR Pharmaceuticals Co., Ltd., is conducting clinical trials of new drugs using J-Brain Cargo, a breakthrough technology for blood-brain barrier penetration. To enter the wholesale business in the United States and Europe, we think the most effective method will be to establish a standard business model for distribution of regenerative medicine products and cellular medicine products in Japan and then roll it out overseas.

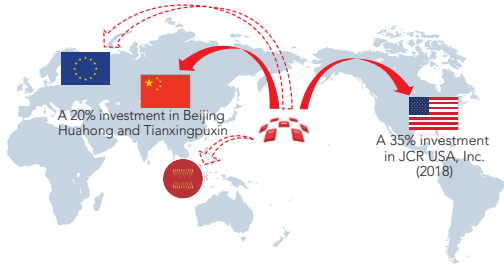
■ Expand PMS to a Full Range of Services

Will also establish GVP[1]/GPSP[2] systems and begin clinical research monitoring and data management



1. GVP: Good Vigilance Practice
2. GPSP: Good Post-marketing Study Practice

■ Overseas Advancement



Expanding New Businesses with a Strong Sense of Mission

Our basic approach to new businesses is not to create them from scratch, but to combine the various components of our infrastructure to generate new value. We believe in building businesses based on our strengths – our relationships with pharmaceutical companies and medical institutions, our distribution functions and our human resources.

MEDIPAL has a strong sense of mission as a pharmaceutical wholesaler that contributes to people's health. By expanding new businesses, we believe we can enter a new stage of growth.

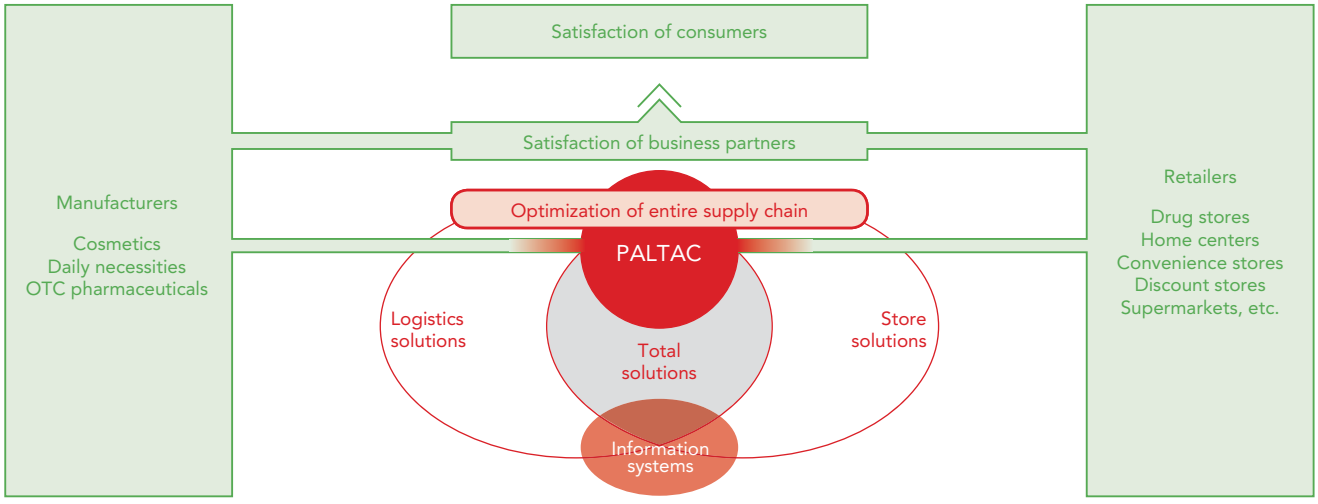
Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

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 600 companies), focused on drugstores, in an effort to optimize and increase the efficiency of its supply chains as a whole.

Number of items handled Total shipments	Business partners	Number of state-of-the-art large-scale distribution centers
3.0 billion per year 25 items per year per person in Japan	1,600 companies	16 nationwide

Value Chain



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 delivery to stores, through exhaustive rationalization including mechanized loading and unloading and introduction of a unit load system compatible with automation.

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.



SWOT Analysis

Strengths

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

Weaknesses

- Chronic labor shortages
- Rising labor costs

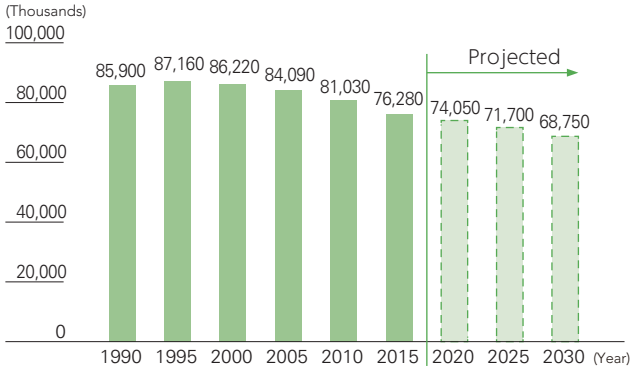
Opportunities

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

Threats

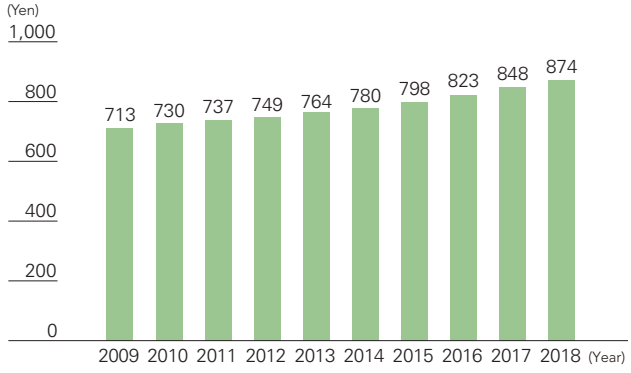
- Decreasing demand due to overall population decline
- Natural disasters

Working-age Population



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

Minimum Wage



Source: Ministry of Health, Labour and Welfare materials

Business Environment

The market environment was generally steady mainly due to the strong sales of value-added products that match changes in the social environment, such as women's social progress. Factors negatively impacting the market included a downturn in sales due to natural disasters, weather-related impacts and changes to the business environment as a result of a slowdown in purchasing activities of Chinese retailers following the enactment of China's e-commerce law. In such an environment, further optimization and streamlining of the entire supply chain, from manufacturer to retailer, is called for, and PALTAC CORPORATION ("PALTAC"), which stands in an intermediary position between manufacturing and retailing, will have an ever-larger role to play. Moreover, PALTAC is working to strengthen its sales systems to support effective product lines and sales activities for retailers, and to strengthen its safe and secure high-quality, low-cost distribution capabilities. PALTAC is also making efforts to ensure a low-cost and stable supply of products not only to business partners but also to consumers.

Business Strategies

Medium-Term Management Plan (FY2019 to FY2021)

1 trillion yen Link with the Future

— The logistics innovation through aggressive investment —

Key Strategies

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

1 Aiming to streamline the entire supply chain
Re-investment of the profit

The aim is to further reinforce our business foundation by reinvesting business profits into distribution centers and other facilities. This will strengthen our shipping capacity and improve distribution efficiency.

2 Fusing new technologies with accumulated know-how
A breakthrough logistics model

The aim is to establish a new distribution model that deploys the latest technologies such as AI and robotics, and fuses those technologies with PALTAC's distribution know-how. In this way, we will realize people-friendly distribution in response to the decrease in the working-age population, and reduce the amount of labor-intensive work and eliminate dangerous operations.

3 Riding on our strength
High-quality and high-productivity

The aim is to press ahead with steady improvements in productivity and quality through ongoing enhancements at existing distribution centers, continued consolidation of operations and optimal allocation of human resources in order to build a business foundation capable of providing systems with even higher quality and at lower cost.

4 Meeting customer's needs
Developing talent and organization

The aim is to develop personnel who can act with initiative and build an optimal organization where they can cooperate with each other and make meaningful contributions in order to demonstrate PALTAC's comprehensive strengths. At the same time, we will work to collaborate with retailers, manufacturers and other partners in pursuit of solutions to the issues faced by our business partners.

Initiatives in the Fiscal Year Ended March 31, 2019 and Future Policies

Under the medium-term management plan, as part of efforts to continually reinforce the business foundation that contributes to sustainable growth, we will make capital investment in distribution centers and implement other initiatives. We will also work to achieve both increased shipping capacity and improved logistics efficiency in response to labor shortages throughout the industry.

In the fiscal year ending March 31, 2020, to increase shipping capacity and improve productivity in the Tokyo metropolitan area, we plan to establish RDC Saitama (Sugito-cho, Kita-Katsushika-gun, Saitama Prefecture). It will be our largest distribution center and will make use of and further build on the know-how that we accumulated in developing a new distribution model at RDC Niigata (Mitsuke-shi, Niigata Prefecture).

In addition, we improved the SG&A expense ratio by 0.15% year-on-year as a result of the improvement in productivity and operation quality through ongoing improvement initiatives in the fiscal year ended March 31, 2019.

To strengthen personnel and organizations, we reformed the personnel system with the aim of establishing an organization in which both individuals and the company can succeed. Our policy for retirement at 65 creates a work environment in which employees can work with confidence. While enabling senior employees to remain active, we also hope to make use of their wealth of experience and advanced skills. Going forward, we plan to continue building on this business foundation that allows diverse human resources, regardless of age, to engage actively in their work. We will also foster people capable of increasing productivity and solving various issues in the entire supply chain.

Highlight

Challenge of a New Distribution System:
Active Deployment of New Technologies and Knowledge in Collaboration with Partners

RDC Saitama has implemented initiatives for automated piece picking, elimination of preliminary registration work through the introduction of a "master-less" system and reduction in labor-intensive work through automation of case picking.
In the automation of piece picking, we collaborated with RightHand Robotics, Inc., in introducing the latest piece picking solution, RightPick.

RDC Niigata is working on the transfer of manual picking of individual pieces to mechanical operations, with RDC Saitama installing some equipment for the purpose.

Eliminating preliminary registration work through introduction of a "master-less" system involved collaboration with Kyoto Robotics Corporation in the installation of high-performance, high-speed AI robots that eliminate the need for preliminary registration of master data in case picking. This leads to the automation of case handling without master data, which was previously difficult in the distribution industry. The system eradicates the need for master data registration with each new case size and weight for each product and is expected to deliver dramatic improvement in per-hour processing capability.

In reduction of labor intensive work through automation of case picking, we collaborated with MUJIN Inc. in the introduction of the latest robotic palletizing solution. Multiple AI-based case picking robots will be used for automation of case picking processes for shipment, which was previously considered technically difficult, in order to reduce the labor-intensive work involved in shipping cases.

Overview of RDC Saitama

Shipment capacity: ¥120.0 billion per year

Investment: ¥23.0 billion
Start of operation: November 2019 (scheduled)
Location: Sugito-cho, Kita-Katsushika-gun, Saitama Prefecture



RDC Saitama

Objectives

1. Apply the new distribution model at this RDC (our largest center) in the Kanto area, our largest market
2. Take on the challenge of evolving further

Taking on the challenge of automated piece picking

Capable of high-speed, accurate picking and placing of products of varying shapes



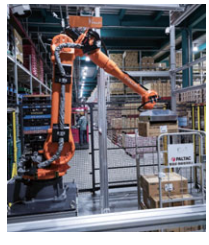
Elimination of preliminary data registration through introduction of a "master-less" system

The visualization and intelligence functions of the picking robots enable the emission of preliminary registration of product data, handling programming and other operations.



Reduction in labor-intensive work through automation of case picking

Frees employees from labor-intensive work and helps create a workplace with more satisfaction.



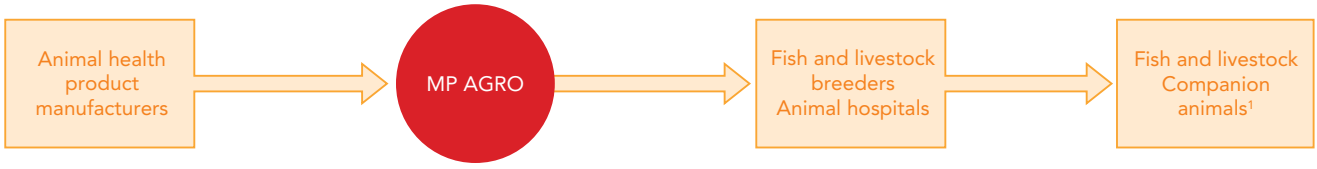
Animal Health Products and Food Processing Raw Materials Wholesale Business

Animal Health Products Wholesale Business

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 five distribution centers that provide a stable supply of products.

Value Chain



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

Key Strategies

The Group's consolidated subsidiary, MP AGRO CO., LTD, is engaged in a wide range of initiatives including deployment of an original online order information system for animal hospitals (MP PLUS), promotion of operations to support drug use surveillance for PMS (a first in the animal health products wholesale industry), and expansion of the lineup of exclusive products and the strengthening of sales capabilities. 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[2] and various testing institutions.

2. 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 the reception of raw materials to the shipping of products.

1 Using our original brand strategy
Business expansion

2 Through reconstruction of logistics and sales functions
Productivity improvement

3 Through human resource development
Enhancement of information transmission and organizational strength

Initiatives in the Fiscal Year Ended March 31, 2019 and Future Policies

In the fiscal year ended March 31, 2019, we actively implemented initiatives in the areas of vaccines and food additives in the livestock market, expanded use of MP PLUS in the companion animal market and focused on exclusive skincare products. As a result, we achieved solid sales.

We also commenced the rollout of an exclusive distribution model in animal health products. This is the first such alliance with a pharmaceutical company in the domestic animal health products industry. MP AGRO and Fujita Pharmaceutical Co., Ltd. will contribute to animal health through the development of safe and easy-to-use products and the establishment of a reliable supply system by collaborating in repeated testing from the development stage. We will also work to differentiate ourselves from our competition by continuing to promote our key strategies and further increasing the efficiency of our distribution functions.

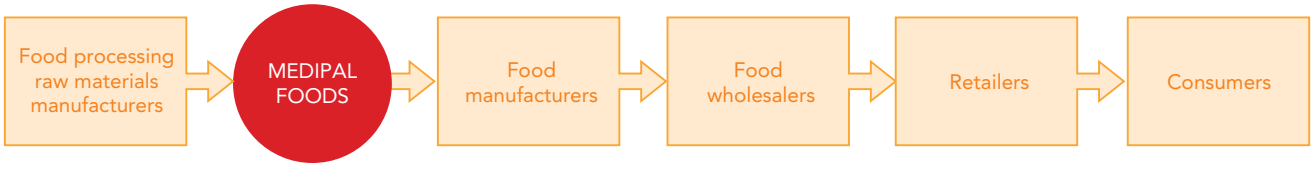


Food Processing Raw Materials Wholesale Business

Business Overview

The Group's consolidated subsidiary, MEDIPAL FOODS CORPORATION, has a lineup of products (approximately 14,000 as of March 31, 2019) ranging from raw materials for agriculture and livestock, to seasonings and food additives, as well as packaging materials and industrial chemicals. MEDICAL FOODS CORPORATION also operates a nationwide supply system based on the themes of "food safety and security," and providing "great taste" with the aim of being a general trading company for food manufacturers.

Value Chain



Key Strategies

According to the 2018 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 ¥34 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 ¥1,044.7 billion (*Food Chemicals Newspaper*, January 17, 2019). 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.

1 Effectively connect suppliers and customers nationwide
Sales activities that add value

2 Expansion into new areas

3 Reinforcement of product development capabilities

Initiatives in the Fiscal Year Ended March 31, 2019 and Future Policies

In the fiscal year ended March 31, 2019, amid growing public awareness of food safety and health, we steadily increased transactions with major customers and achieved solid sales by promoting proposal-based sales activities using information from across Japan, and nationwide procurement routes.

Going forward, we will leverage our relationships with manufacturers nationwide, which is one of our strengths, to expand into new areas, increase the number of new transactions and strengthen relationships with major customers. In addition, 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)

Basic Policy

The MEDIPAL Group's social mission is to reliably deliver products to the people who need them, without fail. To achieve this mission, we believe that it is important to establish a solid business structure. We have identified issues of high priority (materiality) in six categories: 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 (environmental, social and governance), which is an area of great interest to investors. We believe that the material issues we have selected are ESG elements that support the long-term improvement of the MEDIPAL Group's corporate value, and that they have a substantial impact on value creation.

■ Relationships between Material Issues, CSR and ESG

Six Materiality Categories

	Examples of CSR activities	ESG category
Compliance ⇒P. 46	• Whistleblowing system • Bribery prevention	G
Pharmaceutical management ⇒P. 47	• Pharmaceutical management system • Education systems	S
Disaster planning ⇒P. 50-51	• Natural disaster risk countermeasures • Base isolation of distribution centers • Countermeasures against pandemics involving new strains of influenza	S
Information management ⇒P. 52	• Information management policy/system • Education systems	S
Respect for human rights ⇒P. 53-57	• Personnel development initiatives • Diversity initiatives • Systems to provide a pleasant working environment • Human rights protection initiatives	S
Environmental conservation ⇒P. 58-59	• CO_2 emissions reduction, reducing energy consumption and initiatives to prevent global warming • Waste processing and effective resource utilization	E
Social initiatives ⇒P. 60	• Automated external defibrillators (AEDs) • Bone marrow donor leave • "Dementia Supporters" training programs • Ecocap Movement • World Vaccine Books • Kuruma Kodomo 110 (vehicles that help keep children safe)	E/S

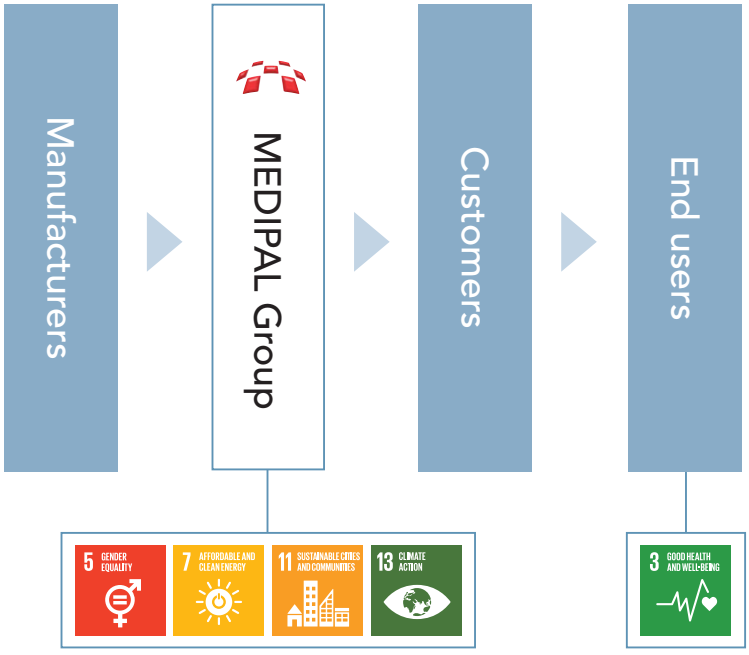
Corporate Governance ⇒P. 38-41

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 MEDIPAL Group's efforts to achieve its social mission through its businesses, and to its material issues.

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

Five Critical Goals of the MEDIPAL Group



Specific Initiatives

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 CORPORATION).

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 case 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.

We contribute to a sustainable society through our business activities.

Our mission is to deliver the required products at the required time in just the required amounts. We provide stable supplies of pharmaceuticals, cosmetics, daily necessities and other products from about 5,000 manufacturers in fields related to pharmaceuticals, health and beauty to some 240,000 healthcare institutions and drug stores through our nationwide distribution network.

In the Prescription Pharmaceutical Wholesale Business, we are pursuing initiatives for the stable supply of medicine to patients hoping for treatments through Project Financing & Marketing (PFM®), which supports development of orphan drugs. We are also active as a corporate sponsor on Rare Disease Day (the last day of February each year), which is aimed at raising public awareness of rare diseases. In addition, we support Momiji House, a short-term in-patient facility for children with serious illnesses and disabilities and their families operated by the National Center for Child Health and Development. These are just a few of the ways in which we are fulfilling our role as a company that plays a part in healthcare.

Along with promoting these initiatives, we will work to firmly establish a system to promote employee understanding of ESG and the SDGs. Through our efforts to reduce our environmental impact and contribute to communities as a company responsible for distribution, we are working toward a sustainable economy and society.



Yuji Sakon
Managing Director
General Manager of Administration Division, Chairman of CSR Committee
MEDIPAL HOLDINGS CORPORATION

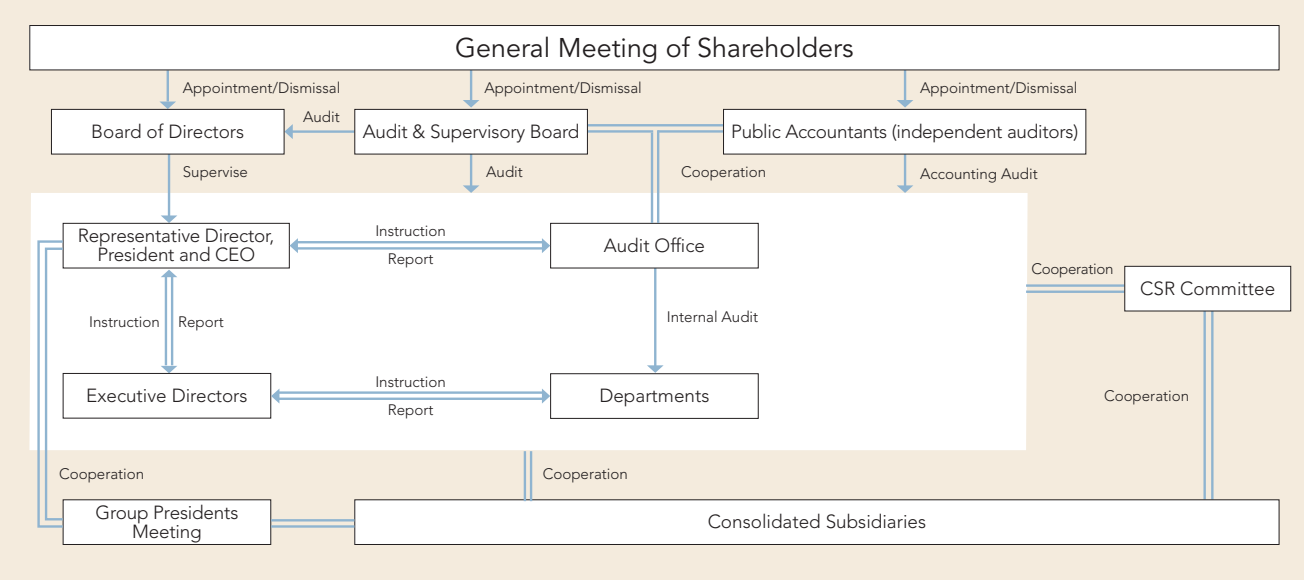
Corporate Governance

Basic Policy

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



Structure

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 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, 2019.

Meetings of the Board of Directors in the Fiscal Year Ended March 31, 2019	Meetings:	13
	Outside director attendance rate:	97%
	Outside Audit & Supervisory Board member attendance rate:	100%

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 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, 2019.

Meetings of the Audit & Supervisory Board in the Fiscal Year Ended March 31, 2019	Meetings:	13
	Audit & Supervisory Board member attendance rate:	100%

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 Audit Office, 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 holds 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 integrated 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 our company's Directors is determined by a resolution of the General Meeting of Shareholders. A Director's compensation consists of base compensation and bonuses as a short-term incentive. The amount of the base compensation is determined by the Board of Directors, based on the internal rules and regulations, in accordance with the position of each Director. The total amount of bonuses is determined by the Board of Directors based on consideration of the consolidated performance in each fiscal year (consolidated operating profit) as an incentive for Directors to be conscious of business performance, is divided according to the standards for each position.

The percentage of compensation paid by category slightly differs from position to position. As a rule, the amount of bonuses accounts for about 25%.

The compensation for an Audit & Supervisory Board member only consists of base compensation in view of their role and independence. The amount of base compensation differs between full-time and part-time members.

(Fiscal year ended March 31, 2019)

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)	240	181	59	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	49	49	—	2
Outside corporate officers	71	64	6	7

Note: Basic compensation includes the payment to one outside Director who retired from the position as of the close of the 109th General Meeting of Shareholders, which was held on June 26, 2018.

Concept of Cross-Shareholdings

The MEDIPAL Group considers it essential to cooperate with various companies comprising a supply chain to ensure a steady supply of products, such as medicines, cosmetics and daily necessities, in the wholesale business. Accordingly, our policy is to hold such shares as a strategic shareholding when we determine that doing so can increase medium-to-long-term corporate value after comprehensively taking into account business strategies and our relationship with business partners.

The rationality of each cross-shareholding is assessed individually as to whether or not it contributes to increasing medium-to-long-term corporate value through creation of a smooth business relationship and an enhanced partnership. The final decision on the appropriateness of the cross-shareholding is made by the Board of Directors every year.

Responsible Dialogue 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 3, 2019, the Company issued the notice of convocation for the Annual General Meeting of Shareholders held on June 26, 2019, which is 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 27, 2019. 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, 2019, a total of 3,299 shareholders exercised voting rights (of whom, 3,154 did so in writing or via the internet), for a voting ratio of 84.2%.

Dialogue with Institutional Investors

The Company actively maintains a dialogue 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 public relations, and IR activities.

The following IR events were held for institutional investors in the fiscal year ended March 31, 2019.

IR Event	Date Held	Presenter
Briefings on financial results	May and November 2018 (twice a year)	President, corporate officer in charge of IR
Overseas investor relations	November 2018 (North America)	President, corporate officer in charge of IR, IR representative
Conferences held by securities companies	November 2018 (Daiwa Securities Co., Ltd.)	Corporate officer in charge of IR
	February 2019 (SMBC Nikko Securities Inc.)	Corporate officer in charge of IR, IR representative
	March 2019 (Daiwa Securities Co., Ltd.)	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, 2019.

Number of interviews during year	138 (95 in Japan; 43 overseas)

Note: Figures represent cumulative numbers

Dialogue 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, 2019.

Date Held	Location
September 2018	Takamatsu City (Kagawa Prefecture)
September 2018	Matsuyama City (Ehime Prefecture)
October 2018	Sendai City (Miyagi Prefecture)

Group Governance

Special Circumstances with a Possible Major Impact 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 Audit & Supervisory Board Member

I will help to enhance corporate value by taking a balanced approach between offence and defense in governance.



Tomoyasu Toyoda
Outside Audit & Supervisory Board Member

Background: Mr. Toyoda joined Ajinomoto Co., Inc. in 1972, and became representative director and president of AJINOMOTO PHARMACEUTICALS CO., LTD. (now EA Pharma Co., Ltd.). In performing our audits, he draws on his extensive experience and broad insight from managing a company.

Maintaining a Commitment to Fairness as an Outside Audit & Supervisory Board Member

As an outside Audit & Supervisory Board member, I always keep in mind the principle of fairness. I base my actions on my belief in impartiality and fairness, informed by my own experience. I am also firmly committed to increasing corporate value as a wholesaler.

I became strongly aware of the MEDIPAL Group's business value after the Great East Japan Earthquake in 2011. I was working at a pharmaceutical company at the time, and we were experiencing a lot of difficulty with our manufacturing system. Even in the distribution of medicine, the situation was difficult, but there was something in the MEDIPAL Group's response that surprised me. After becoming an outside Audit & Supervisory Board member, I visited an ALC and was impressed with its in-house power generators, emergency delivery motorcycles and other equipment. It had truly achieved "distribution that never stops even in emergencies." The Group's sense of mission to fulfill its role, even immediately after the most disastrous earthquake in Japanese history, was a tremendous source of value for the Company.

Evaluating the Effectiveness of Group Governance

In my experience, creating the right atmosphere at Board of Directors' meetings is critical. The meeting needs to be a forum where all participants, including outside members, can freely and candidly express their opinions, and where their views will be respected. That is definitely practiced in MEDIPAL's Board of Directors, and since I have been attending Board meetings as an Audit & Supervisory Board member, I have been able to freely state my views.

Because the Company is involved in a wide variety of business fields, the Board has many topics to discuss, but the Company takes time to explain them in advance so I can get a deeper understanding and provide in-depth advice as an outside officer. My assessment is that Group governance is practiced transparently, down to the smallest detail, as reflected by committees such as the Group Presidents Meeting, which considers matters for consultation, and the Group Auditors' Meeting. Regarding adoption of the "Company with Nominating Committee, etc." model under the Companies Act, my opinion is that if we can have free and open discussion, it is better to improve the current system rather than being bound by a particular form.

Solving Social Issues to Increase Corporate Value

In the face of issues such as the social security system, I believe the ability to permanently provide social value is the ultimate objective and the mission of corporate governance. For example, the need to address issues such as problems in rural healthcare is an important theme in distribution, and it is an issue that requires national cooperation. It is essential to increase corporate value with governance that balances "offense" – taking active measures to solve such issues – and "defense," which means not deviating from rules. The next three years, when the "2022 MEDIPAL Medium-Term Vision" will be implemented, will be a critical period for taking new measures. I intend to utilize my experience in management of companies engaged in food, pharmaceuticals and other businesses to promote effective governance.

Management Team (As of July 1, 2019)

Members of the Board



Shuichi Watanabe
Representative Director,
President and CEO

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. Since taking office as Representative Director, President and CEO of the Company in April 2012, 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, based on the "2022 MEDIPAL Medium-Term Vision" formulated in May this year, he will suitably perform his duties as Director and contribute to further increases in the corporate value of the MEDIPAL Group.



Yasuhiro Choufuku
Director, Vice President
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
2019 Director, Vice President of the Company (Current)

Reason for selection

Mr. Choufuku has profound knowledge of the pharmaceutical business, 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 to contribute to increasing the corporate value and develop customer-oriented business models.



Toshihide Yoda
Senior Managing Director
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 Ltd.
2000 Joined Lehman Brothers Japan Inc.
2008 Joined Barclays Capital Japan Ltd. Managing Director of Barclays Capital Japan Ltd.
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 Director of MEDIE Co., Ltd. Director of MEDICEO CORPORATION (Current)
2018 Director of JCR USA, Inc. (Current) Senior Managing Director of the Company (Current) Outside Director of JCR Pharmaceuticals Co., Ltd. (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 increasing corporate value through establishment of a business model not bound by existing frameworks.



Yuji Sakon
Managing Director
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) Director of MTI Ltd. (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. The Company believes that he will suitably perform his duties as Director in contributing to increasing corporate value to achieve an economically sustainable society through ESG initiatives.



Takuro Hasegawa
Director
In charge of Business Planning

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 HOLDINGS (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
2019 In charge of Business Planning 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, and promote business plans, the Company believes that he will suitably perform his duties as Director and contribute to further increases in corporate value.



Shinjiro Watanabe
Director
General Manager of Information Systems Management Division

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 In charge of Information Systems General Manager of Information Systems Management Division (Current) Director of CARADA medica Inc. (Current)

Reason for selection

Mr. Watanabe has supervised the MEDIPAL Group's systems as General Manager of the Information Systems Management Division, and has been involved in operational execution as the President and Representative Director of ATOL CO., LTD., a MEDIPAL subsidiary. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director in providing new value in the digital healthcare field and contributing to increasing corporate value.

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

Masanori Kawahara
Representative Director and Vice President, OrphanPacific, Inc.

Executive Officers

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

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



Seiichi Kasutani
Director

1985 Joined Paltac Corporation (Currently, PALTAC CORPORATION)
2011 Executive Officer, General Manager of Yokohama Branch Office of PALTAC CORPORATION
2013 Managing Executive Officer, General Manager of Yokohama Branch Office of PALTAC CORPORATION
2014 Director, Managing Executive Officer, General Manager of Yokohama Branch Office of PALTAC CORPORATION
2016 Managing Executive Officer, General Manager of Sales Division of PALTAC CORPORATION
2017 Director, Senior Managing Executive Officer, General Manager of Sales Division of PALTAC CORPORATION
2018 Director, Vice President, Executive Officer, Director of Sales Division of PALTAC CORPORATION
Representative Director, President, COO, Director of Sales Division of PALTAC CORPORATION
2019 Representative Director, President, COO of PALTAC CORPORATION (Current) Director of the Company (Current)

Reason for selection

Mr. Kasutani 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 and President of PALTAC CORPORATION, a MEDIPAL subsidiary. Because of his work to improve the performance of the MEDIPAL Group, the Company believes that he will suitably perform his duties as Director in contributing to increasing corporate value through steadily implementing PALTAC CORPORATION's medium-term business plan.



Toshio Asano
Outside Director

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
2017 Outside Director of the Company (Current)
2019 Outside Director of Daicel Corporation (Current)
Outside Director of Tokyo Century Corporation (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.



Mitsuko Kagami
Outside Director

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 other than serving as an outside director, we believe, for the above reasons, that she can appropriately perform the duties of an outside director.



Kuniko Shoji
Outside Director

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 Outside Director of the Company (Current)
Independent Director of Nichirei Corporation (Current)
2019 Outside Director of DIC Corporation (Current)
Professor, School of Health Innovation, Kanagawa University of Human Services Graduate School (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. Based on her extensive experience and insight, she has provided us with helpful opinions and appropriate advice from an objective, expert perspective at the Company's Board of Directors meetings. For this reason, we believe that she is suitable as an outside director.

Audit & Supervisory Board Members



Toshio Hirasawa
Full-time Audit & Supervisory Board Member

Audit & Supervisory Board Member, MEDICEO CORPORATION, MP AGRO CO., LTD., and MEDIPAL FOODS CORPORATION



Shigeru Kanda
Full-time Audit & Supervisory Board Member

Audit & Supervisory Board Member, MEDICEO CORPORATION



Tetsuo Kitagawa
Outside Audit & Supervisory Board Member

Emeritus Professor at Aoyama Gakuin University
Research Professor at Graduate School of Management, Tokyo Metropolitan University
Outside Director of Mitsubishi UFJ Trust and Banking Corporation (Audit and Supervisory Board member)



Tomoyasu Toyoda
Outside Audit & Supervisory Board Member

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



Yoko Sanuki
Outside Audit & Supervisory Board Member

Head of NS Law Office
Outside Director of Resona Holdings, Inc.
Outside Director, Audit Committee Chairperson of Resona Holdings, Inc.

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
Director, SPLine Corporation

Kazuo Hashida
Manager of Finance & Accounting Department, Administration Division

Teruhiro Yamasaki
Manager of Business Investment Department, Business Development Division
Director, MEDIE Co., Ltd.

Hisao Hiraga
Manager of General Affairs Department, Administration Division

Risk Management

Basic Policy

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. Having the authority to perform monitoring, the Audit Office coordinates with the Group's internal auditing department to rapidly identify potential loss risks.

■ Risk Management Structure



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 as of March 31, 2019.

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 relevant 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.

Compliance

Basic Policy

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

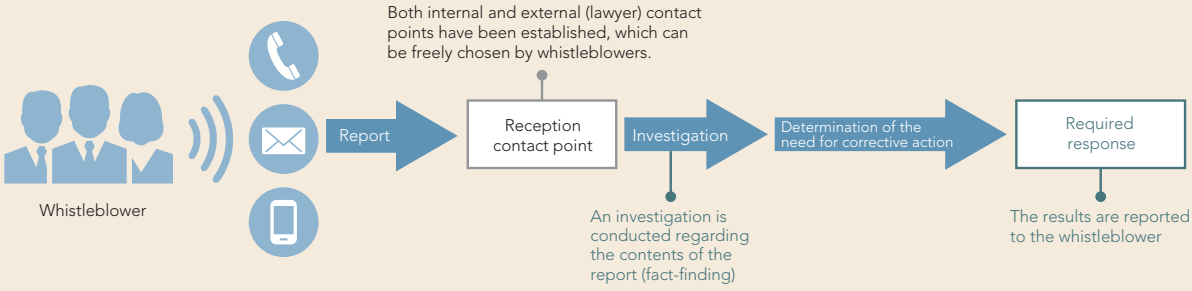
In order for the MEDIPAL Group to remain a sound corporate group, it has defined a basic internal control policy based on the Japanese Companies Act, and coordinates with Group companies to build and maintain internal controls. In addition, the Group's internal control reporting system for financial 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.

■ Whistleblower Hotline response process

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



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.

Pharmaceutical Affairs Management

Basic Policy

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.

Pharmaceutical Wholesalers' Response to the Japanese Version of the Good Distribution Practice (GDP) Guidelines

Corporate Reliability Department Established to Lead Efforts to Ensure Compliance with the GDP Guidelines (Good Distribution Practice for Medical Products)

Background

The Japanese version of the GDP Guidelines, which is in line with the global standard, PIC/S GDP,* was issued by the Ministry of Health, Labour and Welfare (MHLW) at the end of 2018. In January 2019, relevant explanatory materials were also released. The aim of the GDP Guidelines is to ensure the high quality of medical products in the distribution process and to prevent counterfeit drugs from entering the system. These Guidelines outline appropriate measures for managing the purchase, storage and supply of medical products in the process of getting them to markets (distribution to pharmaceutical wholesalers, medical institutions and pharmacies).

Following the release of the GDP Guidelines by the MHLW, the Federation of Japan Pharmaceutical Wholesalers Association (JPWA) reviewed the "Japanese Good Supplying Practice" (JGSP) and republished the JGSP as an internationally compliant JGSP GDP in February 2019. Currently, efforts are focused on increasing harmony with the GDP Guidelines.

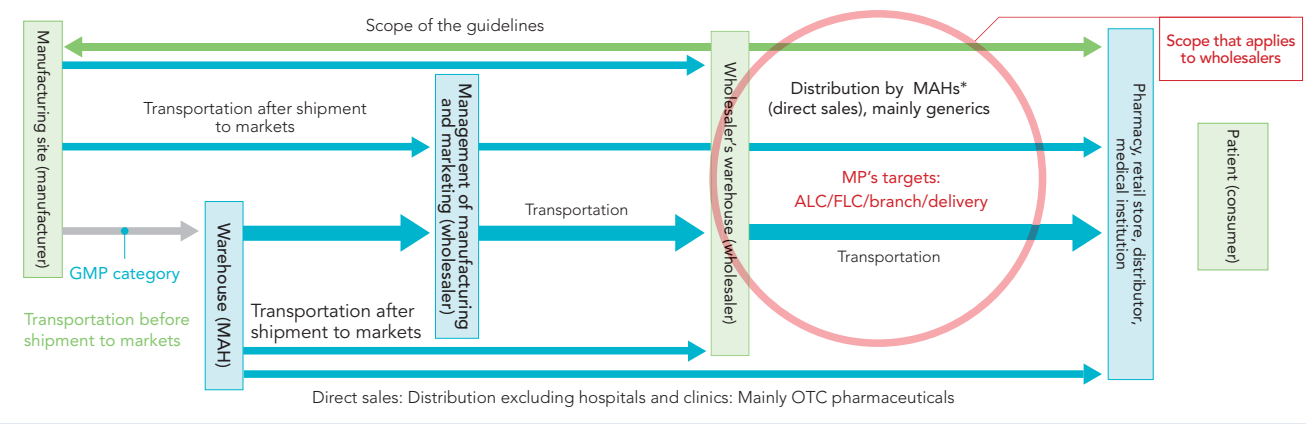
* PIC/S GDP: Acronym for Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme Good Distribution Practice

Response

The scope of the GDP Guidelines covers the distribution process, which extends to delivery to medical institutions and pharmacies. For pharmaceutical wholesalers, the guidelines cover activities from storage of products at warehouses to delivery to medical institutions, pharmacies and retail stores (see figure below).

In ensuring the appropriate management of distribution channels (purchase, storage and supply), maintaining the integrity of medical products in distribution channels and preventing counterfeit drugs from entering regular distribution channels, the following tasks are critical: 1) develop a GDP system, 2) prepare standard operating procedures for all business activities that are easily understood by employees, 3) provide employees with training based on these procedures so that they can properly perform their work, 4) maintain a record of business activities, and 5) retain these records for a specified period of time. It is also essential that management of pharmaceutical wholesalers implement a PDCA cycle to improve distribution quality and regularly assess and confirm that tasks specified in quality guidelines are carried out appropriately.

■ Scope of the GDP Guidelines



Note: Please refer to page 61 for explanations of technical terms.

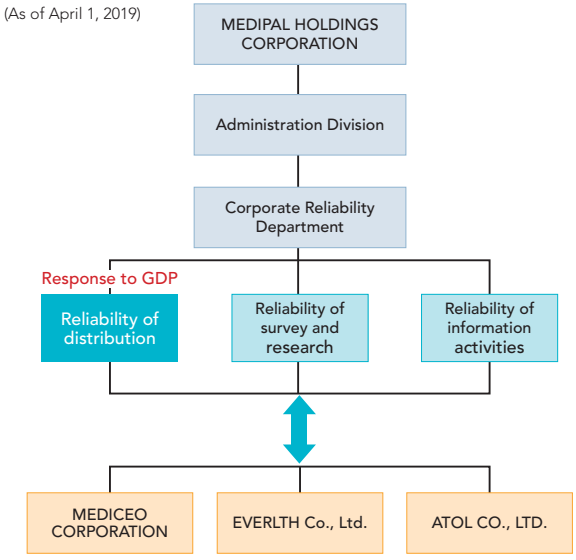
Source: Study on the international harmonization of guidelines for the distribution of pharmaceutical products. Material prepared by the study team.
*Marketing authorization holders

MEDIPAL Group Initiatives

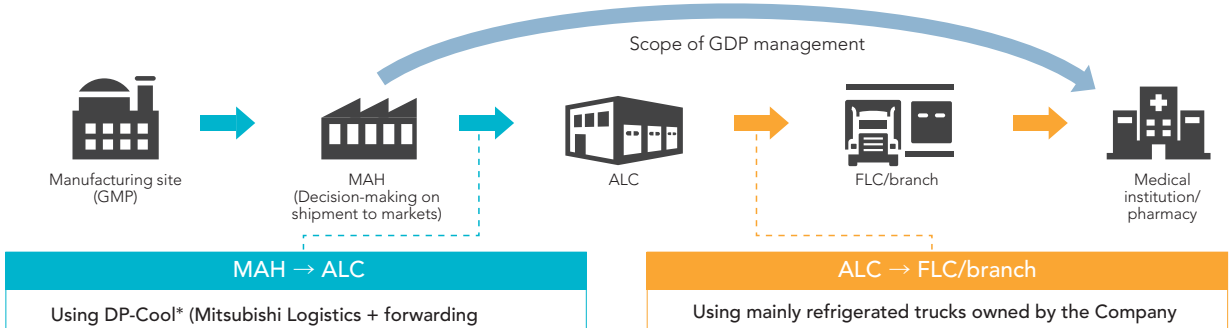
The MEDIPAL Group developed a quality manual and a standard operating procedure in preparation for the issuance of the GDP Guidelines. After obtaining approval from management in January 2018, in April of the same year the Group started to provide training on relevant issues at ALCs, which play key roles in ensuring proper distribution. The Corporate Reliability Department was established inside the Administration Division in April 2019 to increase quality assurance levels and reliability. To ensure compliance with the GDP Guidelines, we have integrated the efforts of three prescription pharmaceutical wholesalers, including MEDICEO CORPORATION, and have positioned "reliability of distribution" next to the pillars of "reliability of survey and research" and "reliability of information activities."

We also established the new positions of Supply Management Manager and Quality Control Manager. These positions are responsible for managing and supervising compliance with GDP Guidelines in our internal pharmaceutical supply chain, including ALCs, FLCs and branches. Under this supervisory system, we will continue our efforts to ensure proper distribution.

Organization and Role of the Corporate Reliability Department



Pharmaceutical Supply Chain



MAH → ALC

Using DP-Cool* (Mitsubishi Logistics + forwarding agencies), etc.

Characteristics of DP-Cool

- Compliant with the PIC/S GDP Guidelines
- Cooling temperature control throughout transportation
- Round-the-clock monitoring by the temperature control center
- Terminals with dock shelters directly connected to cold insulating warehouses
- Authorized drivers, etc.

ALC → FLC/branch

Using mainly refrigerated trucks owned by the Company

- ALC shipping berths with dock shelters
- Constant mapping taking into account seasonal variations for temperature controlled transportation
- Staff trained using "Basic Knowledge about Distribution"
- Regular OJT training by a trainer, etc.

* DP Cool is a new cold insulation transportation service for medical products compliant with the PIC/S GDP Guidelines

Disaster Planning

Basic Policy

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.

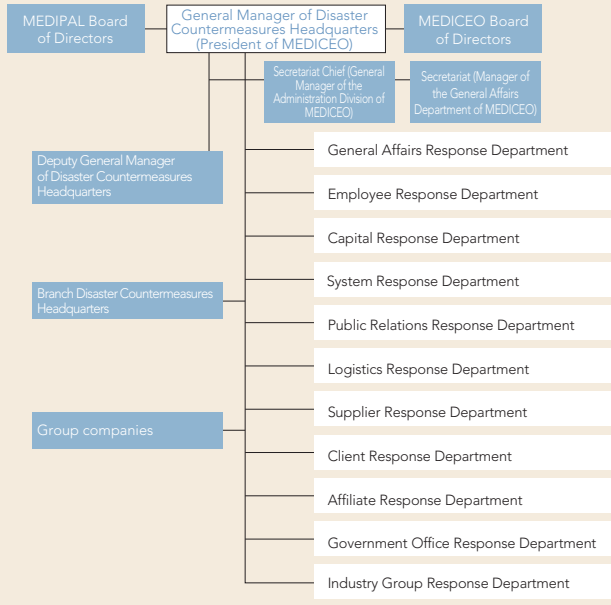
In the event of an earthquake with a seismic intensity of 6-lower or above, the Group immediately establishes the MEDIPAL Group Disaster Countermeasures Headquarters. This headquarters rapidly confirms the safety of Group company employees and their families in the affected areas, as well as the extent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

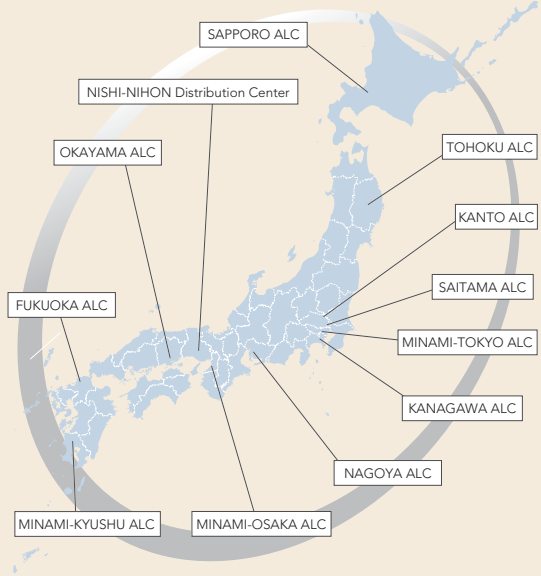
The MEDIPAL Group recognizes its role as a maintainer of social functions, and regards its social mission in the event of an outbreak of a new strain of influenza to include defining a response activity program, protecting the lives of employees and their families, maintaining a steady supply of pharmaceuticals,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

■ Disaster Countermeasures Headquarters – 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.

■ Coordination of Distribution Center Functions



A backup system has been put in place in the event that any center is rendered incapable of supply due to a large-scale natural disaster, etc.

MEDIPAL's Mission in Japan 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.

Business Continuity Plan (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.

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.



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.



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.



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.



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 Countermeasures Headquarters immediately goes into action.



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.



Activities of Group companies during the Western Japan Floods



Torrential rains affected a wide area of western Japan from late June to early July in 2018. The MEDIPAL Group set up disaster countermeasures headquarters to confirm the safety of its employees and their families. After that, it swiftly gathered information, reviewed relief measures and instructed various worksites. The number of medical institutions that sustained damage was 80. They were mainly located in Kurashiki-shi, Okayama Prefecture, but some were also located in Higashihiroshima, Kure and Mihara in Hiroshima Prefecture. In areas that suffered damage to transportation infrastructure, such as damaged roads, employees were dispatched from the Hiroshima headquarters of EVERLTH Co., Ltd., a company operating in the Chugoku area, to secure stability in the supply of pharmaceutical products. Additionally, we directed efforts for providing relief goods to customers and restoration efforts such as removal of mud and cleaning.

We have received comments from customers saying, "Just thinking about how hard everyone worked to help us without so much as a complaint still brings tears to our eyes."

Information Management

Basic Policy

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 MEDIPAL 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 preventive 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

Basic Policy

The MEDIPAL Group respects 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.

1 Personnel Development

Personnel Development Policy

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.

Personnel Allocation

Job rotation is regularly implemented for the purpose of developing employees and vitalizing work environments. When selecting members for new business projects, we allocate personnel to maximize the potential of employees and the organization, including recruiting from inside the MEDIPAL Group.

Training System

In order to train creative personnel, the MEDIPAL Group regularly provides level-specific training to all employees, from new recruits to section managers, department managers, etc. In addition, we provide opportunities for personal development through correspondence courses that are available to all Group employees.

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 and had their plans put into actual operation. This program has been held on an ongoing basis since 2011, and has been attended by 84 employees (as of March 31, 2019).

Correspondence courses

Correspondence courses are offered as a part of the MEDIPAL Group's personnel training program. The courses are aimed at improvement of skills and ultimately at career development, and are based on research of themes useful in improving job performance. We offer 195 courses, such as for learning business skills, acquiring qualifications and studying foreign languages.

Skill enhancement programs

MEDICEO CORPORATION has established a skill enhancement support system for employees aged 35, 45 and 54. The goal of this program is to enable them to re-examine their life plans as a working member of society and to build motivation toward work and self-improvement through acquisition of willpower, knowledge and physical strength at important milestones in their careers. In addition to a special five-day paid leave, employees can also choose to participate in outside training programs (including correspondence courses) or undergo extensive medical checkups. We provide financial assistance to employees who participate in these activities.

■ MEDICEO CORPORATION Training System

Job Grade		Level-Specific Training	Job Type/Other	E-Learning	Support
Management level employees	Department managers	• Sales department manager training	• Evaluator training	• Compliance (CSR, sexual harassment, power harassment, etc.) • Department-specific training (job skill and knowledge training/ specialized knowledge training, etc.) • AR exams	• Correspondence courses
	Section managers	• Section manager follow-up training II • Section manager follow-up training I • New section manager training • New branch manager training • New operating manager training			
Clerical positions	Deputy section manager/ senior staff member	• Preliminary training for new section managers • Training for deputy section managers • Training for senior staff members	• Brother & Sister training • Recruit training		
	Senior employees	• Fifth-year training • Third-year training			
	General employees	• Second-year training • New employee training			

Fair Evaluation and Treatment

The MEDIPAL Group has established evaluation indicators such as whether or not employees are taking actions that meet the expectations of their company and producing results accordingly. We conduct evaluations every six months. The wage structure is based on duties, role and level of contribution. Job evaluation results are applied in determining promotions, pay raises and bonuses and we aim for fair treatment in order to maximize the capabilities and motivation of employees.

MEDICEO CORPORATION holds regular job evaluator training in order to assure fairness and validity of job evaluations. At the same time, evaluator meetings are held semiannually in each department for standardization of job evaluation and decision-making metrics. In addition, 360-degree (multilateral) surveys are conducted for branch managers and other employees in managerial positions for objective analysis of their own words and conduct on a daily basis, and the results are used to enhance management.

2 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.

Promoting Workstyle Reform

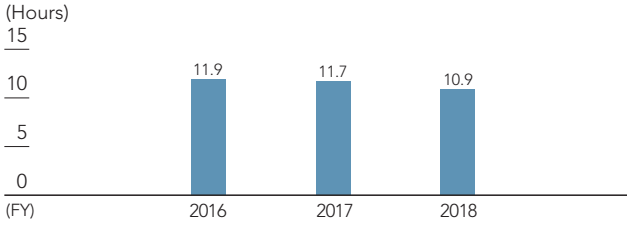
MEDICEO CORPORATION set up a Workstyle Reform Committee in May 2017 to promote improvement in productivity and in work-life balance.

(1) System reform

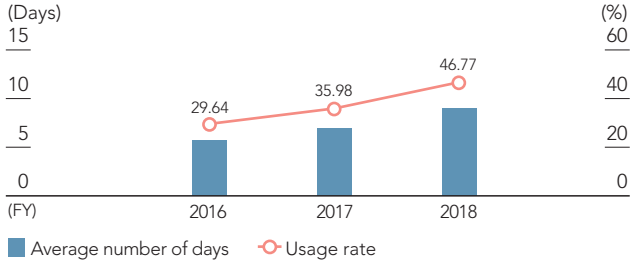
With the introduction of more flexible working hours, including staggered and variable working hours, and a new work scheme, we are promoting more effective work styles. This has included a reduction in overtime work and an increase in the rate of use of paid leave.

Planned energy-recharge paid leave: As a measure to promote greater use of paid leave, energy-recharge paid leave for five days each year has been introduced to promote employee health and work-life balance.

Changes in Average Monthly Overtime Work



Usage of Paid Leave (Average)



Telework: By enabling employees to work at home, we are expanding the range of workstyle options and improving productivity.

(2) Employee awareness and corporate culture reform

In order to promote workplace and employee awareness and corporate culture reform, we implement workplace-level activities and encourage employee proposals with the goal of improving productivity. We recognize outstanding workplaces and employees on a semiannual basis. Award-winning proposals and activities are posted on the intranet for information sharing purposes and to promote successful examples throughout the organization.

(3) Work reform

Measures are being implemented to achieve efficient work styles. They include re-examination of work details, reduction of wasted time and change in work styles.

Initiatives for Optimal Time Management and Reduction in Overtime Work

Work hours, including the start of work and end of work, are managed and recorded objectively through the use of IC cards and other measures. We work to promote awareness of optimal time management among all employees and hold discussions between labor and management with the aim of reducing overtime work.

Additionally, "No-Overtime Days" and other measures encourage 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.

Support Measures for Handling Work and Personal Life

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

Through the "Job Return" program to support work-life balance, MEDICEO offers reemployment opportunities to employees who left the company due to unavoidable family-related reasons, such as marriage, childbirth, childcare, nursing care and spouse job relocation.

3 Health Management

Health Management

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 its employees.

Improvement in health checkups and increase in participation rate

The MEDIPAL Group provides regular health checkups for employees, to detect any illness early and to maintain and improve wellness. The participation rate is nearly 100%.

MEDICEO CORPORATION offers non-standard medical inspection items in addition to items that are statutory requirements.

Mental health measures

The Group is dedicated to protecting the mental health of its employees, provides mental health education and performs awareness-raising activities at all Group companies. We have also established an EAP Hotline.*

* EAP (Employee Assistance Program) hotline: Employee contact point offering counseling on work-related and private concerns.

Influenza prevention

In order to maintain employee health, influenza vaccinations are provided to all interested employees each year.

Mindfulness

Mindfulness (brain and mental relaxation method based on meditation) sessions have been held at all Group companies for the improvement of mental and physical health. The sessions are aimed at providing relief for mental and physical stress, improving concentration and enhancing the ability to handle stress.



Japan Health Master Exam

The Japan Health Master Exam, which has been administered since 2017 by the Japan Healthy Lifestyle Promotion Association, promotes 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 take the exam's expert course in order to improve their health literacy and contribute to society. To date, a total of 3,886 employees have passed the exam (as of June 30, 2019).

健康マスター

4 Diversity

Since its founding in 1898, the MEDIPAL Group has been involved in numerous mergers, and has achieved continuous growth through expansion and innovation. The MEDIPAL Group has employees from a range of corporate cultures and with a range of 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 entire Group. 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 of each employee. The average rate of employment of people with disabilities in the MEDIPAL Group is 2.44% (as of July 1, 2019), and we will continue to actively hire and promote people 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 work style optimization. This will contribute to our ability to provide an even greater level of service to customers.

At MEDICEO, female employees actively participate in in-house projects and play a key role in helping the company fulfill its important mission.

■ Ratio of Female Employees in the MEDIPAL Group

	March 31, 2018	March 31, 2019
Ratio of female employees (regular employees)	29.6%	29.8%
Ratio of female managers	8.0%	8.4%
Number of corporate officers, executive officers, etc.*	3.4%	5.3%
Managers	5.8%	6.2%
Leaders	12.6%	12.7%

* Number of corporate officers is as of June 30, 2019

President Shuichi Watanabe participates in the Leadership Forum held by CPhI Women

President Shuichi Watanabe participated in a discussion on the theme of "Managerial outlook on the management and workstyles of women in the future" at CPhI, an international pharmaceutical event, and spoke on his expectations for women, urging them to "take a more aggressive stance toward opportunities to become managers, with the scope of empowerment of women expected to grow in the future."



Panel discussion

5 Human Rights Protection Initiatives

Establishment of a Sexual Harassment and Interpersonal Relation Hotline

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

Basic Policy

The MEDIPAL Group strives to reduce greenhouse gas emissions and to promote the appropriate disposal of waste, with the aim of preventing global warming and creating a recycling-oriented society as a Group that contributes to human health and the advancement of society.

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

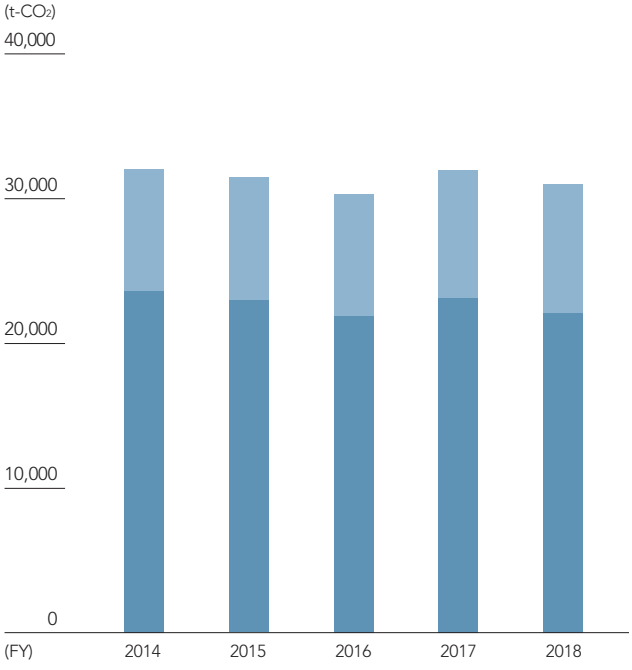
Emissions related to transportation

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 CO_2 emissions in fiscal 2018 decreased by 998 t-CO_2 compared with the previous fiscal year.

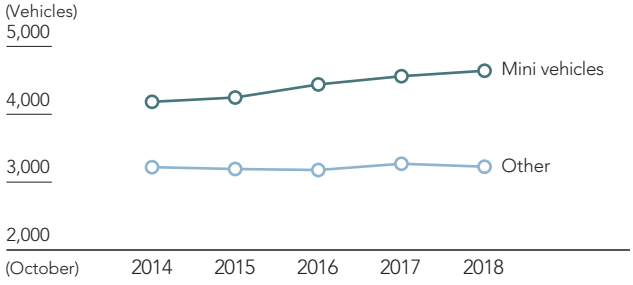
In the Prescription Pharmaceutical Wholesale Business, the expansion of business functions increased our fleet size to 7,865 vehicles. However, we introduced highly fuel efficient mini vehicles with low environmental impact, and are working to prevent large increases in CO_2 emissions per fleet vehicle.

* Act on Rationalizing Energy Use

CO_2 Emissions Resulting from Transportation (MEDICEO CORPORATION)



Number of Mini Vehicles in the Fleet



Scope: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION

CO_2 Emissions Resulting from Fleet Vehicles

Fiscal	2014	2015	2016	2017	2018
Amount of fuel (kl)	12,008	12,014	11,939	12,431	12,245
CO_2 emissions (t-CO_2)	27,879	27,892	27,718	28,862	28,428
Number of vehicles (as of October)	7,397	7,434	7,613	7,828	7,865
Emissions per vehicle (t-CO_2)	3.77	3.75	3.64	3.69	3.61

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
Scope: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION

CO_2 emissions from facilities

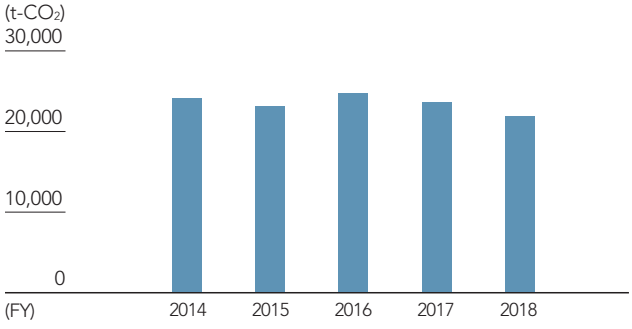
MEDICEO CORPORATION is a specified business operator under the Energy Saving Act and calculates CO_2 emission data for ALCs and other facilities. Its adjusted greenhouse gas emissions for fiscal 2018 were 21,754 t- CO_2, which is equivalent to its emissions during the previous fiscal year. During fiscal 2018, LED lighting fixtures were installed and air-conditioning facilities were upgraded.

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 108,940,000 kWh of power in fiscal 2018.

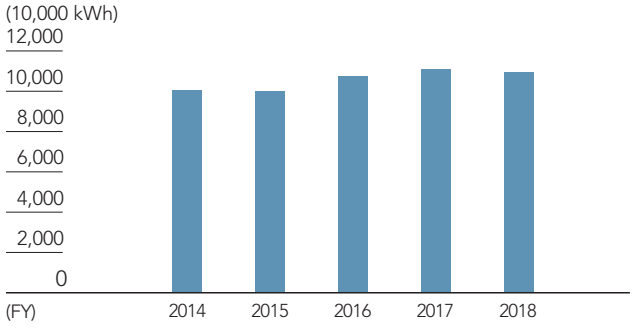
MEDICEO CORPORATION installed demand monitoring devices in some of its buildings, in order to visualize power usage and reduce maximum demand power, etc.

Total CO_2 Emissions from Facilities



Scope: MEDICEO CORPORATION

Power Usage of the Entire Group



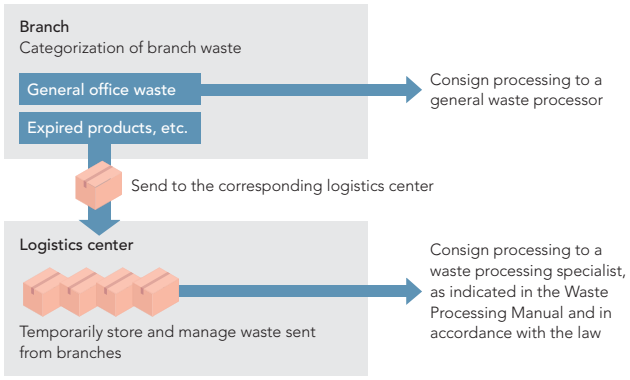
Scope: MEDIPAL HOLDINGS CORPORATION, MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION, MP AGRO CO., LTD., MEDIPAL FOODS CORPORATION

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

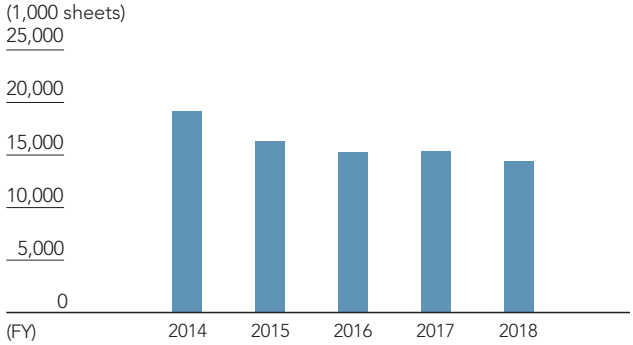


Scope: MEDICEO CORPORATION, EVERLTH Co., Ltd., ATOL CO., LTD., MM CORPORATION, PALTAC CORPORATION

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



Social Initiatives

Basic Policy

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, 2019: 3,972,258 caps
(Vaccinations for roughly 7,450 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, 2019: Vaccinations for 2,776 children

Regional contribution with "Kuruma Kodomo 110" stickers

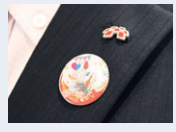
MEDICEO CORPORATION leverages its sales activities, which are closely linked to local communities, to contribute to safer environments for children by applying "Kuruma Kodomo 110 (vehicles that help keep children safe)" stickers to company-owned vehicles.





Support for patients with rare and intractable diseases

There are people suffering from rare and intractable diseases all over the world. However, there are cases where hardly any R&D on therapeutics or diagnostics is undertaken due to the small number of patients and complicated mechanisms. Rare Disease Day (RDD) was launched in 2008 in Sweden with the aim of improving the quality of life of patients with rare and intractable diseases through better diagnosis and treatment. The MEDIPAL Group supports RDD activities as a corporate sponsor. In February, when RDD events are held, MSs and other employees wear the official RDD badge while engaging in their duties.



Glossary

● 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 CORRPORATION and its consolidated subsidiaries
Years ended March 31

	2009/3	2010/3	2011/3	2012/3
Sales and Income:				
Net sales	¥2,463,570	¥2,546,030	¥2,662,822	¥2,750,233
Gross profit	187,237	191,091	188,147	192,568
Selling, general and administrative expenses	173,781	172,657	174,598	171,677
Operating profit	13,456	18,434	13,549	20,891
Ordinary profit	29,005	26,803	22,889	31,548
Profit attributable to owners of parent	12,510	1,958	1,705	11,651
Depreciation	11,225	11,441	12,158	12,661
Capital expenditures	19,877	28,927	22,708	16,678
Financial Position:				
Total assets	¥ 1,117,287	¥1,166,487	¥1,284,680	¥1,274,411
Total net assets	294,501	330,993	340,984	354,344
Cash Flows:				
Cash flows from operating activities	¥ 23,371	¥ 13,993	¥ 49,474	¥ (1,988)
Cash flows from investing activities	(21,835)	(29,845)	(24,101)	(12,166)
Cash flows from financing activities	(10,208)	10,195	(10,101)	(7,252)
Free cash flow	1,536	(15,852)	25,373	(14,154)
Per Share:				
Basic earnings	¥ 52.30	¥ 8.31	¥ 7.27	¥ 49.60
Total net assets	1,229.34	1,236.15	1,275.94	1,329.60
Cash dividends	18.00	18.00	18.00	18.00
Ratios (%):				
Ratio of gross profit to sales	7.6	7.5	7.1	7.0
Profit ratio	0.5	0.7	0.5	0.8
Net worth ratio	26.36	24.86	23.30	24.34
Return on equity	4.28	0.67	0.58	3.82
Return on assets	2.69	2.42	1.92	2.51
Payout ratio	34.4	216.7	247.7	36.3
Number of employees	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 ¥110.99 to U.S. $1.00, the approximate exchange rate on March 31, 2019. Yen amounts on all pages except for the Financial Statements are rounded down to the nearest million yen. Yen amounts in the Financial Statements are rounded to the nearest million yen.

						Millions of yen	Thousands of U.S. dollars (Note)
2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2019/3
¥2,810,960	¥2,947,799	¥2,872,906	¥3,028,187	¥3,063,901	¥3,146,314	¥3,181,929	$28,668,610
202,142	209,358	201,736	217,497	219,019	228,100	232,503	2,094,810
173,622	174,695	168,941	175,214	179,369	183,839	182,675	1,645,869
28,520	34,663	32,795	42,283	39,650	44,261	49,828	448,941
39,643	49,778	44,476	55,141	53,360	57,349	63,914	575,854
18,656	25,485	23,688	30,772	29,012	34,781	34,359	309,568
12,619	13,147	12,326	12,391	13,573	14,898	13,452	121,200
21,307	24,743	15,168	38,395	44,884	20,653	19,361	174,439
¥1,328,601	¥1,400,792	¥1,454,800	¥1,497,310	¥1,525,912	¥1,618,819	¥1,617,911	$14,577,088
381,892	407,481	457,604	488,329	521,165	572,656	592,848	5,341,454
¥ 61,769	¥ (73)	¥ 80,467	¥ 21,985	¥ 47,955	¥ 63,559	¥ 63,716	$ 574,070
(15,841)	(28,066)	(11,834)	(41,267)	(11,355)	(43,065)	(23,513)	(211,848)
(14,379)	(2,834)	(19,835)	6,093	(17,663)	15,845	(30,755)	(277,097)
45,928	(28,139)	68,633	(19,282)	36,600	20,494	40,203	362,222
¥ 82.24	¥ 112.77	¥ 104.73	¥ 135.89	¥ 128.12	¥ 154.13	¥ 154.09	$ 1.388
1,433.19	1,529.63	1,722.56	1,832.45	1,950.25	2,154.93	2,233.52	20.124
20.00	23.00	24.00	28.00	31.00	34.00	38.00	0.342
7.2	7.1	7.0	7.2	7.1	7.3	7.3	
1.0	1.2	1.1	1.4	1.3	1.4	1.6	
24.33	24.69	26.81	27.71	28.94	29.89	30.71	
5.89	7.62	6.44	7.65	6.77	7.51	7.00	
3.09	3.68	3.14	3.76	3.55	3.66	4.00	
24.3	20.4	22.9	20.6	24.2	22.1	24.7	
11,115	10,930	10,930	10,959	13,252*	14,151	13,868	

* 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.

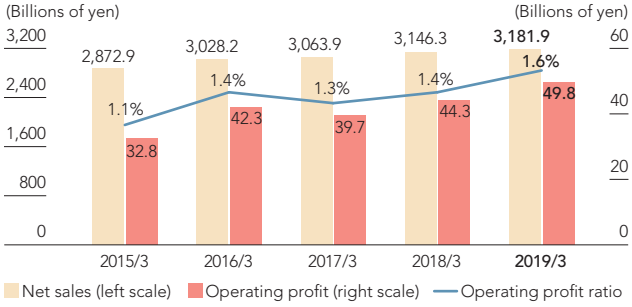
Financial Review

Management Environment and Strategies

During the fiscal year ended March 31, 2019, 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. In these economic conditions, the MEDIPAL Group continued to carry out 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 in the fields of pharmaceuticals, health and beauty. To expand our earnings foundation and achieve sustainable growth, we are further enhancing the efficiency and functionality of existing businesses, expanding new businesses by leveraging our nationwide infrastructure and human resources, and developing business in growth fields by making use of the resources and functions of Group companies.

Overview of Sales and Income

Net Sales, Operating Profit and Operating Profit Ratio



Net Sales

Consolidated net sales increased 1.1% year on year to ¥3,181,929 million. In the Prescription Pharmaceutical Wholesale Business, sales decreased 0.7% year on year, but remained on par with the previous fiscal year in a flat market. In the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business sales increased 5.0% year on year. In the Animal Health Products and Food Processing Raw Materials Wholesale Business sales increased 4.9%. Sales were firm in both businesses.

Operating Profit

Operating profit reached a record high of ¥49,828 million, an increase of 12.6% year on year. The operating profit ratio also rose 0.2 percentage points from the previous fiscal year to 1.6%. This increase was due primarily to a 0.06 percentage point rise in the ratio of gross profit to sales and a 0.1 percentage point decline in the ratio of selling, general and administrative (SG&A) expenses to sales.

Ordinary Profit and Profit Attributable to Owners of Parent

Ordinary profit was ¥63,914 million, an increase of 11.4% year on year. Profit attributable to owners of parent decreased 1.2% year on year to ¥34,359 million.

Segment Profit or Loss

Note: Segment sales include intersegment sales and transfers.

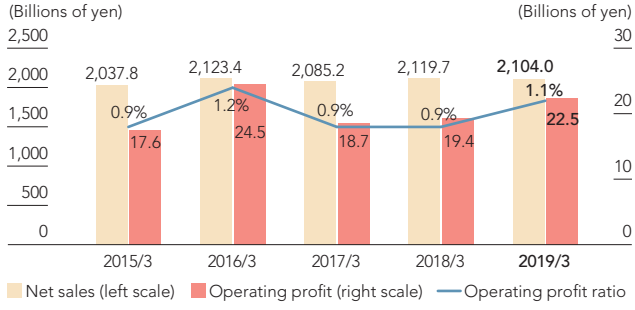
Prescription Pharmaceutical Wholesale Business

(Millions of yen)

Years ended March 31	2018	2019
Net sales	¥2,119,660	**¥2,103,969**
Operating profit	19,435	**22,461**
Assets	1,167,954	**1,165,441**
Depreciation	9,641	**8,585**
Capital expenditures	6,898	**8,398**

Net sales in the Prescription Pharmaceutical Wholesale Business decreased 0.7% year on year to ¥2,103,969 million. However, operating profit increased 15.6% to ¥22,461 million due to a decrease in SG&A expenses as a result of enhanced productivity and efforts to secure profits by improving distribution, despite revision of NHI drug prices to reflect market prices and initiatives in new businesses.

Net Sales, Operating Profit and Operating Profit Ratio

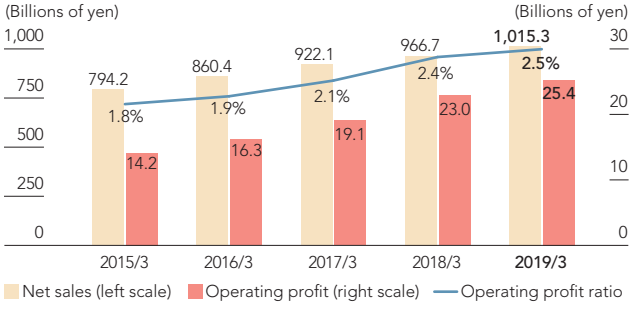


Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business

(Millions of yen)

Years ended March 31	2018	2019
Net sales	¥966,684	**¥1,015,254**
Operating profit	22,978	**25,372**
Assets	380,708	**387,012**
Depreciation	4,829	**4,491**
Capital expenditures	13,649	**10,701**

Net Sales, Operating Profit and Operating Profit Ratio



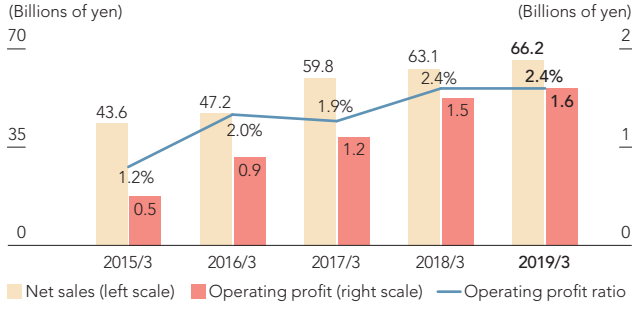
Net sales in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business increased 5.0% year on year to ¥1,015,254 million. Operating profit also increased 10.4% to ¥25,372 million due to strong performance of products in this business.

Animal Health Products and Food Processing Raw Materials Wholesale Business

(Millions of yen)

Years ended March 31	2018	2019
Net sales	¥63,093	**¥66,190**
Operating profit	1,513	**1,608**
Assets	23,740	**24,322**
Depreciation	156	**156**
Capital expenditures	99	**234**

Net Sales, Operating Profit and Operating Profit Ratio



Net sales in the Animal Health Products and Food Processing Raw Materials Wholesale Business increased 4.9% year on year to ¥66,190 million. Operating profit also increased 6.3% to ¥1,608 million due to strong sales resulting from proactive sales activities.

Overview of Financial Position

Assets, Liabilities and Net Assets

Assets

As of March 31, 2019, total assets were ¥1,617,911 million, a decrease of ¥908 million from the end of the previous fiscal year. Total current assets were ¥1,135,402 million, an increase of ¥871 million. This principally reflected an increase of ¥9,478 million in cash and deposits and a decrease of ¥10,695 million in notes and accounts receivable – trade.

Total non-current assets were ¥482,509 million, a decrease of ¥1,780 million. This principally reflected an increase of ¥4,932 million in property, plant and equipment and a decrease of ¥5,893 million in investments and other assets.

Liabilities

As of March 31, 2019, total liabilities were ¥1,025,063 million, a decrease of ¥21,100 million from the end of the previous fiscal year. Total current liabilities were ¥932,618 million, a decrease of ¥8,111 million. This primarily reflected a decrease of ¥6,500 million in short-term loans payable. Total non-current liabilities were ¥92,445 million, a decrease of ¥12,989 million. This primarily reflected a decrease of ¥5,340 million in long-term loans payable and a decrease of ¥5,884 million in deferred tax liabilities.

Net Assets

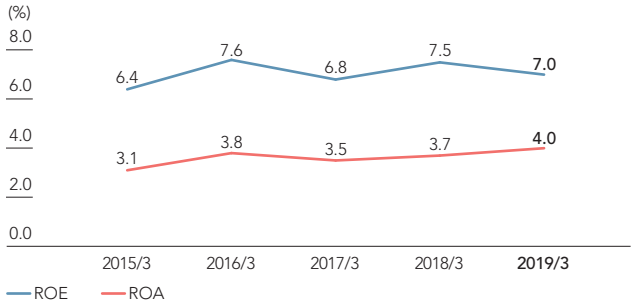
As of March 31, 2019, net assets were ¥592,848 million, an increase of ¥20,192 million from the end of the previous fiscal year. This primarily reflected an increase in retained earnings of ¥27,516 million, a decrease of ¥6,050 million due to purchase of treasury shares, a decrease of ¥8,526 million in valuation difference on available-for-sale securities and an increase of ¥7,980 million in non-controlling interests. In June 2018, in line with its flexible capital policy, the Company purchased 2,445,200* of treasury shares to improve capital efficiency.

* The ratio of treasury shares purchased to the number of shares issued (excluding treasury shares) was 1.09%.

Capital Efficiency

In the fiscal year ended March 31, 2019, ROE declined by 0.5 percentage points from the previous fiscal year to 7.0%, while ROA rose by 0.3 percentage points to 4.0%. This decline in ROE was due primarily to decreases in return on sales and financial leverage.

ROE/ROA



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

Overview of Cash Flows

As of March 31, 2019, cash and cash equivalents (cash) totaled ¥230,011 million, an increase of ¥9,448 million from the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥63,716 million, an increase of ¥157 million from the previous fiscal year. Principal factors were profit before income taxes of ¥63,462 million, depreciation of ¥13,452 million, a decrease in notes and accounts receivable – trade of ¥10,901 million, a decrease in inventories of ¥15 million, an increase in notes and accounts payable – trade of ¥2,536 million, and income taxes paid of ¥23,294 million.

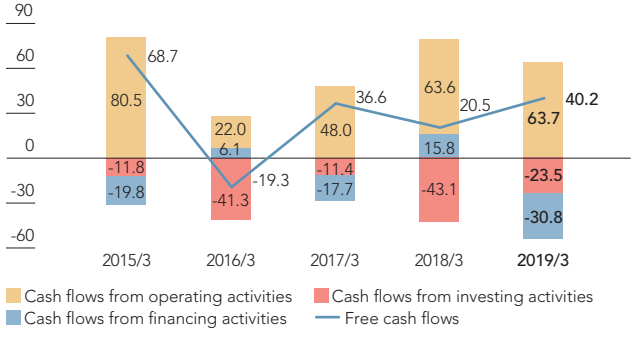
Cash Flows from Investing Activities

Net cash used in investing activities was ¥23,513 million, a decrease of ¥19,552 million from the previous fiscal year. This primarily reflected expenditures of ¥14,580 million for the purchase of property, plant and equipment and ¥3,940 million for the purchase of shares of subsidiaries and associates.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥30,755 million, compared with net cash provided by financing activities of ¥15,845 million in the previous fiscal year. The principal factors were a net decrease in loans payable of ¥12,950 million, cash dividends paid of ¥10,176 million and purchase of treasury shares of ¥6,061 million.

Cash Flows

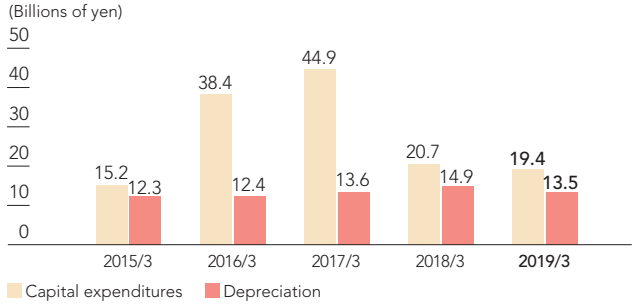


Capital Expenditures

Capital expenditures for the MEDIPAL Group in the fiscal year ended March 31, 2019, totaled ¥19,361 million, including ¥15,487 million for capital investments and ¥3,873 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 logistics functions and enhance efficiency. The Company funded capital expenditures using internal capital resources and loans.

Major investments included capital investments of ¥4,947 million for construction of the Kanto ALC and an investment in software of ¥3,450 million for integration of the mainframe systems for sales and logistics in the Prescription Pharmaceutical Wholesale Business, as well as capital investments of ¥10,302 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.

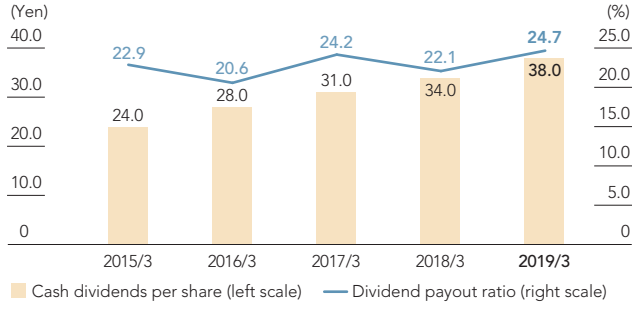
Based on consideration of the Company's financial condition during the fiscal year under review and other factors, the Board has set cash dividends applicable to the fiscal year at ¥38.00 per share, including an interim dividend of ¥18.00 per share and year-end cash dividend of ¥20.00 per share. As a result, the consolidated payout ratio for the period ended March 31, 2019 was 24.7%.

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. In executing a flexible capital policy that responds to changes in the corporate environment, the Company will make repurchases of its own shares, taking into account its financial condition, stock price, and other factors.

For the fiscal year ending March 31, 2020, the Company plans to pay dividends of ¥40 per share, consisting of an interim and a year-end dividend of ¥20 per share each.

Going forward, the Company will continue its basic approach of distribution of profits and will strive to maintain stable dividends with a target consolidated payout ratio of 30% based on its new vision, "2022 MEDIPAL Medium-Term Vision: Change the *Oroshi* Future – Innovation for the Future," announced on May 15, 2019.

Cash Dividends per Share and Dividend Payout Ratio



Outlook for the Fiscal Year Ending March 31, 2020

The products handled by each business of the MEDIPAL Group are essential to safe and secure lives. Therefore, a stable supply of these products is necessary 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 formulated its new vision, "2022 MEDIPAL Medium-Term Vision: Change the *Oroshi* Future – Innovation for the Future," announced on May 15, 2019, by taking into account changes in the social environment.

We will expand our earnings foundation and achieve sustainable growth by building new frameworks that benefit customers and society.

For the fiscal year ending March 31, 2020, the MEDIPAL Group forecasts ¥3,242,000 million in net sales (up 1.9%), ¥51,000 million in operating profit (up 2.4%), ordinary profit of ¥65,000 million and ¥35,000 million in profit attributable to owners of parent (up 1.9%).

Consolidated Balance Sheets

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
As of March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2019**	2018	**2019**
Current assets:			
Cash and deposits (Notes 6, 7 and 19)	**¥ 213,025**	¥ 203,547	**$ 1,919,317**
Notes and accounts receivable–trade (Notes 6 and 9)	**686,886**	697,581	**6,188,720**
Securities (Note 6)	**18,770**	18,770	**169,114**
Merchandise and finished goods	**145,819**	145,868	**1,313,803**
Accounts receivable–other (Note 6)	**64,867**	65,211	**584,440**
Other	**6,628**	4,196	**59,717**
Allowance for doubtful accounts	**(593)**	(642)	**(5,343)**
Total current assets	**1,135,402**	1,134,531	**10,229,768**
Property, plant and equipment (Note 13):			
Buildings and structures (Notes 11, 12 and 19)	**190,632**	186,093	**1,717,560**
Machinery, equipment and vehicles (Notes 12 and 15)	**55,761**	52,026	**502,397**
Land (Notes 11, 12, 14 and 19)	**118,348**	117,669	**1,066,294**
Construction in progress	**8,231**	5,287	**74,160**
Other (Note 11)	**27,548**	26,991	**248,202**
Total property, plant and equipment	**400,520**	388,066	**3,608,613**
Accumulated depreciation	**(146,337)**	(138,815)	**(1,318,470)**
Property, plant and equipment, net	**254,183**	249,251	**2,290,143**
Intangible assets:			
Software	**8,803**	8,944	**79,314**
Other	**5,291**	5,968	**47,671**
Total intangible assets	**14,094**	14,912	**126,985**
Investments and other assets:			
Investment securities (Notes 6, 8 and 19):			
Unconsolidated subsidiaries and associates	**48,166**	42,557	**433,967**
Other	**142,434**	153,348	**1,283,305**
Long-term loans receivable (Note 6)	**15**	28	**135**
Deferred tax assets (Note 22)	**3,600**	3,131	**32,435**
Net defined benefit asset	**5,234**	5,585	**47,158**
Other assets:			
Unconsolidated subsidiaries and associates (investment in capital of subsidiaries and associates)	**5,224**	5,467	**47,067**
Other	**10,843**	11,315	**97,694**
Allowance for doubtful accounts	**(1,284)**	(1,306)	**(11,569)**
Total investments and other assets	**214,232**	220,125	**1,930,192**
Total assets	**¥1,617,911**	¥1,618,819	**$14,577,088**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2019**	2018	**2019**
Current liabilities:			
Notes and accounts payable–trade (Notes 6, 9 and 19)	**¥ 869,648**	¥ 867,111	**$ 7,835,373**
Short-term loans payable (Notes 6 and 16)	**2,500**	9,000	**22,525**
Current portion of long-term loans payable (Notes 6 and 16)	**5,950**	7,060	**53,608**
Income taxes payable	**11,119**	11,541	**100,180**
Provision for bonuses	**8,446**	8,914	**76,097**
Provision for sales returns	**600**	607	**5,406**
Other	**34,355**	36,496	**309,532**
Total current liabilities	**932,618**	940,729	**8,402,721**
Non-current liabilities:			
Convertible bond-type bonds with share acquisition rights (Note 17)	**30,529**	30,679	**275,061**
Long-term loans payable (Notes 6 and 16)	**3,908**	9,248	**35,210**
Deferred tax liabilities (Note 22)	**25,304**	31,187	**227,985**
Deferred tax liabilities for land revaluation (Note 14)	**999**	1,004	**9,001**
Provision for loss on guarantees	**170**	289	**1,532**
Net defined benefit liability	**19,754**	19,956	**177,980**
Other	**11,781**	13,071	**106,144**
Total non-current liabilities	**92,445**	105,434	**832,913**
Contingent liabilities (Note 20)			
Net assets (Note 21):			
Shareholders' equity:			
Capital stock:			
Authorized—900,000,000 shares in 2019 and 2018			
Issued—244,524,496 shares in 2019 and 2018	**22,398**	22,398	**201,802**
Capital surplus	**134,362**	134,362	**1,210,577**
Retained earnings	**321,243**	293,727	**2,894,342**
Treasury shares—22,059,487 shares in 2019 and 19,613,084 shares in 2018	**(30,469)**	(24,419)	**(274,520)**
Total shareholders' equity	**447,534**	426,068	**4,032,201**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities (Note 8)	**63,409**	71,935	**571,304**
Deferred gains or losses on hedges	**2**	(10)	**18**
Revaluation reserve for land (Note 14)	**(14,028)**	(14,019)	**(126,390)**
Foreign currency translation adjustment	**418**	787	**3,766**
Remeasurements of defined benefit plans (Note 18)	**(455)**	(93)	**(4,099)**
Total accumulated other comprehensive income	**49,346**	58,600	**444,599**
Non-controlling interests	**95,968**	87,988	**864,654**
Total net assets	**592,848**	572,656	**5,341,454**
Total liabilities and net assets	**¥1,617,911**	¥1,618,819	**$14,577,088**

Consolidated Statements of Income

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	**¥3,181,929**	¥3,146,314	**$28,668,610**
Cost of sales	**2,949,426**	2,918,214	**26,573,800**
Gross profit	**232,503**	228,100	**2,094,810**
Selling, general and administrative expenses	**182,675**	183,839	**1,645,869**
Operating profit	**49,828**	44,261	**448,941**
Other income (expenses):			
Research fee income	**7,730**	7,757	**69,646**
Real estate rent, net	**459**	413	**4,136**
Interest and dividend income	**2,669**	2,472	**24,047**
Interest expenses	**(181)**	(237)	**(1,631)**
Loss on valuation of investment securities	**(65)**	(80)	**(586)**
Gain on sales of investment securities, net	**166**	50	**1,496**
Gain on sales of shares of subsidiaries and associates	**—**	5,400	**—**
Gain on change in equity	**—**	1,562	**—**
Share of profit of entities accounted for using equity method	**2,103**	1,531	**18,948**
Loss on tax purpose reduction entry of non-current assets	**(2)**	—	**(18)**
Loss on sales and retirement of non-current assets, net	**(412)**	(130)	**(3,712)**
Impairment loss (Note 11)	**(8)**	(325)	**(72)**
Office transfer expenses	**(0)**	(360)	**(0)**
Provision of allowance for doubtful accounts	**(359)**	—	**(3,235)**
Loss on disaster	**(332)**	—	**(2,991)**
Insurance claim income	**201**	—	**1,811**
Other, net	**1,665**	1,153	**15,001**
Total other income (expenses)	**13,634**	19,206	**122,840**
Profit before income taxes	**63,462**	63,467	**571,781**
Income taxes (Note 24):			
Current	**20,476**	20,841	**184,485**
Deferred	**(2,440)**	(911)	**(21,984)**
Total income taxes	**18,036**	19,930	**162,501**
Profit	**45,426**	43,537	**409,280**
Profit attributable to non-controlling interests	**11,067**	8,756	**99,712**
Profit attributable to owners of parent	**¥ 34,359**	¥ 34,781	**$ 309,568**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Basic earnings	**¥154.09**	¥154.13	**$1.388**
Diluted net income	**145.15**	149.91	**1.308**
Cash dividends applicable to the period	**38.00**	34.00	**0.342**

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit	**¥45,426**	¥43,537	**$409,280**
Other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities	**(9,262)**	18,684	**(83,449)**
Deferred gains or losses on hedges	**24**	(31)	**216**
Remeasurements of defined benefit plans, net of tax	**(331)**	1,453	**(2,982)**
Share of other comprehensive income of entities accounted for using equity method	**(619)**	320	**(5,577)**
Total other comprehensive income	**(10,188)**	20,426	**(91,792)**
Comprehensive income	**¥35,238**	¥63,963	**$317,488**
Comprehensive income attributable to:			
Owners of the parent	**¥25,093**	¥53,658	**$226,083**
Non-controlling interests	**10,145**	10,305	**91,405**

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, 2019 and 2018

	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 in items during period					
Dividends of surplus			(7,222)		(7,222)
Change in 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 in 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

	Millions of yen							
	Accumulated other comprehensive income							
Year ended March 31, 2018	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 in items during period								
Dividends of surplus								(7,222)
Change in 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 in 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.

	Millions of yen				
	Shareholders' equity				
Year ended March 31, 2019	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	**¥22,398**	**¥134,362**	**¥293,727**	**¥(24,419)**	**¥426,068**
Changes in items during period					
Dividends of surplus			**(8,053)**		**(8,053)**
Change in scope of equity method			**1,201**		**1,201**
Profit attributable to owners of parent			**34,359**		**34,359**
Purchase of treasury shares				**(6,050)**	**(6,050)**
Disposal of treasury shares		**0**		**0**	**0**
Change in ownership interest of parent due to transactions with non-controlling interests		**(0)**			**(0)**
Reversal of revaluation reserve for land			**9**		**9**
Net changes of items other than shareholders' equity					
Total changes in items during period	**—**	**(0)**	**27,516**	**(6,050)**	**21,466**
Balance at end of current period	**¥22,398**	**¥134,362**	**¥321,243**	**¥(30,469)**	**¥447,534**

Year ended March 31, 2019	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 current period	**¥71,935**	**¥(10)**	**¥(14,019)**	**¥787**	**¥ (93)**	**¥58,600**	**¥87,988**	**¥572,656**
Changes in items during period								
Dividends of surplus								**(8,053)**
Change in scope of equity method								**1,201**
Profit attributable to owners of parent								**34,359**
Purchase of treasury shares								**(6,050)**
Disposal of treasury shares								**0**
Change in ownership interest of parent due to transactions with non-controlling interests								**(0)**
Reversal of revaluation reserve for land								**9**
Net changes of items other than shareholders' equity	**(8,526)**	**12**	**(9)**	**(369)**	**(362)**	**(9,254)**	**7,980**	**(1,274)**
Total changes in items during period	**(8,526)**	**12**	**(9)**	**(369)**	**(362)**	**(9,254)**	**7,980**	**20,192**
Balance at end of current period	**¥63,409**	**¥ 2**	**¥(14,028)**	**¥418**	**¥(455)**	**¥49,346**	**¥95,968**	**¥592,848**

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

Year ended March 31, 2019	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	**$201,802**	**$1,210,577**	**$2,646,428**	**$(220,011)**	**$3,838,796**
Changes in items during period					
Dividends of surplus			**(72,556)**		**(72,556)**
Change in scope of equity method			**10,821**		**10,821**
Profit attributable to owners of parent			**309,568**		**309,568**
Purchase of treasury shares				**(54,509)**	**(54,509)**
Disposal of treasury shares		**0**		**0**	**0**
Change in ownership interest of parent due to transactions with non-controlling interests		**(0)**			**(0)**
Reversal of revaluation reserve for land			**81**		**81**
Net changes of items other than shareholders' equity					
Total changes in items during period	**—**	**(0)**	**247,914**	**(54,509)**	**193,405**
Balance at end of current period	**$201,802**	**$1,210,577**	**$2,894,342**	**$(274,520)**	**$4,032,201**

Year ended March 31, 2019	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 current period	**$648,122**	**$ (90)**	**$(126,309)**	**$ 7,091**	**$ (838)**	**$527,976**	**$792,756**	**$5,159,528**
Changes in items during period								
Dividends of surplus								**(72,556)**
Change in scope of equity method								**10,821**
Profit attributable to owners of parent								**309,568**
Purchase of treasury shares								**(54,509)**
Disposal of treasury shares								**0**
Change in ownership interest of parent due to transactions with non-controlling interests								**(0)**
Reversal of revaluation reserve for land								**81**
Net changes of items other than shareholders' equity	**(76,818)**	**108**	**(81)**	**(3,325)**	**(3,261)**	**(83,377)**	**71,898**	**(11,479)**
Total changes in items during period	**(76,818)**	**108**	**(81)**	**(3,325)**	**(3,261)**	**(83,377)**	**71,898**	**181,926**
Balance at end of current period	**$571,304**	**$ 18**	**$(126,390)**	**$ 3,766**	**$(4,099)**	**$444,599**	**$864,654**	**$5,341,454**

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	**¥ 63,462**	¥ 63,467	**$ 571,781**
Adjustments to reconcile profit before income taxes to net cash provided by (used in) operating activities:			
Depreciation	**13,452**	14,898	**121,200**
Impairment loss	**8**	325	**72**
Amortization of goodwill	**477**	477	**4,298**
Increase (decrease) in provision for loss on guarantees	**(119)**	4	**(1,072)**
Increase (decrease) in provision for loss on dissolution of employees' pension fund	**—**	(320)	**—**
Increase (decrease) in provision for bonuses	**(468)**	141	**(4,217)**
Increase (decrease) in allowance for doubtful accounts	**(72)**	(215)	**(649)**
Increase (decrease) in provision for sales returns	**(7)**	(27)	**(63)**
Increase (decrease) in net defined benefit liability	**(201)**	(69)	**(1,811)**
Interest and dividend income	**(2,669)**	(2,472)	**(24,047)**
Interest expenses	**181**	237	**1,631**
Share of loss (profit) of entities accounted for using equity method	**(2,103)**	(1,531)	**(18,948)**
Loss (gain) on sales and retirement of non-current assets	**412**	130	**3,712**
Loss on tax purpose reduction entry of non-current assets	**2**	—	**18**
Loss (gain) on sales of short-term and long-term investment securities	**(166)**	(50)	**(1,496)**
Loss (gain) on valuation of short-term and long-term investment securities	**65**	80	**586**
Loss (gain) on sales of shares of subsidiaries and associates	**—**	(5,400)	**—**
Loss (gain) on change in equity	**—**	(1,562)	**—**
Insurance claim income	**(201)**	—	**(1,811)**
Loss on disaster	**332**	—	**2,991**
Decrease (increase) in notes and accounts receivable–trade	**10,901**	(5,100)	**98,216**
Decrease (increase) in inventories	**15**	1,593	**135**
Decrease (increase) in net defined benefit asset	**351**	(958)	**3,162**
Increase (decrease) in notes and accounts payable–trade	**2,536**	3,322	**22,849**
Increase (decrease) in accrued consumption taxes	**(3,127)**	4,944	**(28,174)**
Other, net	**62**	1,083	**560**
Subtotal	**83,123**	72,997	**748,923**
Interest and dividends received	**4,130**	3,971	**37,211**
Interest expenses paid	**(181)**	(237)	**(1,631)**
Proceeds from insurance income	**201**	—	**1,811**
Payment for loss on disaster	**(263)**	—	**(2,369)**
Income taxes paid	**(23,294)**	(13,172)	**(209,875)**
Net cash provided by (used in) operating activities	**63,716**	63,559	**574,070**
Cash flows from investing activities:			
Payments into time deposits	**(1,476)**	(1,476)	**(13,298)**
Proceeds from withdrawal of time deposits	**1,476**	1,476	**13,298**
Purchase of property, plant and equipment	**(14,580)**	(25,598)	**(131,363)**
Proceeds from sales of property, plant and equipment	**999**	3,132	**9,001**
Purchase of intangible assets	**(3,913)**	(4,902)	**(35,255)**
Purchase of investment securities	**(3,271)**	(777)	**(29,471)**
Proceeds from sales and redemption of investment securities	**911**	472	**8,208**
Purchase of shares of subsidiaries and associates	**(3,940)**	(21,450)	**(35,499)**
Proceeds from sales of shares of subsidiaries and associates	**—**	5,560	**—**
Payments of loans receivable	**(2)**	(9)	**(18)**
Collection of loans receivable	**16**	33	**144**
Net decrease (increase) in loans receivable from subsidiaries and associates	**(134)**	—	**(1,207)**
Other, net	**401**	474	**3,612**
Net cash provided by (used in) investing activities	**(23,513)**	(43,065)	**(211,848)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(6,500)**	6,000	**(58,564)**
Repayments of lease obligations	**(1,568)**	(1,542)	**(14,127)**
Proceeds from issuance of convertible bond-type bonds with share acquisition rights	**—**	30,722	**—**
Proceeds from long-term loans payable	**1,000**	1,000	**9,010**
Repayments of long-term loans payable	**(7,450)**	(8,306)	**(67,123)**
Proceeds from sales of treasury shares	**0**	—	**0**
Purchase of treasury shares	**(6,061)**	(2,936)	**(54,609)**
Cash dividends paid	**(8,053)**	(7,222)	**(72,556)**
Dividends paid to non-controlling interests	**(2,123)**	(1,870)	**(19,128)**
Other, net	**0**	(1)	**0**
Net cash provided by (used in) financing activities	**(30,755)**	15,845	**(277,097)**
Effect of exchange rate change on cash and cash equivalents	**(0)**	(10)	**(0)**
Net increase (decrease) in cash and cash equivalents	**9,448**	36,329	**85,125**
Cash and cash equivalents at beginning of period	**220,563**	182,562	**1,987,233**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**—**	1,672	**—**
Cash and cash equivalents at end of period (Note 7)	**¥230,011**	¥220,563	**$2,072,358**

Notes to Consolidated Financial Statements

MEDIPAL HOLDINGS CORPORATION and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

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, 2019, which was ¥110.99 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, 2019).

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 straight-line method at rates based on their estimated useful lives.

The estimated useful lives were as follows:

Buildings and structures: 2-50 years
Machinery, equipment and vehicles: 2-12 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 employees' 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. 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.

O. 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.

P. 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.

Q. 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. CHANGES IN ACCOUNTING STANDARDS DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES

Depreciation of property, plant and equipment, excluding leased assets, had been computed by the declining-balance method 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 were depreciated by the straight-line method. However, the Companies have changed the depreciation method to the straight-line method from the fiscal year ended March 31, 2019.

This change was made because the Companies previously depreciated buildings and other major facilities by the straight-line method and logistics equipment by the declining-balance method, but upon reviewing the status of these assets in conjunction with investments in logistics facilities to respond to changes in the operating environment, the Company concluded that because logistics equipment is integrated with buildings and can be expected to maintain long-term stable operation, use of the straight-line method, which allocates depreciation expenses evenly, would more accurately express the actual conditions of use of equipment for the stable supply of the MEDIPAL Group's products.

As a result of this change, operating profit for the fiscal year ended March 31, 2019 increased by ¥1,356 million, and profit before income taxes increased by ¥1,380 million compared with their respective amounts if the previous method had been used.

4. ACCOUNTING STANDARD ISSUED BUT NOT YET ADOPTED

- "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 it 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 will not impair financial statement comparability.

(2) Date of adoption

The Companies are currently considering the effective date.

(3) The effect of adopting the accounting standard

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

5. CHANGES IN PRESENTATION METHOD

(Changes due to application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Effective from the beginning of the fiscal year ended March 31, 2019, the Companies have applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). Accordingly, deferred tax assets are presented as investments and other assets, and deferred tax liabilities are presented as non-current liabilities.

As a result, ¥2,804 million of the deferred tax assets of ¥5,558 million under current assets is included in deferred tax assets of ¥3,131 million under investments and other assets, and ¥2,754 million of the deferred tax assets of ¥5,558 million under current assets is included in deferred tax liabilities of ¥31,187 million under non-current liabilities in the consolidated balance sheets for the previous fiscal year.

6. 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 borrowing 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 risk

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 deposit, held-to-maturity debt securities and shares of companies with which the Companies do business. Certificates of deposit 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 tables summarize the book value and the estimated fair values of financial instruments outstanding at March 31, 2019 and 2018. Financial instruments for which fair value is not readily determinable are not included in the following tables. Note 2 provides information on financial instruments that are not included as their fair value is not readily determinable.

Millions of yen

March 31, 2019	Book value	Fair value	Difference
Cash and deposits	¥ 213,025	¥ 213,025	¥ –
Notes and accounts receivable–trade	686,886	686,886	–
Accounts receivable–other	64,856	64,856	–
Securities and investment securities:			
Held-to-maturity debt securities	600	610	10
Investment in subsidiaries and affiliates	29,892	60,584	30,692
Available-for-sale securities	152,695	152,695	–
Long-term loans receivable (including portion due within one year)	25	25	0
Total assets	¥1,147,979	¥1,178,681	¥30,702
Notes and accounts payable–trade	¥ 869,648	¥ 869,648	¥ –
Short-term loans payable	2,500	2,500	–
Current portion of long-term loans payable	5,950	5,963	13
Convertible bond-type bonds with share acquisition rights	30,529	36,600	6,071
Long-term loans payable	3,908	3,891	(17)
Total liabilities	¥ 912,535	¥ 918,602	¥ 6,067
Derivatives*	¥ 7	¥ 7	¥ –

			Thousands of U.S. dollars (Note 1)
March 31, 2019	Book value	Fair value	Difference
Cash and deposits	**$ 1,919,317**	**$ 1,919,317**	**$ –**
Notes and accounts receivable–trade	**6,188,720**	**6,188,720**	**–**
Accounts receivable–other	**584,341**	**584,341**	**–**
Securities and investment securities:			
Held-to-maturity debt securities	**5,406**	**5,496**	**90**
Investment in subsidiaries and affiliates	**269,321**	**545,851**	**276,530**
Available-for-sale securities	**1,375,755**	**1,375,755**	**–**
Long-term loans receivable (including portion due within one year)	**225**	**225**	**0**
Total assets	**$10,343,085**	**$10,619,705**	**$276,620**
Notes and accounts payable-trade	**$ 7,835,373**	**$ 7,835,373**	**$ –**
Short-term loans payable	**22,525**	**22,525**	**–**
Current portion of long-term loans payable	**53,608**	**53,726**	**118**
Convertible bond-type bonds with share acquisition rights	**275,061**	**329,759**	**54,698**
Long-term loans payable	**35,210**	**35,057**	**(153)**
Total liabilities	**$ 8,221,777**	**$ 8,276,440**	**$ 54,663**
Derivatives*	**$ 63**	**$ 63**	**$ –**

			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 affiliates	28,405	62,336	33,931
Available-for-sale securities	165,548	165,548	–
Long-term loans receivable (including portion due within one year)	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)	¥ –

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

Note 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 10. 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2019**	2018	**2019**
Unlisted equity securities	**¥26,183**	¥19,522	**$235,904**

Note 3: The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2019 and 2018 were as follows:

				Millions of yen
March 31, 2019	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	**¥213,025**	**¥–**	**¥ –**	**¥ –**
Notes and accounts receivable–trade	**686,886**	**–**	**–**	**–**
Accounts receivable–other	**64,856**	**–**	**–**	**–**
Securities and investment securities				
Held-to-maturity debt securities:				
Government bonds, municipal bonds	**–**	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**600**	**–**
Other securities	**–**	**–**	**–**	**–**
Available-for-sale securities with contractual maturities:				
Equity securities	**–**	**–**	**–**	**–**
Debt securities	**–**	**–**	**–**	**–**
Other securities	**18,770**	**–**	**–**	**–**
Long-term loans receivable (including current portion)	**10**	**5**	**0**	**10**
Total	**¥983,547**	**¥ 5**	**¥600**	**¥ 10**

				Thousands of U.S. dollars (Note 1)
March 31, 2019	Within one year	After one year through five years	After five years through ten years	After ten years
Cash and deposits	**$1,919,317**	**$ –**	**$ –**	**$ –**
Notes and accounts receivable-trade	**6,188,720**	**–**	**–**	**–**
Accounts receivable-other	**584,341**	**–**	**–**	**–**
Securities and investment securities				
Held-to-maturity debt securities:				
Government bonds, municipal bonds	**–**	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**5,406**	**–**
Other securities	**–**	**–**	**–**	**–**
Available-for-sale securities with contractual maturities:				
Equity securities	**–**	**–**	**–**	**–**
Debt securities	**–**	**–**	**–**	**–**
Other securities	**169,114**	**–**	**–**	**–**
Long-term loans receivable (including current portion)	**90**	**45**	**0**	**90**
Total	**$8,861,582**	**$45**	**$5,406**	**$ 90**

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

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2019	2018	2019
Cash and deposits	**¥213,025**	¥203,547	**$1,919,317**
Securities–certificates of deposit	**18,770**	18,770	**169,114**
Time deposits with maturities over three months	**(1,476)**	(1,476)	**(13,298)**
Other	**(308)**	(278)	**(2,775)**
Cash and cash equivalents	**¥230,011**	¥220,563	**$2,072,358**

8. 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, 2019 and 2018.

Millions of yen

March 31, 2019	Book value	Fair value	Difference
Securities whose fair value exceeds their book value:			
Government bonds, municipal bonds	**¥ –**	**¥ –**	**¥ –**
Corporate bonds	**600**	**610**	**10**
Other securities	**–**	**–**	**–**
	¥600	**¥610**	**¥10**
Securities whose fair value does not exceed their book value:			
Government bonds, municipal bonds	**¥ –**	**¥ –**	**¥ –**
Corporate bonds	**–**	**–**	**–**
Other securities	**–**	**–**	**–**
	¥ –	**¥ –**	**¥ –**
Total	**¥600**	**¥610**	**¥10**

Thousands of U.S. dollars (Note 1)

March 31, 2019	Book value	Fair value	Difference
Securities whose fair value exceeds their book value:			
Government bonds, municipal bonds	**$ –**	**$ –**	**$ –**
Corporate bonds	**5,406**	**5,496**	**90**
Other securities	**–**	**–**	**–**
	$5,406	**$5,496**	**$90**
Securities whose fair value does not exceed their book value:			
Government bonds, municipal bonds	**$ –**	**$ –**	**$–**
Corporate bonds	**–**	**–**	**–**
Other securities	**–**	**–**	**–**
	$ –	**$ –**	**$ –**
Total	**$5,406**	**$5,496**	**$90**

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

(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, 2019 and 2018.

Non-listed equity securities, in the amount of ¥7,910 million ($71,268 thousand) and ¥5,370 million as of March 31, 2019 and 2018, 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, 2019	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	**¥132,576**	**¥34,600**	**¥97,976**
Debt securities:			
Government bonds, municipal bonds	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**–**
Other securities	**–**	**–**	**–**
Other securities	**–**	**–**	**–**
	¥132,576	**¥34,600**	**¥97,976**
Securities whose book value does not exceed their acquisition cost:			
Equity securities	**¥ 1,349**	**¥ 1,560**	**¥ (211)**
Debt securities:			
Government bonds, municipal bonds	**–**	**–**	**–**
Corporate bonds	**–**	**–**	**–**
Other securities	**–**	**–**	**–**
Other securities	**18,770**	**18,770**	**–**
	¥ 20,119	**¥20,330**	**¥ (211)**
Total	**¥152,695**	**¥54,930**	**¥97,765**

			Thousands of U.S. dollars (Note 1)
March 31, 2019	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost:			
Equity securities	**$1,194,486**	**$311,740**	**$882,746**
Debt securities:			
Government bonds, municipal bonds	–	–	–
Corporate bonds	–	–	–
Other securities	–	–	–
Other securities	–	–	–
	$1,194,486	**$311,740**	**$882,746**
Securities whose book value does not exceed their acquisition cost:			
Equity securities	**$ 12,154**	**$ 14,055**	**$ (1,901)**
Debt securities:			
Government bonds, municipal bonds	–	–	–
Corporate bonds	–	–	–
Other securities	–	–	–
Other securities	**169,115**	**169,115**	–
	$ 181,269	**$183,170**	**$ (1,901)**
Total	**$1,375,755**	**$494,910**	**$880,845**

			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

(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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2019	2018	2019
Proceeds from sales	**¥311**	¥288	**$2,802**
Realized gains on sales	**169**	50	**1,523**
Realized losses on sales	**3**	0	**27**

For the years ended March 31, 2019 and 2018, the Companies recognized ¥65 million ($586 thousand) and ¥80 million in loss on valuation of investment securities, respectively, of which ¥65 million ($586 thousand) and ¥80 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.

9. NOTES MATURING AT THE END OF CONSOLIDATED FISCAL YEAR

The Companies accounted for notes maturing on March 31, 2019 and 2018, which were bank holiday, as though settled.

Notes receivable and notes payable maturing on March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2019	2018	2019
Notes receivable	**¥ 2,132**	¥ 2,194	**$ 19,209**
Notes payable	**(4,987)**	(4,597)	**(44,932)**

10. DERIVATIVE TRANSACTIONS

For the years ended March 31, 2019 and 2018, 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, 2019 and 2018 were as follows:

Year ended March 31, 2019

				Millions of yen
Accounting method	Type	Hedged item	Notional amount	Fair value
Allocation method for foreign exchange forwards	Buy: US$	Accounts payable	**¥1,140**	**¥7**
Total			**¥1,140**	**¥7**

Year ended March 31, 2019

				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	**$10,271**	**$63**
Total			**$10,271**	**$63**

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)**

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

11. 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 account 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, 2019, 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	Buildings	Tokai, 1 item	**¥5**	**$45**
Business assets	Other	Kinki, 1 item	**3**	**27**
Total			**¥8**	**$72**

For the year ended March 31, 2019, 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, 2018, the Companies recorded loss on impairment of fixed assets for the following asset groups:

Application	Type	Location	Millions of yen
Idle assets	Land and buildings, etc.	Kanto, 5 items	¥216
		Others	25
Business assets	Land and buildings, etc.	Koshinetsu, 1 item	83
		Others	1
Total			¥325

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.

For the years ended March 31, 2019 and 2018, impairment loss of noncurrent assets totaled ¥8 million ($72 thousand) and ¥325 million, respectively, as presented below.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Item	**2019**	2018	**2019**
Land	**¥ –**	¥152	**$ –**
Buildings and structures	**5**	154	**45**
Other	**3**	19	**27**
Total	**¥ 8**	¥325	**$72**

12. 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 amounts of cost reduction as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Buildings and structures	**¥ 704**	¥ 702	**$ 6,343**
Machinery and vehicles	**359**	359	**3,234**
Land	**792**	792	**7,136**
Other	**0**	1	**0**
Total	**¥1,855**	¥1,854	**$16,713**

13. 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, 2019 and 2018, net rent income totaled ¥459 million ($4,136 thousand) and ¥413 million, respectively. Rent income is included in other income and rent expense is included in other expenses. For the years ended March 31, 2019 and 2018, the Companies recorded impairment loss of investment and rental property of ¥5 million ($45 thousand) and ¥241 million, respectively.

The book value, net change and fair value of investment and rental property as of March 31, 2019 and 2018 were as follows:

				Millions of yen
	Book value			Fair value at
March 31, 2019	March 31, 2018	Net change	March 31, 2019	March 31, 2019
Investment and rental property	**¥6,000**	**¥223**	**¥6,223**	**¥13,816**

				Thousands of U.S. dollars (Note 1)
	Book value			Fair value at
March 31, 2019	March 31, 2018	Net change	March 31, 2019	March 31, 2019
Investment and rental property	**$54,059**	**$2,009**	**$56,068**	**$124,480**

				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

Notes: 1. Book value represents the acquisition cost less accumulated depreciation and impairment loss.

2. Net change for the year ended March 31, 2019 mainly consisted of an increase due to transfer from business assets to idle assets in the amount of ¥682 million ($6,145 thousand) and a decrease due to sale in the amount of ¥304 million ($2,739 thousand).
   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 and a decrease due to sale in the amount of ¥1,167 million.

3. Fair value of principal properties at March 31, 2019 and 2018 was mainly based on external appraisal values or real-estate tax appraisal values.

14. 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 land revaluation differences represent unrealized appreciation of land and are accounted for as land revaluation differences, net of taxes in net assets.

15. 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, 2019 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**7.26%**	**¥2,359**	**$21,254**
2020	**1.63**	**1,364**	**12,289**
2021	**1.63**	**1,217**	**10,965**
2022	**1.63**	**1,127**	**10,154**
2023	**1.63**	**5,671**	**51,095**

(2) Operating lease transactions

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2019**	2018	**2019**
Within one year	**¥2,546**	¥2,528	**$22,939**
Over one year	**4,668**	5,294	**42,058**
Total	**¥7,214**	¥7,822	**$64,997**

16. 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, 2019 and 2018 was as below:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2019**	2018	**2019**
Total overdraft facilities	**¥193,000**	¥194,090	**$1,738,895**
Less amounts currently executed	**2,500**	(9,000)	**22,525**
Unexecuted balance	**¥195,500**	¥185,090	**$1,761,420**

Short-term loans payable including overdraft facilities at March 31, 2019 and 2018 principally bore annual average interest rates of 0.39% and 0.38% per annum, respectively.

Long-term loans payable at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	**2019**	2018	**2019**
Loans from banks	**¥ 9,858**	¥16,308	**$ 88,818**
	¥ 9,858	¥16,308	**$ 88,818**
Less current portion	**(5,950)**	(7,060)	**(53,608)**
Amount due after one year	**¥ 3,908**	¥ 9,248	**$ 35,210**

The annual maturities of long-term loans payable at March 31, 2019 were as follows:

Years ended March 31	Average interest rate (%)	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**0.37%**	**¥ 5,950**	**$53,608**
2020	**0.32**	**3,558**	**32,057**
2021	**0.32**	**350**	**3,153**
2022	**–**	**–**	**–**
2023 and thereafter	**–**	**–**	**–**

17. 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	**¥30,679**	**$276,412**
Balance at end of period	**30,529**	**275,061**
Interest rate (%)	**–**	**–**
Collateral	**None**	**None**
Total	**¥30,529**	**$275,061**

(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	**¥2,305**	**$20.768**

	Millions of yen	Thousands of U.S. dollars (Note 1)
Total issue price	**¥30,750**	**$277,052**
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 ¥2,299.4 effective April 1, 2019 in accordance with the terms and conditions of the Euro-yen convertible bond-type bonds with share acquisition rights due 2022, based on the approval at the Board of Directors meeting held on May 15, 2019 of a plan to pay a year-end dividend of 20 yen per share, which resulted in an annual dividend of 38 yen per share for the fiscal year ended March 31, 2019.

(2) Redemption schedule of bonds for 5 years subsequent to March 31, 2019

Years ended March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**–**	**–**
2020	**–**	**–**
2021	**–**	**–**
2022	**¥30,529**	**$275,061**
2023	**–**	**–**

18. 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. The Companies, except for a few, join in the multiemployer corporate 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 members of, 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 members of, received authorization from the Minister of Health, Labour and Welfare on March 28, 2018 for dissolution. 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.

There is no additional amount of burden 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)
	2019	2018	2019
Balance at beginning of period	**¥45,556**	¥45,810	**$410,452**
Service cost	**2,879**	2,784	**25,939**
Interest cost	**41**	42	**369**
Actuarial difference	**71**	(44)	**640**
Benefits paid	**(3,426)**	(3,036)	**(30,868)**
Balance at end of period	**¥45,121**	¥45,556	**$406,532**

2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Balance at beginning of period	**¥31,395**	¥30,614	**$282,864**
Expected return on plan assets	**532**	521	**4,793**
Actuarial difference	**(509)**	716	**(4,586)**
Contribution paid by the employer	**1,202**	1,246	**10,830**
Benefits paid	**(1,802)**	(1,702)	**(16,236)**
Balance at end of period	**¥30,818**	¥31,395	**$277,665**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Funded projected benefit obligations	**¥ 25,572**	¥ 25,799	**$ 230,399**
Unfunded projected benefit obligations	**19,549**	19,757	**176,133**
Plan assets	**(30,818)**	(31,395)	**(277,665)**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥ 14,303**	¥ 14,161	**$ 128,867**
Net defined benefit liability	**¥ 19,537**	¥ 19,746	**$ 176,025**
Net defined benefit asset	**(5,234)**	(5,585)	**(47,158)**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥ 14,303**	¥ 14,161	**$ 128,867**

4) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Service cost	**¥2,879**	¥2,784	**$25,939**
Interest cost	**41**	42	**369**
Expected return on plan assets	**(532)**	(521)	**(4,793)**
Amortization of actuarial difference	**63**	1,421	**568**
Amortization of prior service costs	**–**	–	**–**
Other	**157**	180	**1,415**
Retirement benefit expenses	**¥2,608**	¥3,906	**$23,498**

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)
	2019	2018	2019
Prior service cost	**¥ –**	¥ –	**$ –**
Actuarial difference	**(517)**	2,181	**(4,658)**
Total	**¥(517)**	¥2,181	**$(4,658)**

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)
	2019	2018	2019
Unrecognized prior service costs	**¥ –**	¥ –	**$ –**
Unrecognized actuarial difference	**(874)**	(357)	**(7,875)**
Total	**¥(874)**	¥(357)	**$(7,875)**

7) Plan assets

a. Components of plan assets

Percentage by major category of plan assets was as follows:

	2019	2018
Debt securities	**42%**	42%
Equity securities	**25**	24
Alternative investments (Note)	**17**	17
Life insurance general accounts	**12**	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:

	2019	2018
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)
	2019	2018	2019
Balance at beginning of period	**¥210**	¥155	**$1,892**
Retirement benefit expenses	**14**	21	**126**
Benefits paid	**(7)**	(13)	**(63)**
Contribution to the plans	**–**	–	**–**
Increase due to new consolidated subsidiaries	**–**	47	**–**
Balance at end of period	**¥217**	¥210	**$1,955**

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)
	2019	2018	2019
Funded projected benefit obligations	**¥ –**	¥ –	**$ –**
Unfunded projected benefit obligations	**217**	210	**1,955**
Plan assets	**–**	–	**–**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥217**	¥210	**$1,955**
Net defined benefit liability	**¥217**	¥210	**$1,955**
Net amount of liability and asset recognized in the consolidated balance sheet	**¥217**	¥210	**$1,955**

3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method were ¥13 million ($117 thousand) and ¥21 million for the years ended March 31, 2019 and 2018, respectively.

(4) Defined contribution pension plans

The amount to be paid by the Companies to the defined contribution pension plans was ¥924 million ($8,325 thousand) and ¥939 million for the years ended March 31, 2019 and 2018, respectively.

(5) Funded status of the multiemployer pension fund plans

1) The amount to be paid by the Companies to the multiemployer corporate pension fund was ¥1,066 million ($9,604 thousand) for the year ended March 31, 2019. The amount to be paid by the Companies to the multiemployer employees' pension fund plans was ¥1,284 million for the year ended March 31, 2018.

The funded status of these plans at March 31, 2019 and 2018 was as follows:

	Millions of yen	
2019	Tokyo Pharmaceutical Corporate Pension Fund	Other
Plan assets	**¥531,844**	**¥59,376**
Total of actuarial obligation and minimum actuarial reserve	**512,771**	**53,079**
Funded (unfunded) employees' retirement benefits	**¥ 19,073**	**¥ 6,297**

	Thousands of U.S. dollars (Note 1)	
2019	Tokyo Pharmaceutical Corporate Pension Fund	Other
Plan assets	**$4,791,819**	**$534,967**
Total of actuarial obligation and minimum actuarial reserve	**4,619,975**	**478,232**
Funded (unfunded) employees' retirement benefits	**$ 171,844**	**$ 56,735**

			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

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, 2019 and 2018 was as follows:

	2019	2018
Tokyo Pharmaceutical Industry Employee Pension Fund	**–**	11.6%
Tokyo Pharmaceutical Corporate Pension Fund	**11.4%**	–
Osaka Pharmaceutical Industry Employee Pension Fund	**–**	4.6%
Other	**9.5%**	9.2%

19. PLEDGED ASSETS

The following assets were pledged as collateral as of March 31, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31	2019	2018	2019
Cash and deposits	**¥860**	¥ 860	**$7,749**
Buildings and structures at net book value	**–**	576	**–**
Land	**–**	209	**–**
Investment securities	**45**	50	**405**
Total	**¥905**	¥1,695	**$8,154**

The liabilities associated with the pledged assets as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2019	2018	2019
Notes and accounts payable-trade	**¥26,007**	¥24,353	**$234,318**

20. CONTINGENT LIABILITIES

The Companies were contingently liable as guarantors for loans of unconsolidated subsidiaries, associates and others in the amount of ¥1,418 million ($12,776 thousand) and ¥1,664 million at March 31, 2019 and 2018, respectively.

21. 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 15, 2019, cash dividends amounting to ¥4,449 million ($40,085 thousand) were approved. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2019.

22. INCOME TAXES

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated statutory tax rate was approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, respectively.

The reconciliation for the year ended March 31, 2018 is not presented because the difference between the statutory tax rate and the effective tax rate was less than or equal to 5%.

The reconciliation between the statutory tax rate and the effective tax rate of the Companies for financial statement purposes for the year ended March 31, 2019 was as follows:

	Thousands of U.S. dollars (Note 1)
Year ended March 31	2019
Statutory tax rate	**30.6%**
Permanent differences (Non-deductible expenses and non-taxable income)	**(6.6)**
Per capita inhabitant taxes	**0.6**
Valuation allowance	**(1.1)**
Effects of consolidated eliminations	**6.6**
Equity in earnings of affiliates	**(1.0)**
Other, net	**(0.7)**
Effective tax rate	**28.4%**

Significant components of the deferred tax assets and liabilities of the Companies at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 594**	¥ 636	**$ 5,352**
Impairment loss	**1,357**	1,492	**12,226**
Loss on valuation of investment securities	**1,492**	1,497	**13,443**
Accrued enterprise taxes	**847**	971	**7,631**
Provision for bonuses	**2,793**	2,955	**25,164**
Net defined benefit liability	**6,569**	6,636	**59,186**
Tax loss carry forward	**819**	1,043	**7,379**
Business investments	**2,005**	1,504	**18,065**
Other	**6,229**	4,200	**56,122**
Subtotal	**22,705**	20,934	**204,568**
Valuation allowance	**(4,289)**	(4,964)	**(38,643)**
Total deferred tax assets	**¥ 18,416**	¥ 15,970	**$ 165,925**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**(2,877)**	(2,798)	**(25,921)**
Valuation difference on available-for-sale securities	**(30,690)**	(34,480)	**(276,511)**
Other	**(6,552)**	(6,748)	**(59,033)**
Total deferred tax liabilities	**¥(40,119)**	¥(44,026)	**$(361,465)**
Net deferred tax liabilities	**¥(21,703)**	¥(28,056)	**$(195,540)**

23. 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)
	2019	2018	2019
Valuation difference on available-for-sale securities:			
Increase during the year	**¥(12,915)**	¥26,953	**$(116,362)**
Reclassification adjustments	**(130)**	(48)	**(1,171)**
Amount before income tax effect	**(13,045)**	26,905	**(117,533)**
Tax effect	**3,783**	(8,221)	**34,084**
Sub-total, net of tax	**(9,262)**	18,684	**(83,449)**
Deferred gains or losses on hedges:			
Increase (decrease) during the year	**7**	(29)	**63**
Adjustments of acquisition cost of assets	**28**	(16)	**252**
Amount before income tax effect	**35**	(45)	**315**
Tax effect	**(11)**	14	**(99)**
Sub-total, net of tax	**24**	(31)	**216**
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	**(580)**	760	**(5,226)**
Reclassification adjustments	**63**	1,421	**568**
Amount before income tax effect	**(517)**	2,181	**(4,658)**
Tax effect	**186**	(728)	**1,676**
Sub-total, net of tax	**(331)**	1,453	**(2,982)**
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the year	**(619)**	320	**(5,577)**
Total other comprehensive income	**¥(10,188)**	¥20,426	**$ (91,792)**

24. 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 conducts wholesale business for animal hospitals, livestock or fisheries vendors, food processing manufactures and other customers.

(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.

(Changes in depreciation method of property, plant and equipment)
As stated in 3. CHANGES IN ACCOUNTING STANDARDS DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES, depreciation of property, plant and equipment, excluding leased assets, had been computed by the declining-balance method 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 were depreciated by the straight-line method. However, the Companies have changed the depreciation method to the straight-line method from the fiscal year ended March 31, 2019.

As a result of this change, segment profit for the fiscal year ended March 31, 2019 increased by ¥595 million in the Prescription Pharmaceutical Wholesale Business, ¥734 million in the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business, and ¥16 million in the Animal Health Products and Food Processing Raw Materials Wholesale Business, compared with their respective amounts if the previous method had been used.

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

Segment information as of and for the fiscal year ended March 31, 2019 was as follows:

Millions of yen

Year ended March 31, 2019	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	**¥2,100,976**	**¥1,014,768**	**¥66,185**	**¥3,181,929**	**¥ –**	**¥3,181,929**
(2) Intersegment sales and transfers	**2,993**	**486**	**5**	**3,484**	**(3,484)**	**–**
Total sales	**2,103,969**	**1,015,254**	**66,190**	**3,185,413**	**(3,484)**	**3,181,929**
Segment profit (Operating profit)	**¥ 22,461**	**¥ 25,372**	**¥ 1,608**	**¥ 49,441**	**¥ 387**	**¥ 49,828**
Segment assets	**¥1,165,441**	**¥ 387,012**	**¥24,322**	**¥1,576,775**	**¥41,136**	**¥1,617,911**
Other						
Depreciation	**¥ 8,585**	**¥ 4,491**	**¥ 156**	**¥ 13,232**	**¥ 184**	**¥ 13,416**
Amortization of goodwill	**256**	**138**	**83**	**477**	**–**	**477**
Investment in affiliates accounted for using the equity method	**52,815**	**–**	**–**	**52,815**	**–**	**52,815**
Capital expenditures	**8,398**	**10,701**	**234**	**19,333**	**28**	**19,361**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2019	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	$18,929,417	$9,142,878	$596,315	$28,668,610	$ –	$28,668,610
(2) Intersegment sales and transfers	26,966	4,379	45	31,390	(31,390)	–
Total sales	18,956,383	9,147,257	596,360	28,700,000	(31,390)	28,668,610
Segment profit (Operating profit)	$ 202,370	$ 228,597	$ 14,488	$ 445,455	$ 3,486	$ 448,941
Segment assets	$10,500,414	$3,486,909	$219,137	$14,206,460	$370,628	$14,577,088
Other						
Depreciation	$ 77,349	$ 40,463	$ 1,406	$ 119,218	$ 1,658	$ 120,876
Amortization of goodwill	2,298	1,243	757	4,298	–	4,298
Investment in affiliates accounted for using the equity method	475,854	–	0	475,854	–	475,854
Capital expenditures	75,665	96,414	2,108	174,187	252	174,439

Notes:
1. Adjustments were as follows:
   (1) The ¥3,484 million ($31,390 thousand) adjustment of net sales represents elimination of intersegment transactions.
   (2) The ¥387 million ($3,486 thousand) adjustment of segment profit represents elimination of intersegment transactions of ¥2,604 million ($23,461 thousand), minus corporate expenses of ¥2,217 million ($19,975 thousand) that are not allocated to reportable segments.
   (3) The ¥41,136 million ($370,628 thousand) adjustment of segment assets represents corporate assets of ¥44,947 million ($404,964 thousand) that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥3,811 million ($34,336 thousand).
   (4) The ¥184 million ($1,658 thousand) adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
   (5) The ¥28 million ($252 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 fiscal 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	¥1,167,954	¥380,708	¥23,740	¥1,572,402	¥46,417	¥1,618,819
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

Notes:
1. Adjustments were as follows:
   (1) The ¥3,124 million adjustment of net sales represents elimination of intersegment transactions.
   (2) The ¥335 million adjustment of segment profit represents elimination of intersegment transactions of ¥2,312 million, minus corporate expenses of ¥1,977 million that are not allocated to reportable segments.
   (3) The ¥46,417 million adjustment of segment assets represents corporate assets of ¥50,882 million that are not allocated to reportable segments, minus elimination of intersegment transactions of ¥4,465 million.
   (4) The ¥191 million adjustment of depreciation represents corporate depreciation expenses that are not allocated to reportable segments.
   (5) The ¥7 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, 2019	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	**¥8**	**¥–**	**¥–**	**¥–**	**¥8**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2019	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	**$72**	**$–**	**$–**	**$–**	**$72**

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

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

Millions of yen

Year ended March 31, 2019	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	**¥ 256**	**¥138**	**¥83**	**¥–**	**¥ 477**
Unamortized balance	**1,370**	**207**	**63**	**–**	**1,640**

Thousands of U.S. dollars (Note 1)

Year ended March 31, 2019	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	**$ 2,307**	**$1,243**	**$748**	**$–**	**$ 4,298**
Unamortized balance	**12,343**	**1,865**	**568**	**–**	**14,776**

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

25. 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, 2019 and 2018.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Principal shareholder	Takeda Pharmaceutical Company Limited		
Capital stock	**¥77,923**	¥77,914	**$702,072**
Principal business	Pharmaceutical product manufacturer		
Percentage of total shares	**10.2%**	10.2%	**10.2%**
Description of transactions:			
Purchase amount of pharmaceutical products	**70,217**	270,610	**632,643**
Balance of notes and accounts payable-trade at end of period	**69,953**	56,396	**630,264**

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

Takeda Pharmaceutical Co., Ltd. (Takeda) ceased to be a major shareholder on June 13, 2018, and is therefore no longer a related party. Consequently, the purchase transactions are the amount while Takeda was a related party, and balances at the end of period are the balance when Takeda ceased to be a related party. In addition, capital stock is as of the date Takeda ceased to be a related party, and percentage of total shares is as of March 31, 2018.

26. SUBSEQUENT EVENTS

CASH DIVIDENDS

On May 15, 2019 the Board of Directors approved the payment of a cash dividend of ¥20.00 ($0.180) per share to shareholders of record at March 31, 2019, for a total payment of ¥4,449 million ($40,085 thousand).

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, 2019 and 2018, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 3 "Changes in accounting standards difficult to distinguish from changes in accounting estimates" to the consolidated financial statements. Depreciation of property, plant and equipment, excluding leased assets, had been computed by the declining-balance method 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 were depreciated by the straight-line method. However, the Companies have changed the depreciation method to the straight-line method from the fiscal year ended March 31, 2019. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 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 29, 2019
Tokyo, Japan

Subsidiaries and Affiliated Companies

Company Name / Location	Common Stock (Millions of yen, unless otherwise noted)	Voting Right Percentage (%)	Representative Director*	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 reviews, 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 insurance
PALTAC CORPORATION (Chuo-ku, Osaka)	15,869	50.2	Seiichi Kasutani, 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. (Naka-ku, Hiroshima)	10	100.0	Katsumi Yoshioka, 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					
Qol Holdings Co., Ltd. (Minato-ku, Tokyo)	5,786	22.3	Takashi Nakamura, Representative Director, President	October 1992	Operation of dispensing pharmacies
MC Healthcare, Inc. (Minato-ku, Tokyo)	548	20.0	Masatoshi Kimura, Representative Director, President	April 2010	Operational support for hospitals
SHIKOKU YAKUGYO CO., LTD. (Matsuyama-shi, 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. (Yamato-shi, Kanagawa)	75	40.0	Yuta Komori, Representative Director, President	July 2018	Operation of dispensing pharmacies
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-shi, Hyogo)	9,061	23.6	Shin Ashida Chairman and President	September 1975	Manufacture and sales of prescription pharmaceutical products.
Nobelpharma Co., Ltd. (Chuo-ku,Tokyo)	11	20.0	Jin Shiomura Representative Director, President and CEO	June 2003	Manufacture and sale of prescription pharmaceutical products, etc.
CARADA medica Inc. (Shinjuku-ku,Tokyo)	1,157	34.4	Seitaro Sugawara Representative Director	July 2015	Healthcare-related content distribution services
Doctorbook Inc. (Chiyoda-ku,Tokyo)	183	23.0	Rihito Soma, Representative Director, President and CEO	December 2013	Various information provision services using the Internet, etc.
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					

* As of July 1, 2019

Corporate Data / Stock Information

Corporate Data (As of March 31, 2019)

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	13,868 (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 Number of Shareholders: 10,969

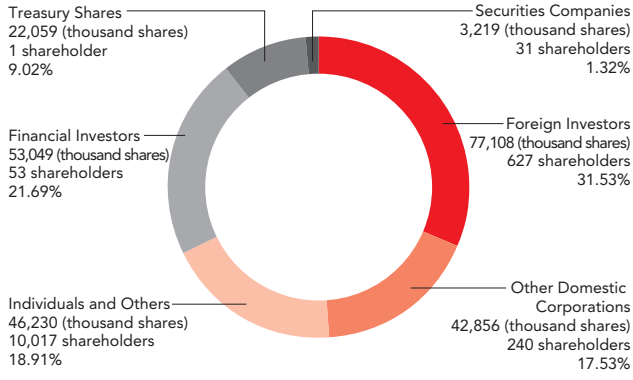
Stock Information (As of March 31, 2019)

Major Shareholders

Shareholders	Shares Held (Thousands)	Shareholding Ratio (%)
Takeda Pharmaceutical Company Limited	11,400	5.12
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,669	4.35
Japan Trustee Services Bank, Ltd. (Trust Account)	8,282	3.72
MEDICEO Employees Shareholders' Association of MP Group	7,111	3.20
Japan Trustee Services Bank, Ltd. (Eisai Co., Ltd. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Ltd.)	5,845	2.63
Kobayashi Pharmaceutical Co., Ltd.	5,074	2.28
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,169	1.87
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	1.47
Sumitomo Dainippon Pharma Co., Ltd.	3,149	1.42
STATE STREET BANK WEST CLIENT-TREATY 505234	2,933	1.32

Notes:
1. The Company holds 22,059 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 June 18, 2019)

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

Note: The above is an issuer rating. 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, 2019)

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、日用品など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などで、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壊したり、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.

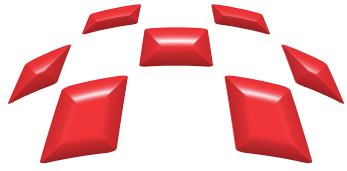
For us at MEDIPAL, delivery of pharmaceuticals is a vital part of the lifelines of society.

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



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