

Non-consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2015 <under Japanese GAAP>

October 31, 2014

Company name: Paltac Corporation
(URL: <http://www.paltac.co.jp/>)
Listing: Tokyo Stock Exchange (Code number: 8283)
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Scheduled date to submit the Quarterly Securities Report: November 13, 2014
Scheduled date to commence dividend payments: December 1, 2014
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors, analysts, etc.)

(Figures are rounded off to the nearest million yen)

1. Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2015 (From April 1, 2014 to September 30, 2014)

(1) Operating Results (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended September 30, 2014	414,922	(0.6)	5,259	(4.0)	8,006	(3.1)	4,989	2.6
September 30, 2013	417,395	3.8	5,479	(2.5)	8,259	0.9	4,862	(4.5)

	Earnings per share	Diluted earnings per share
	(¥)	(¥)
Six months ended September 30, 2014	78.51	—
September 30, 2013	76.51	—

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	(¥ million)	(¥ million)	%	(¥)
As of September 30, 2014	319,211	137,135	43.0	2,157.95
March 31, 2013	325,189	132,427	40.7	2,083.86

Reference: Equity As of September 30, 2014: ¥137,135 million As of March 31, 2014: ¥132,427 million

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal year ended March 31, 2014	—	21.00	—	22.00	43.00
Fiscal year ending March 31, 2015	—	22.00			
Fiscal year ending March 31, 2015 (Forecast)			—	22.00	44.00

Note: Revision to the forecasts most recently announced: No

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2015

(From April 1, 2014 to March 31, 2015)

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Fiscal year	840,000	1.0	10,400	1.8	16,000	1.4	10,000	8.9	157.36

Note: Revision to the forecasts most recently announced: No

* Notes

(1) Adoption of Accounting Treatments Specific to Preparation of Quarterly Financial Statements: No

(2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

- 1) Changes in accounting policies due to revisions to accounting standards, and other regulations: Yes
- 2) Changes in accounting policies due to other reasons: No
- 3) Changes in accounting estimates: No
- 4) Restatements: No

(3) Number of Issued Shares (common stock)

1) Number of issued shares at the end of the period (including treasury stock)

As of September 30, 2014	63,553,485 shares
As of March 31, 2014	63,553,485 shares

2) Number of treasury shares at the end of the period

As of September 30, 2014	4,558 shares
As of March 31, 2014	4,408 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

For the six months ended September 30, 2014	63,549,030 shares
For the six months ended September 30, 2013	63,549,845 shares

* Explanation regarding execution of quarterly review procedures

This quarterly financial results report is not subject to the quarterly review procedures in accordance with the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this quarterly financial results report, the review procedures for the quarterly financial statements in accordance with the Financial Instruments and Exchange Act of Japan have not been completed.

* Information regarding proper use of the forecasts of financial results, and other special instructions

(Cautionary notes to the forward-looking statements)

The forward-looking statements contained in this report, including forecasts of financial results, are based on information currently available and assumptions that management believes to be reasonable. Actual financial and other results may differ substantially due to various factors. Please refer to the section of “(3) Forecasts and Other Projections” on page 3 of the attached material to the quarterly financial results report for the suppositions that form the assumptions for the forecasts and cautions concerning the use thereof.

* Information regarding this report (including the attached material)

None of the information in this report constitutes solicitation to purchase or sell the stock of Paltac Corporation. It was not prepared with the intention of providing investment advice about the stock of Paltac Corporation. Furthermore, this report is an English translation of the original, which was prepared in Japanese. In the event of any discrepancies between the Japanese original and the English translation, the Japanese original shall prevail.

Attached Material

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1. Qualitative Information for the Six Months Ended September 30, 2014

(1) Operating Results

In the six months ended September 30, 2014, the Japanese economy continued to follow a moderate recovery track, mainly on the back of improvements in the employment and income environment, reflecting such positive developments as the effects of various measures taken by the government and the Bank of Japan. Nevertheless, the outlook remained uncertain, partly because of concerns that economic stagnation overseas could have a detrimental effect on the Japanese economy.

In the market of cosmetics and daily necessities and the market of over-the-counter (OTC) pharmaceuticals, a pull-back that occurred following a rush in demand ahead of a consumption tax hike implemented in April 2014 started to ease. The business environment, however, remained uncondusive for growth in sales due to budget mindedness among consumers and unseasonable weather in the summer.

Under these circumstances, Paltac Corporation (the “Company”) undertook a variety of efforts in accordance with its position as an intermediate distributor handling a full lineup of health and beauty products essential for daily life under the corporate identity, “maximizing customer satisfaction and minimizing distribution costs.” Specifically, by strengthening the Company’s high quality and low-cost distribution capabilities as well as its sales capabilities to support effective product lineups and sales activities at business partners based on the sales venue-oriented thinking of the retail sector, the Company worked to optimize and streamline the entire supply chain from manufacturing to retailing.

The Company has entered the second year of its medium-term management plan for fiscal 2014 to fiscal 2016. With a view to achieving the targets of the plan a year ahead of schedule, the Company is working to enhance productivity across the industry overall, not only by fully exploiting the sales capabilities and distribution capabilities it possesses as an intermediate distributor, but also by implementing effective initiatives through cooperation with retailers and manufacturers. In addition, the Company is striving to sustainably increase corporate value by further boosting efficiency across all processes from the ordering and receipt of products to their dispatch and delivery to retailers, and by enhancing productivity within the Company and increasing personnel skills in all operations.

Furthermore, the Company has proceeded on schedule with construction of one of its largest distribution centers, in Shiraoka-shi, Saitama (provisional name: “RDC Saitama”), which is expected to open in the spring of 2015.

As a result of the above, net sales for the six months ended September 30, 2014, did not meet the Company’s target, but profits were generally in line with targets. Net sales were ¥414,922 million (down 0.6 % year on year), operating income was ¥5,259 million (down 4.0%), ordinary income was ¥8,006 million (down 3.1%), and net income was ¥4,989 million (up 2.6%).

Operating results for the six months ended September 30, 2014 by segment are shown below.

Wholesale Business

In the wholesale business, net sales were steady because of an in-store share increase as a result of strengthening of initiatives with business partners, despite stagnation in some merchandise reflecting the pull-back following the rush in demand ahead of the consumption tax hike and the unseasonable weather.

As a result of above, net sales in the wholesale business amounted to ¥408,346 million (down 0.7% year on year), while operating income amounted to ¥5,656 million (down 2.9%).

Supply Chain Logistics Business*

In the supply chain logistics business, net sales were steady thanks to an increase in the volume of products handled for some clients.

As a result of above, net sales in the supply chain logistics business amounted to ¥6,576 million (up 6.1% year on year), while operating income amounted to ¥752 million (up 2.0%).

* The supply chain logistics business is a third-party logistics business in which the Company carries out the integrated operation and management of retail companies’ logistic centers on their behalf.

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Total assets as of the end of the second quarter were ¥319,211 million, a decrease of ¥5,977 million from the end of the previous fiscal year. This was primarily the result of an increase in cash and deposits of ¥3,242 million and decreases in notes and accounts receivable-trade of ¥2,427 million, in merchandise and finished goods of ¥3,093 million and in land of ¥1,148 million.

(Liabilities)

Total liabilities as of the end of the second quarter were ¥182,076 million, a decrease of ¥10,685 million from the end of the previous fiscal year. This was primarily the result of decreases in notes and accounts payable-trade of ¥2,376 million, in short-term loans payable of ¥6,000 million and in long-term loans payable of ¥3,176 million.

(Net assets)

Total net assets as of the end of the second quarter were ¥137,135 million, an increase of ¥4,707 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥4,388 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the second quarter were ¥16,645 million, an increase of ¥3,242 million from the end of the previous fiscal year.

Status of each cash flow during the six months under review and main factors thereof are as follows:

(Cash flow from operating activities)

Net cash provided by operating activities was ¥11,595 million (up ¥6,058 million year on year). Main factors were ¥7,768 million of income before income taxes, ¥2,441 million of depreciation and amortization, ¥2,427 million of decrease in notes and accounts receivable-trade, ¥3,093 million of decrease in inventories and ¥1,905 million of decrease in notes and accounts payable-trade.

(Cash flow from investing activities)

Net cash provided by investing activities was ¥1,142 million (compared with net cash of ¥2,527 million used in the same period of the previous fiscal year). Main factors were ¥1,347 million of proceeds from sales of property, plant and equipment and ¥350 million of proceeds from sales of investment securities.

(Cash flow from financing activities)

Net cash used in financing activities was ¥9,495 million (up ¥5,799 million year on year). Main factors were ¥6,000 million of net decrease in short-term loans payable, ¥2,052 million of repayments of long-term loans payable and ¥1,399 million of cash dividends paid.

(3) Forecasts and Other Projections

There is no revision to the forecasts of financial results for the fiscal year ending March 31, 2015, which was announced on May 9, 2014.

2. Summary Information (Notes)

(1) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

Changes in accounting policies

(Application of the Accounting Standard for Retirement Benefits, etc.)

Regarding the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), effective from the first quarter ended June 30, 2014, the Company has applied the provisions of the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of Guidance on Accounting Standard for Retirement Benefits, reviewed its calculation method for projected retirement benefit obligations and current service costs, and changed its method used in allocation of estimated retirement benefits to periods from the straight-line basis to the benefit formula basis. In addition, the Company has changed the method for determining the discount rate from one that uses a discount rate based on a period approximate to the average remaining years of service of employees, to one that uses a single weighted average discount rate reflecting the estimated timing and amount of retirement benefits.

Application of the Accounting Standard for Retirement Benefits, etc. is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits, and the effect of the revision to the calculation method for projected benefit obligations and current service costs has been added to or deducted from retained earnings as of the beginning of the six months under review.

As a result, as of the beginning of the six months under review, provision for retirement benefits decreased by ¥371 million, prepaid pension cost increased by ¥867 million and retained earnings increased by ¥797 million. In addition, the effect of this change on profit and loss is immaterial.

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

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and deposits	13,402	16,645
Notes and accounts receivable-trade	158,898	156,470
Merchandise and finished goods	37,683	34,589
Other	17,242	16,009
Allowance for doubtful accounts	(22)	(21)
Total current assets	227,203	223,693
Non-current assets		
Property, plant and equipment		
Land	39,235	38,086
Other	46,353	43,598
Total property, plant and equipment	85,588	81,685
Intangible assets	655	582
Investments and other assets		
Investments and other assets	11,804	13,461
Allowance for doubtful accounts	(62)	(211)
Total investments and other assets	11,741	13,250
Total non-current assets	97,985	95,518
Total assets	325,189	319,211
Liabilities		
Current liabilities		
Notes and accounts payable-trade	127,616	125,240
Short-term loans payable	25,500	19,500
Current portion of long-term loans payable	5,426	6,550
Income taxes payable	2,885	2,951
Provision for bonuses	2,020	1,549
Provision for sales returns	300	254
Other	14,851	15,068
Total current liabilities	178,601	171,114
Non-current liabilities		
Long-term loans payable	8,832	5,656
Provision for retirement benefits	2,025	1,770
Other	3,302	3,535
Total non-current liabilities	14,160	10,961
Total liabilities	192,761	182,076

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Net assets		
Shareholders' equity		
Capital stock	15,869	15,869
Capital surplus	27,827	27,827
Retained earnings	86,000	90,389
Treasury shares	(4)	(5)
Total shareholders' equity	129,692	134,080
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,734	3,040
Deferred gains or losses on hedges	1	14
Total valuation and translation adjustments	2,735	3,054
Total net assets	132,427	137,135
Total liabilities and net assets	325,189	319,211

(2) Quarterly Statements of Income

(cumulative from the beginning of the fiscal year)

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	417,395	414,922
Cost of sales	374,312	372,477
Gross profit	43,083	42,444
Selling, general and administrative expenses	37,604	37,185
Operating income	5,479	5,259
Non-operating income		
Dividend income	108	118
Purchase discounts	1,944	1,978
Research fee income	625	634
Other	267	186
Total non-operating income	2,946	2,918
Non-operating expenses		
Interest expenses	127	120
Depreciation of inactive non-current assets	30	38
Other	8	12
Total non-operating expenses	166	171
Ordinary income	8,259	8,006
Extraordinary income		
Gain on sales of non-current assets	3	71
Gain on sales of investment securities	20	350
Total extraordinary income	24	421
Extraordinary losses		
Loss on sales of non-current assets	20	14
Loss on retirement of non-current assets	4	42
Impairment loss	84	264
Loss on valuation of investment securities	32	331
Additional expenses of optional retirement	369	—
Other	2	6
Total extraordinary losses	513	659
Income before income taxes	7,770	7,768
Income taxes-current	2,947	2,804
Income taxes-deferred	(39)	(25)
Total income taxes	2,907	2,778
Net income	4,862	4,989

(3) Quarterly Statements of Cash Flows

(cumulative from the beginning of the fiscal year)

	(Millions of yen)	
	Six months ended September 30, 2013	Six months ended September 30, 2014
Net cash provided by (used in) operating activities		
Income before income taxes	7,770	7,768
Depreciation and amortization	2,393	2,441
Impairment loss	84	264
Increase (decrease) in allowance for doubtful accounts	2	148
Increase (decrease) in provision for bonuses	(100)	(471)
Increase (decrease) in provision for sales returns	(23)	(46)
Increase (decrease) in provision for retirement benefits	144	180
Interest and dividend income	(108)	(119)
Interest expenses	127	120
Loss (gain) on sales of investment securities	(20)	(350)
Loss (gain) on valuation of investment securities	32	331
Additional expenses of optional retirement	369	—
Decrease (increase) in notes and accounts receivable-trade	(11,674)	2,427
Decrease (increase) in inventories	1,772	3,093
Increase (decrease) in notes and accounts payable-trade	9,512	(1,905)
Decrease (increase) in consumption taxes refund receivable	343	—
Increase (decrease) in accrued consumption taxes	381	1,497
Other, net	(1,131)	(1,048)
Subtotal	9,877	14,332
Interest and dividend income received	108	119
Interest expenses paid	(119)	(110)
Income taxes paid	(4,329)	(2,745)
Net cash provided by (used in) operating activities	5,537	11,595
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(2,736)	(81)
Proceeds from sales of property, plant and equipment	276	1,347
Purchase of intangible assets	(57)	(17)
Purchase of investment securities	(78)	(275)
Proceeds from sales of investment securities	21	350
Other, net	46	(181)
Net cash provided by (used in) investing activities	(2,527)	1,142
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(100)	(6,000)
Repayments of long-term loans payable	(2,138)	(2,052)
Repayments of lease obligations	(51)	(44)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,405)	(1,399)
Net cash provided by (used in) financing activities	(3,695)	(9,495)
Net increase (decrease) in cash and cash equivalents	(686)	3,242
Cash and cash equivalents at beginning of period	20,556	13,402
Cash and cash equivalents at end of period	19,870	16,645

(4) Notes to Quarterly Financial Statements

(Notes on premise of going concern)

No items to report

(Notes on significant changes in the amount of shareholders' equity)

No items to report

4. Supplementary Information

(1) Sales Status

(Sales results)

1) Sales results for the six months ended September 30, 2014 by reportable segment are as follows:

Reportable segment	Product classification	Six months ended September 30, 2014	Year-on-year change (%)
		Amount (Millions of yen)	
Wholesale business	Cosmetics	103,304	99.9
	Daily necessities	178,031	100.8
	OTC pharmaceuticals	63,813	95.4
	Health and sanitary related products	62,622	98.4
	Others	573	90.2
	Total sales in wholesale business	408,346	99.3
Supply chain logistics business	Net sales in supply chain logistics business	6,576	106.1
Total		414,922	99.4

Note: Above figures are exclusive of consumption taxes.

2) Sales results of wholesale business for the six months ended September 30, 2014 by customer category are as follows:

Customer category		Six months ended September 30, 2014	Year-on-year change (%)
		Amount (Millions of yen)	
Drug	Drugstores (Pharmacies)	243,381	98.9
HC	Home centers (DIY stores)	45,550	96.5
CVS	Convenience stores	32,518	104.8
SM	Supermarkets	27,281	92.6
GMS	General merchandising stores	24,561	90.8
DS	Discount stores	21,638	122.5
Others	Export and others	13,414	106.6
Total sales in wholesale business		408,346	99.3

Note: Above figures are exclusive of consumption taxes.