Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2016 <under Japanese GAAP>

May 12, 2016

Company name: PALTAC CORPORATION
(URL: http://www.paltac.co.jp/)
Listing: Tokyo Stock Exchange (Code number: 8283)
Representative: Representative Director, President
Kiyotaka Kimura
Contact: Executive Officer, General Manager of Corporate Planning Division
Masaharu Shimada
Tel: +81-6-4793-1090 (from overseas) E-mail: ir@paltac.co.jp

Scheduled date to hold annual general meeting of shareholders: June 23, 2016
Scheduled date to commence dividend payments: June 6, 2016
Scheduled date to submit the Securities Report: June 23, 2016
Preparation of supplementary material on financial results: Yes
Holding of financial results presentation meeting: Yes (for institutional investors, analysts, etc.)

(Figures are rounded off to the nearest million yen)

1. Financial Results for the Fiscal Year Ended March 31, 2016 (From April 1, 2015 to March 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit	
Fiscal year ended	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
March 31, 2016	860,350	8.3	16,101	13.6	18,556	13.7	11,929	16.2
March 31, 2015	794,221	–	14,177	–	16,322	–	10,267	–

	Earnings per share	Diluted earnings per share	Earnings on equity	Ordinary income on total assets	Operating income on net sales
Fiscal year ended	(¥)	(¥)	%	%	%
March 31, 2016	187.73	–	8.0	5.5	1.9
March 31, 2015	161.58	–	7.4	5.1	1.8

Reference: Equity in earnings of affiliates: Fiscal year ended March 31, 2016 ¥– million
Fiscal year ended March 31, 2015 ¥– million

Effective from the fiscal year ended March 31, 2016, the Company has partially changed its accounting policies and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015. Therefore, year-on-year changes for the said period are not presented. For more information, please refer to the section “5. Non-consolidated Financial Statements (5) Notes to Non-consolidated Financial Statements (Changes in accounting policies) and (Changes in presentation)” on pages 25 and 26 of the attached material to this financial results report.

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(¥ million)	(¥ million)	%	(¥)
March 31, 2016	351,880	154,976	44.0	2,438.74
March 31, 2015	318,186	143,535	45.1	2,258.71

Reference: Equity: As of March 31, 2016: ¥154,976 million As of March 31, 2015: ¥143,535 million

Effective from the fiscal year ended March 31, 2016, the Company has partially changed its accounting policies and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015. For more information, please refer to the section “5. Non-consolidated Financial Statements (5) Notes to Non-consolidated Financial Statements (Changes in accounting policies)and (Changes in presentation)” on pages 25 and 26 of the attached material to this financial results report.

(3) Cash Flow Status

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	(¥ million)	(¥ million)	(¥ million)	(¥ million)
March 31, 2016	5,226	(19,327)	10,675	18,082
March 31, 2015	23,204	365	(15,464)	21,507

2. Dividends

	Annual dividends per share (¥)					Total dividends paid (Full year) (¥ million)	Payout ratio (%)	Dividends paid on net assets (%)
(Cut-off date)	1Q	2Q	3Q	Year-end	Full year (Total)			
Fiscal year ended March 31, 2015	–	22.00	–	23.00	45.00	2,859	27.8	2.1
Fiscal year ended March 31, 2016	–	24.00	–	26.00	50.00	3,177	26.6	2.1
Fiscal year ending March 31, 2017 (Forecasts)	–	27.00	–	27.00	54.00		26.0	

Effective from the fiscal year ended March 31, 2016, the Company has partially changed its accounting policies and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015. For more information, please refer to the section “5. Non-consolidated Financial Statements (5) Notes to Non-consolidated Financial Statements (Changes in accounting policies) and (Changes in presentation)” on pages 25 and 26 of the attached material to this financial results report.

3. Forecasts of Financial Results for the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Profit		Earnings per share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Frist six months	460,000	8.1	9,200	9.1	10,200	8.5	6,900	10.9	108.58
Fiscal year	900,000	4.6	17,500	8.7	19,500	5.1	13,200	10.6	207.72

* Notes

(1) 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: Yes
3) Changes in accounting estimates: No
4) Restatements: No

* Please refer to the section “5. Non-consolidated Financial Statements (5) Notes to Non-consolidated Financial Statements (Changes in accounting policies)” on pages 25 of the attached material to this financial results report.

(2) Number of Issued Shares (common stock)

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

As of March 31, 2016	63,553,485 shares
As of March 31, 2015	63,553,485 shares

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

As of March 31, 2016	5,858 shares
As of March 31, 2015	5,758 shares

3) Average number of shares during the period

For the fiscal year ended March 31, 2016	63,547,649 shares
For the fiscal year ended March 31, 2015	63,548,847 shares

* Explanation regarding execution of Audit procedures

This financial results report is not subject to the Audit procedures in accordance with the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this financial results report, the Audit procedures for the 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 “(1) Operating Results” on page 2 of the attached material to this financial results report for the suppositions that form the assumptions for the forecasts.

* 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

Contents

1. Analysis of Operating Results and Financial Position

(1) Operating Results

(Operating results for the fiscal year ended March 31, 2016)

In the fiscal year under review, the Japanese economy followed a moderate recovery track, mainly on the back of improvements in corporate earnings and the employment environment, reflecting such positive developments as the effects of various measures taken by the government and the Bank of Japan. Nevertheless, the outlook for the economy remained uncertain, partly because of concerns that economic underperformances overseas, including emerging countries in Asia, such as China, 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, the market environment followed a trend of improvement, albeit moderately, due to such factors as improved consumption sentiment mainly reflecting an upturn in the income environment and the employment environment, and growth in inbound consumption in some areas by tourists visiting Japan.

Under these circumstances, PALTAC CORPORATION (the “Company”) undertook a variety of efforts, aiming to optimize and streamline the entire supply chain, in accordance with its position as an intermediate distributor providing a full lineup of health and beauty products essential for daily life under the corporate identity, “maximizing customer satisfaction and minimizing distribution costs.” The Company 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. Aiming for more than just a system that provides stable supply under normal conditions, the Company is making efforts to ensure a low-cost and stable supply of products to retailers, and by extension to its customers, even in an emergency through the “non-stop logistics” system.

For the fiscal year under review, having achieved its targets under its medium-term management plan a year ahead of schedule in the previous fiscal year, the Company formulated a new three-year medium-term management plan for fiscal 2016 to fiscal 2018 with the vision of “Initiative to be an intermediate distributor essential to society.” Under this medium-term management plan, the Company will accelerate efforts geared to enhancing information systems in order to contribute to sophisticated information provision to build win-win relationships with business partners and to heighten the Company’s strengths with respect to internal analysis and decision making, developing human resources who can pursue sophisticating and streamlining operations, further boosting productivity of the entire supply chain by redoubling initiatives involving retailers and manufacturers as well as in-house initiatives, and strengthening functions performed by the Company as an intermediate distributor handling sales, distribution and other operations on the basis of its commitment to safety and security. By doing so, the Company will strive to increase corporate value through sustained business growth. As of July 1, 2015, the Company name was changed to PALTAC CORPORATION, from Paltac Corporation previously, to show its commitment to acting as an enterprise that will continue robustly taking on challenges with respect to these initiatives.

With the aim of strengthening the operating base for the future, the Company has conducted capital investment including the establishment of one of its largest distribution centers, “RDC Kanto,” located in Shiraoka-shi, Saitama, and started dispatches from the center from August, 2015. Furthermore, the Company has completed the expansion of the facilities of “RDC Tohoku,” which is located in Hanamaki-shi, Iwate, and the construction of “FDC Aomori” in Aomori-shi, Aomori, and “FDC Hachinohe” in Hachinohe-shi, Aomori, and started dispatches from these centers from October, 2015.

Moreover, on October 1, 2015, the Company carried out a merger with Itohide Shoji Co., Ltd., which is involved in the wholesale business for cosmetics and daily necessities. The Company has started its efforts to further boost productivity by increasing transaction volume and concentrating both companies’ business assets and know-how.

As a result of the above, net sales for the fiscal year under review were ¥860,350 million (up 8.3% year on year), operating income was ¥16,101 million (up 13.6%), ordinary income was ¥18,556 million (up 13.7%), and profit was ¥11,929 million (up 16.2%).

The Company’s reportable segments were previously classified as the “wholesale business” and the “supply chain logistics business.” Effective from the fiscal year under review, this has been changed to the single segment of the “wholesale business,” and segment information has been omitted.

This change was made as a result of a review the Company conducted regarding its operating segments as part of restructuring of its business management method to strengthen its wholesale capabilities. Following the review, the Company judged that it is more appropriate to unify the “wholesale business” and the “supply chain logistics business” as a single business and carry out allocations of business resources and business evaluations accordingly.

(Outlook for the fiscal year ending March 31, 2017)

Looking ahead to the next fiscal year, we expect the economy to recover moderately on the back of improvements in the income environment and the employment environment, reflecting such positive developments as the effects of various government measures. Nevertheless, economic performance overseas is likely to be weak and the outlook remains uncertain, partly because of concerns that the economic downturn in China and other emerging countries in Asia, as well as in resource-producing nations, could have a detrimental effect on the Japanese economy.

Considering such circumstances, the Company will promote initiatives to improve work flow through a managerial approach drawing on total employee participation, while at the same time further strengthening alliances with retailers and manufacturers, and endeavoring to build a robust management foundation for achieving targets of the medium-term management plan and addressing future changes in the environment.

In light of the above, for the next fiscal year, we forecast net sales of ¥900,000 million (up 4.6% year on year), operating income of ¥17,500 million (up 8.7%), ordinary income of ¥19,500 million (up 5.1%), and profit of ¥13,200 million (up 10.6%).

(Notes) 1. RDC (Regional Distribution Center) is a large-scale logistics center.
2. FDC (Front Distribution Center) is a sorting center that supports the RDC.

(2) Financial Position

1) Assets, liabilities and net assets

(Assets)

Current assets increased by ¥20,168 million from the end of the previous fiscal year. This was primarily the result of increases in accounts receivable-trade of ¥13,786 million, merchandise and finished goods of ¥6,877 million and accounts receivable-other of ¥1,262 million and a decrease in cash and deposits of ¥3,425 million.

Non-current assets increased by ¥13,526 million from the end of the previous fiscal year. This was primarily the result of increases in buildings of ¥6,330 million, machinery and equipment of ¥1,604 million and investment securities of ¥3,920 million.

As a result, total assets were ¥351,880 million, an increase of ¥33,694 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities increased by ¥14,795 million from the end of the previous fiscal year. This was primarily the result of increases in accounts payable-trade of ¥8,210 million and short-term loans payable of ¥6,000 million.

Non-current liabilities increased by ¥7,458 million from the end of the previous fiscal year. This was primarily the result of an increase in long-term loans payable of ¥7,222 million.

As a result, total liabilities were ¥196,904 million, an increase of ¥22,253 million from the end of the previous fiscal year.

(Net assets)

Net assets increased by ¥11,440 million from the end of the previous fiscal year. This was primarily the result of an increase in retained earnings of ¥8,942 million.

As a result, total net assets were ¥154,976 million.

2) Cash flows

Cash and cash equivalents (“cash”) as of the end of the fiscal year under review were ¥18,082 million, a decrease of ¥3,425 million from the end of the previous fiscal year.

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

(Cash flow from operating activities)

Net cash provided by operating activities was ¥5,226 million (down ¥17,978 million year on year). Main factors were ¥17,355 million of income before income taxes, ¥4,985 million of depreciation and amortization, ¥9,694 million of increase in notes and accounts receivable-trade, ¥4,056 million of increase in inventories, ¥5,341 million of increase in notes and accounts payable-trade, ¥2,686 million of decrease in accrued consumption taxes and ¥6,313 million of income taxes paid.

(Cash flow from investing activities)

Net cash used in investing activities was ¥19,327 million (compared with net cash of ¥365 million provided by the previous fiscal year). Main factors were ¥15,556 million of purchase of property, plant and equipment and ¥4,040 million of payments for merger.

(Cash flow from financing activities)

Net cash provided by financing activities was ¥10,675 million (compared with net cash of ¥15,464 million used in the previous fiscal year). Main factors were ¥6,000 million of net increase in short-term loans payable, ¥14,500 million of proceeds from long-term loans payable, ¥6,754 million of repayments of long-term loans payable and ¥2,987 million of cash dividends paid.

(Reference) Trends in cash flow indicators

	Fiscal year ended March 31, 2012	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Equity ratio (%)	38.0	41.5	40.7	45.1	44.0
Market value-based equity ratio (%)	22.6	25.5	23.0	33.7	36.0
Interest-bearing debt to cash flow ratio (years)	6.5	3.1	12.2	1.2	8.0
Interest coverage ratio (times)	17.7	36.5	12.8	109.6	23.9

Equity ratio: Equity / Total assets

Market value-based equity ratio: Total market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flow

Interest coverage ratio: Cash flow / Paid interest

Notes: 1. Total market capitalization is calculated based on the number of issued shares excluding treasury stock.
2. The figure used for “Cash flow” is cash flow from operating activities.
3. Interest-bearing debt: Short-term loans payable + Current portion of long-term loans payable + Long-term loans payable + Long-term deposits received (excluding non-interest portion). Excluding lease obligations.
4. For the paid interest, the Company uses “Interest expenses paid” on the statements of cash flows.
5. Effective from the fiscal year ended March 31, 2016, the Company has partially changed its accounting policies, and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015.

(3) Basic Policy on Profit Distribution and Dividends for the Fiscal Ended March 31, 2016 and the Fiscal Year Ending March 31, 2017

The Company considers the distribution of profits to shareholders and its sustainable revenue growth to be its top management priorities. The Company's basic policy on profit distribution is to continuously carry out the stable payment of dividends while also maintaining robust internal reserves necessary to strengthen the financial base and achieve vigorous business growth. In the near term the Company is targeting a payout ratio of 25% or more, and in the medium- to long- term the Company will work to increase dividends in line with growth in earnings.

In the fiscal year under review, the Company's net income and each profits were at their highest levels since the Company's foundation. Accordingly, the Company has set its fiscal year-end dividend at ¥26 per share, an increase of ¥2 from the most recent dividend forecast (announced on October 29, 2015). As a result, including the interim dividend of ¥24 per share already paid, the planned annual dividend has also been increased by ¥2 to ¥50 per share.

For the dividend for the next fiscal year, the Company plans to pay an annual dividend of ¥54 per share, comprised of an interim dividend of ¥27 and a year-end dividend of ¥27 per share.

(4) Business Risks

The business risks that may have a significant impact on the decisions of investors are as follows.

The future potentialities contained in these items are envisioned as of March 31, 2016.

(Risk from investment cost increases and price competition due to competition)

Competition with other operators is growing and the business fields of the Company are widening. Consequently, it may become necessary for the Company to carry out capital expenditure to enhance and expand distribution and information system capabilities to respond to such developments. In these cases, the Company's results may be affected by an increase in depreciation and amortization and increases in personnel expenses and other sundry expenses associated with the operation and management of facilities.

Furthermore, if the Company is unable to secure its targeted level of profitability due to intensification of selling price competition, this may have a negative impact on the Company's results.

(Risk related to collectability of accounts receivables)

The Company takes measures to mitigate the risk of doubtful accounts occurring with respect to accounts receivables by strengthening its system for close coordination with customers, thoroughly carrying out management of accounts receivables at the Company, entering into trade credit insurance, and other means. Nevertheless, if a customer defaults due to bankruptcy, civil rehabilitation or otherwise, this may have a negative impact on the Company's results.

(Risk related to product inventories)

It is possible to avoid risk from product inventories because most of the product inventories owned by the Company and product returns from customers can be returned to the supplier. Nevertheless, if a supplier undergoes a bankruptcy, civil rehabilitation or otherwise, this may have a negative impact on the Company's results by causing a reduction in the price of product inventories and preventing the Company from returning products.

(Matters relating to specific legal restraints, etc.)

The Company handles over-the-counter (OTC) pharmaceuticals and related products. Consequently, the Company is subject to restraints under related laws and regulations, primarily the Pharmaceutical and Medical Device Act. It is necessary for the Company’s places of business to obtain the necessary permissions, registrations, designations and licenses from the prefectural governor of the jurisdiction, or for the Company to make the necessary submissions to the competent authorities, before carrying out sales activities. Therefore, if the Company’s licenses and approvals are rescinded due to violation of laws and regulations or other such reasons, or if the Company is unable to obtain licenses and approvals, this may have a negative impact on the Company’s business activities and results by limiting the products it can sell.

(Fluctuations in results)

In the Company’s results for the fourth quarter, net sales tend to fall in comparison with the other quarters. Income also tends to decline in that quarter reflecting the impact of the fluctuation in net sales.

This downward trend mainly reflects the impact of seasonal factors in January and February. Sales in January are affected by consumer demand in December driven by bulk buying of daily necessities in the run up to the end of the year. In February, net sales are down in comparison to other months due to the lower number of business days.

As a result of these factors, results in the first nine months of the fiscal year may not indicate the overall trend of the Company’s results for the full year.

An overview of results by quarter in the fiscal year ended March 31, 2016, is provided below.

(Millions of yen)

	Fiscal year ended March 31, 2016				
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Net sales [Composition %]	209,958 [24.4]	215,533 [25.1]	226,671 [26.3]	208,186 [24.2]	860,350 [100.0]
Operating income [Composition %]	3,806 [23.6]	4,624 [28.7]	4,260 [26.5]	3,409 [21.2]	16,101 [100.0]
Ordinary income [Composition %]	4,345 [23.4]	5,057 [27.3]	4,876 [26.3]	4,276 [23.0]	18,556 [100.0]

Note: Figures for net sales do not include consumption taxes.

(Occurrence of natural disasters, etc.)

The Company operates at a number of places of business and distribution centers across Japan. To minimize losses from a natural disaster or similar event, the Company is working to develop and enhance its Business Continuity Plan (BCP). The measures in the plan include a system under which, even if the distribution capabilities at some distribution centers can no longer be deployed safely, other distribution centers can take over these capabilities as their backup. Nevertheless, if a massive natural disaster occurs as the result of a large-scale earthquake or similar contingency, the Company’s product procurement and backup systems may be rendered unusable due to the fragmentation of lifelines and transport networks. This may have a negative impact on the Company’s results by obstructing its provision of distribution services or other operations.

(System trouble)

The Company relies on computer systems and networks in its business operations. This includes the use of a proprietary distribution system incorporating complex programming for the operation and management of RDCs, the Company’s important business and distribution facilities.

Consequently, the Company’s core computer equipment is located in a data center equipped with earthquake-resistant facilities and a private electric generator. In addition, the Company regularly backs up data with the use of separate media (disks and magnetic tapes) and takes measures to prevent infection by computer viruses. Nevertheless, if the Company’s computer systems stop functioning due to a large-scale natural disaster, an accident or infection by a computer virus, this may significantly obstruct the Company’s sales and distribution activities.

(Relationship with the parent company's group)

Because the Company operates in the cosmetics, daily necessities and OTC pharmaceutical wholesale business while the rest of the parent company's group mainly operates in the prescription pharmaceutical wholesale business, there are differences between them, primarily in terms of the product categories they handle and the distribution channels they use. At present, the Company is not in competition with the rest of the parent company's group, and no elements of the relationship have an impact on the freedom of the Company's business activities or operational decisions. Furthermore, the Company makes all decisions on matters such as business strategy and personnel policy on the basis of independent and autonomous discussions at the Company. Currently, no significant changes are expected to occur in the Company's relationship with the rest of the parent company's group. Nevertheless, if there is a change in management policy in the rest of the parent company's group in the future, for example if another company in the group enters into one of the Company's business sectors and comes into competition with the Company, this may have an impact on the Company's results.

The Company's relationship with the parent company's group as of March 31, 2016, is as follows.

1) Capital relationships

The percentage of the shares of the Company held by its parent company, MEDIPAL HOLDINGS CORPORATION, is 50.12%.

2) Personal relationships

[Interlocking directorate]

Kohji Orime, Director and Vice Chairman of the Company, is the representative of the Cosmetics, Daily Necessities and OTC Pharmaceutical Wholesale Business segment of the parent company's group. In that capacity, Mr. Orime not only reports on matters such as the Company's results and industry trends, but also appropriately asserts the Company's point of view to the parent company. Thus, the purpose of his interlocking directorate at the parent company is to secure the Company's independence from the parent company.

Mr. Orime will retire from director of the parent company after approval to the parent company's annual general meeting of shareholders on June 24, 2016.

Also, Kunio Ninomiya, Director, Vice President and Executive Officer of the Company will become director of the parent company after approval at the parent company's annual general meeting of shareholders on June 24, 2016.

3) Business relationships

Related party transactions associated with the parent company's group are as follows.

(Millions of yen)

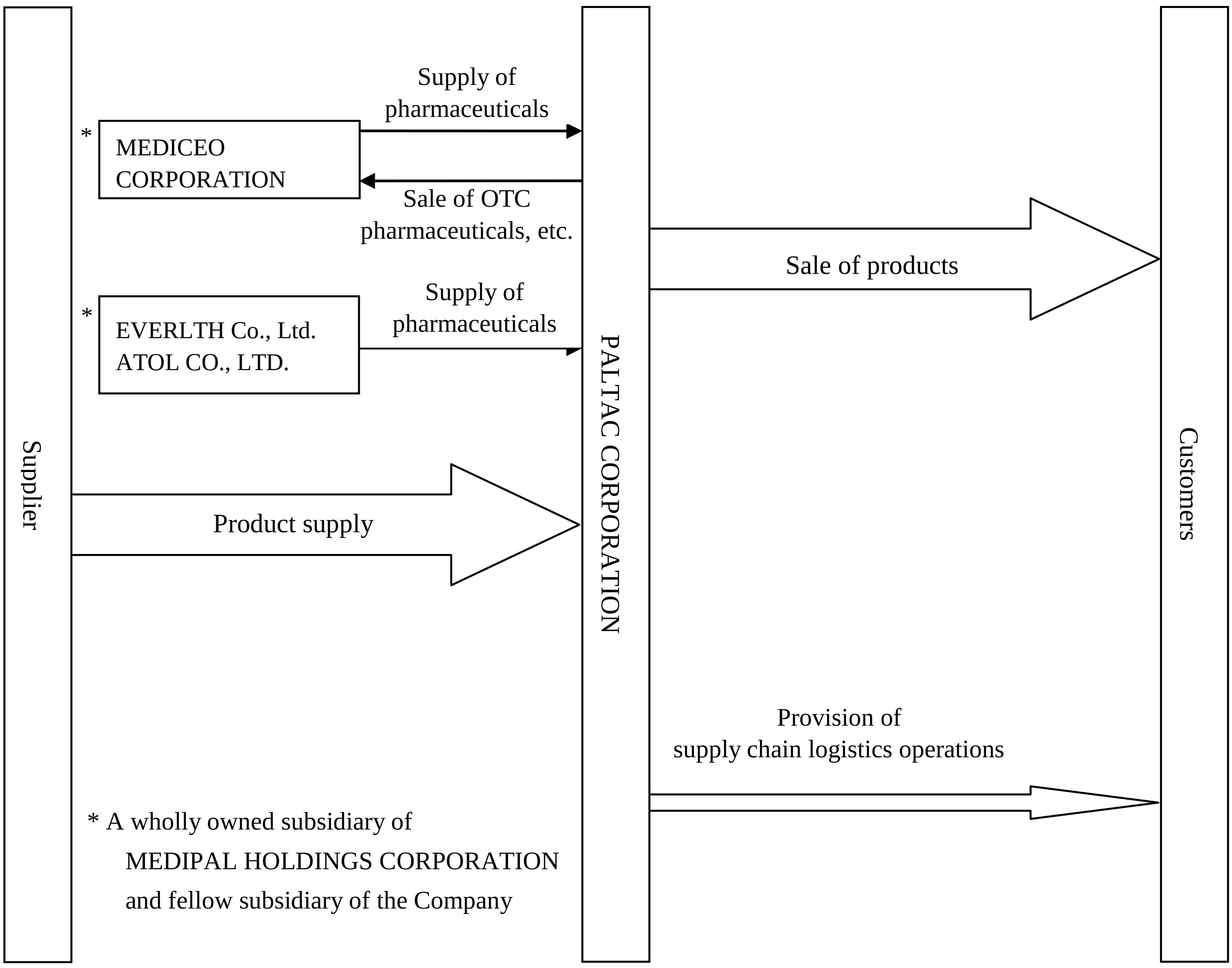
Company name	Transaction details	Transaction amount Fiscal year ended March 31, 2015	Transaction amount Fiscal year ended March 31, 2016	Transaction conditions, etc.
(Parent company) MEDIPAL HOLDINGS CORPORATION	Payment of insurance premium	12	12	The parent company's whole group is entered together into group insurance, which is managed accordingly, and the Company pays a contribution.
	Receipt of insurance proceeds, etc.	15	9	The Company receives insurance proceeds, etc. based on an insurance contract.
(Fellow subsidiary) MEDICEO CORPORATION	Payment of trust fees for defined contribution pension plan	2	2	The plan is managed for the parent company's whole group together, and the Company pays a contribution.
	Sale of products, etc.	627	645	Determined in consideration of usual transaction conditions between wholesalers.
	Purchase of products	62	45	Determined based on negotiations between both parties in consideration of distribution costs, etc.
	Lease of real estate	56	56	Determined based on price assessments by third-party institutions.
(Fellow subsidiary) EVERLTH Co., Ltd.	Purchase of products	3	1	Determined based on negotiations between both parties in consideration of distribution costs, etc.
(Fellow subsidiary) ATOL CO., LTD.	Purchase of products	8	6	Determined based on negotiations between both parties in consideration of distribution costs, etc.
(Fellow subsidiary) Trim Co., Ltd.	Payment of insurance premium	217	229	Carried out as the Company's insurance agent under the same transaction conditions as with a third party.

Note: The above figures do not include consumption taxes.

2. Status of Group

The Group consists of MEDIPAL HOLDINGS CORPORATION as the parent company, the Company, and one non-consolidated subsidiary. Its primary business operations are in the wholesale business for cosmetics, daily necessities and OTC pharmaceuticals and other such products to drugstores, home centers, convenience stores, supermarkets and others nationwide. As an intermediate distributor that stably supplies a full lineup of daily essentials for health and beauty, the Company provides safe-and-secure, high-quality, low-cost logistics capabilities that help to optimize and streamline the entire supply chain, from production to retailing and recycling, and store solution capabilities that help to stimulate customer demand and boost the efficiency and effectiveness of product display operations in stores. In the area of distribution, which constitutes the Company's operating base, the Company has established RDCs covering broad areas nationwide, and has a high-quality, low-cost system in place, from products entering the warehouse to product dispatching, in which it makes full use of the Company's independently developed distribution equipment.

The Group's operational chart is as follows.



3. Management Policy

(1) The Company's Basic Management Policy

The Company's basic policy is to be an intermediate distributor that helps to optimize and streamline the whole supply chain from manufacturers to retailers as a wholesaler that stably supplies a full lineup of daily essentials for health and beauty, through the delivery of both high-quality, low-cost distribution capabilities and sales capabilities that contribute to profitable operations in the retail sector.

(2) Targeted Management Benchmarks

The Company attaches great importance on net sales, operating income and ordinary income, which show the results of its business operations. For the fiscal year ending March 31, 2017, the Company set the following targets.

1) Net sales	¥900,000	million
2) Operating income	¥17,500	million
3) Ordinary income	¥19,500	million

(3) Medium- and Long-Term Management Strategy

The Company has formulated a three-year medium-term management plan for fiscal 2016 to fiscal 2018 with the aim of realizing sustained business growth and boosting medium- and long-term corporate value. As an enterprise that operates social infrastructure geared to delivering daily necessities, the Company has established the vision of taking "initiative to be an intermediate distributor essential to society," and to make this a reality is pursuing efforts with respect to the four-fold challenges of: enhancing information systems, boosting productivity further, strengthening functions, and developing human resources.

(4) Issues to Be Addressed

In the business environment surrounding the Company, change is poised to continue at a dizzying pace. In part this involves a shifting social structure marked by trends such as aging of the population and a declining birth rate, along with human resource shortages as the population decreases. This also involves a shifting market structure marked by trends such as intensifying price competition, an accelerating pace of business restructuring in the retail industry that are likely to include initiatives where entities form corporate groups or carry out company integrations, and where firms form alliances with companies of other sectors. In view of this environment, there is a strong need for improved productivity across the whole supply chain, including the stages of production, distribution and retail. As a result, the role and mission of the wholesale sector, which is located in the middle of the supply chain, are becoming increasingly important. As such, the Company will vigorously work to increase its corporate value by dismissing preconceived notions in responding to changes in the business environment and achieving sustained business growth.

The Company recognizes the following issues to be addressed and is pursuing efforts such as a medium-term management plan.

1) Enhancing information systems that help strengthen business functions

The Company aims to better leverage its strengths in handling a full line of cosmetics, daily necessities and OTC pharmaceuticals. To that end, the Company will forge ahead in developing a framework that enables it to enhance its strengths for providing information and proposing varied solutions in the course of pursuing business activities by upgrading and improving its core and other existing systems in response to a society where information is becoming increasingly sophisticated. In addition, the Company will accelerate efforts geared to optimizing and streamlining the entire supply chain through initiatives that include making it possible to visually monitor numerical data with respect to the Company's massive volume of information unparalleled in the industry.

2) Further boosting productivity to withstand changes in the business environment

The Company will endeavor to boost productivity by continually promoting initiatives to overhaul all operations extending from merchandise orders in-house to product delivery. In the Kanto area which is the largest market in Japan, this will involve taking steps to boosting productivity across the entire area by enhancing shipping capacity and through cooperation with existing distribution centers, and then subsequently ensuring that the know-how developed from such efforts is reflected in operations of respective distribution centers throughout Japan. At the same time, the Company will integrate business operations and otherwise overhaul the organizational framework in the course of building a highly efficient operating base that is not susceptible to future changes in the business environment.

3) Strengthening functions performed as an intermediate distributor

The Company will heighten its value in the entire supply chain as an intermediate distributor through initiatives that involve enhancing alliances with retailers and manufacturers and devising effective mechanisms that enable the Company, retailers and manufacturers to ensure profits, while leveraging its marketing and distribution strengths based on safe and secure practices of the Company. Moreover, the Company will develop a framework that enables it to accurately address various needs of retailers and manufacturers such that include realizing earnings and cost improvements, and will strengthen team sales systems by giving attention not only to a sales department but also to the cooperation from departments such as the logistics department and system department. At the same time, the Company will strengthen its "non-stop logistics" system which is designed to function even during times of natural disaster and other such crises, in its efforts to ensure that the Company, in handling daily necessities, functions as an enterprise with social infrastructure that is essential to retailers, and by extension to its customers.

4) Developing human resources that make sustained growth possible

The Company is well aware that employees are the greatest business resource of an intermediate distributor that does not manufacture goods. As such, the Company will secure personnel who pursue sophisticating and streamlining operations, and to that end the Company will engage in initiatives geared to training the next generation and improving the skills and knowledge of each individual, while also developing a workplace environment where such competent professionals are able to maximize their potential.

5) Strengthening of internal management systems

The Company recognizes that CSR (corporate social responsibilities) is an important issue that is key to the growth and survival of an enterprise. In this respect, the Company will secure transparent and sound management by working to further strengthen its corporate governance and risk management systems. In addition, the Company will strive to establish a strong internal management system, as it aims to establish a robust corporate structure with high productivity.

4. Basic Approach to Selection of Accounting Standards

To ensure the comparability of its financial statement with domestic companies in the same industry, the Company has applied Japanese accounting standards.

With respect to application of International Financial Reporting Standards (IFRS), our policy is to respond appropriately based on consideration of various domestic and overseas circumstances.

5. Non-consolidated Financial Statements

(1) Balance Sheets

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	21,507	18,082
Notes receivable-trade	5,615	5,605
Accounts receivable-trade	146,090	159,876
Merchandise and finished goods	32,339	39,217
Advance payments-trade	467	580
Prepaid expenses	355	385
Deferred tax assets	1,154	1,125
Accounts receivable-other	13,232	14,495
Other	267	1,832
Allowance for doubtful accounts	(20)	(22)
Total current assets	221,011	241,180
Non-current assets		
Property, plant and equipment		
Buildings	44,315	51,754
Accumulated depreciation	(15,043)	(16,152)
Buildings, net	29,272	35,602
Structures	3,888	4,317
Accumulated depreciation	(2,486)	(2,717)
Structures, net	1,401	1,599
Machinery and equipment	27,838	31,520
Accumulated depreciation	(18,164)	(20,243)
Machinery and equipment, net	9,673	11,277
Vehicles	1,289	1,305
Accumulated depreciation	(1,221)	(1,229)
Vehicles, net	67	76
Tools, furniture and fixtures	2,320	2,263
Accumulated depreciation	(2,012)	(1,941)
Tools, furniture and fixtures, net	307	322
Land	37,599	38,894
Leased assets	376	361
Accumulated depreciation	(198)	(172)
Leased assets, net	177	189
Construction in progress	6	–
Total property, plant and equipment	78,506	87,962
Intangible assets		
Goodwill	–	620
Software	393	264
Software in progress	39	99
Telephone subscription right	83	84
Other	19	18
Total intangible assets	536	1,087

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Investments and other assets		
Investment securities	15,729	19,650
Shares of subsidiaries and associates	20	20
Investments in capital	3	3
Claims provable in bankruptcy, claims provable in rehabilitation and other	356	237
Long-term prepaid expenses	356	257
Prepaid pension cost	1,286	1,178
Guarantee deposits	406	308
Other	223	244
Allowance for doubtful accounts	(251)	(248)
Total investments and other assets	18,130	21,650
Total non-current assets	97,174	110,700
Total assets	318,186	351,880
Liabilities		
Current liabilities		
Electronically recorded obligations – operating	5,538	5,760
Accounts payable-trade	113,647	121,857
Short-term loans payable	17,400	23,400
Current portion of long-term loans payable	4,854	5,378
Lease obligations	73	76
Accounts payable-other	13,040	15,065
Accrued expenses	274	285
Income taxes payable	3,342	3,672
Advances received	33	23
Deposits received	101	109
Provision for bonuses	1,972	2,029
Provision for sales returns	195	216
Asset retirement obligations	–	25
Other	2,822	192
Total current liabilities	163,296	178,092
Non-current liabilities		
Long-term loans payable	4,928	12,150
Lease obligations	114	126
Deferred tax liabilities	2,940	3,072
Provision for retirement benefits	1,857	2,036
Asset retirement obligations	105	77
Long-term deposits received	1,135	1,078
Other	270	270
Total non-current liabilities	11,353	18,812
Total liabilities	174,650	196,904

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Net assets		
Shareholders’ equity		
Capital stock	15,869	15,869
Capital surplus		
Legal capital surplus	16,597	16,597
Other capital surplus	11,229	11,229
Total capital surplus	27,827	27,827
Retained earnings		
Legal retained earnings	665	665
Other retained earnings		
Reserve for advanced depreciation of non-current assets	2,025	2,265
General reserve	80,244	87,244
Retained earnings brought forward	11,475	13,179
Total retained earnings	94,411	103,354
Treasury shares	(7)	(7)
Total shareholders’ equity	138,100	147,043
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5,420	7,970
Deferred gains or losses on hedges	14	(37)
Total valuation and translation adjustments	5,434	7,932
Total net assets	143,535	154,976
Total liabilities and net assets	318,186	351,880

(2) Statements of Income

(Millions of Yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales		
Net sales of goods	781,155	849,091
Net sales on other business	13,065	11,259
Total net sales	794,221	860,350
Cost of sales		
Cost of goods sold		
Beginning goods	37,494	32,339
Transfer of goods by merger	–	2,820
Cost of purchased goods	715,887	787,452
Subtotal	753,382	822,613
Ending goods	*1 32,339	*1 39,217
Net	721,042	783,395
Reversal of provision for sales returns	207	195
Provision for sales returns	195	216
Net	(12)	20
Cost of goods sold	721,030	783,416
Cost of sales on other business	11,204	9,829
Total cost of sales	732,235	793,245
Gross profit	61,985	67,104
Selling, general and administrative expenses	*2 47,808	*2 51,003
Operating income	14,177	16,101
Non-operating income		
Dividend income	216	252
Research fee income	1,270	1,411
Real estate rent	228	224
Subsidy income	460	616
Other	390	330
Total non-operating income	2,565	2,835
Non-operating expenses		
Interest expenses	216	218
Rent expenses on real estates	138	121
Depreciation of inactive non-current assets	49	0
Other	15	39
Total non-operating expenses	420	380
Ordinary income	16,322	18,556

(Millions of yen)

		Fiscal year ended March 31, 2015		Fiscal year ended March 31, 2016
Extraordinary income				
Gain on sales of non-current assets	*3	71	*3	1
Gain on sales of investment securities		364		87
Total extraordinary income		436		89
Extraordinary losses				
Loss on sales of non-current assets	*4	33		–
Loss on retirement of non-current assets	*5	49	*5	142
Impairment loss	*6	343	*6	1,143
Loss on valuation of investment securities		331		–
Other		6		4
Total extraordinary losses		765		1,290
Income before income taxes		15,993		17,355
Income taxes-current		5,714		6,139
Income taxes-deferred		11		(713)
Total income taxes		5,725		5,425
Profit		10,267		11,929

Supplementary Schedules of Cost of Sales

Cost of sales on other business

	Fiscal year ended March 31, 2015		Fiscal year ended March 31, 2016	
Composition of costs	Amount (¥ million)	Composition ratio (%)	Amount (¥ million)	Composition ratio (%)
Payroll costs	3,792	33.9	3,014	30.7
Packing and shipping costs	5,129	45.8	4,547	46.2
Depreciation and amortization	1,246	11.1	1,230	12.5
Others	1,035	9.2	1,037	10.6
Total	11,204	100.0	9,829	100.0

(3) Statements of Changes in Equity

Fiscal year ended March 31, 2015

(Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	15,869	16,597	11,229	27,827	665	1,818	73,744	9,772	86,000
Cumulative effects of changes in accounting policies								938	938
Restated balance	15,869	16,597	11,229	27,827	665	1,818	73,744	10,711	86,939
Changes of items during period									
Dividends of surplus								(2,796)	(2,796)
Profit								10,267	10,267
Provision of reserve for advanced depreciation of non-current assets						314		(314)	
Reversal of reserve for advanced depreciation of non-current assets						(107)		107	
Provision of general reserve							6,500	(6,500)	
Purchase of treasury shares									
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	207	6,500	764	7,471
Balance at end of current period	15,869	16,597	11,229	27,827	665	2,025	80,244	11,475	94,411

Fiscal year ended March 31, 2015

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
Balance at beginning of current period	(4)	129,692	2,734	1	2,735	132,427
Cumulative effects of changes in accounting policies		938				938
Restated balance	(4)	130,631	2,734	1	2,735	133,366
Changes of items during period						
Dividends of surplus		(2,796)				(2,796)
Profit		10,267				10,267
Provision of reserve for advanced depreciation of non-current assets						
Reversal of reserve for advanced depreciation of non-current assets						
Provision of general reserve						
Purchase of treasury shares	(2)	(2)				(2)
Net changes of items other than shareholders' equity			2,686	13	2,699	2,699
Total changes of items during period	(2)	7,469	2,686	13	2,699	10,169
Balance at end of current period	(7)	138,100	5,420	14	5,434	143,535

Fiscal year ended March 31, 2016

(Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning if current period	15,869	16,597	11,229	27,827	665	2,025	80,244	11,475	94,411
Cumulative effects of changes in accounting policies									
Restated balance	15,869	16,597	11,229	27,827	665	2,025	80,244	11,475	94,411
Changes of items during period									
Dividends of surplus								(2,986)	(2,986)
Profit								11,929	11,929
Provision of reserve for advanced depreciation of non-current assets						341		(341)	
Reversal of reserve for advanced depreciation of non-current assets						(102)		102	
Provision of general reserve							7,000	(7,000)	
Purchase of treasury shares									
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	239	7,000	1,703	8,942
Balance at end of current period	15,869	16,597	11,229	27,827	665	2,265	87,244	13,179	103,354

Fiscal year ended March 31, 2016

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
Balance at beginning of current period	(7)	138,100	5,420	14	5,434	143,535
Cumulative effects of changes in accounting policies						
Restated balance	(7)	138,100	5,420	14	5,434	143,535
Changes of items during period						
Dividend of surplus		(2,986)				(2,986)
Profit		11,929				11,929
Provision of reserve for advanced depreciation of non-current assets						
Reversal of reserve for advanced depreciation of non-current assets						
Provision of general reserve						
Purchase of treasury shares	(0)	(0)				(0)
Net changes of items other than shareholders' equity			2,550	(52)	2,497	2,497
Total changes of items during period	(0)	8,942	2,550	(52)	2,497	11,440
Balance at end of current period	(7)	147,043	7,970	(37)	7,932	154,976

(4) Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from operating activities		
Income before income taxes	15,993	17,355
Depreciation and amortization	4,861	4,985
Impairment loss	343	1,143
Increase (decrease) in allowance for doubtful accounts	187	(1)
Increase (decrease) in provision for bonuses	(47)	31
Increase (decrease) in provision for sales returns	(12)	20
Increase (decrease) in provision for retirement benefits	335	286
Interest and dividend income	(216)	(252)
Interest expenses	216	218
Loss (gain) on sales of investment securities	(364)	(82)
Loss (gain) on valuation of investment securities	331	–
Decrease (increase) in notes and accounts receivable-trade	7,191	(9,694)
Decrease (increase) in inventories	5,154	(4,056)
Increase (decrease) in notes and accounts payable-trade	(8,427)	5,341
Decrease (increase) in consumption taxes refund receivable	–	(1,532)
Increase (decrease) in accrued consumption taxes	2,498	(2,686)
Other, net	383	428
Subtotal	28,429	11,505
Interest and dividend income received	216	252
Interest expenses paid	(211)	(218)
Income taxes paid	(5,229)	(6,313)
Net cash provided by (used in) operating activities	23,204	5,226
Cash flows from investing activities		
Purchase of property, plant and equipment	(642)	(15,556)
Proceeds from sales of property, plant and equipment	2,740	198
Purchase of intangible assets	(51)	(90)
Purchase of investment securities	(1,989)	(151)
Proceeds from sales of investment securities	432	187
Payments for merger	–	(4,040)
Other, net	(125)	125
Net cash provided by (used in) investing activities	365	(19,327)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(8,100)	6,000
Proceeds from long-term loans payable	1,000	14,500
Repayments of long-term loans payable	(5,476)	(6,754)
Repayments of lease obligations	(88)	(82)
Purchase of treasury shares	(2)	(0)
Cash dividends paid	(2,798)	(2,987)
Net cash provided by (used in) financing activities	(15,464)	10,675
Net increase (decrease) in cash and cash equivalents	8,105	(3,425)
Cash and cash equivalents at beginning of period	13,402	21,507
Cash and cash equivalents at end of period	* 21,507	* 18,082

(5) Notes to Non-consolidated Financial Statements

(Notes on premise of going concern)

No items to report.

(Significant accounting policies)

1. Valuation standards and methods for securities
   (1) Stock of subsidiaries and affiliates
   Stated at cost using the moving-average method.
   (2) Available-for-sale securities
   Securities with available fair market values:
   Stated at fair value based on the market price or the like at the balance sheet date (valuation difference is reported in a separate component of net assets, and cost of securities sold is determined based on the moving-average method).
   Securities without available fair market values:
   Stated at cost using the moving-average method.

2. Valuation standards and methods of derivatives
   Stated at fair value.

3. Valuation standards and methods of inventories
   Stated at cost using the moving-average method (carrying amounts in the balance sheet are determined based on the method of writing down the book value in accordance with the declining in profitability of assets).

4. Depreciation and amortization of non-current assets
   (1) Property, plant and equipment (excluding leased assets)
   Depreciated using the declining-balance method. (Buildings (excluding building attachments) acquired on or after April 1, 1998 are depreciated using the straight-line method.)
   The estimated useful lives of major items are as follows.

Buildings:	8 to 50 years
Machinery and equipment:	8 to 12 years

   (2) Intangible assets (excluding leased assets)
   Amortized using the straight-line method.
   Software for internal use is amortized using the straight-line method over the internally expected useful life (5 years).
   (3) Leased assets
   Leased assets in finance lease transactions that do not transfer ownership
   Depreciated using the straight-line method assuming that lease periods are useful lives and residual values are zero.
   (4) Long-term prepaid expenses
   Amortized in equal portions.

5. Allowances and provisions
   (1) Allowance for doubtful accounts
   To prepare for losses from bad debt, an estimated uncollectible amount is provided at the amount estimated by using the historical rate of credit loss for ordinary receivables, and based on individual consideration of collectability for receivables at risk of doubtful and receivables from customers in bankruptcy.

(2) Provision for bonuses

To prepare for payment of bonuses to employees, of the estimated future bonus payment, an amount to be borne during the fiscal year under review is provided.

(3) Provision for sales returns

To prepare for future loss from product sales returns, an amount equivalent to the limit to credit reserve in accordance with the Corporation Tax Act is provided.

(4) Provision for retirement benefits

To prepare for payment of retirement benefits to employees, an amount deemed accrued as of the end of the fiscal year under review, based on the projected retirement benefit obligation and the fair value of plan assets as of the end of the fiscal year under review is provided.

1) Periodic allocation methodology for the expected retirement benefit payments

The projected retirement benefit obligation is calculated by allocating the expected retirement benefit payments until the end of the current fiscal year on the benefit formula basis.

2) Amortization of net actual gains/losses

Net actual gains or losses are primarily amortized from the following year on a straight-line basis over 10-year period, which is shorter than the average remaining years of service of the eligible employees.

6. Method of hedge accounting

(1) Method of hedge accounting

Accounted for with deferred hedge accounting.

Certain foreign exchange contracts are subject to appropriation if they satisfy the requirements of appropriation treatment.

(2) Hedging instruments and hedged items

Hedging instruments:	Derivative transactions (forward exchange contracts)
Hedged items:	Payables denominated in foreign currencies and forecasted foreign currency transactions

(3) Hedging policy

Hedging is conducted to reduce risk from fluctuations in foreign exchange rates and the like associated with business activities, and with the aim of fixing cash flows. The Company does not enter into contracts for speculative purposes.

(4) Method of assessing hedge effectiveness

The Company assesses the effectiveness of forward exchange contracts, in principle, from the start of the contract to the point at which effectiveness is assessed by comparing the cumulative changes in the foreign exchange rate of the hedged item with the cumulative changes in the fair value of the hedging instrument, and making the assessment primarily on the basis of both change amounts. However, in the event that critical terms are the same for the hedging instrument and the hedged assets and liabilities, it is assumed that the hedge is 100% effective, and the assessment of effectiveness is not performed.

7. Amortization of goodwill

Amortization of goodwill is determined on a case by case basis and is generally amortized using the straight-line method over a period not exceeding 5 years.

8. Definition of cash and cash equivalents in the statements of cash flows

Cash and cash equivalents in the statements of cash flows consist of cash on hands, at-call deposits with banks, and short-term investments having maturities within three months from acquisition which are readily convertible to cash and involve only an insignificant risk of changes in value.

9. Other significant matters forming the basis of preparing the financial statements

Accounting for consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(Changes in accounting policies)

Adoption of accounting policy regarding business combination

The Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013), and the “Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013) from the fiscal year under review, changing the method of recording acquisition-related expenses in the fiscal year in which such expenses are incurred. Also, for corporate combinations occurring after the beginning of the fiscal period under review, the allocation of acquisition costs determined under provisional accounting treatment have been revised, reflection such cost in the non-consolidated quarterly financial statements for the non-consolidated financial period to which the business combination date belongs.

The Company has adopted these accounting standards as of the beginning of the fiscal year under review and will apply them thereafter in accordance with the transitional handling set forth in Article 58-2(4) of the Business Combinations Accounting Standards and Article 57-4(4) of the Business Divestitures Accounting Standards.

The impact of these changes on the non-consolidated financial statements for the fiscal year ended March 31, 2016 was immaterial.

Change in accounting policy regarding distribution expenses

On delivering products to customer companies’ logistic centers, the Company previously recognized amounts it bore on behalf of customer companies from among expenses such as costs of running the said logistics centers and charges for distribution to various stores as distribution expenses in selling, general and administrative expenses. Effective from the fiscal year under review, however, the Company changed to a method in which these amounts are deducted from net sales.

This change was made in light of the fact that in recent years the said charges for distribution and the like are increasingly being treated as important elements in the determination of transaction terms and conditions. This is the result of an overall examination of transaction details carried out in a restructuring of the Company’s business management method in order to strengthen its wholesale capabilities and provide high-value-added services in view of the dramatically changing business environment surrounding the Company. Specifically, the Company judged that deeming the said charges for distribution and the like as net sales deductions appropriately reflects actual conditions of transactions. In addition, as a modification of a profit management system in the IT system was completed and started operating in April 2015, this will contribute to more appropriate presentation of operating results.

This change in accounting policy has been applied retrospectively, and the financial statements for the fiscal year ended March 31, 2015, are those after retrospective application.

As a result of the above, in comparison to before the said retrospective application, gross profit for the fiscal year ended March 31, 2015, decreased by ¥26,625 million. There were no impacts on operating income, ordinary income and income before income taxes, however.

Change in accounting policy regarding purchase discounts

The Company previously recognized discounts on purchase prices received in accordance with product purchases and settlement terms as purchase discounts in non-operating income. Effective from the fiscal year under review, however, the Company changed to a method in which these amounts are included in cost of sales as items deducted from purchases.

This change was made in light of the fact that in recent years the said purchase discounts are increasingly being treated as important elements in the determination of transaction terms and conditions regardless of market interest rate trends. This is the result of an overall examination of transaction details carried out in a restructuring of the Company's business management method in order to strengthen its wholesale capabilities and provide high-value-added services in view of the dramatically changing business environment surrounding the Company. Specifically, the Company judged that deeming the said purchase discounts as cost of sales deductions appropriately reflects actual conditions of transactions. In addition, as a modification of a profit management system in the IT system was completed and started operating in April 2015, this will contribute to more appropriate presentation of operating results.

This change in accounting policy has been applied retrospectively, and the financial statements for the fiscal year ended March 31, 2015 are those after retrospective application.

As a result of the above, in comparison to before the said retrospective application, gross profit and operating income for the fiscal year ended March 31, 2015, each increased by ¥3,846 million, while ordinary income and income before income taxes for the same period each decreased by ¥10 million. In addition, the balance of retained earnings at the beginning of the previous fiscal year increased by ¥141 million because the cumulative effects on net assets at the beginning of the previous fiscal year was reflected.

(Changes in presentation)

Change in presentation of rent income of real estate and cost of real estate rent

Rent income of real estate was previously included and presented in net sales but effective from the fiscal year under review, this has been changed to a method in which it is presented as real estate rent in non-operating income. Furthermore, in accordance with this change, cost of real estate rent, which was previously included and presented in cost of sales, has been changed to a method in which it is presented as rent cost of real estate in non-operating expenses.

This change was made as a result of a review the Company conducted regarding its operating segments as part of restructuring of its business management method to strengthen its wholesale capabilities. Accordingly, rent income of real estate that is not expected to increase in the future has been separated from the wholesale business, which is the Company's principle business, and the above-mentioned income and cost thereof are now presented in non-operating income and non-operating expenses, respectively. This will contribute to more appropriate presentation of operating results.

The financial statements of the fiscal year ended March 31, 2015 have been reclassified to reflect this change in presentation.

Consequently, ¥228 million listed as "net sales" in the statement of income for the ended March 31, 2015 has been reclassified as "real estate rent" under "non-operating income," and ¥138 million listed as "cost of sales" is reclassified as "rent cost of real estate" under "non-operating expenses."

Change in presentation regarding statements of income

"Subsidy income" which was included in "Other" under "Non-operating income" in the previous fiscal year, is listed as a separate item in the fiscal year under review due to an increase in its materiality. The financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

Consequently, ¥850 million listed as "Other" under "Non-operating income" in the previous fiscal year, has been reclassified as ¥460 million in "Subsidy income" and ¥390 million in "Other."

(Statements of income)

*1 Amounts for ending goods are written down due to decreased profitability. The following loss on valuation on inventories is included in cost of sales.
The amounts indicated are those after offsetting gain on reversal of loss on valuation against loss on valuation.

Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
(33) million yen	(0) million yen

*2 The approximate percentages of selling expenses were 31.4% in the fiscal year ended March 31, 2015, and 31.4% in the fiscal year ended March 31, 2016. The approximate percentages of general and administrative expenses were 68.6% and 68.6%, respectively.
Major items and amounts of selling, general and administrative expenses are as follows.

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Distribution expenses	9,879 million yen	10,430 million yen
Provision of allowance for doubtful accounts	194	1
Depreciation and amortization	3,534	3,728
Salaries and allowances	16,235	17,162
Provision for bonuses	1,972	2,029
Retirement benefit expenses	1,681	1,603

* Effective from the fiscal year ended March 31, 2016, the Company has partially changed its accounting policies, and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015.

*3 Breakdown of gain on sales of non-current assets is as follows.

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Buildings	4 million yen	– million yen
Vehicles	–	1
Land	66	–
Total	71	1

*4 Breakdown of loss on sales of non-current assets is as follows.

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Land	33	–
Total	33	–

*5 Breakdown of loss on retirement of non-current assets is as follows.

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Buildings	0 million yen	20 million yen
Structures	0	17
Machinery and equipment	39	77
Vehicles	1	0
Tools, furniture and fixtures	5	2
Leased assets (tangible)	1	–
Software	0	3
Long-term prepaid expenses	1	1
Demolition or removal expenses	0	19
Total	49	142

*6 Impairment loss

The Company recorded impairment loss of the following assets or asset groups.

Fiscal year ended March 31, 2015 (Millions of yen)

Location	Use	Type	Impairment loss
Nissin-shi, Aichi Pref.	Idle assets	Land	264
Kanuma-shi, Tochigi Pref.	Idle assets	Land	76
Nagakute-shi, Aichi Pref.	Lease assets	Buildings, etc.	2

In principle, the Company groups assets for business according to branch or distribution center, and groups assets for rent and idle assets according to each individual item.

Of the assets held by the Company, for those for which profit and loss from business activities has continuously been negative and those that are idle and not expected to be used in the future, book values have been written down to their recoverable value. These reductions have been recorded as impairment loss (¥343 million) under extraordinary losses. The breakdown of the assets is ¥0 million in buildings, ¥341 million in land, and ¥2 million in other.

Recoverable value of these asset groups is measured at their net realizable values. Net realizable values are amounts calculated on the basis of real estate appraisal value stated by a real estate appraiser (in the case of assets planned to be sold, the planned sale price) or property tax valuation.

Fiscal year ended March 31, 2016 (Millions of yen)

Location	Use	Type	Impairment loss
Tatebayashi-shi, Gunma Pref.	Business assets	Land, etc.	972
Miyoshi-shi, Aichi Pref.	Lease assets	Land and buildings	87
Kasukabe-shi, Saitama Pref.	Idle assets	Land, buildings, etc.	84

In principle, the Company groups assets for business according to branch or distribution center, and groups assets for rent and idle assets according to each individual item.
Of the assets held by the Company, for those for which profit and loss from business activities has continuously been negative and those that are idle and not expected to be used in the future, book values have been written down to their recoverable value. These reductions have been recorded as impairment loss (¥1,143 million) under extraordinary losses. The breakdown of the assets is ¥28 million in buildings, ¥1,068 million in land, and ¥46 million in other.
Recoverable value of these asset groups is measured at their net realizable values. Net realizable values are amounts calculated on the basis of real estate appraisal value stated by a real estate appraiser (in the case of assets planned to be sold, the planned sale price) or property tax valuation.

(Statements of changes in equity)

Fiscal year ended March 31, 2015

1. Class and total number of issued shares and treasury shares (Shares)

	As of April 1, 2014	Increase in shares during fiscal year	Decrease in shares during fiscal year	As of March 31, 2015
Issued shares				
Common stock	63,553,485	–	–	63,553,485
Total	63,553,485	–	–	63,553,485
Treasury stock				
Common stock (Note)	4,408	1,350	–	5,758
Total	4,408	1,350	–	5,758

Note: The 1,350 increase in the number of treasury shares is the result of a buyback of shares less than one unit.

2. Subscription rights to shares and treasury subscription rights to shares

No items to report.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 9, 2014	Common stock	1,398	22	March 31, 2014	June 9, 2014
Board of Directors meeting held on October 31, 2014	Common stock	1,398	22	September 30, 2014	December 1, 2014

(2) Dividends whose record date is in the fiscal year under review and the effective date is in the following fiscal year

Resolution	Class of shares	Total dividend amount (Millions of yen)	Source of dividend	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 12, 2015	Common stock	1,461	Retained earnings	23	March 31, 2015	June 5, 2015

Fiscal year ended March 31, 2016

1. Class and total number of issued shares and treasury shares (Shares)

	As of April 1, 2015	Increase in shares during fiscal year	Decrease in shares during fiscal year	As of March 31, 2016
Issued shares				
Common stock	63,553,485	–	–	63,553,485
Total	63,553,485	–	–	63,553,485
Treasury stock				
Common stock	5,758	100	–	5,858
Total	5,758	100	–	5,858

Note: The 100 increase in the number of treasury shares is the result of a buyback of shares less than one unit.

2. Subscription rights to shares and treasury subscription rights to shares

No items to report.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 12, 2015	Common stock	1,461	23	March 31, 2015	June 5, 2015
Board of Directors meeting held on October 29, 2015	Common stock	1,525	24	September 30, 2015	December 1, 2015

(2) Dividends whose record date is in the fiscal year under review and the effective date is in the following fiscal year

Resolution	Class of shares	Total dividend amount (Millions of yen)	Source of dividend	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 12, 2016	Common stock	1,652	Retained earnings	26	March 31, 2016	June 6, 2016

(Statements of cash flows)

* Reconciliation of cash and cash equivalents to those in the balance sheets

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash and deposits	21, 507 million yen	18,082 million yen
Time deposits with a deposit period of over three months	–	–
Cash and cash equivalents	21,507	18,082

(Lease transaction)

1. Finance lease transaction
   (1) Finance lease transactions that do not transfer ownership
      1) Details of leased assets
         Property, plant and equipment
         Mainly information equipment associated with the core system (tools, furniture and fixtures).
      2) Method of depreciation of leased assets
         As described in “Significant accounting policies, 4. Depreciation and amortization of non-current assets.”

2. Operating lease transaction
   Future lease commitments related to irrevocable operating leases

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Within one year	231	171
Over one year	275	319
Total	506	490

(Financial instruments)

1. Matters relating to status of financial instruments

(1) Policy for handling financial instruments

The Company procures necessary funds (mainly bank loans) in consideration of its capital investment plans primarily for operating its cosmetics and daily necessities and over-the-counter (OTC) pharmaceuticals wholesale businesses. Temporary surplus funds are managed through highly secure financial assets and short-term working funds are procured through bank loans. Derivative transactions are used to hedge the various risks as described in detail below, and the Company does not enter into derivatives transactions for trading or speculative purposes.

(2) Details of financial instruments and associated risks

Notes receivable - trade, accounts receivable - trade and accounts receivable - other that are operating receivables are subject to credit risk from customers.

Shares that are investment securities are subject to market price fluctuation risk.

Electronically recorded obligations - operating, accounts payable - trade and accounts payable - other that are operating payables have payment dates due within one year.

Short-term loans payable primarily consist of procurement of funds related to business transactions.

Long-term loans payable are primarily for procurement of necessary funds for capital investment. Their repayment dates are within five years of the balance sheet date.

Derivative transactions are forward exchange contracts to hedge against foreign exchange fluctuation risks from operating payables denominated in foreign currencies.

For hedging instruments and hedged items, hedging policy, method of assessing hedge effectiveness and other aspects of hedge accounting, please refer to “6. Method of hedge accounting” in “Significant accounting policies” on a previous page of this report.

(3) Management system for risks associated with financial instruments

1) Management of credit risk (such as risk associated with nonfulfillment of contracts by business partners)

The Company works to reduce the risk of doubtful accounts occurring with respect to receivables in the course of ongoing business transactions with business partners by thoroughly applying its system for close coordination with such business partners and its management of receivables at the Company, entering into trade credit insurance, and other means.

2) Management of market risk (fluctuation risk from foreign exchange, interest and others)

For investment securities, the Company regularly ascertains information such as fair values and the financial conditions of issuers (business partner companies, etc.), and regularly reviews its securities holdings in light of its relationships with business partner companies, etc.

The Company executes derivative transactions in accordance with its “Rules on Operational Authority.” Transactions executed are limited to foreign currency-denominated monetary payables handled by the Overseas Business Division. Every month the Company receives notification from financial institutions regarding the balance of derivative transactions executed and confirms the data by matching them with a list of actual results. In addition, the Audit Department at the Company conducts audits of the execution and management of these transactions.

3) Management of liquidity risk associated with procurement of funds (risk of becoming unable to repay funds on payment date)

The Company manages liquidity risk by having the Finance Department prepare and renew cash flow management plans in a timely manner based on reports from each department.

(4) Supplementary explanation regarding fair values of financial instruments

In addition to values based on market prices, fair values of financial instruments include theoretical values that are reasonably calculated when no market prices are available. Because these calculations based on certain assumptions, applying different assumptions may result in different fair values.

2. Matters relating to fair values of financial instruments

Amounts on balance sheet, fair values, and differences between them are as follows. Financial instruments whose fair values are deemed to be extremely difficult to determine are not included in the following table. (Refer to Note 2.)

As of March 31, 2015 (Millions of yen)

	Amount on balance sheet	Fair value	Difference
Assets			
(1) Cash and deposits	21,507	21,507	–
(2) Notes receivable - trade	5,615	5,615	–
(3) Accounts receivable - trade	146,090	146,090	–
(4) Accounts receivable - other	12,966	12,966	–
(5) Investment securities	15,034	15,034	–
Total assets	201,215	201,215	–
Liabilities			
(1) Electronically recorded obligations - operating	5,538	5,538	–
(2) Accounts payable - trade	113,647	113,647	–
(3) Short-term loans payable	17,400	17,400	–
(4) Current portion of long-term loans payable	4,854	4,878	24
(5) Accounts payable - other	13,040	13,040	–
(6) Long-term loans payable	4,928	4,892	(35)
Total liabilities	159,408	159,397	(11)
Derivative transactions (*)	21	21	–

(*) Net claims/obligations that arise from derivative transactions are indicated as net amounts, and the amounts of items for which net liabilities are recognized in total are indicated in parentheses.

As of March 31, 2016 (Millions of yen)

	Amount on balance sheet	Fair value	Difference
(1) Cash and deposits	18,082	18,082	–
(2) Notes receivable - trade	5,605	5,605	–
(3) Accounts receivable – trade	159,876	159,876	–
(4) Accounts receivable – other	14,495	14,495	–
(5) Investment securities	18,932	18,932	–
Total assets	216,993	216,993	–
(1) Electronically recorded obligations - operating	5,760	5,760	–
(2) Accounts payable – trade	121,857	121,857	–
(3) Short-term loans payable	23,400	23,400	–
(4) Current portion of long-term loans payable	5,378	5,432	54
(5) Accounts payable - other	15,065	15,065	–
(6) Long-term loans payable	12,150	12,081	(68)
Total liabilities	183,612	183,598	(13)
Derivative transactions (*)	(54)	(54)	–

(*) Net claims/obligations that arise from derivative transactions are indicated as net amounts, and the amounts of items for which net liabilities are recognized in total are indicated in parentheses.

Notes: 1. Methods of fair value measurement of financial instruments and matters relating to securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes receivable - trade, (3) Accounts receivable - trade, (4) Accounts receivable - other

Because these are settled in a short period of time and their fair values approximate book values, the Company deems their book values to be the fair values.

(5) Investment securities

Fair values of shares are based on the prices on exchanges. In addition, the Company holds securities as available-for-sale securities. For information on this, please refer to “(Securities)” in the Notes.

Liabilities

(1) Electronically recorded obligations - operating, (2) Accounts payable - trade, (3) Short-term loans payable, (5) Accounts payable - other

Because these are settled in a short period of time and their fair values approximate book values, the Company deems their book values to be the fair values.

(4) Current portion of long-term loans payable, (6) Long-term loans payable

The Company determines the fair values of long-term loans payable by discounting the total amount of the principal and interest of the relevant long-term loans payable by the interest rates considered to be applicable to similar new loans.

Derivative transactions

For information on derivative transactions, please refer to “(Derivative transactions)” in the Notes.

2. Financial instruments whose fair values are deemed to be extremely difficult to determine

(Millions of yen)

Category	As of March 31, 2015	As of March 31, 2016
Unlisted shares (*1)	694	717
Shares of subsidiaries and associates (*2)	20	20

(*1) The Company does not include unlisted shares in “(5) Investment securities” because they have no market prices and their fair values are deemed to be extremely difficult to determine.

(*2) The Company does not include shares of subsidiaries and associates in the above table because they have no market prices and their fair values are deemed to be extremely difficult to determine.

3. Maturity analysis for financial assets

As of March 31, 2015 (Millions of yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	21,507	–	–	–
Notes receivable-trade	5,615	–	–	–
Accounts receivable-trade	146,090	–	–	–
Accounts receivable-other	12,966	–	–	–
Total	186,181	–	–	–

As of March 31, 2016 (Millions of yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	18,082	–	–	–
Notes receivable-trade	5,605	–	–	–
Accounts receivable-trade	159,876	–	–	–
Accounts receivable-other	14,495	–	–	–
Total	198,060	–	–	–

4. Maturity analysis for loans

As of March 31, 2015 (Millions of yen)

	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	17,400	–	–	–	–	–
Current portion of long-term loans payable	4,854	–	–	–	–	–
Long-term loans payable	–	2,478	1,800	500	150	–
Total	22,254	2,478	1,800	500	150	–

As of March 31, 2016 (Millions of yen)

	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	23,400	–	–	–	–	–
Current portion of long-term loans payable	5,378	–	–	–	–	–
Long-term loans payable	–	4,700	3,400	3,050	1,000	–
Total	28,778	4,700	3,400	3,050	1,000	–

(Securities)

1. Shares of subsidiaries and affiliates
   Shares of subsidiaries (amounts on balance sheets: ¥20 million in the fiscal year ended March 31, 2016 and ¥20 million in the fiscal year ended March 31, 2015) are not presented because they have no market prices and their fair values are deemed to be extremely difficult to determine.

2. Available-for-sale securities
   As of March 31, 2015 (Millions of yen)

	Type	Amount on balance sheet	Acquisition cost	Difference
Securities for which amount on balance sheet exceeds acquisition cost	(1) Stocks	14,487	6,677	7,810
	(2) Bonds			
	1) National government bonds and local government bonds, etc.	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	14,487	6,677	7,810
Securities for which amount on balance sheet does not exceed acquisition cost	(1) Stocks	547	650	(103)
	(2) Bonds			
	1) National government bonds and local government bonds, etc.	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	547	650	(103)
Total		15,034	7,328	7,706

Note: Unlisted stocks (amount on balance sheet: ¥694 million) are not included in “Available-for-sale securities” in the table above because they have no market prices and their fair values are deemed to be extremely difficult to determine.

As of March 31, 2016 (Millions of yen)

	Type	Amount on balance sheet	Acquisition cost	Difference
Securities for which amount on balance sheet exceeds acquisition cost	(1) Stocks	18,478	6,938	11,540
	(2) Bonds			
	1) National government bonds and local government bonds, etc.	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	18,478	6,938	11,540
Securities for which amount on balance sheet does not exceed acquisition cost	(1) Stocks	453	507	(53)
	(2) Bonds			
	1) National government bonds and local government bonds, etc.	–	–	–
	2) Corporate bonds	–	–	–
	3) Other	–	–	–
	(3) Other	–	–	–
	Subtotal	453	507	(53)
Total		18,932	7,446	11,486

Note: Unlisted stocks (amount on balance sheet: ¥717 million) are not included in “Available-for-sale securities” in the table above because they have no market prices and their fair values are deemed to be extremely difficult to determine.

3. Available-for-sale securities sold

Fiscal year ended March 31, 2015 (Millions of yen)

Type	Amount sold	Total gain on sale	Total loss on sale
(1) Stocks	432	364	0
(2) Bonds			
1) National government bonds and local government bonds, etc.	–	–	–
2) Corporate bonds	–	–	–
3) Other	–	–	–
(3) Other	–	–	–
Total	432	364	0

Fiscal year ended March 31, 2016 (Millions of yen)

Type	Amount sold	Total gain on sale	Total loss on sale
(1) Stocks	187	87	4
(2) Bonds			
1) National government bonds and local government bonds, etc.	–	–	–
2) Corporate bonds	–	–	–
3) Other	–	–	–
(3) Other	–	–	–
Total	187	87	4

(Derivative transactions)

1. Derivative transactions not qualifying for hedge accounting

No items to report.

2. Derivative transactions qualifying for hedge accounting

Currency-related transactions

As of March 31, 2015 (Millions of yen)

Hedge accounting method	Transaction type	Major hedged item	Contract amount	Of contracts, those with period of over one year	Fair value
Deferred hedge accounting	Forward exchange contracts Bought U.S. dollar	Accounts payable - trade	1,131	–	21
Total			1,131	–	21

Note: Method of fair value measurement

Fair values are measured based on prices presented by financial institutions with which the Company does business.

As of March 31, 2016 (Millions of yen)

Hedge accounting method	Transaction type	Major hedged item	Contract amount	Of contracts, those with period of over one year	Fair value
Deferred hedge accounting	Forward exchange contracts Bought U.S. dollar	Accounts payable - trade	1,106	–	(54)
Total			1,106	–	(54)

Note: Method of fair value measurement

Fair values are measured based on prices presented by financial institutions with which the Company does business.

(Retirement benefits)

1. Overview of retirement benefits plans

The Company has defined benefit plans and a defined contribution plan. For the former the Company has a multi-employer employees' pension fund plan, a contract-type corporate pension fund plan and a lump-sum retirement payment plan, and for the latter the Company has a defined contribution pension fund plan.

2. Defined benefit plans

(1) Overall funding position of plans

	(As of March 31, 2014)	(As of March 31, 2015)
(Tokyo Pharmaceutical Welfare Pension Fund Association)		
Fair value of plan assets	512,488 million yen	571,380 million yen
Total Amount of actuarial liabilities and minimum actuarial reserve (Note)	522,289	561,736
Net balance	(9,801)	9,644

(2) Percentage of overall plan funding contributed by the Company

	(As of March 31, 2014)	(As of March 31, 2015)
(Tokyo Pharmaceutical Welfare Pension Fund Association)	4.0%	4.0%

(3) Supplementary explanation

(As of March 31, 2014)

The main components of the net balance in table (1) above are: balance of prior service costs in the calculation of pension funding of ¥45,242 million and surplus in the fiscal year ended March 31, 2014 of ¥35,440 million. The amortization method used for prior service costs in the pension plan is principal and interest equal amortization, and the remaining amortization term is 8 years and 0 month

(As of March 31, 2015)

The main components of the net balance in table (1) above are: balance of prior service costs in the calculation of pension funding of ¥40,107 million and surplus in the fiscal year ended March 31, 2015 of ¥49,751 million. The amortization method used for prior service costs in the pension plan is principal and interest equal amortization, and the remaining amortization term is 7 years and 0 month

(4) Retirement benefit obligation at beginning of period and reconciliation with balance at end of period

	(Fiscal year ended March 31, 2015)	(Fiscal year ended March 31, 2016)
Retirement benefit obligation at beginning of period	6,487 million yen	5,632 million yen
Cumulative effects of changes in accounting policies	(1,238)	–
Restated balance	5,249	5,632
Service costs	447	445
Interest expenses	57	61
Actuarial differences	93	548
Retirement benefits paid	(216)	(242)
Retirement benefit obligation at end of period	5,632	6,446

(5) Plan assets at beginning of period and reconciliation with balance at end of period

	Fiscal year ended March 31, 2015		Fiscal year ended March 31, 2016	
Plan assets at beginning of period	3,673	million yen	4,176	million yen
Expected return on plan assets	40		45	
Actuarial differences	339		(101)	
Contribution by employer	265		265	
Retirement benefits paid	(142)		(147)	
Plan assets at end of period	4,176		4,238	

(6) Retirement benefit obligation and plan assets at end of period and reconciliations with provision for retirement benefits and prepaid pension recorded in the balance sheet

	As of March 31, 2015		As of March 31, 2016	
Retirement benefit obligation from funded plans	3,376	million yen	3,852	million yen
Fair value of plan assets	(4,176)		(4,238)	
Net balance	(799)		(386)	
Retirement benefit obligation on non-funded plans	2,256		2,594	
Unfunded retirement benefit obligation	1,456		2,207	
Unrecognized actuarial differences	(885)		(1,349)	
Net amount of liability and asset recorded in balance sheet	571		857	
Provision for retirement benefits	1,857		2,036	
Prepaid pension	(1,286)		(1,178)	
Net amount of liability and asset recorded in balance sheet	571		857	

(7) Retirement benefit expenses and amounts of components

	Fiscal year ended March 31, 2015		Fiscal year ended March 31, 2016	
Service costs	447	million yen	445	million yen
Interest expenses	57		61	
Expected return on plan assets	(40)		(45)	
Amortization of actuarial differences	209		185	
Other	879		832	
Retirement benefit expenses on defined benefit plans	1,553		1,479	

Note: “Other” mainly consists of payments into the employees’ pension fund plan.

The required contribution amounts to the employees’ pension fund under the multi-employer pension plan treated using the same accounting as for a defined contribution plan were ¥737 million for the previous fiscal year and ¥687 million for the fiscal year under review.

(8) Plan assets

1) Main components of plan assets

The ratios of components to total plan assets by major category are as follows.

	(As of March 31, 2015)	(As of March 31, 2016)
Bonds	55 %	54 %
Stocks	32	26
Life insurance company general accounts	10	11
Other	3	9
Total	100	100

2) Method for establishing long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is established in consideration of current and forecasted allocation of plan assets, as well as the current and expected future long-term rate of return from the assets that constitute the plan assets.

(9) Calculation basis for actuarial differences

The main calculation bases for actuarial differences at the end of the fiscal year under review are as follows (shown as weighted averages).

	(As of March 31, 2015)	(As of March 31, 2016)
Discount rate:	1.1 %	0.2 %
Long-term expected rate of return on plan assets	1.1 %	1.1 %

3. Defined contribution plan

The Company’s required contribution amount for its defined contribution plan is ¥160 million of previous fiscal year and ¥161 million of the fiscal year under review.

(Income taxes)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Differed tax assets:		
Accrued enterprise tax	250	254
Provision for bonuses	650	625
Allowance for doubtful accounts	78	83
Accrued expenses	262	213
Loss on valuation on inventories	0	–
Provision for retirement benefits	598	623
Loss on valuation on investment securities	184	179
Accrued directors’ retirement benefits	87	82
Impairment loss	64	354
Taxable assets adjustment	–	232
Other	92	86
Sub-total	2,270	2,735
Less: Valuation allowance	(363)	–
Total deferred tax assets	1,906	2,735
deferred tax liabilities:		
Reserve for advanced depreciation of non-current assets	(963)	(999)
Valuation difference on available-for-sale securities	(2,285)	(3,303)
Prepaid pension cost	(417)	(362)
Removal expenses related to asset retirement obligations	(9)	(7)
Others	(16)	(9)
Total deferred tax liabilities	(3,692)	(4,682)
Net deferred tax assets	(1,785)	(1,946)

2. Reconciliations between the statutory tax rate and the effective tax rate

(%)

	As of March 31, 2015	As of March 31, 2016
Statutory tax rate	35.6	33.0
(Adjustments)		
Non-deductible items such as entertainment expense	0.4	0.7
Inhabitant taxes per capital	0.7	0.6
Increase (decrease) in valuation allowance	(1.0)	(2.1)
Effect of revised corporate tax rate	0.2	0.4
Other	0.0	(1.3)
Effective tax rate	35.8	31.3

3. Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

“Act on partial Revision for the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act on partial Revision for the Local Tax Act, etc.” (Act No. 13 of 2016) have been enacted in the Diet on March 29, 2016. Following that, revised corporation tax rate will be imposed from fiscal years beginning on or after April 1, 2016. Accordingly, the statutory effective tax rate, used to calculate deferred tax assets and liabilities, will decline 32.2% to 30.8% in fiscal 2016 (April 1, 2016-March 31, 2017) and fiscal 2017(April 1, 2017-March 31, 2018) and to 30.6% in fiscal 2018 (April 1, 2018-March 31, 2019).

As result of this change, net deferred tax liabilities (after deducting deferred tax assets) and deferred gains or losses on hedges respectively at fiscal year-ended decreased by ¥111 million and ¥0 million, while income taxes – deferred and valuation difference on available-for-sale securities increased by ¥71 million and ¥183 million .

Note:
Effective from the fiscal year under review, the Company has partially changed its accounting policies, and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015.

(Equity methods)

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2012)
Not applicable

Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)
Not applicable

(Business combinations)

Business combinations due to acquisition

1. Overview of business combinations

(1) Name of company acquired and nature of business

Name of company acquired: Itohide Shoji Co., Ltd. (Itohide Shoji)

Nature of business: wholesale business cosmetics and daily necessities

(2) Rationale for business combination

This acquisition will enable the Company to boost productivity by increasing transaction volume and concentrating both companies’ business assets and know-how.

(3) Date of business combination

October 1, 2015

(4) Legal type of business combination

Absorption-type merger in which the Company is the surviving company and Itohide Shoji is the extinct company

(5) Name of resulting entity

PALTAC CORPORATION

(6) Share of voting rights acquired

100%

(7) Main rationale for selecting the acquiring entity

The company has acquired all shares of Itohide Shoji for cash

2. Period of performance of the acquired company included in the financial statements

From October 1, 2015 to March 31, 2016

3. Total acquisition price and breakdown

Acquisition price	Cash and deposits	5,000	million yen
Direct costs		5,000	

4. Major components of acquisition-related costs

Due diligence costs, etc.	11	million yen

5. Amount, cause, amortization method and period of goodwill generated

(1) Amount of goodwill generated

689 million yen

(2) Cause of the generation of goodwill

Mainly due to the extra earning power expected through boosting productivity in the regions Itohide Shoji operated in the cosmetic and daily necessities wholesale business.

(3) Method and period of amortization

Straight-line method over 5 years

6. The amount and major breakdown of assets accepted and liabilities taken on the day in which the businesses are combined

Current assets:	8,405	million yen
Non-current assets:	499	
Total assets:	8,905	
Current liabilities:	4,594	
Total liabilities	4,594	

7. Estimated impact on the non-consolidated financial statements of income and the method of calculation for the current fiscal year assuming that the business combination is completed at the beginning of the fiscal year under review/

Net sales:	22,012	million yen
Operating income:	110	

Note:

Estimated impact on financial results was calculated based on the difference in sales and profit information calculated as if the business combination had been completed at the beginning of the fiscal year under review.

(Asset retirement obligations)

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

No significant items to be reported

Fiscal year ended March 31, 2016(From April 1, 2015 to March 31, 2016)

No significant items to be reported

(Estate leases)

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

No significant items to be reported

Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)

No significant items to be reported

(Segment information)

a. Segment Information

Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)

As described in “(Change in reportable segments) Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)”on this page.

Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)

“Information on “a. Segment Information” was omitted since the Company’s reportable segment is single segment of the “wholesale business”.

(Change in reportable segments)

The Company’s reportable segments were previously classified as the “wholesale business” and the “supply chain logistics business.” Effective the fiscal year ending March 31, 2016, this has been changed to the single segment of the “wholesale business,” and segment information has been omitted.

This change was made as a result of a review the Company conducted regarding its operating segments as part of restructuring of its business management method to strengthen its wholesale capabilities. Following the review, the Company judged that it is more appropriate to unify the “wholesale business” and the “supply chain logistics business” as a single business and carry out allocations of business resources and business evaluations accordingly.

b. Related information

Fiscal year ended March 31, 2015

1. Information by product and service

Information by product and service was omitted since sales by one (or single) product and service accounted for over 90% of operating revenue on the non-consolidated statement of income.

2. Information by geographic area

(1) Sales

Sales information by geographic segment was omitted since sales in Japan accounted for over 90% of operating revenue on the non-consolidated statement of income.

(2) Property, plant and equipment

Property, plant and equipment information was omitted since all of property, plant and equipment on the non-consolidated balance sheets was located in Japan.

3. Information by major clients

Information by major clients was omitted since no individual clients accounted for greater than 10% of operating revenue on the non-consolidated statements of income.

Fiscal year ended March 31, 2016

1. Information by product and service

Information by product and service was omitted since sales by one (or single) product and service accounted for over 90% of operating revenue on the non-consolidated statement of income.

2. Information by geographic area

(1) Sales

Sales information by geographic segment was omitted since sales in Japan accounted for over 90% of operating revenue on the non-consolidated statement of income.

(2) Property, plant and equipment

.Property, plant and equipment information was omitted since all of property, plant and equipment on the non-consolidated balance sheets was located in Japan.

3. Information by major clients

Information by major clients was omitted since no individual clients accounted for greater than 10% of operating revenue on the non-consolidated statements of income.

Information regarding impairment loss on non-current assets by reporting segment

Fiscal year ended March 31, 2015

As described in “(Change in reportable segments) Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)” on page 48.

Fiscal Year ended March 31, 2016

Information regarding impairment loss on non-current assets by reporting segment was omitted since the Company’s reportable segment is single segment of the “wholesale business”.

Information on amortization and outstanding balance of goodwill by reporting segment

Fiscal year ended March 31, 2015

As described in “(Change in reportable segments) Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)” on page 48.

Fiscal year ended March 31, 2016

Information on amortization and outstanding balance of goodwill by reporting segment was omitted since the Company’s reportable segment is single.

Information regarding gain on negative goodwill by reporting segment

Fiscal year ended March 31, 2015

No items to report

Fiscal year ended March 31, 2016

No items to report

(Related-party transactions)

Fiscal year ended March 31, 2015

1. Significant transactions between the Company and related-parties

Not applicable

2. Notes of parent company and significant affiliated companies

(1) Information of parent

MEDIPAL HOLDINGS CORPORATION (Listed on Tokyo Stock Exchange)

(2) Summary financial statement of significant affiliated companies

Not applicable

Fiscal year ended March 31, 2016

1. Significant transactions between the Company and related-parties

Not applicable

2. Notes of parent company and significant affiliated companies

(1) Information of parent

MEDIPAL HOLDINGS CORPORATION (Listed on Tokyo Stock Exchange)

(2) Summary financial statement of significant affiliated companies

Not applicable

(Per share information)

(Yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net assets per share	2,258.71	2,438.74
Earnings per share	161.58	187.73

Notes:

1. Diluted earnings per share is not presented because there no potential shares.

2. Effective from the fiscal year under review, the Company has partially changed its accounting policies, and retrospectively applied the change to all financial data for the fiscal year ended March 31, 2015.

As a result of the above, in comparison to before the said retrospective application, net assets per share ended March 31, 2015 increased by 2.21 yen while earnings per share for the same period decreased by 0.01yen.

The basis for calculation of the earnings per share amounts is as follows.

(Millions of yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit	10,267	11,929
Amount not attributable to common stock	–	–
Profit attributable to common stock	10,267	11,929
Average number of shares during the period (thousands of shares)	63,548	63,547

(Significant subsequent event)

No items to report

6. Other

(1) Directors Changes

Please see “Notification concerning Changes of organization and directors, officers, etc.” announced on January 29, 2016 and “Notification concerning Changes directors, etc.” announced on April 28, 2016.

(2) Sales Status

(Sales results)

1) Sales results for the fiscal year ended March 31, 2016 by product category are as follows:

Product classification	Fiscal year ended March 31, 2016 Amount (Millions of yen)	Year-on-year change (%)
Cosmetics	216,982	109.2
Daily necessities	365,910	108.4
OTC pharmaceuticals	127,655	106.8
Health and sanitary related products	136,776	110.7
Others	13,025	87.6
Total	860,350	108.3

Notes:
1. Above figures are exclusive of consumption taxes.
2. The Company’s reportable segments were previously classified as the “wholesale business” and the “supply chain logistics business.” Effective from the fiscal year under review, this has been changed to the single segment of the “wholesale business.”

2) Sales results for the fiscal year ended March 31, 2016 by customer category are as follows:

Customer category		Fiscal year ended March 31, 2016 Amount (Millions of yen)	Year-on-year change (%)
Drug	Drugstores (Pharmacies)	526,317	111.0
HC	Home centers (DIY stores)	88,175	105.5
CVS	Convenience stores	60,834	96.4
SM	Supermarkets	55,451	104.6
DS	Discount stores	48,445	108.5
GMS	General merchandising stores	48,274	100.9
Others	Export and others	32,852	117.8
Total		860,350	108.3

Notes:
1. Above figures are exclusive of consumption taxes.
2. The Company’s reportable segments were previously classified as the “wholesale business” and the “supply chain logistics business.” Effective from the fiscal year under review, this has been changed to the single segment of the “wholesale business.”