



VITAL KSK HOLDINGS

 ANNUAL REPORT 2016

Some of the subsidiaries' English names were revised after the release of the last year's version of our annual report in October, 2016.

Please visit our website <http://www.vitalksk.co.jp/english/company/group.html> to confirm their current English names.

Compliance Policy Guide

Under the slogan; “Towards realization of healthy and prosperous society,” VITAL KSK Group set up a compliance policy guide constructed by the 5 main points below. The guide aims to establish enduring trust with our stakeholders and the society. This policy will be communicated to all group employees on a continuous basis to ensure strict observance.

- 1. Contribution to the society (community)
- 2. Fair and appropriate trade and service
- 3. Timely disclosure and protection of personal information
- 4. Establishment of a sound workplace
- 5. Refusal of relations with antisocial forces



Message from CEO

Towards realization of healthy and prosperous society

VITAL KSK HOLDINGS, INC. was established as the joint holding company of VITAL-NET, INC. and KSK CO. LTD. on April 2009.

Against the rapid change of the situation and environment surrounding the health care industry, we have strengthened the communication among our group companies to improve synergy and strengthen the foundation of business based on the corporate credo “Towards realization of healthy and prosperous society.” We will establish organizations that are efficient and with good governance both in the holding company and the group companies to implement dynamic strategy and to expand the market.

As the healthcare sector evolves, increasing number and variety of medicines and medical products that require higher level of management would come to the market. We will tackle with improvement in the logistics technology to achieve safe distribution of medical products and the service level that goes beyond expectations.

We strive towards realization of healthy and prosperous society.



Ken Suzuki
Chairman



Taisuke Murai
President & CEO

Analysis of Operating Results

The Japanese economy during the year ended March 31, 2016 showed a moderate recovery trend, led by the government's economic and financial policies and other factors.

In the pharmaceutical wholesale industry, our Group's primary business segment, Japan's medical expense curbing policy led to drug price revision in April 2014, which lowered drug price standards by 2.65% (5.64% excluding the increase corresponding to consumption tax hike). However, new drugs including hepatitis C medication performed favorably, and the pharmaceutical market performed favorably.

Under these circumstances, the Group has entered the final year of its three-year second medium-term management plan, which started in April 2013. The Group pushed forward until the end toward realizing the two medium-term visions, "Building a Win-Win relationship with customers in the pharmaceutical wholesale business" and "Investing in business related to comprehensive community care system and contributing to building regional healthcare infrastructure."

VITAL-NET, INC., a business subsidiary of the Company, began a "sanitization services business division" as a part of its healthcare coordination business in July 2015. With VITAL-NET, INC., a pharmaceutical company with ties to medical institutions, and VITAL-CARE Inc., a nursing business company with knowledge about nursing supplies, the Group will utilize its strengths and focus on the sales of nursing supplies as well as rental and sanitization services. In order to continue to realize comprehensive regional healthcare systems, the Group will make efforts to work with medical care and nursing providers as well as with consumers and support the construction of healthcare infrastructure.

With the completion of the integration of major subsidiaries' core systems, which had been in progress, in May 2015, a new integrated system went into use at VITAL-NET, INC. The system also went into operation at KSK CO. LTD. in January 2016. By integrating core systems, further business optimization is expected and efforts will be made to generate further synergistic effects as a group.

As a result of the impact of the better-than-expected sales performance of new drugs including the hepatitis C medications as mentioned above, for the year ended March 31, 2016, consolidated net sales were ¥621,040 million (113.3% of that of the same period of the previous year), consolidated operating income was ¥6,892 million (380.2% of that of the same period of the previous year), consolidated ordinary income was ¥10,584 million (172.8% of that of the same period of the previous year) and consolidated net income attributable to owners of parent was ¥6,556 million (144.8% of that of the same period of the previous year).

1) Pharmaceutical Wholesale Business

In the pharmaceutical wholesale business, sales of long-listed drugs fell steeply due to category changes. However, as mentioned above, net sales surpassed initial forecasts due to the better-than-expected performance of new drugs including the hepatitis C medications. In terms of profits, the Group worked with several manufacturers to secure profits through joint purchasing, as well as focused on negotiations for delivery prices by single unit and single price in order to respond accurately to category changes. The Group's main business subsidiaries (VITAL-NET, INC. and KSK CO. LTD.) used the "VK Marketing" sales strategy system, which went into full-fledged operation from April 2012, to implement sales strategies based on sales profit and loss conditions per client, continuing to focus on maintaining and improving earning power while also engaging in negotiations to improve business dealings with unprofitable clients. As a result, net sales were ¥591,867 million (112.9% of that of the same period of the previous year), and segment income (operating income) was ¥6,532 million (434.4% of that of the same period of the previous year).

2) Other Businesses

In other businesses, as a result of making OHNO Co., LTD. a consolidated subsidiary in July 2014 in addition to the positive movements in the veterinary drug wholesale business, net sales were ¥29,172 million (121.7% of that of the same period of the previous year), and segment income (operating income) was ¥279 million (125.2% of that of the same period of the previous year).

(Future Outlook)

In terms of the future outlook in the pharmaceutical wholesale industry, a drug price revision in April 2016 lowered drug price standards by 7.8%. Additionally, sales are projected to decrease for the hepatitis C medications, which by far demonstrated sales that were stronger than expected during the period under review, and the pharmaceutical market is likely to slightly decline.

Under such circumstances, the Group will start its third medium-term management plan for the three-year period from the year ending March 31, 2017 to the year ending March 31, 2019.

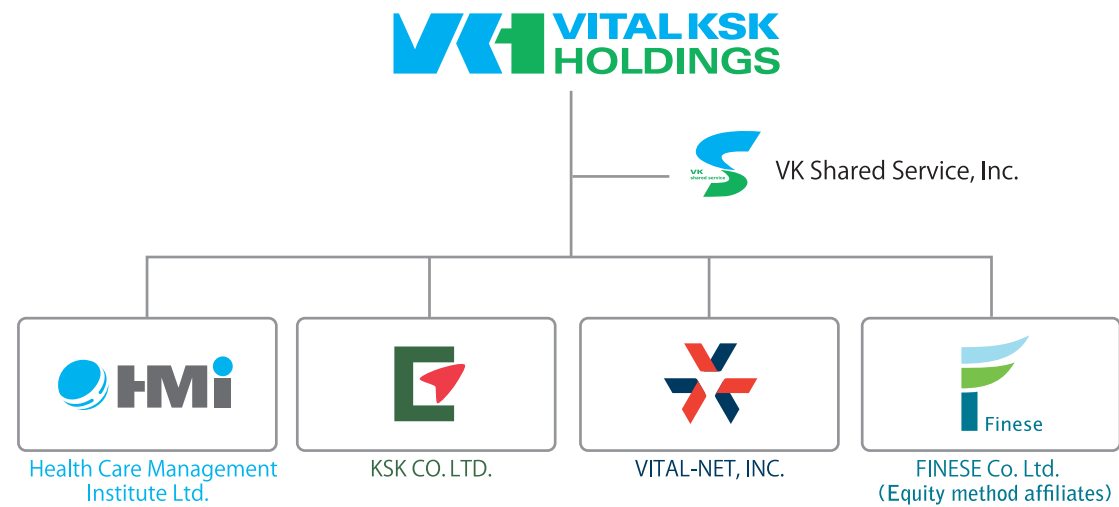
First, ahead of the third medium-term management plan, the Company defined its long-term vision with a 10-year goal of "Becoming an indispensable presence in regional and community healthcare by strategically providing products and services to support medicine and nursing." Furthermore, under this long-term vision, as its medium-term vision during the third medium-term management plan, the Company defined the two visions of "Even in the Generic Medicine 80% era, construct a system to create profits," and "Move deeper into regional healthcare by establishing a business foundation for a medicine-nursing cooperative business." Additionally, to realize this medium-term vision, the Company will work toward the four basic principles of "Demonstrating the comprehensive strength of the Group by implementing effective and efficient Group management," "Promoting and further deepening area marketing that always emphasizes the viewpoint of the local people," "Fostering and retaining healthcare coordinators," and "Becoming a solutions company for the medical and nursing sectors."

As for the forecast of results for the year ending March 31, 2017, the Company expects consolidated net sales of ¥616,000 million, consolidated operating income of ¥4,800 million, consolidated ordinary income of ¥8,500 million and consolidated net income attributable to owners of parent of ¥5,800 million.

About VITAL KSK

VITAL KSK is a jointly owned holding company, established upon the integration of management between VITAL-NET, INC. and KSK CO. LTD. Its business operation consists of wholesale of pharmaceutical products through VITAL-NET(Tohoku 6 prefectures, Niigata prefecture, Tochigi prefecture, Saitama prefecture and Tokyo metropolis) and KSK (Kinki region 6 prefectures); wholesale of veterinary medication (Hokkaido and East Japan) by utilizing their distribution channels; ethical pharmacy business (OHNO); and nursing care and related business (VITAL-CARE) utilizing their relations with medical institutions. Through these business operations, VITAL KSK is committed to establishing a trusted healthcare network throughout Japan.

Organization Chart



List of Group Companies

Health Care Management Institute Ltd.	Medical management consulting
VK Shared Service, Inc.	Trustee of headquarters management operating business of group companies

【VITAL-NET, INC.】

Vital Green Co.,Ltd.	Wholesaler of agricultural chemicals, and agricultural materials, etc.
AGRO-JAPAN Co.,Ltd.	Wholesaler of veterinary drugs
Vital Express Co.,Ltd.	Transportation business
VITAL-CARE, Inc.	Nursing care business
Vital Agency Co.,Ltd.	Insurance agent, Real estate management, Parking business
OHNO Co.,LTD	Dispensing pharmacy
Health Mart, Co.,Ltd.	Dispensing pharmacy
Health Mart Niigata, Co.,Ltd.	Dispensing pharmacy
KSR Co.,Ltd.	Dispensing pharmacy, Mail-order business of health-related products
Shiogama Safurantou Co.,Ltd.	OTC drug manufacturer, Mail-order business of health-related products

【KSK CO. LTD.】

Daishin Tsushou Co., LTD.	Transportation business
Tanpopo Co., LTD.	Nursing care business

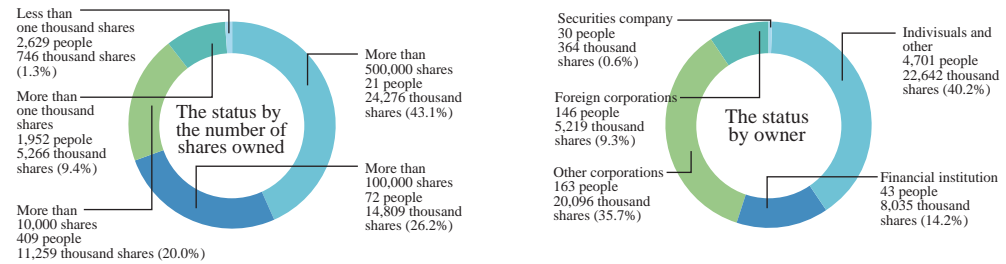
Shareholder Information

Status of the Stock 2016/3/31

- (1) The number of shares available for issuance 230,000,000shares
- (2) The total number of issued shares 61,224,000 shares
- (3) The number of shareholders 5,084 people
- (4) Major shareholders (Top 10)

Name or designation	Number of shares owned (thousand shares)	Percentage of total shares issued (%)
Suzuhiko Co., Ltd.	4,892	8.7
Mizuho Trust & Banking Co., Ltd Employee pension trust(DAIICHI SANKYO COMPANY, LIMITED)	2,214	3.9
Employee Stock Ownership Association of KSK CO. LTD.	1,648	3.0
Mitsubishi Tanabe Pharma Corporation	1,455	2.5
Ken Suzuki	1,323	2.3
Dainippon Sumitomo Pharma Co., Ltd.	1,199	2.1
Cueco Co., LTD	1,187	2.1
Takeda Pharmaceutical Company Limited.	1,163	2.0
Kouchirou Suzuki	1,020	1.8
Kenichirou Murai	842	1.4

(5) Percentage of stock owner



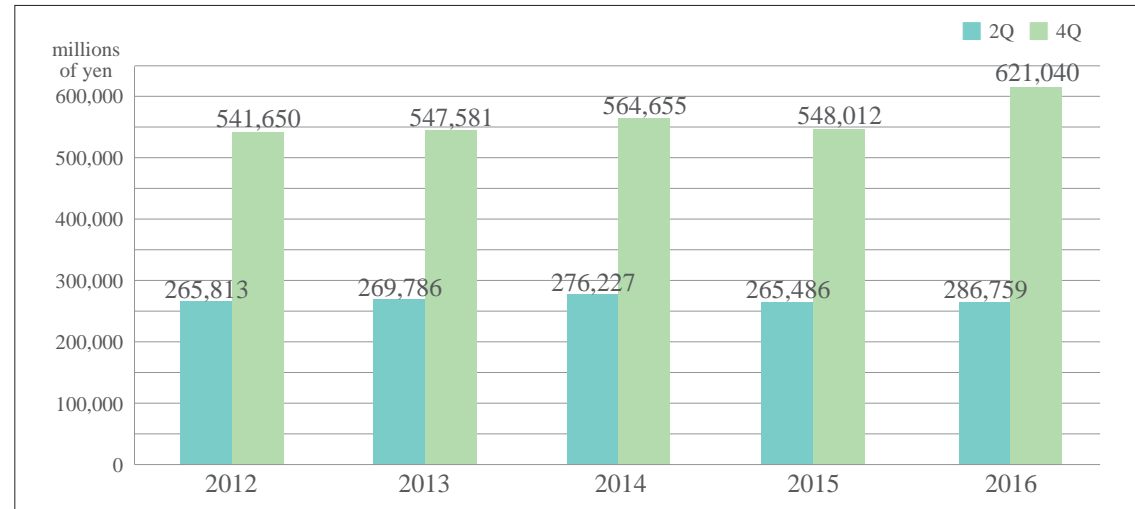
*The percentage has been calculated, by self-shareholding, excluding one from number of stockholders and own treasury stock (3,080thousand shares) from the total number of issued shares.

Memo

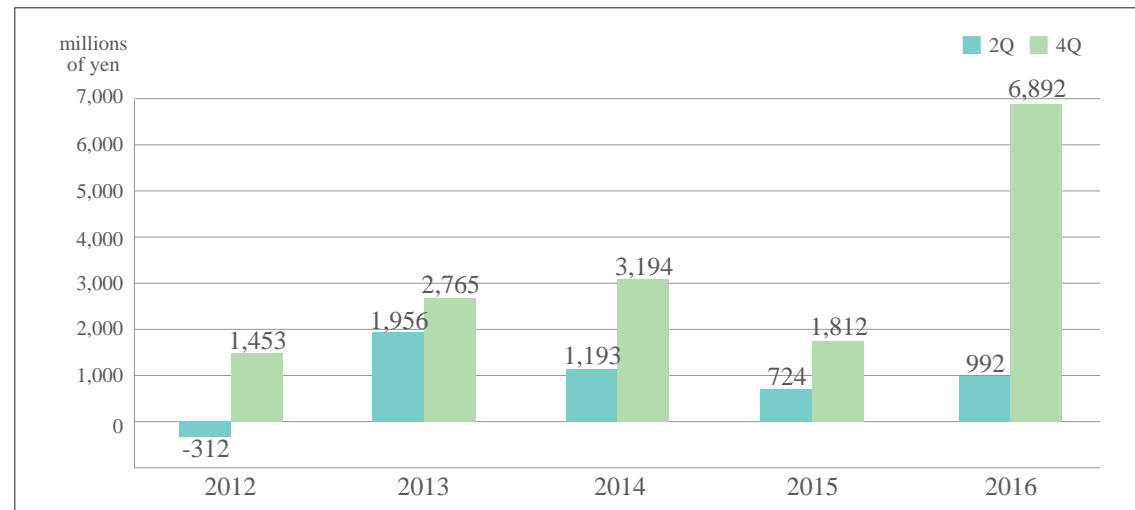
Fiscal year	Until March 31 of the following year from April 1 every year	
Annual meeting of shareholders	Held in June every year	
Reference date	Annual meeting of shareholders	March 31 every year
	Year-end dividend	March 31 every year
	Interim dividend	September 30 every year
	If it is necessary, the day on which it was determined in prior public notice	
Shareholder registry administrator and Special account management institution	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited.	
Shareholder registry administrator	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited.	
Mailing address	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063 Simitomo Mitsui Trust Bank, Ltd Stock Transfer Agency Department	
Telephone referrals	0120-782-031	
URL	http://www.smtb.jp/personal/agency/index.html	
Way of public notice	Electronic public notice http://www.vitalsk.co.jp/ir/kouoku.html However, it is not possible due to electronic public notice, if unavoidable circumstances occurs, it is published in the Nihon Keizai Shimbun.	

Financial Highlights

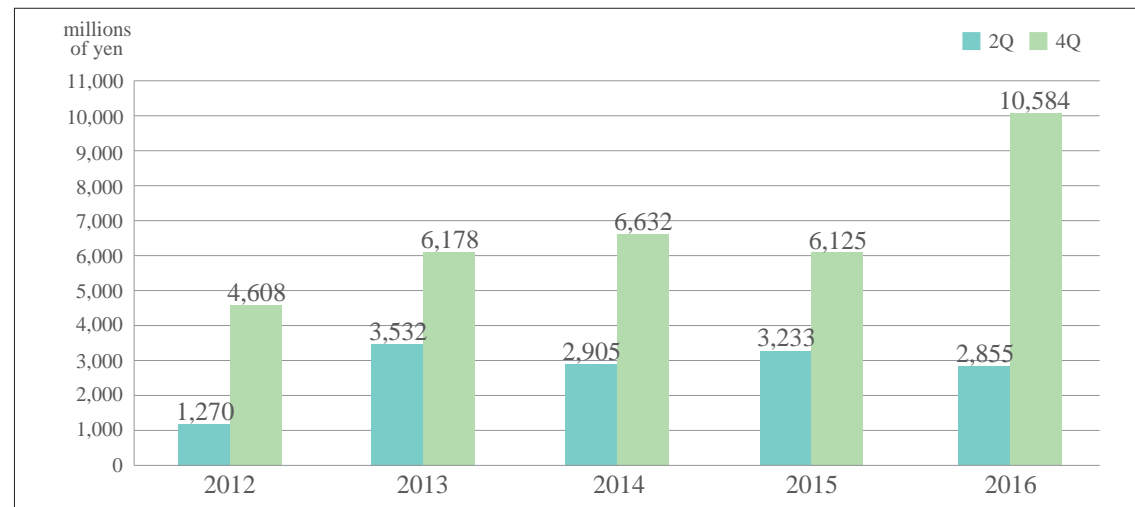
Net Sales



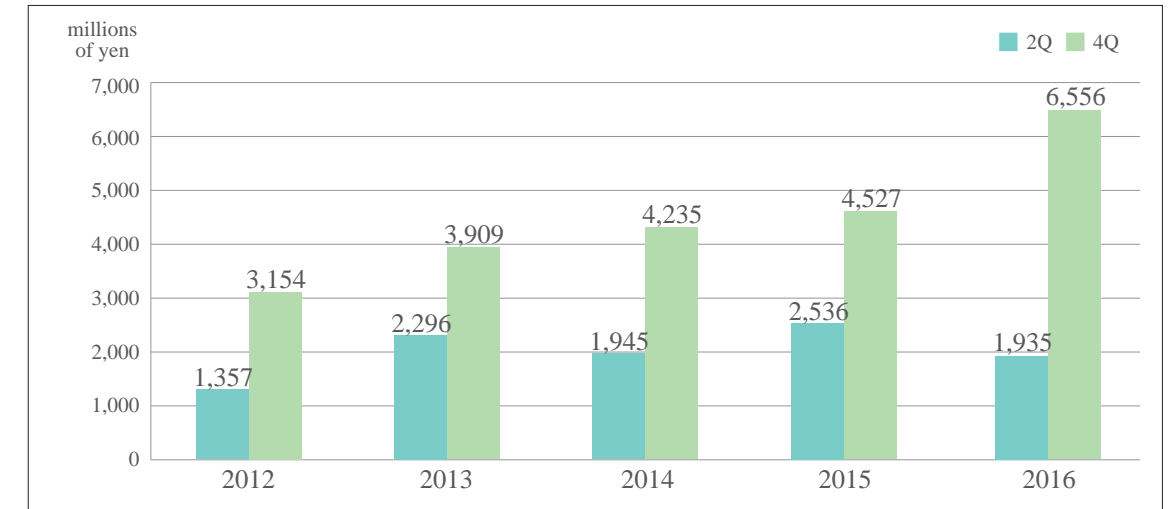
Operating Income



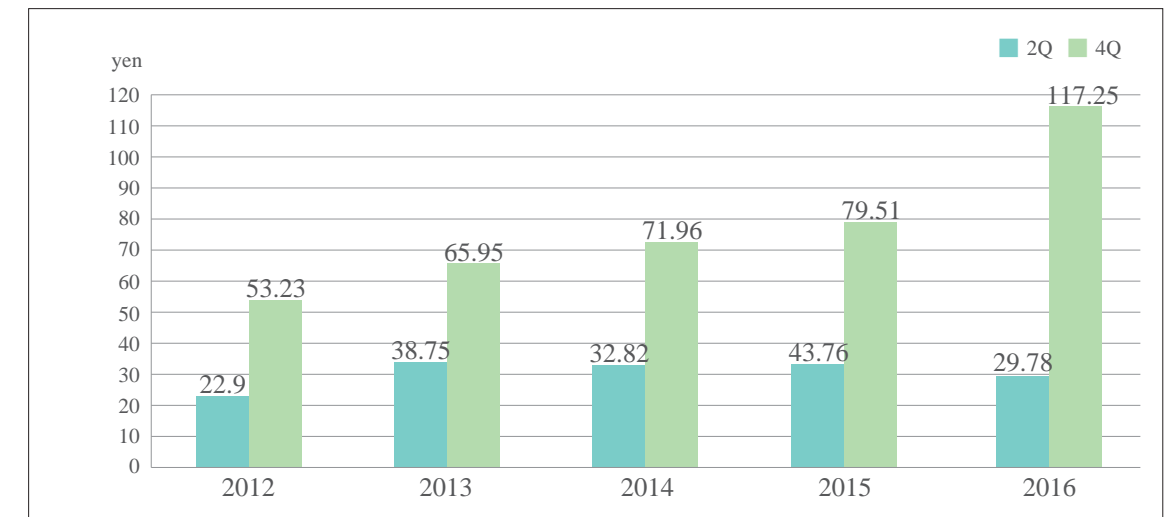
Ordinary Income



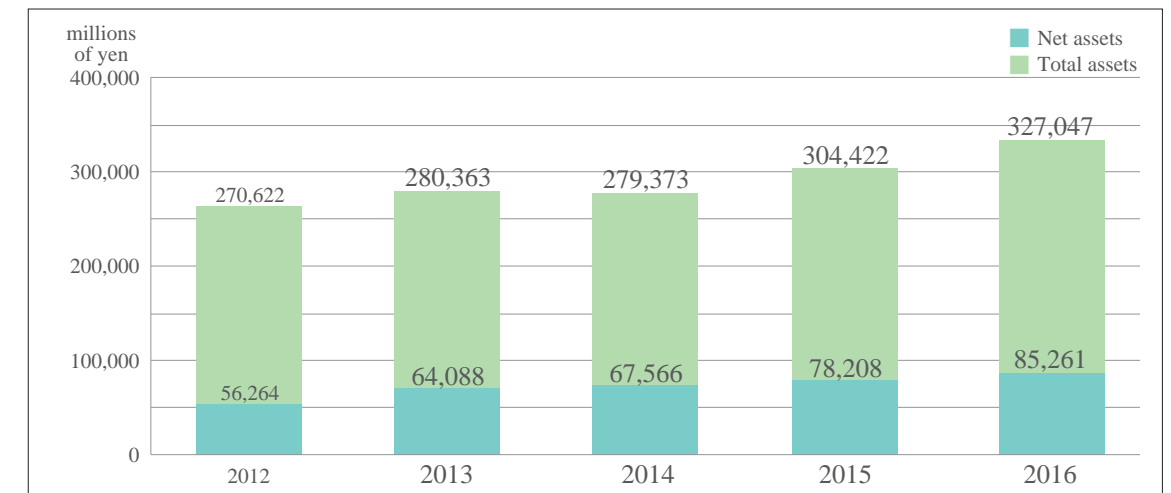
Net Income



Net Income per share



Net assets and Total assets



Consolidated Balance Sheets

(Million yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	35,368	26,741
Notes and accounts receivable - trade	123,659	148,131
Inventories	27,811	30,338
Deferred tax assets	1,003	1,360
Accounts receivable - other	14,159	16,715
Other	731	986
Allowance for doubtful accounts	(380)	(375)
Total current assets	202,355	223,898
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,152	40,499
Accumulated depreciation	(23,312)	(24,288)
Buildings and structures, net	16,839	16,210
Machinery, equipment and vehicles	1,219	983
Accumulated depreciation	(958)	(696)
Machinery, equipment and vehicles, net	261	286
Land	16,852	17,615
Leased assets	4,987	4,803
Accumulated depreciation	(2,773)	(3,040)
Leased assets, net	2,214	1,762
Construction in progress	255	-
Other	3,087	3,118
Accumulated depreciation	(2,525)	(2,451)
Other, net	562	667
Total property, plant and equipment	36,987	36,542
Intangible assets		
Goodwill	4817	4,538
Software	759	3,387
Other	1,590	214
Total intangible assets	7,167	8,139
Investments and other assets		
Investment securities	46,697	47,423
Long-term loans receivable	497	501
Net defined benefit asset	3,767	3,648
Deferred tax assets	149	144
Other	8,099	7,947
Allowance for doubtful accounts	(1,299)	(1,200)
Total investments and other assets	57,912	58,466
Total non-current assets	102,066	103,149
Total assets	304,422	327,047

(Million yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	181,483	197,057
Short-term loans payable	1,050	1,350
Current portion of long-term loans payable	1,064	1,044
Income taxes payable	869	2,984
Provision for sales returns	178	240
Provision for bonuses	1,804	1,823
Other	3,811	5,001
Total current liabilities	190,260	209,500
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	10,045	10,037
Long-term loans payable	3,280	2,236
Lease obligations	1,699	1,090
Deferred tax liabilities	9,602	9,476
Provision for directors' retirement benefits	212	177
Net defined benefit liability	7,703	6,622
Negative goodwill	2,947	2,210
Other	461	433
Total non-current liabilities	35,953	32,285
Total liabilities	226,214	241,786
Net assets		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	12,675	12,702
Retained earnings	40,863	46,413
Treasury shares	(4,060)	(3,722)
Total shareholders' equity	54,478	60,394
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,005	21,939
Remeasurements of defined benefit plans	2,286	2,428
Total accumulated other comprehensive income	23,292	24,367
Non-controlling interests	437	499
Total net assets	78,208	85,261
Total liabilities and net assets	304,422	327,047

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2015	For the fiscal year ended March 31 2016
Net sales	548,012	621,040
Cost of sales	506,453	572,031
Gross profit	41,559	49,009
Reversal of provision for sales returns	173	178
Provision for sales returns	178	240
Gross profit - net	41,554	48,947
Selling, general and administrative expenses	39,742	42,054
Operating income	1,812	6,892
Non-operating income		
Interest income	150	145
Dividend income	876	835
Share of profit of entities accounted for using equity method	836	144
Rent income	115	154
Office work fee	1,430	1,512
Amortization of negative goodwill	736	736
Other	369	321
Total non-operating income	4,515	3,849
Non-operating expenses		
Interest expenses	46	43
Rent expenses	89	84
Other	24	30
Total non-operating expenses	202	158
Ordinary income	6,125	10,584
Extraordinary income		
Gain on sales of non-current assets	1	5
Gain on sales of investment securities	506	26
Reversal of allowance for doubtful accounts	38	31
Insurance income	162	-
Compensation income	93	138
Other	81	0
Total extraordinary income	881	201
Extraordinary losses		
Loss on sales of non-current assets	0	3
Impairment loss	579	443
Loss on valuation of investment securities	-	104
Other	37	58
Total extraordinary losses	616	610
Income before income taxes	6,390	10,174
Income taxes - current	1,617	3,609
Income taxes - deferred	200	(56)
Total income taxes	1,817	3,553
Net income	4,572	6,620
Net income attributable to non-controlling interests	45	64
Net income attributable to owners of parent	4,527	6,556

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31,2015	For the fiscal year ended March 31,2016
Profit	4,572	6,620
Other comprehensive income		
Valuation difference on available-for-sale securities	7,904	782
Share of other comprehensive income of entities accounted for using equity method	457	157
Remeasurements of defined benefit plans, net of tax	1,873	135
Total other comprehensive income	10,236	1,075
Comprehensive income	14,809	7,696
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	14,764	7,632
Comprehensive income attributable to non-controlling interests	45	64

VITAL-NET, INC. and KSK CO. LTD have endured The Great East Japan Earthquake of 2011 and The Han-Shin Awaji Earthquake of 1995 respectively. Through first-hand experience of enduring these two major natural disasters, both companies have implemented strong countermeasures for damage resistance. With these countermeasures and the merging of the core systems (January 2016) of both companies, operation efficiency of everyday tasks has improved, and support capabilities at times of natural calamities has been enhanced.

VITAL-NET, INC.

Cooperation Agreement on Disaster Management

VITAL-NET, INC. has entered a cooperation agreement with Taiwa Town, Tomiya Town, and Natori City of Miyagi Prefecture. The purpose of this agreement is for swift and efficient support by providing resources and facilities to each municipality at occurrences of natural disasters. Resources include medication, sanitary products, and other products that VITAL-NET, INC. can provide. Facilities include affiliated lodging accommodations, gymnasiums, baseball fields, and parking lots



Integration of Core Systems

- 2010**
The mainframes of VN and KSK’s core system were merged together for management integration.
- 2013**
Core systems integration initiated for the following reasons:
 - 1) management speed and cost reduction.
 - 2) front-line based competitiveness enhancement.
- 2015 May**
VN core system integration complete.
- 2016 January**
KSK core system integration complete.

The integrated system is not only for enhanced efficiency of daily operations, but also for countermeasures for any calamities. It creates daily backups and incorporates Business Continuation (BC) and Disaster Recovery (DR) systems for smooth recovery.



KSK CO. LTD.

KFC (KSK Flexible Call Center) Implementation

For the purpose of customer satisfaction and operation efficiency, KSK has implemented a call center system for forwarding calls when processing orders. An operator training room has been set up at the Kobe branch for quality improvement and efficient distribution of order receiving operations. Beginning with the Kobe branch, this system will be implemented into other branches to improve our order processing services.

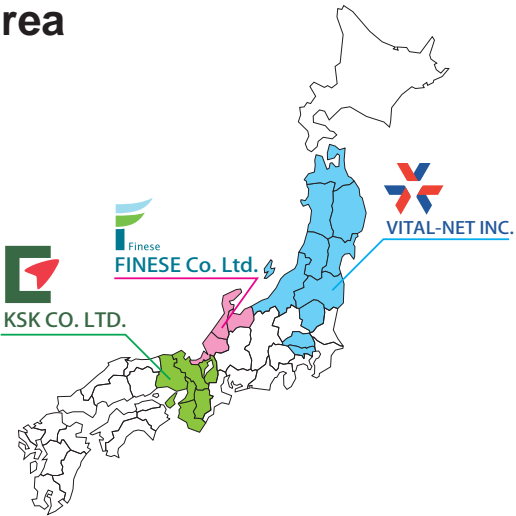


Participation in Hyogo/Harima wide area joint training

In August 2015, KSK Co. Ltd. participated as a provider of emergency medication in the joint training sponsored by Hyogo Prefecture and Harima City. The training was conducted on the assumption of “a major earthquake on the Yamazaki fault line” where 150 institutes (approx. 4000 people) had participated. The training consisted of realistic simulations, such as deployment of the Disaster Medical Assistance Team and Staging Care Unit, admittance of critical condition victims, and wide area medical evacuation. In such life threatening situations, sustainable flow of medications determines life or death. From this training we have reconfirmed the importance of our role, and wish to continue contributing to society as a reliable medical provider.



Group sales area





About VITAL KSK

Company Name	: VITAL KSK HOLDINGS, INC.
Capital	: 5,000,000,000 JPY
Head Office	: 1-9-12, Nihonbashi Muromachi Chuoku, Tokyo
Telephone	: +81 3 3275 3303
Website	: http://www.vitalksk.co.jp
Founded	: April 1, 2009
Stock Exchange Listings	: First Section of the Tokyo Stock Exchange (stock code 3151)