

**Summary of Consolidated Financial Results for the Second Quarter
of the Fiscal Year Ending March 31, 2022
(Six Months Ended September 30, 2021)**

[Japanese GAAP]

Company name: NIHON CHOUZAI Co., Ltd. Listing: Tokyo Stock Exchange, First Section
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 Scheduled date of filing of Quarterly Report: November 12, 2021
 Scheduled date of payment of dividend: December 6, 2021
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

Note: The original disclosure in Japanese was released on October 29, 2021 at 15:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2022

(April 1, 2021 – September 30, 2021)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2021	146,202	7.5	2,416	(12.9)	2,528	(5.1)	1,340	(13.8)
Six months ended Sep. 30, 2020	135,999	4.4	2,774	(31.8)	2,665	(33.4)	1,555	(25.7)

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2021: 1,351 (down 13.8%)
 Six months ended Sep. 30, 2020: 1,566 (down 25.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep 30, 2021	44.71	—
Six months ended Sep. 30, 2020	51.89	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Sep. 30, 2021	184,363	50,844	27.6
As of Mar. 31, 2021	186,262	49,868	26.8

Reference: Shareholders' equity (million yen) As of Sep. 30, 2021: 50,844 As of Mar. 31, 2021: 49,868

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended Mar. 31, 2021	—	12.50	—	12.50	25.00
Fiscal year ending Mar. 31, 2022	—	12.50	—	—	—
Fiscal year ending Mar. 31, 2022 (forecasts)	—	—	—	12.50	25.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	294,600	5.6	7,000	(13.6)	7,000	(16.8)	4,000	13.0	133.39

Note: Revisions to the most recently announced consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock shares)

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

As of Sep. 30, 2021:	32,048,000 shares	As of Mar. 31, 2021:	32,048,000 shares
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2) Number of treasury shares at the end of period

As of Sep. 30, 2021:	2,061,135 shares	As of Mar. 31, 2021:	2,061,074 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2021:	29,986,886 shares	Six months ended Sep. 30, 2020:	29,987,100 shares
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Note 1: The quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

(1) Note concerning forward-looking statements

Forecasts and other forward-looking statements in this document incorporate risks and uncertainties because these statements are based on Nihon Chouzai's judgments and assumptions using information that is currently available. These materials are not promises by Nihon Chouzai regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

(2) How to view supplementary materials for financial results

Nihon Chouzai plans to hold an information meeting for institutional investors and analysts regarding results of operations on November 5, 2021. Materials distributed at this event will also be disclosed, using the Timely Disclosure network (TDnet), and available on the Nihon Chouzai website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The Japanese economy continued to be affected by the COVID-19 pandemic in the first six months of the current consolidated fiscal year (April 2021–September 2021). With record high new infections reported in August, consumer spending remained sluggish and companies continued to curtail their activities. On the other hand, vaccinations and other measures are progressing, and although there are signs of a recovery due to the effects of various government policies and improvements in the global economy, the outlook remains uncertain given the risks of a downturn stemming from a resurgence in COVID-19 cases.

In this economic environment, keenly aware of our role as a medical institution tasked with supporting medical care in our communities, our Group undertook thorough infection prevention measures in our pharmacies while continuing to offer quality medical care. We are also taking ongoing steps to rein in costs across the Group to improve profitability.

In the Dispensing Pharmacy Business, we have been working on the rapidly advancing digital transformation movement in the medical field ahead of our peers, and to further accelerate our efforts to achieve our long-term vision, we announced our Digital Transformation Strategy (DX Strategy) in August 2021. As part of executing this strategy, we are promoting the digital management of business processes and the improvement of operational efficiency by introducing JP-Dream, a cloud service designed to support multi-store pharmacy operation reforms. In addition, we have introduced FINDAT, a drug information (DI) platform to support DI operations at hospitals and pharmacies, not only at our dispensing pharmacies but also at medical institutions and educational institutions nationwide, where it has been highly evaluated. To further expand this business, we have concluded an agency sales contract for medical institutions with Medical Data Vision Co., Ltd. In addition, as part of our ongoing efforts to bring the COVID-19 pandemic under control as quickly as possible, we began offering the “SoeRTes” (from “social testing”) PCR testing to companies and organizations. In August, we introduced PCR testing that can identify Delta and other variants and also started handling antigen test kits.

In the Pharmaceutical Manufacturing and Sales Business, we utilized synergies with other group businesses, as well as invested in R&D to expand our catalog of in-house manufactured product offerings, including newly NHI listed drugs, and worked on improving productivity. In addition, we began discussions on bringing non-operational areas online to further expand production capacity at the Tsukuba No. 2 Plant, which has been expanding production volume at a compound annual growth rate of over 70% since commencing operations in 2018. On the other hand, an administrative disciplinary action was imposed on our subsidiary Choseido Pharmaceutical Co., Ltd. by Tokushima Prefecture on October 11, 2021, based on the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. We take this administrative disciplinary action very seriously. In addition to the steady implementation of the business improvement plan by Choseido Pharmaceutical Co., Ltd., we work together as a group to prevent any recurrence and improve quality control.

In the Medical Professional Staffing and Placement Business, although the pandemic continued to have a constraining effect on temporary pharmacist staffing, placements of physicians were up, driven by growth in demand for personnel to help carry out the vaccination effort.

Net sales for the first six months of the current consolidated fiscal year were 146,202 million yen (+7.5% YoY), operating profit was 2,416 million yen (-12.9% YoY), ordinary profit was 2,528 million yen (-5.1% YoY), and profit attributable to owners of the parent was 1,340 million yen (-13.8% YoY).

The Group will continue to make every effort to prevent the spread of COVID-19 and provide high-quality medical care to ensure that patients and customers can use our services with peace of mind.

Segment-specific earnings are as indicated below.

1) Dispensing Pharmacy Business

In the first six months of the current consolidated fiscal year, the Dispensing Pharmacy Business reported net sales of 128,749 million yen (+8.9% YoY) and operating profit of 5,041 million yen (+39.1% YoY).

The total number of pharmacies at the end of September came to 685 stores (including one merchandise store) as a result of 20 new store openings and 5 store closures during the period.

Both net sales and operating profit were up on the back of higher year-on-year prescription volumes and drug fee revenue, as well as contribution of pharmacies launched the previous fiscal year.

Generic pharmaceuticals represented 88.2% of the Group's total pharmaceutical usage in volume terms as of the end of September. Pharmacies performing at-home medical care (12 or more home visits per year) has steadily increased, now standing at 92.0%.

2) Pharmaceutical Manufacturing and Sales Business

In the first six months of the current consolidated fiscal year, the Pharmaceutical Manufacturing and Sales Business reported net sales of 23,669 million yen (+3.8% YoY) and operating profit of 195 million yen (-83.2% YoY).

Net sales increased mainly due to strong sales of drugs newly NHI listed in 2019, 2020 and June 2021, despite a drop in selling prices of existing drugs due to the NHI price revision in April 2021. Operating profit fell significantly due to the impact of the product recall and manufacturing delays resulting from a series of issues at Choseido Pharmaceutical Co., Ltd., which more than offset our cost reduction efforts, profitability-focused sales approach, and continued sales expansion of in-house manufactured products including new NHI-listed drugs.

The Company had launched 12 newly listed items during the first six months of the fiscal year under review, bringing the lineup of drugs to 673 items (including 2 over-the-counter drugs) at the period-end.

3) Medical Professional Staffing and Placement Business

In the first six months of the current consolidated fiscal year, the Medical Professional Staffing and Placement Business reported net sales of 3,648 million yen (-27.4% YoY) and operating profit of 440 million yen (-36.7% YoY). The decline in sales reflects the ongoing constraining effect of the pandemic on temporary pharmacist staffing. The drop in operating profit was attributable to sluggish demand for temporary pharmacist staffing, which more than offset the increase in physician placements driven by higher demand for physicians to help carry out the vaccination effort.

(2) Explanation of Financial Position

Total assets at the end of the first half of the current consolidated fiscal year came to 184,363 million yen, a decrease of 1.0%, or 1,899 million yen, from 186,262 million yen at the end of the fiscal year ended March 2021. Growth in assets was mainly due to a decrease in cash and deposits.

Total liabilities were 133,518 million yen, a decrease of 2.1%, or 2,875 million yen, from 136,394 million yen at the end of the previous fiscal year. This was mainly due to a decrease in Long-term loans payable.

Total net assets were 50,844 million yen, an increase of 976 million yen from 49,868 million yen at the end of the previous fiscal year. As a result, the equity ratio came to 27.6%.

(Cash Flows)

Cash flows during the first half of the consolidated fiscal year were as follows. Net cash provided by operating activities was 10,718 million yen, net cash used in investing activities 4,993 million yen, and net cash used in financing activities 10,861 million yen. As a result, the quarterly balance for cash and cash equivalents was 27,758 million yen, a decrease of 5,135 million yen compared to the end of the previous consolidated fiscal year.

For cash flows from operating activities, major income factors include 7,140 million yen increase in trade payables while major expenditure factors include 5,685 million yen in increased inventories.

For cash flows from investing activities, major expenditure factors include expenditures of 3,180 million yen for the purchase of property, plant and equipment. This is mainly comprised of investments in fixtures and equipment for existing stores and new store openings in the dispensing pharmacy business.

For cash flows from financing activities, major income factors include income of 10,683 million yen from long-term loans payable.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

We have conducted a revision to figures indicated in the consolidated earnings forecast for the fiscal year ending March 31, 2022 released on April 30, 2021.

For details, please refer to the “Notice of Revisions to Full-year Consolidated Earnings Forecast” released today (October 29, 2021).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY3/21 (As of Mar. 31, 2021)	Second quarter of FY3/22 (As of Sep. 30, 2021)
Assets		
Current assets		
Cash and deposits	32,893	27,758
Notes receivable-trade	80	42
Accounts receivable-trade	21,050	—
Accounts receivable-trade and contract assets	—	18,969
Electronically recorded monetary claims-operating	831	408
Merchandise and finished goods	23,139	28,740
Work in process	1,413	1,425
Raw materials and supplies	6,174	6,347
Other	3,668	3,402
Allowance for doubtful accounts	(6)	(6)
Total current assets	89,246	87,088
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	29,566	29,290
Land	14,198	14,136
Construction in progress	1,649	1,328
Other, net	19,370	19,627
Total property, plant and equipment	64,785	64,383
Intangible assets		
Goodwill	16,508	16,233
Other	2,443	2,675
Total intangible assets	18,952	18,909
Investments and other assets		
Investment securities	16	16
Leasehold and guarantee deposits	8,288	8,636
Other	4,972	5,329
Total investments and other assets	13,277	13,982
Total non-current assets	97,015	97,275
Total assets	186,262	184,363

	(Millions of yen)	
	FY3/21 (As of Mar. 31, 2021)	Second quarter of FY3/22 (As of Sep. 30, 2021)
Liabilities		
Current liabilities		
Accounts payable-trade	44,044	51,130
Electronically recorded obligations-operating	2,742	2,970
Current portion of long-term loans payable	27,966	26,766
Income taxes payable	884	1,700
Provision for bonuses	3,602	3,977
Provision for bonuses for directors (and other officers)	46	5
Other	8,434	7,379
Total current liabilities	87,720	93,931
Non-current liabilities		
Long-term loans payable	42,997	34,014
Provision for retirement benefits for directors (and other officers)	199	64
Retirement benefit liability	2,153	2,260
Other	3,323	3,247
Total non-current liabilities	48,673	39,587
Total liabilities	136,394	133,518
Net assets		
Shareholders' equity		
Share capital	3,953	3,953
Capital surplus	10,926	10,926
Retained earnings	38,551	39,517
Treasury shares	(3,500)	(3,500)
Total shareholders' equity	49,931	50,897
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	(63)	(52)
Total accumulated other comprehensive income	(63)	(52)
Total net assets	49,868	50,844
Total liabilities and net assets	186,262	184,363

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**(Quarterly Consolidated Statement of Income)****(For the Six-month Period)**

(Millions of yen)

	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Net sales	135,999	146,202
Cost of sales	112,726	121,007
Gross profit	23,272	25,194
Selling, general and administrative expenses	20,498	22,778
Operating profit	2,774	2,416
Non-operating income		
Commission income	16	18
Rental income	219	247
Compensation income	51	—
Insurance Income	—	132
Subsidy Income	—	30
Other	75	204
Total non-operating income	363	634
Non-operating expenses		
Interest expenses	162	156
Rent expenses	166	188
Other	143	176
Total non-operating expenses	473	522
Ordinary profit	2,665	2,528
Extraordinary income		
Gain on sales of non-current assets	373	5
Reversal of provision for retirement benefits for directors (and other officers)	—	46
Total extraordinary income	373	52
Extraordinary losses		
Loss on abandonment of non-current assets	375	—
Impairment loss	—	228
Loss on sales of non-current assets	0	—
Total extraordinary losses	375	228
Profit before income taxes	2,662	2,352
Income taxes-current	988	1,422
Income taxes-deferred	118	(409)
Total income taxes	1,106	1,012
Profit	1,555	1,340
Profit attributable to owners of parent	1,555	1,340

(Quarterly Consolidated Statement of Comprehensive Income)**(For the Six-month Period)**

(Millions of yen)

	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Profit	1,555	1,340
Other comprehensive income		
Remeasurements of defined benefit plans, net of tax	10	10
Total other comprehensive income	10	10
Comprehensive income	1,566	1,351
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,566	1,351

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Cash flows from operating activities		
Profit before income taxes	2,662	2,352
Depreciation	3,064	3,162
Impairment loss	—	228
Amortization of goodwill	868	898
Increase (decrease) in allowance for doubtful accounts	(0)	0
Increase (decrease) in provision for bonuses	365	374
Increase (decrease) in provision for bonuses for directors (and other officers)	(70)	(40)
Increase (decrease) in retirement benefit liability	90	104
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(292)	(134)
Interest and dividend income	(0)	(0)
Interest expenses	162	156
Loss (gain) on sales of non-current assets	(372)	(5)
Decrease (increase) in trade receivables	2,903	2,673
Decrease (increase) in inventories	(4,847)	(5,685)
Increase (decrease) in trade payables	2,496	7,140
Increase (decrease) in accounts payable-other	(54)	(693)
Other, net	(84)	1,152
Subtotal	6,891	11,686
Interest and dividends received	0	0
Interest paid	(114)	(113)
Income taxes paid	(4,343)	(853)
Net cash provided by (used in) operating activities	2,434	10,718
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,750)	(3,180)
Proceeds from sales of property, plant and equipment	958	72
Purchase of intangible assets	(344)	(634)
Purchase of long-term prepaid expenses	(61)	(71)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(597)
Payments for acquisition of businesses	(841)	(178)
Payments of loans receivable	(0)	—
Collection of loans receivable	43	43
Payments of leasehold and guarantee deposits	(230)	(500)
Proceeds from refund of leasehold and guarantee deposits	89	76
Other, net	(20)	(23)
Net cash provided by (used in) investing activities	(3,158)	(4,993)

(Millions of yen)

	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)	First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(100)	—
Proceeds from long-term loans payable	8,000	500
Repayments of long-term loans payable	(8,122)	(10,683)
Purchase of treasury shares	(0)	(0)
Dividends paid	(374)	(374)
Other, net	(284)	(303)
Net cash provided by (used in) financing activities	(882)	(10,861)
Net increase (decrease) in cash and cash equivalents	(1,606)	(5,135)
Cash and cash equivalents at beginning of period	32,254	32,893
Cash and cash equivalents at end of period	30,647	27,758

(4) Notes to Quarterly Consolidated Financial Statements

Going-concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Change in Accounting Policy

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020; hereinafter referred to as the “Accounting Standard for Revenue Recognition”) and other standards with effect from the beginning of the first quarter ended June 30, 2021, and recognizes revenue when the control of the promised goods or services is transferred to the customer at the amount that the Company expects to receive in exchange for such goods or services. As a result, there is no impact on profit and loss for the first half of the current fiscal year. There is also no effect on the balance of retained earnings at the beginning of the period.

With the application of the Accounting Standard for Revenue Recognition, etc., “Accounts receivable-trade” presented under “Current assets” in the consolidated balance sheet for the fiscal year ended March 31, 2021 is included in and presented as part of “Accounts receivable-trade and contract assets” with effect from the first quarter ended June 30, 2021. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Accounting Standard for Revenue Recognition, the amounts reported in the fiscal year ended March 31, 2021 are not reclassified using the new presentation method.

(Application of Accounting Standard for Fair Value Measurement)

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.30, July 4, 2019; hereinafter, “Fair Value Accounting Standards”) and others from April 1, 2021. In accordance with the transitional treatment set forth in Article 19 of Fair Value Accounting Standards and Article 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, July 4, 2019), the Company has applied prospectively a new accounting policy prescribed by Fair Value Accounting Standards and others. This has no effect on the quarterly consolidated financial statement.

Segment and Other Information

Segment information

I. First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)

1. Information related to net sales, profit or loss for each reportable segment (Millions of yen)

	Reportable segment				Adjustment (Note)	Amounts shown on quarterly consolidated statement of income
	Dispensing pharmacy business	Pharmaceutical manufacturing and sales business	Medical professional staffing and placement business	Total		
Net sales						
(1) External sales	118,236	12,771	4,992	135,999	—	135,999
(2) Inter-segment sales and transfers	—	10,041	32	10,073	(10,073)	—
Total	118,236	22,812	5,025	146,073	(10,073)	135,999
Segment profit (loss)	3,624	1,163	696	5,484	(2,709)	2,774

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The negative adjustment of 2,709 million yen to segment profit (loss) includes eliminations of minus 79 million yen for inter-segment transactions and corporate expenses of minus 2,629 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

2. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Not applicable.

II. First six months of FY3/22 (Apr. 1, 2021 – Sep. 30, 2021)

1. Information related to net sales, profit or loss for each reportable segment (Millions of yen)

	Reportable segment				Adjustment (Note)	Amounts shown on quarterly consolidated statement of income
	Dispensing pharmacy business	Pharmaceutical manufacturing and sales business	Medical professional staffing and placement business	Total		
Net sales						
(1) External sales	128,749	13,809	3,642	146,202	—	146,202
(2) Inter-segment sales and transfers	—	9,859	5	9,864	(9,864)	—
Total	128,749	23,669	3,648	156,067	(9,864)	146,202
Segment profit (loss)	5,041	195	440	5,677	(3,260)	2,416

Note: Total segment sales and segment profit have been adjusted to be consistent with net sales and operating profit shown on the quarterly consolidated statement of income, respectively. The negative adjustment of 3,260 million yen to segment profit (loss) includes eliminations of minus 63 million yen for inter-segment transactions and corporate expenses of minus 3,197 million yen. General and administrative expenses that do not belong to any reportable segment are the primary component of corporate expenses.

2. Information related to impairment losses on non-current assets or goodwill, etc. for each reportable segment

Impairment losses related to non-current assets

In the dispensing pharmacy business segment, there was an impairment loss of 228 million yen for store assets (five pharmacies).

Significant change in goodwill

Not applicable.

This summary report is solely a translation of “Kessan Tanshin” (in Japanese, including the attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.