Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2014

[Japan GAAP] (Consolidated)

November 28, 2013

Name of listed company:	**AIN PHARMACIEZ INC.**		
Exchange listed on:	First Section of Tokyo Stock Exchange and Sapporo Securities Exchange		
Code number:	9627	URL:	http://www.ainj.co.jp/
Representative:	Kiichi Otani, President and Representative Director		
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Date of filing quarterly securities report: December 13, 2013
Start of dividend payment: –
Supplementary documents for quarterly results: Yes
Quarterly results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the second quarter of fiscal year ending April 30, 2014 (May 1, 2013 to October 31, 2013)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended October 31, 2013	83,024	10.6	5,012	19.1	5.163	15.9	2,899	35.6
Six months ended October 31, 2012	75,090	9.1	4,209	(12.0)	4,454	(8.6)	2,137	(9.6)

(Note) Comprehensive income: Six months ended October 31, 2013: ¥2,881 million (+34.1%)
Six months ended October 31, 2012: ¥2,148 million (-5.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended October 31, 2013	181.89	–
Six months ended October 31, 2012	134.10	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of October 31, 2013	99,985	40,281	40.2	2,524.37
As of April 30, 2013	95,839	38,356	40.0	2,403.43

(Reference) Shareholders' equity: As of October 31, 2013: ¥40,240 million As of April 30, 2013: ¥38,312million

2. Dividends

Record date	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2013	–	0.00	–	60.00	60.00
Year ending April 30, 2014	–	0.00			
Year ending April 30, 2014 (forecast)			–	60.00	60.00

(Note) Revision to the most recently announced dividend forecasts: No

3. Consolidated financial forecasts for the fiscal year ending April 30, 2014 (May 1, 2013 to April 30, 2014)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	172,000	11.3	11,280	16.3	11,650	13.2	6,000	18.2	376.31

(Note) Revision to the most recently announced consolidated financial forecasts: No

*Notes

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No
Newly consolidated: – Excluded: –

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements: Yes
(Note) For detail, please refer to "2. Matters concerning summary information (notes) (2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements" on page 3 of the Attachment.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions
1) Changes in accounting principles as a result of revisions to accounting standards, etc.: No
2) Changes in accounting principles other than 1): No
3) Changes in accounting estimates: No
4) Restatement of revisions: No

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

1) Number of outstanding shares (including treasury stock):	As of October 31, 2013	15,944,106 shares	As of April 30, 2013	15,944,106 shares
2) Number of shares held in treasury:	As of October 31, 2013	3,416 shares	As of April 30, 2013	3,366 shares
3) Average number of shares outstanding:	Six months ended October 31, 2013	15,940,707 shares	Six months ended October 31, 2012	15,940,748 shares

*Status of execution of the quarterly review of financial statements

This quarterly financial summary is not subject to the quarterly review procedure based on the Financial Instruments and Exchange Act. As of the time of disclosure, this review procedure for quarterly financial statements had not been completed.

*Statement regarding the proper use of financial forecasts and other special remarks

The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

Contents

1. Qualitative information on consolidated results for the period under review

(1) Consolidated operating results

During the first six months of the current fiscal year (May 1, 2013 to October 31, 2013), the Japanese economy recovered steadily, albeit at a moderate pace. Corporate earnings improved and capital investment and consumer spending showed signs of a pickup.

In this economic environment, the AIN PHARMACIEZ Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A. It also pushed ahead with the comprehensive development of medical malls and opened urban drug and cosmetic stores.

AIN PHARMACIEZ INC. has been constructing a new head office building in Shiroishi-ku, Sapporo City to respond to business expansion. On November 11, 2013, the Company moved its head office to the new building.

In the first six months of the fiscal year, net sales rose 10.6% year on year to ¥83,024 million, operating income increased 19.1% to ¥5,012 million, ordinary income grew 15.9% to ¥5,163 million, and net income increased 35.6% to ¥2,899 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In the dispensing pharmacy business, sales at existing dispensing pharmacies increased, supported by growth in average sales per prescription due to an increase in longer-term prescriptions.

New pharmacies opened since the previous fiscal year are having a positive impact on earnings. Medical mall dispensing pharmacies are performing well due to a firmer footing in local markets, and this is being complemented by stable earnings from specialist dispensing pharmacies near hospitals.

Also, in order to improve the profitability of existing dispensing pharmacies, the business pushed ahead with a new project to revitalize its pharmacies. This project encourages dispensing pharmacy personnel to think for themselves, without being bound by existing rules, in order to assess and rebuild all processes in dispensing pharmacy operations on a pharmacy by pharmacy basis. This approach has already yielded results at various types of dispensing pharmacies in the Group.

We aim to deliver further benefits by sharing and extending these operational improvements at individual pharmacies to all parts of the Group.

As a result, for the first six months of the fiscal year, the dispensing pharmacy business reported sales and profit growth, with sales rising 11.0% year on year to ¥73,954 million and segment income increasing 12.6% to ¥6,400 million.

During the period under review, the Group opened 30 new dispensing pharmacies, including those acquired through M&A deals, and transferred one dispensing pharmacy, resulting in a total of 589.

(Drug and cosmetic store business)

In the drug and cosmetic store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors, as well as changes in the business environment for online sales of OTC drugs.

Against this backdrop, the Group continued to open stores under its specialist, highly original drug and cosmetic store brand, *ainz & tulpe*, particularly in urban areas with high customer traffic.

With *ainz & tulpe*, the Group is aiming to boost the sales capabilities and improve the profitability of each store. These efforts include reinforcing merchandise lineups to tailor them to each retail area and location, and upgrading sales promotion methods using communication apps such as LINE.

As a result, for the first six months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 6.4% year on year to ¥8,736 million. However, segment income declined 84.1% to ¥4 million.

During the period under review, there were no new store openings. However, three stores were closed in Sapporo City, mainly in suburban locations, resulting in a Group total of 58 stores.

(Other businesses)

Net sales and segment loss from other businesses were ¥333 million and ¥252 million, respectively.

(2) Consolidated financial position

The balance of total assets at the end of the second quarter increased by ¥4,145 million from the end of the previous fiscal year to ¥99,985 million.

This mainly reflected an increase in inventories, other accounts receivable, property, plant and equipment such as land and buildings and goodwill, due to the Group's business expansion through new store openings and M&A deals.

The balance of liabilities rose ¥2,220 million to ¥59,704 million, mainly reflecting an increase in accounts payable.

The balance of long- and short- term debt decreased by ¥2,124 million to ¥13,407 million.

Total net assets increased by ¥1,925 million to ¥40,281 million and the shareholders' equity ratio improved 0.2 percentage points to 40.2%.

(Cash flows)

In the first six months of the fiscal year, cash and cash equivalents ("cash") increased by ¥1,733 million from the previous fiscal year end to ¥20,172 million.

Cash flows from each activity and their relevant factors are as follows.

During the first six months of the fiscal year, net cash provided by operating activities was ¥9,324 million, compared with ¥2,370 million provided in the same period a year earlier. The main cash inflows were income before income taxes and minority interests of ¥5,318 million, decrease in accounts receivable of ¥2,840 million, increase in accounts payable of ¥3,924 million. The main cash outflow was income taxes paid of ¥2,439 million.

Net cash used in investing activities amounted to ¥4,215 million, compared with ¥3,508 million used a year earlier. This was mainly due to payments of ¥2,204 million for the acquisition of property, plant and equipment and intangible fixed assets and ¥1,703 million for purchases of subsidiaries' shares resulting in obtaining controls.

Net cash used in financing activities was ¥3,375 million, compared with ¥41 million provided a year earlier. This was mainly attributable to a net cash outflow of ¥2,183 million from interest-bearing debt repayment and proceeds, and cash dividends paid of ¥956 million.

(3) Forecast of consolidated financial results and other forward-looking information

The Group has made no change to its earnings forecasts for the full fiscal year, announced May 28, 2013, in light of earnings trends at new stores and existing stores in the first six months of the fiscal year and future store opening plans.

2. Matters concerning summary information (notes)

(1) Major changes in subsidiaries during the period

There are no applicable matters to be reported.

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements

Tax expenses were calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to net income before taxes for the consolidated fiscal year including the second quarter, and multiplying the estimated effective tax rate by income before income taxes for the quarter. In addition, deferred income taxes are included in income taxes.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

(Change in accounting policies that may be difficult to distinguish from changes in accounting estimates)

There are no applicable matters to be reported.

3. Quarterly consolidated financial statements
(1) Quarterly consolidated balance sheets

(Thousand yen)

	Fiscal year ended April 30, 2013 (As of April 30, 2013)	Six months ended October 31, 2013 (As of October 31, 2013)
Assets		
Current assets		
Cash on hand and in banks	18,460,349	20,182,789
Notes and accounts receivable	7,043,984	4,739,882
Merchandise	7,816,853	8,879,691
Supplies	127,546	129,973
Deferred tax assets	955,372	1,009,810
Short-term loans	445,000	1,070,600
Other accounts receivable	7,180,659	8,232,499
Other current assets	1,142,498	904,861
Allowance for doubtful accounts	(9,917)	(7,479)
Total current assets	43,162,346	45,142,627
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	8,247,806	8,546,174
Land	6,030,803	6,777,257
Other property, plant and equipment, net	3,271,425	3,531,777
Total property, plant and equipment	17,550,035	18,855,209
Intangible fixed assets		
Goodwill	19,574,539	20,162,730
Other intangible fixed assets	1,031,265	1,065,406
Total intangible fixed assets	20,605,804	21,228,136
Investments and other assets		
Investments in securities	2,789,730	2,579,047
Deferred tax assets	946,439	958,713
Deposits and guarantees	6,985,755	7,085,228
Other investments and other assets	4,066,340	4,404,729
Allowance for doubtful accounts	(267,829)	(267,829)
Total investments and other assets	14,520,435	14,759,888
Total fixed assets	52,676,275	54,843,234
Deferred assets		
Stock issuance cost	1,296	—
Total deferred assets	1,296	—
Total assets	95,839,919	99,985,862

(Thousand yen)

	Fiscal year ended April 30, 2013 (As of April 30, 2013)	Six months ended October 31, 2013 (As of October 31, 2013)
Liabilities		
Current liabilities		
Accounts payable	24,084,746	28,514,343
Short-term debt	7,483,090	7,088,191
Accrued income taxes	2,427,308	2,442,643
Deposits received	7,906,269	7,745,771
Allowance for bonuses to employees	1,098,611	1,239,449
Allowance for bonuses to directors	12,929	11,935
Reserve for reward obligations	315,919	322,070
Other current liabilities	2,357,917	2,151,623
Total current liabilities	45,686,791	49,516,028
Long-term liabilities		
Long-term debt	8,048,584	6,318,919
Allowance for retirement benefits	1,659,245	1,747,143
Other long-term liabilities	2,088,777	2,122,140
Total long-term liabilities	11,796,607	10,188,204
Total liabilities	57,483,398	59,704,232
Net assets		
Shareholders' equity		
Common stock	8,682,976	8,682,976
Capital surplus	7,872,970	7,872,970
Retained earnings	21,704,510	23,647,473
Treasury stock	(5,837)	(6,047)
Total shareholders' equity	38,254,620	40,197,373
Accumulated other comprehensive income		
Unrealized holding gains on securities	57,855	42,769
Total accumulated other comprehensive income	57,855	42,769
Minority interests	44,044	41,486
Total net assets	38,356,520	40,281,629
Total liabilities and net assets	95,839,919	99,985,862

(2) Quarterly consolidated statements of income and comprehensive income
Quarterly consolidated statements of income

(Thousand yen)

	Six months ended October 31, 2012 (May 1, 2012 to October 31, 2012)	Six months ended October 31, 2013 (May 1, 2013 to October 31, 2013)
Net sales	75,090,551	83,024,578
Cost of sales	63,593,065	70,366,857
Gross profit	11,497,485	12,657,720
Selling, general and administrative expenses	7,287,507	7,645,115
Operating income	4,209,978	5,012,604
Non-operating income		
Interest income	38,686	36,539
Dividend income	23,092	20,919
Commissions received	30,721	8,499
Real estate rental revenue	51,986	41,537
Consignment income	74,561	66,897
Other non-operating income	191,377	207,854
Total non-operating income	410,426	382,247
Non-operating expenses		
Interest expenses	71,182	66,659
Losses on sales of accounts receivables	36,829	42,675
Real estate rental expenses	17,503	23,032
Other non-operating expenses	40,364	98,962
Total non-operating expenses	165,879	231,330
Ordinary income	4,454,524	5,163,522
Extraordinary income		
Gains on sales of investments in securities	—	49,667
Gains on sales of fixed assets	10,881	4,051
Insurance income	50,000	193,941
Other extraordinary income	809	10,134
Total extraordinary income	61,690	257,794
Extraordinary losses		
Losses on disposal and sales of fixed assets	70,697	59,440
Losses on sales of investments in securities	107,387	—
Impairment losses on investments in securities	1,463	—
Directors’ retirement benefits	320,000	—
Other extraordinary losses	46,919	43,714
Total extraordinary losses	546,467	103,154
Income before income taxes and minority interests	3,969,747	5,318,161
Income taxes	1,850,379	2,421,312
Income before minority interests	2,119,367	2,896,849
Minority interests in loss	(18,238)	(2,558)
Net income	2,137,606	2,899,407

Quarterly consolidated statements of comprehensive income

(Thousand yen)

	Six months ended October 31, 2012 (May 1, 2012 to October 31, 2012)	Six months ended October 31, 2013 (May 1, 2013 to October 31, 2013)
Income before minority interests	2,119,367	2,896,849
Other comprehensive income		
Unrealized holding gains (losses) on securities	29,595	(15,085)
Total other comprehensive income	29,595	(15,085)
Comprehensive income	2,148,963	2,881,763
Comprehensive income attributable to shareholders of the parent	2,167,202	2,884,321
Comprehensive income (loss) attributable to minority interests	(18,238)	(2,558)

(3) Quarterly consolidated statements of cash flows

(Thousand yen)

	Six months ended October 31, 2012 (May 1, 2012 to October 31, 2012)	Six months ended October 31, 2013 (May 1, 2013 to October 31, 2013)
Cash flows from operating activities		
Income before income taxes and minority interests	3,969,747	5,318,161
Depreciation and amortization	997,084	1,080,684
Amortization of goodwill	822,858	990,207
Impairment losses on investments in securities	1,463	—
Increase in allowance for retirement benefits	123,127	73,585
Increase in allowance for bonuses to employees	142,606	127,168
Increase (decrease) in allowance for bonuses to directors	89	(994)
Interest and dividend income	(61,778)	(57,458)
Interest expenses	71,182	66,659
Losses on disposal and sales of fixed assets	59,815	55,389
Decrease in accounts receivable	454,732	2,840,730
Increase in inventories	(1,438,970)	(813,637)
Increase in other accounts receivable	(2,365,679)	(986,963)
Increase in accounts payable	2,117,445	3,924,305
Other, net	362,715	(840,959)
Subtotal	5,256,439	11,776,878
Interest and dividends received	67,080	53,436
Interest paid	(73,195)	(66,855)
Income taxes paid	(2,879,474)	(2,439,440)
Net cash provided by operating activities	2,370,850	9,324,018
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible fixed assets	(2,519,146)	(2,204,368)
Proceeds from sales of property, plant and equipment and intangible fixed assets	240,739	409,491
Payments for purchase of investments in securities	(368,760)	(107,380)
Proceeds from sales of investments in securities	77,300	299,729
Purchase of subsidiaries’ shares resulting in obtaining controls	(416,908)	(1,703,903)
Payments for loans receivable	(103,000)	(1,965,344)
Proceeds from collections of loans receivable	537,901	824,862
Payments for time deposits	—	(6,900)
Proceeds from withdrawal of time deposits	—	27,602
Other, net	(956,835)	210,398
Net cash used in investing activities	(3,508,711)	(4,215,812)

(Thousand yen)

	Six months ended October 31, 2012 (May 1, 2012 to October 31, 2012)	Six months ended October 31, 2013 (May 1, 2013 to October 31, 2013)
Cash flows from financing activities		
Net increase (decrease) in short-term debts	1,542,227	(91,654)
Proceeds from long-term debts	2,350,000	124,578
Repayments of long-term debts	(2,859,928)	(2,216,669)
Repayments of lease obligations	(194,033)	(234,664)
Payments for purchase of treasury stock	(210)	(209)
Cash dividends paid	(797,039)	(956,444)
Net cash provided by (used in) financing activities	41,015	(3,375,064)
Net increase in cash and cash equivalents	(1,096,844)	1,733,142
Cash and cash equivalents at beginning of the period	15,935,326	18,439,646
Cash and cash equivalents at end of the period	14,838,482	20,172,789

(4) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters to be reported.

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

There are no applicable matters to be reported.

(Segment Information, etc.)

I Six months ended October 31, 2012 (May 1, 2012 to October 31, 2012)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	66,622,833	8,208,949	258,769	75,090,551	—	75,090,551
(2) Intersegment sales	—	—	3,306	3,306	(3,306)	—
Total sales	66,622,833	8,208,949	262,076	75,093,858	(3,306)	75,090,551
Segment income (loss)	5,682,556	26,290	(223,915)	5,484,931	(1,030,406)	4,454,524

Notes: 1. The adjustment of ¥(1,030,406) thousand to segment income (loss) includes ¥969,892 thousand in corporate expenses, ¥23,150 thousand in losses that are not allocated to reportable segments, and ¥37,363 thousand in eliminations due to intersegment transactions.
Corporate expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.
2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

The dispensing pharmacy segment includes five dispensing pharmacy companies that have been acquired by the Group. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥2,025,848 thousand.

II Six months ended October 31, 2013 (May 1, 2013 to October 31, 2013)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	73,954,006	8,736,578	333,994	83,024,578	—	83,024,578
(2) Intersegment sales	—	—	94,469	94,469	(94,469)	—
Total sales	73,954,006	8,736,578	428,463	83,119,048	(94,469)	83,024,578
Segment income (loss)	6,400,982	4,176	(252,838)	6,152,321	(988,799)	5,163,522

Notes: 1. The adjustment of ¥(988,799) thousand to segment income (loss) includes ¥939,630 thousand in corporate expenses, ¥82,850 thousand in losses that are not allocated to reportable segments, and ¥(33,681) thousand in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

The dispensing pharmacy segment includes eight dispensing pharmacy companies that have been acquired by the Group. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥1,405,598 thousand.