

Summary of Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2004

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Jan 29, 2004

Kuraya Sanseido Inc.

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Stock exchange listing: Tokyo (First Section)

Code number: 7459

1. Preparation of Quarterly Financial Information

(1) Differences with accounting methods used in most recent consolidated fiscal year: Yes

a. Accounting standard for inventories

Inventories are stated as the amount of inventories on the company's books, based on inventories in the previous fiscal year. Actual inventories are not stated.

b. Accounting standard for income taxes

Income taxes are stated according to the estimated tax rate for the fiscal year based on the effective statutory tax rate.

c. Simplified procedures are used for certain other amounts that have an insignificant effect on consolidated results.

(2) Changes in scope of consolidation and application of equity method: None

2. Results for Third Quarter of the Fiscal Year Ending March 31, 2004 (April 1, 2003 - December 31, 2003)

(1) Sales and Income (Consolidated)

(Rounded down to the nearest million yen)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Nine months ended 12/31/03	983,419	—	11,180	—	14,027	—
Nine months ended 12/31/02	—	—	—	—	—	—
(Ref.) Year ended 3/31/03	1,274,502		10,159		13,644	

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Nine months ended 12/31/03	5,570	—	40.70	35.58
Nine months ended 12/31/02	—	—	—	—
(Ref.) Year ended 3/31/03	5,015		36.48	31.50

Note: The Company began disclosing quarterly financial information from the first quarter of this fiscal year. Therefore, results from the same quarter in the previous fiscal year and year-on-year comparisons are not stated.

Qualitative Information on Progress of Business Results (Consolidated)

In the third quarter of fiscal 2004, the nine months ended December 31, 2003, despite a trend toward increased capital investment and exports, challenging conditions persisted in the Japanese economy, as consumer spending was flat and the employment situation remained severe.

In the pharmaceutical industry, the overall market exhibited gradual growth due to expansion of the market through new drug introduction. In addition, although an increase in the rate of co-payments by certain patients took effect in April 2003 and there was a reactive decline from the abolishment of restrictions on long-term prescriptions in April 2002, the effect of these factors was slight.

Under these conditions, the Kuraya Sanseido Group worked to ensure stable profits by maintaining reasonable market prices, introduced a new personnel system geared to development of the entire Group, and integrated its core systems.

In addition, we carried out the organizational introduction of our new business model to create and establish new functions as a pharmaceutical wholesaler.

As a result of these factors, during the third quarter, consolidated net sales were ¥983.4 billion, ordinary income was ¥14.0 billion, and net income was ¥5.5 billion.

(2) Financial Position (Consolidated)

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/ total assets [%]	Shareholders' equity per share (¥)
Nine months ended 12/31/03	675,821	120,988	17.9	872.23
Nine months ended 12/31/02	—	—	—	—
(Ref.) Year ended 3/31/03	638,589	112,261	17.6	828.14

Note: The Company began disclosing quarterly financial information from the first quarter of this fiscal year. Therefore, results from the same quarter in the previous fiscal year and year-on-year comparisons are not stated.

(3) Cash Flows

	Net cash provided by operating activities (¥ million)	Net cash used in investing activities (¥ million)	Net cash used in financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Nine months ended 12/31/03	692	(3,078)	(3,419)	62,570
Nine months ended 12/31/02	—	—	—	—
(Ref.) Year ended 3/31/03	11,509	(6,540)	(10,123)	68,375

Note: The Company began disclosing quarterly financial information from the first quarter of this fiscal year. Therefore, results from the same quarter in the previous fiscal year and year-on-year comparisons are not stated.

Qualitative Information on Financial Position (Consolidated)

In the third quarter, on a consolidated basis, net cash provided by operating activities was ¥692 million, net cash used in investing activities was ¥3,078 million, and net cash used in financing activities was ¥3,419 million. As a result, cash and cash equivalents (hereinafter referred to as “funds”) at the end of the period decreased ¥5,805 million (8.5%) from the end of the previous fiscal year, to ¥62,570 million.

Cash Flows from Operating Activities

The increase in funds from operating activities was ¥692 million. Although a ¥35,289 million increase in notes and accounts receivable – trade, a ¥12,431 million increase in inventories and ¥8,868 million in cash paid for income taxes were the main factors reducing funds, income before income taxes and minority interests totaled ¥10,852 million, depreciation and amortization was ¥4,204 million, and notes and accounts payable increased ¥43,344 million.

Cash Flows from Investing Activities

The decrease in funds from investing activities was ¥3,078 million. The decrease mainly consisted of ¥3,179 million used for purchases of property, plant and equipment, including the Health Care HIGASHINIPPON DISTRIBUTION CENTER.

Cash Flows from Financing Activities

The decrease in funds from financing activities was ¥3,419 million. The principal factors were a net decrease in short-term bank loans of ¥1,250 million and ¥1,665 million in cash dividends paid.

Reference 1: Summary of Non-Consolidated Results for the Third Quarter (April 1, 2003-December 31, 2003)

	Net sales (¥ million)	Operating income (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Nine months ended 12/31/03	936,870	7,810	10,182	4,547
Nine months ended 12/31/02	—	—	—	—

	Total assets (¥ million)	Shareholders' equity (¥ million)
Nine months ended 12/31/03	645,446	119,880
Nine months ended 12/31/02	—	—

3. Projected Consolidated Results for Fiscal 2004 (April 1, 2003 - March 31, 2004)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Net income per share (¥)
Fiscal 2004	1,288,000	16,400	5,800	41.81

Note: The projections above are formulated on the basis of information available to the Company's management at the time these materials are released. Various factors could cause actual results to differ from the projected figures.

Quantitative Information on Projected Results

At present, the Company has not changed the consolidated and non-consolidated figures in the projected results announced on November 13, 2003.

Reference 2: Projected Non-Consolidated Results for Fiscal 2004 (April 1, 2003 - March 31, 2004)

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)	
				Year-end	
Fiscal 2004	1,212,000	12,700	5,000	6.00	12.00

Note: The projections above are formulated on the basis of information available to the Company's management at the time these materials are released. Various factors could cause actual results to differ from the projected figures.

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(Attachment)

Summary of Quarterly Consolidated Financial Statements

1. Quarterly Consolidated Balance Sheets

(Millions of yen, rounded down to the nearest million)

	As of December 31, 2003		As of March 31, 2003	
ASSETS	675,821	100.0%	638,589	100.0%
Current assets	538,306	79.7	498,551	78.1
Cash on hand and in bank	64,324		70,153	
Notes and accounts receivable – trade	375,127		340,233	
Inventories	68,314		55,900	
Accounts receivable	29,272		29,917	
Other current assets	4,981		6,291	
Allowance for doubtful accounts	(3,714)		(3,944)	
Fixed assets	137,515	20.3	140,037	21.9
Tangible fixed assets:	93,215	13.8	95,464	14.9
Buildings and structures	38,351		40,603	
Land	47,192		48,402	
Other tangible fixed assets	7,671		6,458	
Intangible fixed assets	7,198	1.0	7,629	1.2
Investments and other assets:	37,101	5.5	36,943	5.8
Investment securities	13,428		11,956	
Other	29,170		30,167	
Allowance for doubtful accounts	(5,498)		(5,180)	
Total assets	675,821	100.0	638,589	100.0
LIABILITIES	554,206	82.0	521,900	81.7
Current liabilities:	513,782	76.0	481,680	75.4
Notes and accounts payable – trade	488,996		445,652	
Short-term bank loans	11,829		13,268	
Reserve for bonuses	2,601		7,014	
Allowance for losses on sales returns	683		704	
Other current liabilities	9,670		15,041	
Long-term liabilities:	40,424	6.0	40,219	6.3
Convertible bonds	19,323		19,324	
Long-term debt	826		1,137	
Employees' retirement benefits	17,396		16,420	
Officers' retirement benefits	1,805		1,827	
Allowance for losses on debt guarantees	74		292	
Other long-term liabilities	997		1,217	
MINORITY INTERESTS	626	0.1	4,427	0.7
Minority interests	626	0.1	4,427	0.7
SHAREHOLDERS' EQUITY	120,988	17.9	112,261	17.6
Common stock	12,751	1.9	12,751	2.0
Additional paid-in capital	27,632	4.1	25,919	4.1
Legal reserve	91,042	13.5	87,874	13.7
Revaluation surplus	(11,499)	(1.7)	(12,259)	(1.9)
Unrealized gain on certain investment securities	3,500	0.5	2,602	0.4
Treasury stock, at cost	(2,438)	(0.4)	(4,626)	(0.7)
Total liabilities, minority interests and shareholders' equity	675,821	100.0	638,589	100.0

2. Quarterly Consolidated Statements of Income

(Millions of yen, rounded down to the nearest million)

	Nine months ended December 31, 2003		Year ended March 31, 2003	
Net sales	983,419	100.0%	1,274,502	100.0%
Cost of sales	896,184	91.1	1,159,579	91.0
Gross profit	87,235	8.9	114,923	9.0
Selling, general and administrative expenses	76,055	7.8	104,763	8.2
Operating income	11,180	1.1	10,159	0.8
Non-operating income	3,598	0.4	4,830	0.4
Non-operating expenses	751	0.1	1,346	0.1
Ordinary income	14,027	1.4	13,644	1.1
Extraordinary gains	176	0.0	103	0.0
Extraordinary losses	3,351	0.3	2,547	0.2
Income before income taxes and minority interests	10,852	1.1	11,200	0.9
Income taxes	4,985	0.5	5,672	0.5
Gain in minority interests	296	0.0	512	0.0
Net income	5,570	0.6	5,015	0.4

3. Quarterly Consolidated Statements of Retained Earnings

(Millions of yen, rounded down to the nearest million)

	Nine months ended December 31, 2003	Year ended March 31, 2003
CAPITAL SURPLUS		
Capital surplus, beginning of year	25,919	24,321
Increase in capital surplus	1,712	1,598
Increase due to conversion of convertible bonds	0	1,598
Unrealized gain on disposal of treasury stock	1,712	—
Capital surplus, end of year	27,632	25,919
RETAINED EARNINGS		
Retained earnings, beginning of year	87,874	84,536
Increase in retained earnings	5,570	5,203
Net income	5,570	5,015
Increase due to merger	—	57
Increase due to exclusion from consolidation	—	22
Disposition of land revaluation surplus	—	107
Decrease in retained earnings	2,402	1,865
Cash dividends paid	1,644	1,610
Bonuses to directors and corporate auditors	151	16
[Bonuses to corporate auditors]	[6]	[0]
Unrealized loss on disposal of treasury stock	—	238
Disposition of land revaluation surplus	606	—
Retained earnings, end of year	91,042	87,874

4. Quarterly Consolidated Statements of Cash Flows

(Millions of yen, rounded down to the nearest million)

	Nine months ended December 31, 2003	Year ended March 31, 2003
Cash flows from operating activities		
Income before income taxes and minority interests	10,852	11,200
Depreciation and amortization	4,204	5,203
Increase in employees' retirement benefits – net	976	1,811
Decrease in officers' retirement benefits	(22)	(27)
Increase (decrease) in accrued employees' bonuses	(4,412)	818
Increase in allowance for doubtful accounts	88	373
Increase (decrease) in allowance for returns	(21)	28
Provision for allowance for losses on debt guarantees	(217)	(8)
Increase in notes and accounts receivable – trade	(35,289)	(2,871)
Increase in inventories	(12,431)	(2,314)
Increase in notes and accounts payable	43,344	1,495
Others	3,810	3,185
Subtotal	10,882	18,896
Cash paid for income taxes	(8,868)	(6,182)
Others	(1,320)	(1,204)
Net cash provided by operating activities	692	11,509
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(3,179)	(6,205)
Other, net	101	(334)
Net cash used in investing activities	(3,078)	(6,540)
Cash flows from financing activities		
Increase in short-term bank loans – net	(1,250)	(3,641)
Proceeds from long-term debt	300	800
Repayment of long-term debt	(798)	(1,405)
Repayment of convertible bonds	(0)	(4)
Proceeds from issuance of stock	—	4
Purchase of treasury stock	(4)	(4,250)
Cash dividends paid	(1,644)	(1,610)
Cash dividends paid to minority shareholders	(21)	(15)
Net cash used in financing activities	(3,419)	(10,123)
Effect of exchange rate change on cash and cash equivalents	(0)	2
Net increase in cash and cash equivalents	(5,805)	(5,151)
Cash and cash equivalents at beginning of period	68,375	73,933
Increase in cash and equivalents due to merger	—	13
Cash and cash equivalents of newly consolidated subsidiaries at beginning of year	—	(420)
Cash and cash equivalents at end of period	62,570	68,375

5. Segment Information

(1) Business segment information

Third quarter (April 1, 2003 – December 31, 2003) and previous fiscal year (April 1, 2002 – March 31, 2003)

Business segment information is not disclosed because the net sales, operating income and assets of the pharmaceutical wholesale distribution business account for more than 90 percent of the total net sales, operating income and assets of all segments.

(2) Geographic segment information

Third quarter (April 1, 2003 – December 31, 2003) and previous fiscal year (April 1, 2002 – March 31, 2003)

Geographic segment information is not disclosed because the company has no consolidated subsidiaries or offices in countries or regions outside Japan.

(3) Overseas sales

Third quarter (April 1, 2003 – December 31, 2003) and previous fiscal year (April 1, 2002 – March 31, 2003)

None

6. Production, Orders and Sales

(1) Sales

(Millions of yen, rounded down to the nearest million)

	Nine months ended		Year ended March 31, 2003	
	December 31, 2003			
Ethical drugs	857,540	87.2%	1,110,137	87.1%
Over-the-counter drugs	38,749	3.9	53,379	4.2
Medical equipment, tools and clinical materials	45,610	4.6	59,856	4.7
Reagents	22,043	2.3	27,973	2.2
Others	19,475	2.0	23,156	1.8
Total	983,419	100.0	1,274,502	100.0

(2) Purchases

(Millions of yen, rounded down to the nearest million)

	Nine months ended		Year ended March 31, 2003	
	December 31, 2003			
Ethical drugs	793,270	87.4%	1,020,074	87.9%
Over-the-counter drugs	34,954	3.8	47,362	4.1
Medical equipment, tools and clinical materials	40,620	4.5	52,297	4.5
Reagents	21,108	2.3	21,552	1.8
Others	17,960	2.0	19,542	1.7
Total	907,914	100.0	1,160,828	100.0

7. Other

None