Nippon Chemiphar Co., Ltd.

CORPORATE REPORT 2016

NIPPON CHEMIPHAR CORPORATE REPORT 2016

Contents

◆ Editorial Policy

This report contains information recognized as being of high importance to stakeholders, such as the Nippon Chemiphar Group's business strategy, financial information, and corporate social responsibility-related information.

◆ Scope of this Report

- Reporting period: April 1, 2015–March 31, 2016
- Reporting companies: Nippon Chemiphar Co., Ltd., and its Group companies

● Note Regarding Forward-looking Statements

Statements made in this annual report with respect to current plans, estimates, strategies and beliefs, and other statements of Nippon Chemiphar are forecasts about the future performance of Nippon Chemiphar. These forecasts are based on information currently available to management. Consequently, these forecasts are subject to known and unknown risks and uncertainties and may differ significantly from actual results. Items that may influence forward-looking statements and forecasts include changes in the economy, changes in the business and competitive environment for Nippon Chemiphar's business, revisions to the Pharmaceutical Affairs Law and other related legislation, and other items not limited to the above.

Fulfilling our Three Plus1 goals will contribute to society

In addition to the manufacture and marketing of original formulations with distinctive characteristics, Nippon Chemiphar—established in 1950—has concentrated the resources on generics business since 2000. As a manufacturer of both new and generic drugs, we are one of the few pharmaceutical companies in Japan to cover the full generic drug value chain, from development through to manufacturing and marketing.

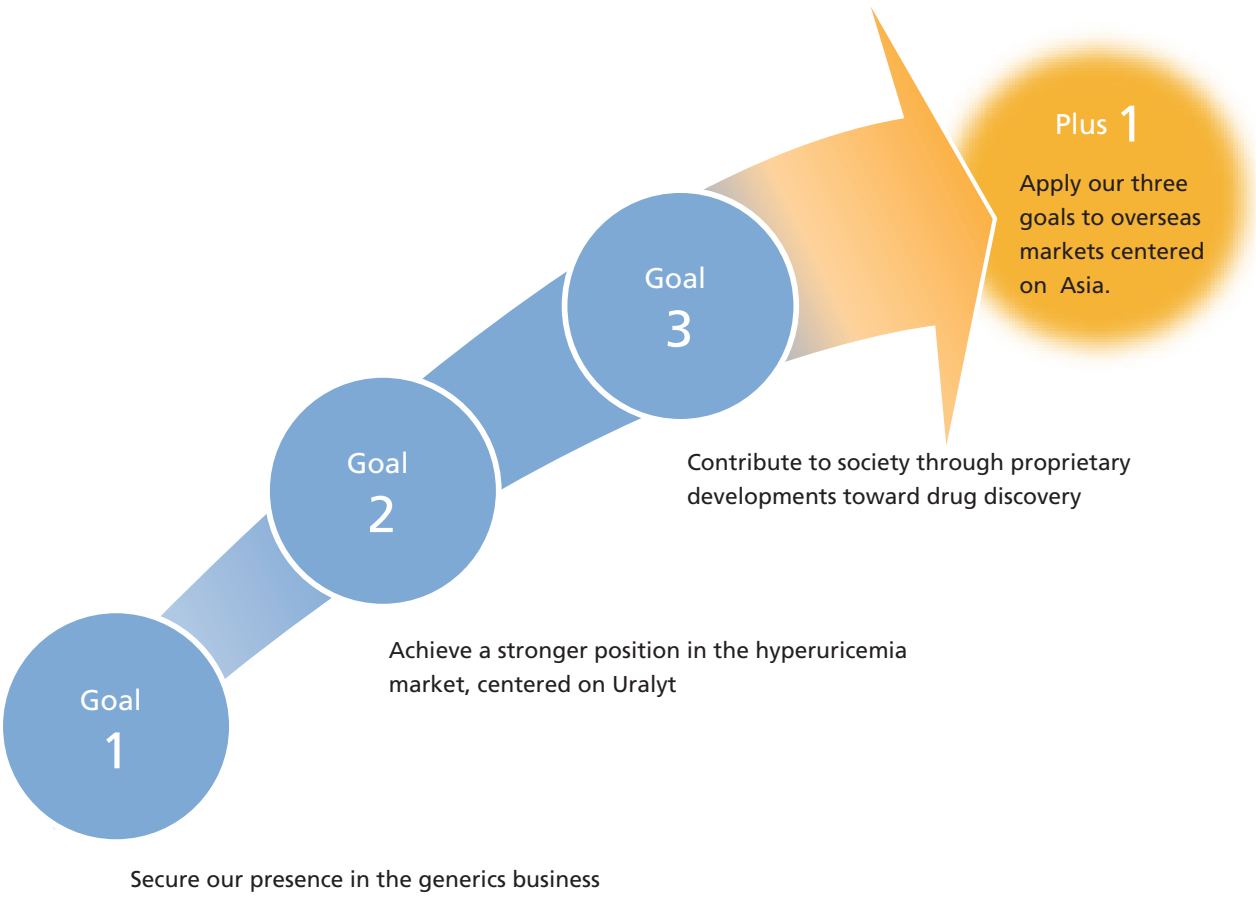
Focused on our specialties of hyperuricemia and algia, Nippon Chemiphar is also aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs in response to unmet medical needs.

Mission Statement

The goal of the Nippon Chemiphar Group is to make a difference in society by providing pharmaceutical drugs and health-related services to help people become and remain healthy.

Nippon Chemiphar's Three Plus 1 Principal Goals

We believe that by accomplishing the three principal goals we have set, the contribution we make to society will lead to further growth for the Company. To make that growth sustainable, we are expanding our business internationally.



Business Overview

The Nippon Chemiphar Group's operations are classified into two business segments: the Pharmaceutical Products segment, which includes the ethical drug and diagnostics businesses; and the Others segment, including the contracted testing and healthcare-related business.

● Business Segments

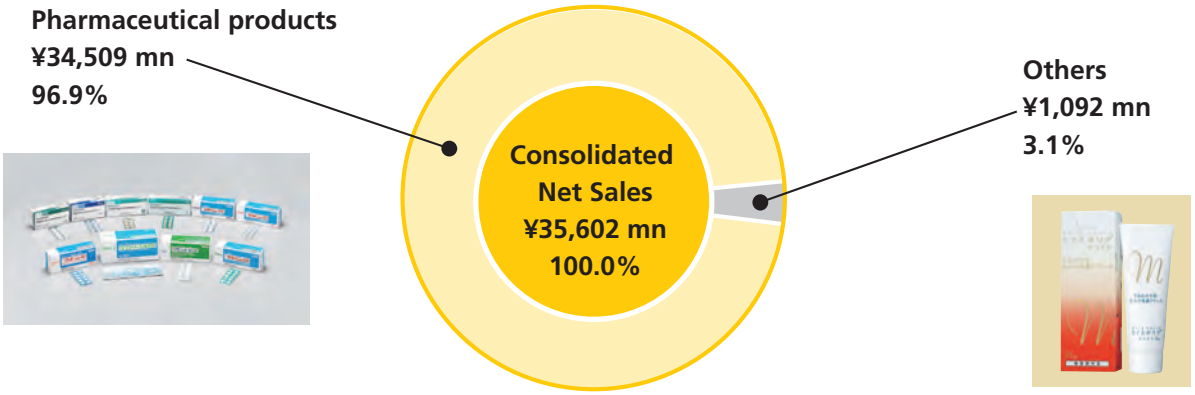
Pharmaceutical Products

- Generic drugs
- Proprietary products and Drug discovery
- Diagnostics

Others

- Contracted testing
- Healthcare-related

● FY2015 Breakdown of Consolidated Net Sales



● Breakdown of Pharmaceutical Product Sales

	Amount (¥mn)	Distribution (%)
Generic drugs	30,243	87.6
Proprietary products	2,920	8.5
Diagnostics, etc.	1,346	3.9
Total	34,509	100.0

I Pharmaceutical Products

1. Pharmaceuticals

(i) Generic Drugs

We deliver economical, high-value-added generic drugs underpinned by reliable information provision capabilities.

To lessen the burden on patients and improve the financial administration of the nation's health insurance system, the Japanese government is promoting the use of generic drugs. To this end, a new utilization objective has been set that would raise the share of prescriptions for generic drugs to 80% or above between 2018 and the end of 2020. The Nippon Chemiphar Group thus is applying its integrated capabilities to the development, manufacture and marketing of new drugs and generics. Since, ultimately, we are pursuing the development of those generics that reflect the needs of patients and healthcare professionals, our track record includes the introduction of such innovations as press-through package sheets and tablet printing.

☞ Please refer to page 11 for details.

Research and Development

For a new drug be launched onto the market, it takes nine to 17 years from the commencement of the R&D process. R&D expenses for a new drug may range from several tens of billions of yen up to ¥100 billion. In contrast, a generic drug may take as little as three to four years to reach approval while development expenses may be as low as several hundred million yen. Hence, generics are able to be sold for lower prices than new drugs and this contributes to reductions in healthcare costs. The Group not only explores new drugs with highly distinctive features, but also develops in-house generic drugs reflecting the needs of medical professionals and patients.

☞ Please refer to page 12 for details.

Manufacturing

Pharmaceuticals are manufactured according to extremely strict regulations and standards. The Group applies stringent quality assurance measures at every step of the process for new drugs and generics, from the selection of active pharmaceutical ingredients to product shipment, thereby ensuring that high-quality products are delivered.

In June 2014, a new building came online at the Tsukuba Factory of Group company Nihon Pharmaceutical Industry Co., Ltd. It is the first pharmaceutical factory in Japan to have a fully seismic-isolated structure. Construction has begun on the Company's first overseas factory, in Vietnam. Combined these efforts are aimed at ensuring a stable supply of products and achieving lower costs.

☞ Please refer to page 13 for details.

Marketing and Provision of Information

Pharmaceutical companies are mandated by law to conduct post-marketing surveillance. This is because no matter how excellent a drug is, if not used properly, it will not produce the correct effect. Through its team of medical representatives assigned nationwide, the Group collects and provides information on new drugs and generics. The information relating to the needs of healthcare professionals and patients, as well as that on product quality and side effects, is useful for developing new products and improving existing ones. The Group believes that it is our duty, as a pharmaceutical manufacturer, to provide a summary of the information gathered as feedback to medical institutions and dispensing pharmacies.

☞ Please refer to page 13 for details.

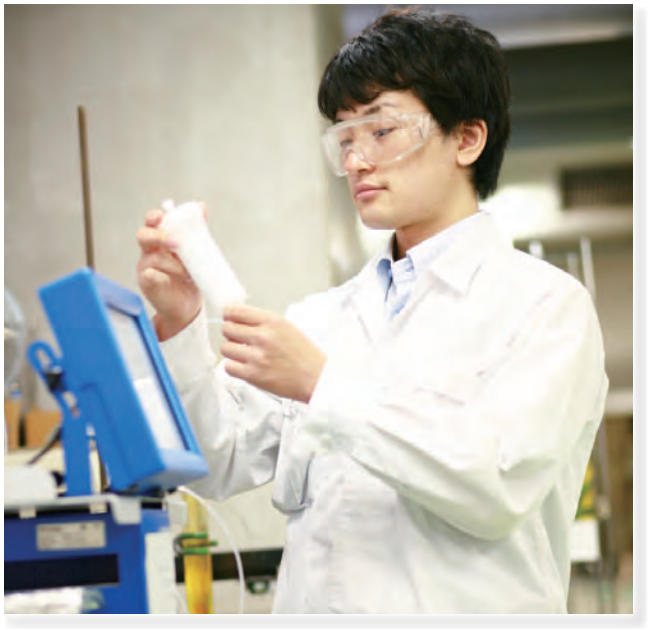
(ii) Proprietary Products and Drug Discovery

We aim to add fresh dimensions to our distinctive proprietary products, and develop groundbreaking new drugs.

As a manufacturer of new drugs, Nippon Chemiphar strives to develop products with distinctive features. At present, we have three proprietary products: alkalization therapeutic drug Uralyt-U, analgesic and anti-inflammatory drug Soleton, as well as hypertension therapeutic drug Calvan. Although all three have been on the market for a long time, we are pursuing clinical research aimed at opening up potential in new therapeutic fields.

We are also aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs focused on our specialties of hyperuricemia and algia.

☞ Please refer to page 16 for details.



2. Diagnostics

The number of patients with allergies and lifestyle-related diseases continues to grow year by year. The rapid test reports facilitated by the Group's products contribute greatly to swift diagnosis and execution of treatment plans. The Group develops and markets clinical laboratory equipments and reagents that meet the needs of patients and medical professionals, reflecting our support for medical care.

● IgE NC: Reagent to measure allergen-specific IgE

A reagent to test for antibodies to substances that cause patient allergies (extracorporeal diagnostic)

● DP3000: Device for allergen-specific IgE measurements

Produces the first result in 12 minutes, and 39 tests in 90 minutes

● ISO 13485

Nippon Chemiphar[1] received certification under the ISO 13485 quality management system for medical devices in April 2012. We provide high-quality products through both this quality assurance system based on an international standard, and the quality management system stipulated under Ministry of Health, Labour and Welfare regulations.[2]

● CE Declaration of Conformity Marking

In FY2013, Nippon Chemiphar issued CE Declaration of Conformity markings for DP3000 and IgE NC.

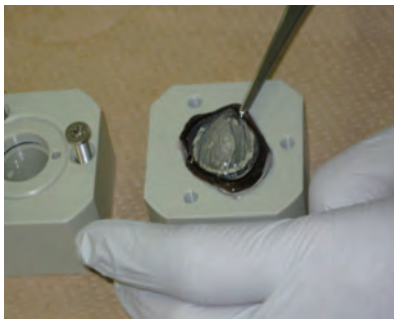
1. Divisions of Nippon Chemiphar involved in the design and development of extracorporeal diagnostics, purchasing and quality assurance. Divisions at the Tsukuba Factory of Nihon Pharmaceutical Industry involved in the manufacture of extracorporeal diagnostics.
2. Regulations relating to production management and quality assurance standards for medical devices and extracorporeal diagnostics.

II Others

1. Contracted Testing

The Nippon Chemiphar Group supports the creation of safe, high-quality products through clinical and non-clinical testing as part of drug development.

Group company Safety Research Institute for Chemical Compounds Co., Ltd. is responding to diverse changes in the operating environment through a wide range of advanced measures. These include the development of alternatives to animal testing, and test systems for regenerative medicine.



Testing at Group company Safety Research Institute for Chemical Compounds, the first Japanese company to commercialize an alternative to animal testing with the Bovine Corneal Opacity and Permeability test method.

A good laboratory practice compliance certificate for a regenerative medication

2. Healthcare-related

The Nippon Chemiphar Group handles a diverse array of healthcare products, including various types of creams classified as quasi-drugs, nutrients, health foods and cosmetics. Amid the rising needs surrounding consumer self-medication, we are leveraging trustworthiness and the development expertise we have gained as a pharmaceutical product manufacturer to make a difference in people's lives and provide a high level of value added.

● Quasi drug

Moisporia White (Hand cream)

● Cosmetics

SKINDIET
(Skin moisturizer with natural ingredients)

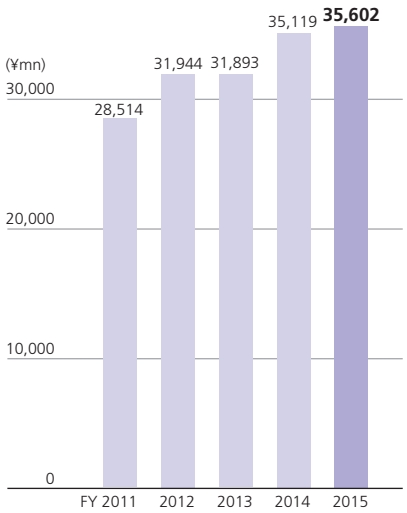
● Health products

Coenzyme Q10
(For those concerned about beauty and maintaining health)

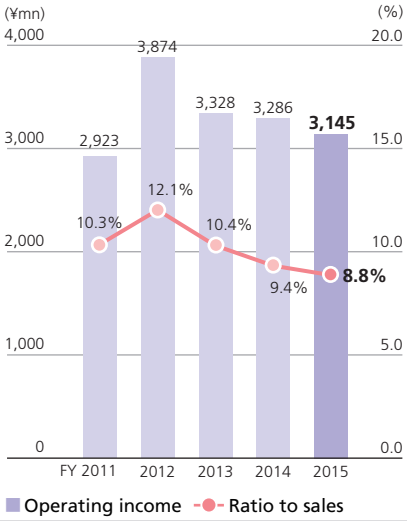
Hime-matsutake (Agaricus blazei Murrill)

Financial Highlights

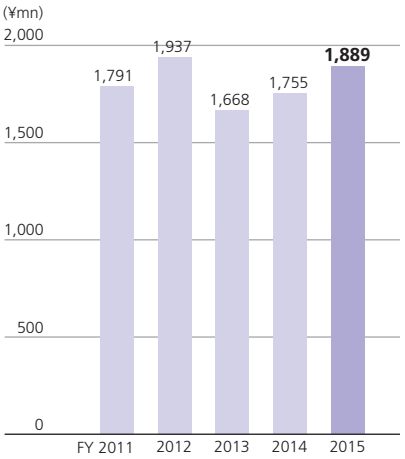
Net Sales



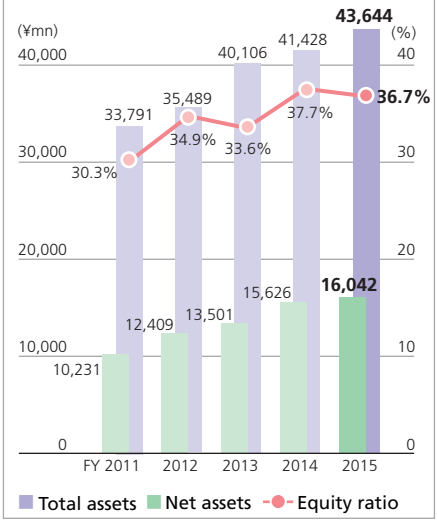
Operating Income



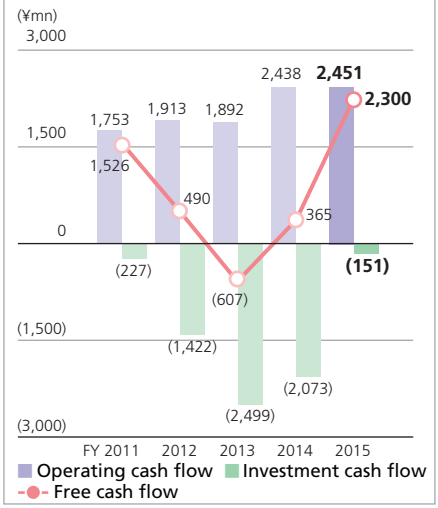
R&D Expenses



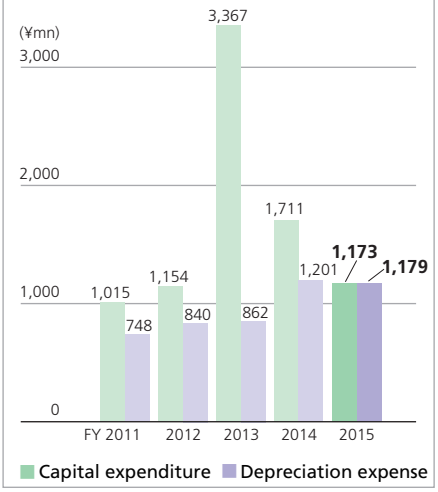
Total Assets, Net Assets and Equity Ratio



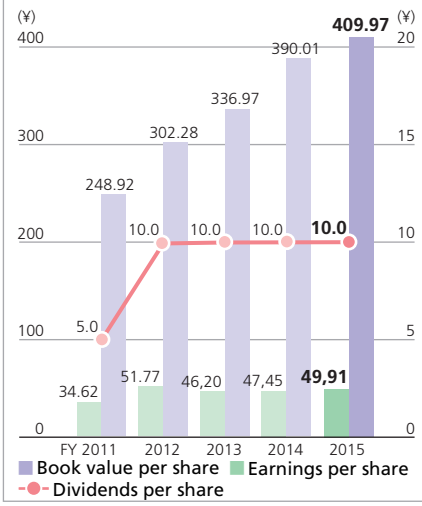
Cash Flows



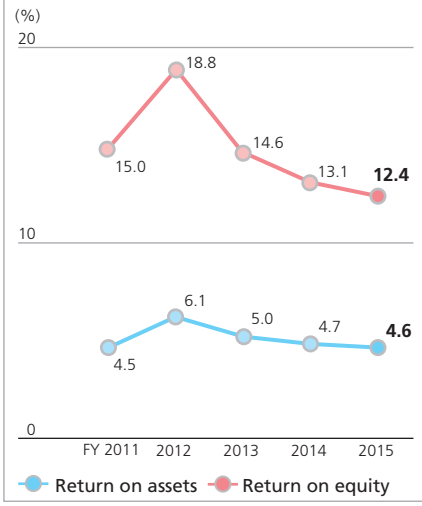
Capital Expenditure, Depreciation Expense



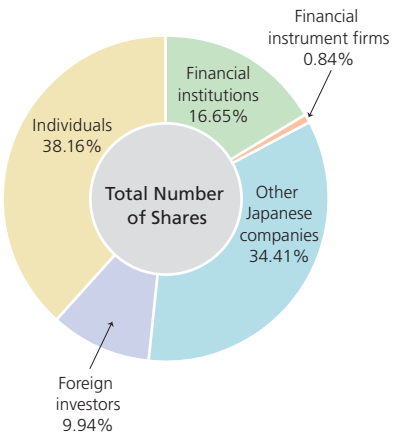
Amounts per Share



ROE, ROA



Composition of Shareholders



Message to Our Stakeholders

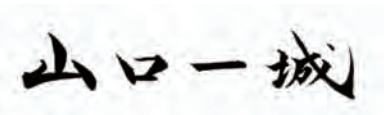
Message to Our Stakeholders

The cabinet-approved Basic Policy on Economic and Fiscal Management and Reform 2015 calls for the volume ratio of generics to all prescription drugs to be greater than 70% by mid-2017—and to exceed 80% by the end of FY2020 at the latest.

In response, April 2016 revisions to medical service fees incorporate further measures to promote the use of generics. These measures include new incentives for in-house prescription medication dispensing and revisions to incentives for generic dispensing. At the same time, prices were lowered for new generics when listed, and the price for long-listed drugs (new drugs with expired patents) were exceptionally revised to help curb drug prices. Pharmaceutical manufacturers have to revise their business strategies and enhance management efficiencies to meet the needs of an era when the ratio of generics exceeds 80% by volume.

Since 2000, the Nippon Chemiphar Group has promoted an independent growth strategy focused on three goals: establishing a strong presence in the generics business; becoming a leader in the hyperuricemia field centered on Uralyt; as well as pursuing proprietary drug discovery and development. While responding to the expanding generics market, we have executed strategies for continued growth. As a result, we have established a development structure for highly competitive generics and have seen progress in each new drug exploratory research theme, leading to solid progress toward our three goals. Building on the achievements of these three goals, our Plus One initiatives focused on overseas business are steadily advancing.

To lower patient costs and reduce government healthcare expenditures—despite Japan's ever-changing economic and pharmaceutical industry environments—the Nippon Chemiphar Group will continue to focus on the generics business, while pursuing our growth strategy so that we might contribute to society and expand our business. We look forward to the continued support of all our stakeholders in these endeavors.



Kazushiro Yamaguchi
President & CEO
June 2016

Q1 What is the outlook for FY2016?

A1 We anticipate higher net sales due to growth in generics sales, but lower operating profits resulting from strategic investments in R&D and other areas.

Although unit prices dropped as a result of NHI drug price reduction in April 2016, government set measures to promote generics, targeting a wider range of medical institutions, make broader additions to the new incentive for in-house prescription medication dispensing, and revisions to incentives for generics dispensing. Thus, we believe the market will continue to expand, and so forecast that sales to medical institutions will increase 9.8% year on year. Sales to other makers are expected to remain nearly the same as for the last fiscal year, since we expect a year-on-year rise of 6.7%, to ¥38 billion, in consolidated net sales.

At the same time, in terms of operating profit, we expect a higher cost of sales ratio, due to the impact of NHI drug price reduction. R&D expenses are forecast to increase, reflecting the development of generics, additional NC-2500 phase I clinical trials carried over from last fiscal year, and the exploration of new compounds. As a result, our operating profit is expected to decrease 11.0% to ¥2.8 billion compared with last fiscal year. The Company will continue its efforts to reduce routine expenses while carrying out strategic investments, to facilitate comprehensive expense management and cultivate the growth of future business already beginning to take shape.

Consolidated Sales and Income

(¥mn)

	FY2015		FY2016 (Forecasts)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net Sales	35,602	100.0	38,000	100.0	6.7
Pharmaceutical Sales	31,937		34,180		7.0
Generics	29,016		31,680		9.2
Proprietary products	2,920		2,500		(14.4)
Operating income	3,145	8.8	2,800	7.4	(11.0)
Profit attributable to owners of parent	1,962	5.5	1,850	4.9	(5.7)

Q2 The market is expected to continue growing due to measures to promote generics. What sort of manufacturing structure is in place to meet this rise in demand?

A2 We are upgrading facilities at the Tsukuba Factory and constructing a factory in Vietnam to expand production capacity and lower costs.

Here in Japan, we are proceeding with upgrades to Building 3 at the Nihon Pharmaceutical Industry's Tsukuba Factory, which commenced operations two years ago. Building 3 is a two-story structure and, since operations began, we have kept a careful eye on market demand, with a view to expanding the production line. This fiscal year, we are focusing on achieving full production on the building's first floor. Balancing this with production at the Vietnam factory currently under construction, we will expand production line to the second floor as the market demands.

In October 2015, we converted our Vietnam project from a joint venture with a local pharmaceutical company to full ownership, in order to speed up management decision-making and business development. Construction of the factory commenced on schedule in March 2016 and is proceeding on track toward the launch of full-scale operations in 2018, at which time the plant will employ local personnel.

Constructing a factory in Vietnam requires only 60% of the capital investment needed in Japan, while manufacturing costs are expected 30% lower than in Japan. Although the generics market is expanding, drug price calculation rule revisions and intensifying competition are making the business environment increasingly challenging. More than ever, manufacturers of generics must grapple with the question of how to maintain a stable supply at the lowest cost, while producing products of the highest possible quality.

Q3 You mentioned that R&D expenses will increase in FY2016. What new drugs are under development?

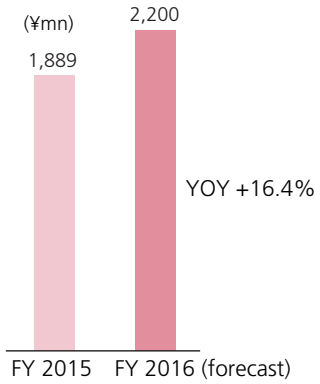
A3 Four products in the development pipeline, NC-2500 through NC-2800 are in progress.

Of the four products, two target the hyperuricemia market, our specialty area. As already mentioned, we plan to conduct additional phase I clinical trials on an improved NC-2500 formulation in September. Then, in FY2016, we expect to start preclinical testing of NC-2700.

Receiving public support from the Japan Agency for Medical Research and Development (AMED) are two themes under development: NC-2600, targeting neuropathic pain, which began phase I clinical trials in June 2016; and NC-2800, targeting depression and anxiety, which we expect will begin preclinical testing in FY2016. Both have received high evaluation by AMED and we expect that the products will be sold in Japan as well as overseas.

Looking back to 1999, when we experienced a setback involving promising new drugs and lost all drugs in the pipeline at that time, we seriously agonized over whether or not we should continue new drug development. As a result, we could not abandon our focus on developing drugs to help as many patients as possible and decided to continue development by significantly changing direction from the R&D structure employed up to that time, to development with a more select focus, in limited areas, incorporating external evaluations. As I recall that time, I am overcome with emotion when I realize how fortunate we have been in terms of drug development up to now.

R&D Expenses



Q4 What is the status of your company's overseas business development?

A4 Approved items are increasing and we are gradually expanding our scope of activities.

We currently have six items that have been approved in three countries and are being sold through local partners. Include these countries, we have access to 10 countries and regions, and have submitted applications for an additional five items. Although I feel that differences in regulations and business practices overseas make turning a profit a challenge, I want to achieve solid results in this area since the Japanese pharmaceutical market is leveling off, reflecting the shrinking population.

Q5 After the volume ratio of generics to all prescription drugs reaches 80% in Japan, what initiatives will be necessary to achieve sustainable growth?

A5 It will be important to quickly cultivate businesses other than those involving generics, and to conduct them overseas.

After the 80% ratio has been attained, the market will be mature and the current pace of expansion will not be sustainable. Companies in the market will compete for bigger pieces of the pie, placing further downward pressure on prices and causing the competitive environment to become increasingly severe. Companies unable to manufacture generics in-house and with only weak development ability will find it hard to survive on generics alone.

The Nippon Chemiphar Group realized this early on, and is making solid progress with plans based on its fundamental strategy: its Three Plus 1 Principal Goals. We are strengthening our generics-related cost competitiveness and development capabilities, while at the same time deploying existing products to new markets and enabling the discovery of compounds to shape new businesses other than generics that will contribute to earnings. I hope our stakeholders follow these developments with anticipation.

Initiatives to Realize Our Goals

Since 2000, the Nippon Chemiphar Group has promoted a management strategy based on three goals: establishing a strong presence in the generics business; becoming a leader in the hyperuricemia field; and pursuing proprietary drug discovery and development.

In addition to contributing to the resolution of problems faced by society, the attainment of these goals will enhance earnings power in the expanding generics market, while clinical research and activities to broaden public awareness will establish our presence in the hyperuricemia market. As our market footprint expands, the development of new drugs on different timelines—starting with the discovery of candidate compounds—will enable us to realize continuous growth.

At present, we are beginning to see the effects of our management strategy. To build on these, we will promote overseas initiatives focused mainly on Asia.

Goal 1

Secure our presence in the generics business

As a Group that possesses integrated capabilities in the development, manufacture and marketing of not only new drugs but also generics, Nippon Chemiphar strives to provide high-quality, economical generic drugs, which meet the needs of patients and healthcare professionals.

Goal 2

Achieve a stronger position in the hyperuricemia market, centered on Uralyt

In recent years, advances in research have suggested that hyperuricemia therapies are very important. Through such activities as support for clinical research related to alkalization therapies and drug discovery research for new hyperuricemia therapeutic drugs, we aim to make future contributions to enhancing patient quality of life.

Goal 3

Contribute to society through proprietary developments toward drug discovery

We adopt a system of venture-type drug-discovery research, under which we out-license—typically at an early stage—the development of newly found compounds to highly specialized companies in Japan and abroad.

Plus 1

Apply our three goals to overseas markets centered on Asia.

Centering on the high-growth Asia region, demand is growing in such areas as therapeutic drugs for lifestyle-related diseases—including hyperuricemia—and value-added generic drugs. We intend to utilize the accomplishments of our above three goals to strengthen our presence in overseas markets.

Goal 1 Initiatives Involving Generics

As one of its ongoing initiatives to hold down rising healthcare expenses, the Japanese government is promoting the use of generics. Accordingly, demand for generics has increased sharply in recent years. In 2000, the Nippon Chemiphar Group positioned generics as a strategic business taking the lead among companies focused on new drug development. By leveraging our expertise in new drug sales and knowhow cultivated over 15 years in the generics business, we will work to maintain high quality and stable supplies. At the same time, we will concentrate on providing accurate information and manufacturing products catering to the needs of medical professionals and patients. By providing unique added value, we aim to increase our presence in this market.

1. Overview of Operations in FY2015

In FY2015, the Nippon Chemiphar Group's consolidated sales of generics amounted to ¥29,016 million, up 5.9% year on year. Although sales to other manufacturers[1] declined, sales to medical institutions increased due to government measures promoting the use of generics.

Overall sales from the generics business, including original design manufacturer (ODM) sales,[2] amounted to ¥30,243 million, up 4.6% year on year.

Generics Sales (Consolidated)

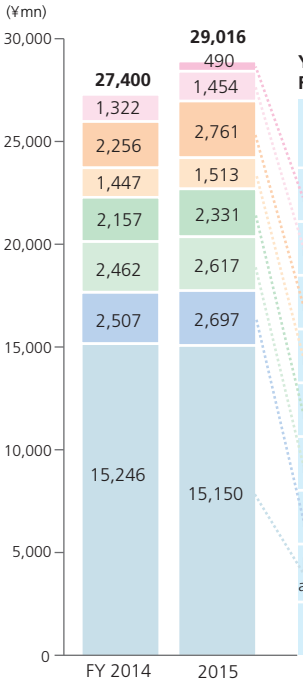
(¥mn)

	FY2014	FY2015	
	Amount	Amount	YOY (%)
a. Generics	27,400	29,016	+5.9
To medical institutions	25,079	27,404	+9.3
To other makers	2,321	1,612	(30.6)
Amlodipine	3,011	3,159	+4.9
Lansoprazole	1,935	2,182	+12.8
Limaprost Alfadex	1,509	1,487	(1.4)
Rabeprazole	1,595	1,737	+8.9
Donepezil	1,704	1,712	+0.5
Pravastatine	1,273	1,260	(1.0)
Voglibose	1,013	1,004	(0.9)
Others	15,357	16,471	+7.3
Total (a+b)	28,918	30,243	+4.6
a. Generics	27,400	29,016	+5.9
b. ODM	1,518	1,226	(19.2)

(1) Sales to Medical Institutions

Thanks to government measures promoting the use of generics, sales of generics (mainly recently launched products) to medical institutions expanded 9.3% year on year, driven by an increase in sales to pharmacies and significant growth in sales to DPC hospitals.[3]

Sales of Generics by Launch Year (Consolidated)



Year-on-year Change by Fiscal year Launched

Launch Year	Total	Sales to Medical Institutions (%)
FY 2015	No results for previous year	
FY 2014	+10.0	+101.8
FY 2013	+22.4	+27.1
FY 2012	+4.6	+5.9
FY 2011	+8.1	+6.8
FY 2010	+6.3	+9.9
FY 2009	+7.6	+7.6
FY 2008 and before	(0.6)	+0.3
Total	+5.9	+9.3

1. Sales to other manufacturers of products for which the Nippon Chemiphar Group has manufacturing and sales approval.
2. Sales of products manufactured on an outsourcing basis for other companies that have manufacturing and sales approval.
3. Hospitals that apply the diagnosis procedure combination/per-diem payment system (DPC/PDPS) calculate medical expenses based on a fixed amount per day, using a comprehensive system based on the acute stage of treatment.

Sales by Medical Institutions

Looking at Chemiphar's non-consolidated sales of generics—based on the type of medical institution buying—hospitals account for 14%, clinics 12%, pharmacies 73% and others 1%. In FY2015, sales to hospitals increased 19.5%, while sales to DPC hospitals were particularly robust, up 24.9% year on year.

Composition of Generics Sales by Destination (Non-consolidated)

(%)

	FY2014	FY2015	
	Distribution	Distribution	YOY
Total	100.0	100.0	+9.2
Hospitals (100 beds or more)	13.0	14.0	+19.5
Clinics (less than 100 beds)	12.0	12.0	+2.5
Pharmacies	74.0	73.0	+8.8
Other	1.0	1.0	(11.0)

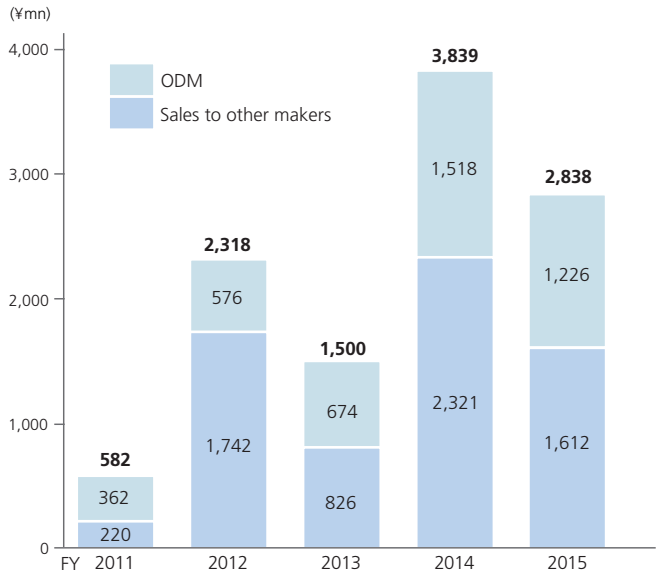
Of which, DPC hospitals

FY2015
YOY
+24.9

(2) Sales to Other Makers

Sales of generics to other makers and export sales were affected by a decline in orders, following robust sales last fiscal year thus resulted in a 30.6% year-on-year price decrease. ODM sales of generics declined 19.2%, reflecting the disadvantageous timing of orders.

Sales to Other Manufacturers (Consolidated)



2. Future Initiatives

(1) Development

Since making generics a pillar of our business in 2000, we have created our own system for the development of generics.

In FY2015, we launched 15 drugs from eight agents, centered on items developed in-house. That brought the number of products we handled to a total of 223 (as of March 31, 2016).

Furthermore, in recent years we have worked to increase the degree of certainty in development, improve drug formulations, and introduce creative packaging. For these efforts to meet needs on the medical front, and to develop highly competitive products, we made early development inroads and strengthened our intellectual property and development systems.

The market for generics is expected to expand as patents expire on branded drugs that have maintained a certain market scale. At the same time, we expect market competition to grow increasingly fierce. To maintain our strong standing under these circumstances, we must improve the quality of developed products by leveraging our comprehensive development capabilities, namely, being the first to bring products to market and our ability to reflect medical needs in our formulations. By concentrating and efficiently managing our development resources, we aim to create products that will earn a solid reputation in the market.

☞ Please refer to page p. 20 for information on drug formulations and packaging.

(2) Manufacturing

In June 2014, the new manufacturing building at the Nihon Pharmaceutical Industry Tskuba Factory—the first pharmaceutical plant in Japan to employ a fully seismic-isolated structure—commenced operations. This addition raised the Nippon Chemiphar Group's annual production capacity from 900 million to 1.1 billion pills. Furthermore, maximizing the amount of equipment that this new building can support will allow the Group to further boost capacity, from 1.1 billion to 1.4 billion pills. During FY2016, the equipment on the first floor will be running at full capacity. We will consider capital investment in equipment for the second floor, at the same time keeping a close watch on supply, demand and overseas production conditions.

In addition to bolstering capacity in Japan, we are currently building a factory in Vietnam that is scheduled to start operating in FY2018 (ending March 31, 2019). Recognizing that ensuring production capacity and lowering costs are issues of particular importance in the generics business, we plan to continue efforts to reinforce manufacturing capacity in Japan and abroad.

☞ Please refer to page 17 for information on overseas production.

(3) Quality Assurance

Understanding the importance of appropriate quality control and production management, we have prepared operations manuals for control surveys in line with good quality practice[1] and good manufacturing practice,[2] and conduct quality assurance activities accordingly. For example, we evaluate and verify the raw materials procured, as well as their storage and transportation. This ensures that we are able to supply pharmaceuticals that are managed appropriately. We are also stepping up inspections at manufacturing locations in Japan and overseas to guarantee ongoing product quality and maintain supply stability.

1. Outlined in a government ordinance on quality standards for drugs, quasi-drugs, cosmetics and medical devices.
2. Outlined in a government ordinance on the control of the manufacture and quality of drugs and quasi-drugs.

(4) Provision of Information

If pharmaceuticals are to be used properly, it is crucial that users be given relevant information. We ensure that healthcare professionals receive adequate information for new drugs and generics to promote their safe use.

a. Through Medical Representatives (MRs)

Nationwide, we have approximately 250 MRs, whose function is to provide information on the use of drugs and patient instructions, and to meet other needs of medical institutions. By maintaining ties with individual medical institutions, particularly core hospitals that are central to regional healthcare, we continue working to ensure the efficiency of our MRs' activities.

b. By Supporting Research Groups

The Company conducts seminars and study groups related to various types of diseases, including dementia and lifestyle-related illnesses, providing medical professionals with the most up-to-date information and serving as a venue for exchanges of opinion related to treatment. Since 2005, we have supported the operation of the DPC Management Forum to discuss the diagnosis procedure combination that the Japanese government is promoting.

c. Augmenting Access to the Oncology Market

With the number of oncology patients growing as the population ages, demand is increasing for generic anti-cancer agents. In 2013, we set up an oncology promotion section to enable MRs to provide cancer-related information. We also started to conduct seminars for healthcare professionals regarding oncology drug therapies.

Providing more patients with safe, convenient products

Nippon Chemiphar products provide healthcare professionals and patients with innovations related to safety and convenience. The Company prints the name of the drug and the maker on both sides of a tablet, enabling patients to visually confirm one-pack* medications. This innovation is particularly well regarded by pharmacists. I will continue to engage in MR activities and to take pride in product innovations that benefit many people.

Shunichiro Ozawa
Tokyo Branch Chiba Sales Office

* Package containing medications to be taken together by patients who have been prescribed multiple medications.

d. Responding Swiftly to Inquiries

To ensure accurate and speedy responses to telephone inquiries from medical professionals and patients, we have established a customer support office to help provide information on the appropriate use of pharmaceuticals.

e. Offering Abundant Supporting Materials

To communicate the most recent information, we publish an informational periodical for physicians and pharmacists. We also produce items that provide guidance on various types of nutrition-related and exercise therapies, as well as on health management. Through these supporting materials, we are helping to improve the quality of healthcare.

(5) Ensuring a Stable Supply Structure

a. Distribution System Using Pharmaceutical Wholesalers

As generics become more prevalent, individual manufacturers are taking on growing responsibilities with regard to supply stability, requiring carefully crafted logistics systems. As with new drugs, we deliver our generics via nationwide pharmaceutical wholesalers, which have a robust logistics network to supply medical institutions throughout Japan.

b. Double-sourcing Active Pharmaceutical Ingredients (APIs)

Providing a steady supply of drugs requires efforts to both reinforce manufacturing capacity and ensure the stable procurement of APIs. The Ministry of Health, Labour and Welfare's roadmap designed to further promote the use of generic drugs addresses the stable procurement of APIs and calls for double-sourcing (having multiple suppliers). To meet the requirement, we are strengthening the inspections to secure optimal API suppliers in Japan and overseas.

Goal 2 Hyperuricemia (Urine alkalization)

Nippon Chemiphar has developed Uralyt, an alkalization treatment, and we have worked for many years to raise awareness of hyperuricemia. Since the condition recently has been recognized as a pre-gout stage, attention has focused on events related to metabolic syndrome and the cardiovascular system. Through ongoing activities such as these, we are contributing to improvements in the quality of life of patients as a frontrunner in the hyperuricemia market.

1. Awareness Activities

(1) Research Group-based Initiatives

We have been cosponsoring the Hyperuricemia and Metabolic Syndrome Research Forum since its founding in 2004.

(2) Web-based Initiatives

We provide general information websites about hyperuricemia and gout, offering information tailored to the different needs of medical professionals and patients.

Our patient-oriented website concerning gout includes such content as healthy recipes and offers tips on selecting foodstuffs and cooking methods, as well as well-balanced nutrition therapies and other information.

2. Market Expansion Initiatives

The work of the above mentioned Hyperuricemia and Metabolic Syndrome Research Forum has sharpened the focus on the link between aciduria and lifestyle diseases, and has led to the publishing of many aciduria-related papers. We are particularly interested in papers about the association with metabolic disorders of metabolic syndrome and kidney disease. For this reason we are looking forward to authorities in Japan making progress on clinical research in these areas.

In the meantime, we are working to develop new drugs to treat hyperuricemia, and are pursuing the development of antihyperuricemic agent NC-2500 and NC-2700.

About Uralyt

It is not uncommon for hyperuricemia and gout to lead to high levels of acid in urine. Left untreated, acid urine will lead to stones forming in the urinary tract. Chemiphar launched Uralyt in 1988 as an alkalization treatment to improve acid urine. For the past 28 years, we have been working to raise awareness about ways in which the urine pH level can be improved and alkalization treatment. We plan to continue these initiatives, making use of successful clinical research related to alkalization treatment and expanding our scope of activity.

Goal 3 Drug Discovery

We are working to develop new breakthrough drugs for patients suffering from diseases for which there are no appropriate therapeutic drugs. In order to bring newly found compounds to market as quickly as possible, we are focusing our drug research on discovery and, typically at an early stage, out-licensing development to highly specialized companies at home and abroad through our drug research venture system. We are tackling drug discovery challenges concentrating on our specialty fields of hyperuricemia and algia drug development.

1. Development Pipeline

Development No. / Function	Target	Stage	Notes
NC-2400 / PPAR delta agonist	Lipid metabolism	Phase I complete (U.S.)	Licensed to Cerenis Therapeutics SA (France) in 2005
NC-2500 / XOR inhibitor	Hyperuricemia	Additional phase I (Japan)	Repeating phase I clinical testing in June 2016, since formulation has been improved
NC-2600 / P2X4 receptor antagonist	Neuropathic pain	Phase I (Japan)	**AMED* supported theme** Preclinical testing complete. Currently in Phase I
NC-2700 / URAT1 inhibitor	Hyperuricemia	Preclinical testing (Japan)	Currently in preclinical testing
NC-2800 / Delta opioid receptor agonist	Depression / anxiety	Preclinical testing (Japan)	**AMED supported theme** Currently in preclinical testing, which is to be completed during support period (ending March 2018)

* Japan Agency for Medical Research and Development

2. AMED-supported Themes

(1) NC-2600 / P2X4 receptor antagonist (for neuropathic pain)

With public funding from the Japan Agency for Medical Research and Development (AMED), we are working with Kyushu University to develop a P2X4 receptor aimed at treating neuropathic pain. Preclinical testing, which began in October 2014, was completed on schedule; phase I clinical testing started in June 2016.

Neuropathic pain is debilitating to the point where it interferes with patients' everyday life, but there are few options offering a remedy, resulting in a need for the development of new treatments.

(2) NC-2800 / Delta opioid receptor agonist (for depression / anxiety)

With public funding from AMED, we are working with Kitasato University, the University of Tsukuba and the National Center of Neurology and Psychiatry to research this theme. The project was selected from AMED's industry–academia collaboration program (ACT-M), with the aim of creating a selective opioid receptor agonist drug targeting depression and anxiety.

We set the new development number NC-2800 in March 2016, by the end of the AMED support period, we aim to have completed the preclinical trials required in order to begin phase I clinical trials.

Providing patients with new drugs

To make the most of limited resources, Nippon Chemiphar promotes drug discovery through industry-university collaboration utilizing public funding. The biggest advantage comes from cooperation leveraging professors' knowledge and experience in areas where cutting-edge research is being conducted. In the delta opioid project, joint research professors solved various challenges as they arose, which led to the discovery of development candidate NC-2800. We are at the halfway point on a long journey aimed at creating a first-in-class, totally new medication for depression and anxiety. I am eager to provide patients with this drug as soon as possible.

Eriko Nakata
Head of NC-2800 research group,
Discovery Research Laboratories

Plus 1 Overseas Development

Growing demand for generics is prompting an urgent need for generics manufacturers to secure production capacity. Lowering production costs is also a high priority, in response to given periodic NHI price revisions and the competitive environment. Furthermore, due to the decreasing population associated with a falling birthrate and an aging society, as well as concerns about public finances, we see a shrinking Japanese market as unavoidable.

To sustain corporate growth against this backdrop, we are setting up an overseas production base to boost capacity and lower costs. We also see the expansion of sales routes overseas as essential, particularly in rapidly growing Asian markets. To this end, we set up the International Business Department in October 2012. Then in March 2015, we established a subsidiary in Vietnam.

1. Sales

In the area of pharmaceuticals, we work with local distributors to sell our proprietary products in Thailand, China and South Korea. In addition, to enhance the access of our generics to the ASEAN market, we acquired approval in FY2015 for the sale of cilostazol in Hong Kong. Including cilostazol, we are marketing six products in three countries. At present, we have applications pending for five more products, and are preparing to increase the number of products and countries in which they are available.

In the diagnostics business, we are working with local distributors overseas to market our allergy diagnostic instrument, which has the fastest reaction time of any currently in use.

2. Manufacturing

To boost capacity and lower the cost of sales, as well as to be a foothold for future sales overseas, we set up Nippon Chemiphar Vietnam Co., Ltd., an overseas manufacturing base currently being built. Construction began in March 2016 and is scheduled for completion in 2017. We plan to commence full operation in 2018.

The groundbreaking ceremony for construction of the Vietnam factory.

Architect's rendition of the factory

The Group's first overseas manufacturing base

As we construct the Vietnam factory, I am responsible for coordinating with local construction companies, ensuring compliance with local laws and as well as hiring activities. Underpinning the construction of Nippon Chemiphar's first overseas manufacturing base are three factors, namely, the right time, place, as well as contractor and consultant. This required that the schedule be carefully managed to ensure construction quality. Thus, I meet with construction companies and construction consultants to identify and mitigate risks as quickly as possible. I will make every effort to ensure the factory will be able to provide a stable supply of high-quality products at a low cost throughout the world.

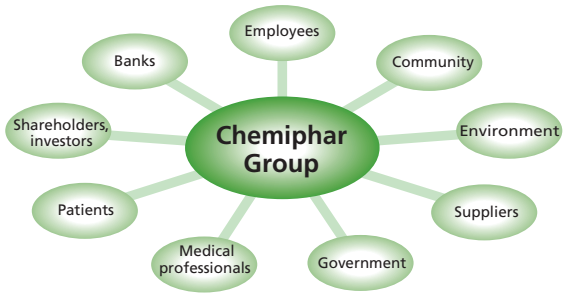
Truong Cao Tue
Nippon Chemiphar Vietnam Co., Ltd.

CSR: Maintaining Society's Trust

Nippon Chemiphar is engaged in a variety of CSR initiatives.

Fundamental CSR Policy

We owe our stakeholders continued commitment to improving the health of society at large, by providing quality products and services.



I Diversity Initiatives

The Nippon Chemiphar Group believes employee diversity in terms of gender, nationality, workstyle and values to be the cornerstone of corporate vitality and growth that leads to the enhancement of corporate value. The Group is striving to create a corporate culture that enlivens the individuality and talents of each employee.

1. Promoting the Participation of Women

We hire women, promote women to management positions, and incorporate various viewpoints and ways of thinking in business management. We will make our workplaces more enjoyable and fulfilling by the presence of hardworking female veteran employees and female managers who serve as role models for other ambitious female colleagues.

In accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace, Nippon Chemiphar aims to raise the ratio of female managers to 10% by March 2018.

Ratio of female managers (April 2016)	7.2%
Ratio of women among newly hired recent graduates (April 2016)	Approx. 60%

Toward achieving diversity

I am engaged in the implementation of action plans based on the 2016 Act on Promotion of Women's Participation and Advancement in the Workplace, including the hiring of local staff ahead of the Vietnam factory launch, the formulation of educational plans, the establishment of regulations and the hiring of non-Japanese employees in Japan. I feel very happy to be working alongside staff and colleagues to ensure human resources are truly diverse. Our aim is to create an organization and corporate culture that respects the diversity and individuality of employees and enables them to make the most of their abilities regardless of gender and nationality.

Miyuki Komazawa
Manager,
Human Resources Department

2. Hiring and Development of Human Resources

Overseas access is indispensable for sustainable growth. Building a factory in Vietnam is part of this. We are hiring human resources with a high degree of specialization in particular areas, regardless of nationality.

Aiming to develop human resources who can work globally, we subsidize the TOEIC test and send researchers to an overseas university.

3. Promoting Diverse Workstyles

We have a variety of systems enabling all employees to hone their skills and, at the same time, continue working comfortably. Under the flextime work system, employees can decide for themselves when to start and end their workday. The discretionary work system is applied to specialists. The "come-back system" encourages employees to return to work after having resigned for inevitable reasons, such as to engage in childcare or nursing care. The re-employment system enables senior employees to continue working after retirement. Both make a workplace responsive to the life situation of individual employees, and the company also benefits from their experience and expertise.

II Employees

Since the sustainable growth of the company depends on the development of all our employees, we are fostering an inviting work environment with respect for human rights and a good work–life balance. We offer our staff various training programs.

1. Hiring

We hire employees through a fair and unbiased process, candidates having multiple interviews with multiple interviewers. We aim to increase employment opportunities for people with disabilities and make every effort to provide an appropriate work environment.

2. Career Development

We provide employees with training and support systems tailored to different ages and types of work in order to expand employee capabilities and develop the next generation of manager.

Support to Increase Human Resources Capabilities

Rank-based Training

- Leader training
- Management training
- Training for newly appointed managers
- Level-appropriate training for team, section and general managers
- Training for newly appointed executives
- Evaluator training

Support for Elective Education

- Support for acquiring an MBA
- Researcher education
- Dispatch to management team seminars

Personal Development

- Correspondence education
- IT training
- Support for obtaining public certifications
- External public lectures
- TOEIC IP tests

3. Preventing Harassment

In order to prevent our employees from being perpetrators or victims either within or outside of the Company, our newly assigned managers learn about sexual, power, and maternity harassment as part of management basics during training. Company regulations prohibit sexual harassment and we have a sexual harassment prevention manual.

In addition, we have in place internal and third-party hotlines for preventing and improving responses to various types of harassment.

4. Supporting Work–Life Balance

We promote our employees' work–life balance through various systems: we have no overtime, prohibit working after 8:00 p.m. and promote making the most use of the morning hours. We also support leaving work on time so that employees can enjoy their private time. As a result of these endeavors and management support, in fiscal year 2015, we achieved a 70% reduction in overtime per person compared with FY2008.

III Medical Professionals and Patients

It is said that drugs cannot fulfill their proper roles unless they are used together with the appropriate information. Bearing this in mind, we are quick to provide medical institutions with accurate information about the proper use of our drugs. We do this through our medical representatives (MRs), who are located nationwide. At the same time, we work to collect information on quality and safety, consolidate collected safety particulars, and provide this to assist in creating new pharmaceutical preparations.

1. Initiatives to Ensure Proper Use of Drugs

(1) MR Education

In addition to information about the efficacy of our products, we educate and train our MRs to provide information with regard to appropriate use. Always thinking about the patient, we strive to cultivate human resources who can serve as members of team-based healthcare for pharmacotherapy partners.

(2) Providing Information

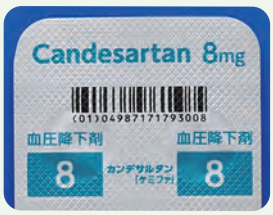
Various types of information are available on our website. For example, information targeting medical professionals includes news about National Health Insurance price revisions and guidance on administering drugs.

We supply information about generics and provide therapeutic food recipes and other information for patients. Further, we offer various leaflets about new drugs and generics, providing information to meet medical institutions' needs.

We provide separate websites for medical professionals and patients concerning hyperuricemia and gout. The data is tailored to groups' different needs and levels of knowledge.

Product Initiatives Aimed at Safety and Convenience

Improving Visibility and Convenience



Visibility

1. Matte press-through packaging
Reduced shine makes it easier to read the information and instructions written on the aluminum backing of medication packaging.

2. Universal design font
For sheets of press-through packaging and outer packaging, we use a font that is highly legible, to prevent misreading.

Convenience

3. Tablet imprint
All tablets have the name of the drug and the maker printed on each side, on the top and bottom half, respectively, on one side, and the bottom and top half on the other side. Tablets are scored on both sides.

Enhancing Safety—Special Packing for Anticancer Drugs

Designed to Reduce Exposure

After filling a vial with medication, any remaining anti-cancer agent is cleaned away from the outer surface of the vial, which is then wrapped in film.

Prevents Bottles Breaking, Contents Scattering

Cushioning material is placed at the bottom of the vial before it is covered in shrink-wrap film.

2. Strengthening Our Stable Supply System

To provide a stable supply, as called for in the "Roadmap for further promotion of the use of generic medicines" formulated by the Ministry of Health, Labour and Welfare, we are diversifying our active pharmaceutical ingredient procurement partners and stepping up inspections of local manufacturing facilities. At the same time, we are continuing to make improvements to ensure stable provision throughout the supply chain, from development and manufacturing to sales. Our new factory at the Nihon Pharmaceutical Industry Co., Ltd., Tsukuba Factory employs the industry's first fully seismically isolated structure, we have begun construction of our Vietnam Factory, and we have set up a supply system featuring 100% pharmaceutical wholesaling.

3. Safer, More User-friendly Products

We are working on initiatives to ensure the quality of both generics and proprietary products, as well as to provide information more effectively. At the same time, we are devising ways to improve the visibility and user-friendliness of our products.

When packaging our products, we take ample care to ensure the safety and security of medical professionals and patients alike. Examples of such activities include using press-through packaging sheets for oral medications and employing external packaging to prevent exposure to anticancer medications.

IV Community Participation

As members of local communities and society, we support projects that benefit the communities in which our offices are located and society. Our aim is to grow, while being an integral part of society.

1. Cooperation with Local Communities

Combining regional contribution and environmental promotion, we conduct cleanup activities—around Nippon Chemiphar's headquarters and Soka offices, as well as the Tsukuba Factory of Nihon Pharmaceutical Industry—and hold blood drives twice each year on an ongoing basis.

2. Recycling, Support for Developing Countries

We help developing countries through such activities as collecting pet bottle caps, books and miswritten postcards. In Japan, caps can be collected and sold to recycling companies, while cards can be exchanged through the postal service for money. Group companies have been generating donations in this way since 2011.

Books donated by employees.

3. Volunteer Activities

We have established an internal volunteer leave system that encourages employees to take an active part in volunteer activities, including such social welfare initiatives as conducting rescue efforts in areas affected by disaster, providing nursing care for seniors and working with people who have mental or physical disabilities.

4. Free Use of Our Baseball Field

One of our community activities is to make a baseball field at the Nihon Pharmaceutical Industry Tsukuba Factory available for use by a youth baseball team. Currently, the field is used as a home field for around 30 junior high school students who belong to the Chikusei Tamiya Boys team, a member of the Ibaraki chapter of Japan Boys League Inc.

Photo of the community baseball team.

V Environment-related Initiatives

In order to help make our society more sustainable, we believe that companies must consider the environmental impact of their business activities. The Nippon Chemiphar Group conducts its activities in accordance with the philosophy and basic policies it has formulated, endeavoring to reduce the environmental impact of its business pursuits.

1. Basic Policies

(1) We seek to minimize our footprint in all our business activities, including R&D, manufacturing and sales, by using resources and energy efficiently, minimizing waste, reusing and recycling.
(2) Our group management system focuses on environmental conservation.
(3) Our corporate transparency benefits from the release of impartial and appropriate information concerning environmental conservation.
(4) We are striving to make our employees eco-conscious and to teach them how to protect the environment.

2. Environment Conservation

We have an Environment Committee to devise, implement and evaluate environment-related conservation initiatives for the entire Company. We are continuing to make initiatives to protect the global environment a companywide theme. We have launched a campaign to conserve electricity, and in-house training to enhance awareness of environment-related activities.

3. CO_2 Emissions

In the interests of helping reduce global warming, we have set ourselves a goal to be achieved between FY2012 and FY2017. During that time, we plan to achieve an average CO_2 emission intensity reduction rate (that we measure as the ratio of emissions to sales and other aspects of our business) of at least 1% relative to FY2012 emissions. The units of CO_2 output employ the following parameters, which are determined by company conditions.

4. Impact of Group Operations

Material Balance in Our Business Activities

INPUT

Energy

Electricity	11,096,000	kwh
Gasoline	604	kl
Heavy oil	408	kl
Kerosene	720	kl
LPG	2	t
Town gas	2	t
Total	174,070	GJ

Water Consumption (from factories, laboratory)

Tap water	26,659	m^3
Well water	67,170	m^3
Total	84,566	m^3

Materials

Raw materials	267	t
Packaging materials	149	t
Total	416	t

OUTPUT

Into Atmosphere

CO_2 emissions	6,706	t-CO_2
PRTR-related substances	0.00	t

As Industrial Waste Water (from factories, laboratory)

Used water	60,444	m^3
PRTR-related substances	0.99	t

As Waste

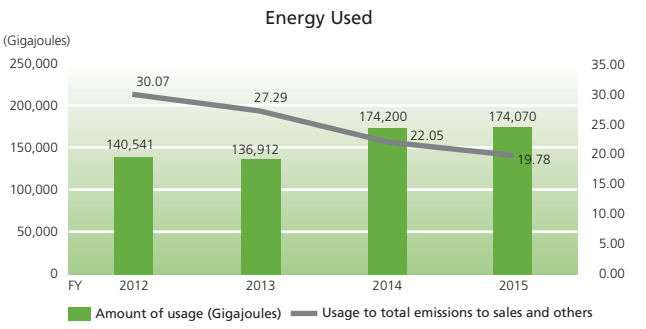
Non-industrial waste	40	t
Industrial waste	168	t
PRTR-related substances	5.11	t

Recycling

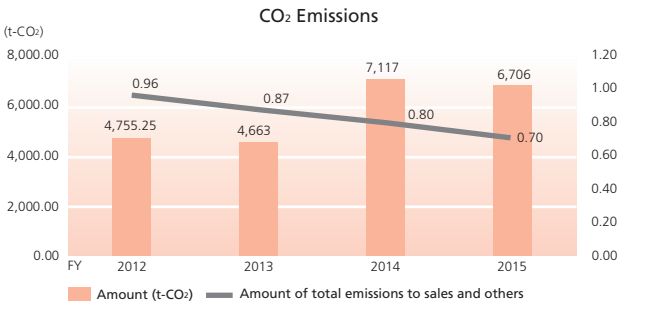
Container and package recycling	24	t

Calculation method
- Period: From April 1, 2015 to March 31, 2016
- Scope: All Nippon Chemiphar Group offices

INPUT



OUTPUT



VI Management Systems

1. Corporate Governance

(1) Underlying Philosophy

We take very seriously the managerial responsibilities with which our shareholders have entrusted us. Thus we strive to ensure that our management organization and operations are appropriate, and it our top priority to guarantee that management is fair by making it as transparent as possible to our shareholders, customers and society.

(2) Organization

We are reinforcing corporate governance with the aim of boosting management transparency and efficiency. We have divided the management functions into two main areas: decision-making and supervisory functions; and executive functions. The former functions are handled by directors (Board of Directors) and the latter by corporate officers (at Corporate Executive Officer meetings).

Nippon Chemiphar has a board of company auditors, the Audit & Supervisory Board. Members participate in Board of Directors' and other important meetings, thereby determining the overall activities of the directors and executive officers, while conducting audits from a strictly neutral perspective.

To ensure the appropriate disclosure of financial information, audits are conducted by accounting auditors in accordance with the provisions of the Companies Act, the Financial Instruments and Exchange Act and other laws, with cooperation from members of the Audit & Supervisory Board. Furthermore, we have created an internal control system to ensure that operations throughout the Nippon Chemiphar Group are both appropriate and efficient.

2. Internal Control

(1) Internal Control System

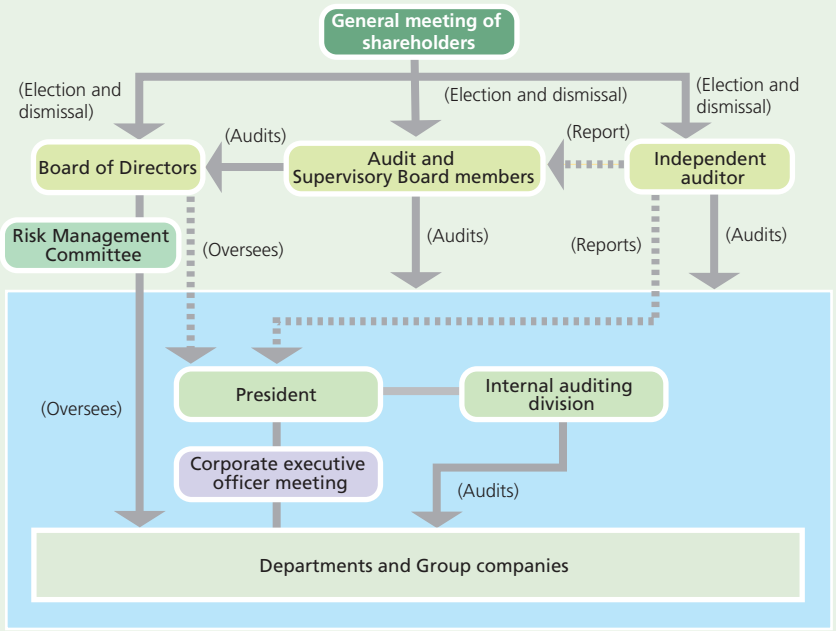
The Company has formulated a Basic Policy on Internal Control, based on the Companies Act and the Order for Enforcement of the Companies Act, and we have in place systems to ensure operational appropriateness with regard to areas including risk management, compliance, efficiency of operational execution and the reliability of financial reporting.

Moreover, we have established an internal audit department under the direct control of the Company president. This department liaises with the Risk Management Committee and other committees to audit and advise on improvements concerning operational appropriateness.

(2) Risk Management and Compliance

In accordance with our Basic Policy on Internal Control, we have formulated Risk Management Regulations for identifying, managing and responding to a variety of risks that have the potential to significantly affect the Company's management. Appropriate systems are put in place by the Risk Management Committee, which is chaired by the director in charge of risk management. In particular, we have committees charged with handling risks related to compliance and information security. In addition to risk response, these committees are responsible for conducting employee awareness activities.

Management Organization



3. Directors, Corporate Auditors and Executive officers

(As of June 30, 2016)

(Back row, from left)
Directors and Corporate Officers: **Yasushi Hatakeda**, **Tomio Yamakawa** and **Masahide Yasumoto**;
Outside Director: **Masaaki Hatakeyama**

(Front row, from left)
Director and Senior Managing Corporate Officer: **Masanori Kutsuwada**; President and CEO: **Kazushiro Yamaguchi**;
Director and Managing Corporate Officer: **Tsuyoshi Koyama**

(From left)
Audit & Supervisory Board: **Tsuyoshi Takahashi**, **Haruki Mori** (full-time) and **Naoshige Shindou**

(From left)
Corporate Officer: **Toshiki Nakai**;
Senior Corporate Officer: **Yoshiyuki Maki**;
Corporate Officers: **Shingo Kinmei** and **Shinji Nakajima**

Financial Section

Ten-year Consolidated Performance Overview[1]

	FY2006 (Ended March 31, 2007)	FY2007 (Ended March 31, 2008)	FY2008 (Ended March 31, 2009)	FY2009 (Ended March 31, 2010)	FY2010 (Ended March 31, 2011)	FY2011 (Ended March 31, 2012)
Income Statement:						
Net sales	20,966	20,918	22,308	23,982	27,361	28,514
Pharmaceutical products segment	19,073	19,823	21,490	22,907	26,205	27,326
Generics	9,013	9,680	11,787	14,528	17,990	19,721
Proprietary products	7,959	8,155	7,479	7,056	6,148	5,746
Others segment	1,894	1,095	817	1,075	1,156	1,188
Cost of sales	8,682	8,781	10,388	11,448	12,990	12,872
Selling, general and administrative expenses	10,888	10,967	11,339	11,767	12,371	12,719
R&D expenses	1,465	1,317	1,427	1,722	1,879	1,791
Operating income	1,396	1,170	581	767	1,999	2,923
Income before income taxes and minority interests	947	917	498	557	1,416	2,699
Profit attributable to owners of parent	366	390	168	271	573	1,440
Financial position at year end:						
Total assets	21,040	21,765	24,697	29,601	30,787	33,791
Total net assets	6,771	6,944	6,848	7,866	8,965	10,231
Cash flow from:						
Operating activities	(502)	(82)	(3,261)	1,890	2,748	1,753
Investing activities	(28)	(597)	(1,742)	(1,451)	(640)	(227)
Financing activities	(434)	(564)	4,154	1,509	(949)	63
Capital expenditure and other:						
Capital expenditure	175	1,116	889	681	584	1,015
Depreciation and amortization	253	283	580	694	776	748
Amounts per share:						
Earnings per share	9.59	10.22	4.41	7.10	13.95	34.62
Book value per share	177.36	181.99	179.55	185.22	212.92	248.92
Dividends per share	2.0	3.0	3.0	3.0	3.0	5.0
Indexes:						
EBITDA (millions of yen)	1,560	1,467	1,123	1,517	2,824	3,745
Operating income to sales (%)	6.7	5.6	2.6	3.2	7.3	10.3
Return on equity (%)	5.4	5.7	2.4	3.9	7.2	15.0
Return on assets[2] (%)	1.7	1.8	0.7	1.0	1.9	4.5
Debt-to-equity ratio (%)	82.1	73.2	136.8	166.0	122.4	113.1
Equity ratio (%)	32.2	31.9	27.7	23.9	29.1	30.3
Dividend payout ratio (%)	20.9	29.4	68.0	42.3	21.5	14.4
Number of employees	575	591	624	714	711	682

Notes:
1. The figures in these materials are all publicly disclosed figures according to Japanese GAAP as of the disclosure date.
Please understand that these materials may be updated or revised without prior notice.
2. Return on assets = net income / [(total assets for the previous term + total assets for this term) / 2]
3. Announced on May 12, 2016.

Analyses of Operating Results and Financial Position for FY2015

I. Summary of FY2015 Business Results

In the pharmaceutical products segment, sales rose 1.0% YOY, to ¥34.5 billion. This increase was due to continued expansion in sales to medical institutions, bolstered by the national government's measures to promote the uptake of generics, which compensated for lower sales of proprietary products and sales to other makers. The Others segment also benefited from favorable orders in the contracts testing business. As a result, overall net sales expanded 1.4% YOY, to ¥35.6 billion.

On the income front, performance was affected by three increases. First, In the cost of sales ratio, stemming from lower sales of proprietary products; second, in generics development costs; and third, in research and development costs related to new drug development.

Consequently, operating income was down 4.3% YOY, to ¥3.1 billion, while ordinary income fell 8.4%, to ¥2.9 billion. Owing to a revision in the corporate tax rate, net income increased 3.3% YOY, to ¥1.9 billion.

Nearly on track with the Company's forecast, fiscal year net sales achieved 97.3% of the expected figure. Meanwhile, the Company kept expenses lower than expected through stringent efforts to monitor operating expenses, and by holding down selling, general and administrative expenses. These efforts included the efficient use of R&D expenditures for generics and the shift to the following fiscal year of additional phase I trials for the therapeutic agent NC-2500. Thus, operating income exceeded our initial forecast.

1. Pharmaceutical Sales

Generics sales to medical institutions rose 9.3% YOY, due to demand having continued to expand, centered on pharmacies and DPC hospitals. Generics sales to other makers, including export sales, slid 30.6% YOY, reflecting favorable orders ensuing from NHI price revisions in the preceding fiscal year. Accordingly, sales of generics, including ODM products, totaled ¥30.2 billion (up 4.6% YOY).

FY2012 (Ended March 31, 2013)	FY2013 (Ended March 31, 2014)	FY2014 (Ended March 31, 2015)	FY2015 (Ended March 31, 2016)	Forecast for FY2016[3]
				(Millions of yen)
31,944	31,893	35,119	35,602	38,000
30,865	30,774	34,169	34,510	–
23,630	24,405	27,400	29,016	–
4,795	4,312	3,400	2,920	–
1,079	1,120	950	1,092	–
14,923	15,128	18,353	18,804	–
13,148	13,437	13,480	13,653	–
1,937	1,668	1,755	1,889	2,200
3,874	3,328	3,286	3,145	2,800
3,602	3,055	3,094	2,946	–
2,125	1,887	1,900	1,962	1,850
				(Millions of yen)
35,489	40,106	41,428	43,644	–
12,409	13,501	15,626	16,042	–
				(Millions of yen)
1,913	1,892	2,438	2,451	–
(1,422)	(2,499)	(2,073)	(151)	–
(714)	(205)	(137)	(935)	–
				(Millions of yen)
1,154	3,367	1,711	1,173	2,900
840	862	1,201	1,179	1,250
				(¥)
51.77	46.20	47.45	49.91	47.08
302.28	336.97	390.01	409.97	–
10.0	10.0	10.0	10.0	10.0
4,748	4,253	4,589	4,280	–
12.1	10.4	9.4	8.8	7.4
18.8	14.6	13.1	12.4	–
6.1	5.0	4.7	4.6	–
90.6	89.7	80.1	81.1	–
34.9	33.6	37.7	36.7	–
19.3	21.6	21.1	20.0	21.2
679	699	743	756	–

Meanwhile, sales of proprietary products decreased 14.1% YOY, following the shift to generics. Consequently, pharmaceutical sales rose to ¥31.9 billion (up 3.7% YOY).

2. Balance Sheet Overview

Total assets climbed ¥2.2 billion YOY, to ¥43.6 billion, due to an increase in accounts receivable stemming from higher sales; a rise in cash and deposits owing to a transfer from time deposits; the acquisition of machinery for the new Tsukuba Factory building of Chemiphar subsidiary Nihon Pharmaceutical Industry Co., Ltd. (NPI); and an increase in construction-in-progress related to the building of a factory in Vietnam.

In terms of liabilities, accounts payable increased in tandem with the rise in sales. Loans payable and bonds payable also grew, as the Company strove to take advantage of interest-rate trends by discontinuing its use of discounted bills and shifting to long-term loans payable.

The equity ratio declined 1.0 percentage point YOY, to 36.7%, mainly following the Company's expenditure of ¥0.6 billion to buy back shares.

3. Cash Flows

Net cash provided by operating activities was ¥2.4 billion, around the same level as in the preceding year, due to there being essentially the same level of income. Net cash used in investing activities decreased year on year.

Although payment and expenditure levels were approximately equivalent year on year—with cash having been used for the acquisition of machinery for NPI, and having been provided by time deposits at maturity—the figure reflected the absence of the previous year's expenditure for the construction of a third wing at NPI's Tsukuba Factory.

Net cash used in financing activities increased ¥0.9 billion YOY. This reflected expenditures for the acquisition of treasury stock, as well as the purchase of shares in a company established in Vietnam, thereby converting that company to a wholly owned subsidiary.

II. Forecast for FY2016

During FY2016, we expect to be affected by NHI drug price reduction, but should benefit from measures introduced in the past to promote the use of generics, as well as the introduction of new incentives for in-house prescriptions to promote use of generic drugs and revisions to incentives for generics dispensing.

Consequently, measures to promote generics will apply to a wider range of medical institutions, which should cause the market to continue expanding. Owing to these factors, we expect consolidated net sales to grow 6.7% YOY, to ¥38.0 billion.

On the income front, however, we anticipate that the NHI price revisions will boost the cost of sales ratio. We also expect higher R&D expenses for the development of generics, additional phase I trials for NC-2500, and drug discovery. Thus, we forecast an 11.0% YOY drop in operating income, to ¥2.8 billion.

1. Pharmaceutical Sales

Stemming from the government's promotion efforts, we expect generics sales to be ¥31.6 billion (up 9.2% YOY).

At the same time, we see sales of proprietary products at ¥2.5 billion (down 14.4% YOY), as the switch to generics and fierce competition continue to grow.

Consolidated pharmaceutical sales should total ¥34.1 billion (up 7.0% YOY).

2. Per Share Information

During the upcoming year, we believe sales will rise, but also expect an increased cost of sales ratio to follow on from NHI drug price reduction. And we plan to increase our investment in R&D expenditures. Accordingly, we believe net income per share will decline year on year.

Nevertheless, in line with our prioritization of shareholder returns, we plan to maintain our dividend per share at ¥10, as in the preceding three fiscal years, amounting to an increase in the payout ratio.

3. Expenditure

In response to growing demand and an expanding domestic market for pharmaceuticals, in the upcoming year we plan to augment facilities at the third wing of NPI's Tsukuba Factory. Overseas, we will continue factory construction in Vietnam. We thus anticipate capital expenditure of ¥2.9 billion, 2.5 times the previous year's figure.

Consolidated Balance Sheet

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2016 (FY2015) and 2015 (FY2014)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	FY2014	**FY2015**	**FY2015**
Current assets			
Cash and deposits (Notes 3 and 14)	¥ 5,881	**¥ 7,223**	**$ 64,136**
Notes and accounts receivable–trade (Note 3)	12,798	**14,241**	**126,452**
Allowance for doubtful accounts	(1)	**—**	**—**
Inventories	5,323	**5,175**	**45,951**
Deferred tax assets (Note 11)	700	**570**	**5,061**
Other current assets	144	**169**	**1,501**
Total current assets	24,845	**27,378**	**243,101**
Property, plant and equipment			
Land	5,460	**5,449**	**48,384**
Buildings	13,692	**13,544**	**120,263**
Machinery, equipment and vehicles	6,251	**6,369**	**56,553**
Tools, furniture and fixtures	1,743	**1,875**	**16,649**
Lease assets (Note 10)	657	**685**	**6,082**
Construction in progress	1	**689**	**6,118**
Total property, plant and equipment	27,804	**28,611**	**254,049**
Accumulated depreciation	(14,863)	**(15,694)**	**(139,354)**
Net property, plant and equipment	12,941	**12,917**	**114,695**
Investments and other assets			
Investment securities (Notes 3 and 4)	2,429	**2,303**	**20,449**
Long-term loans receivable	4	**3**	**27**
Long-term prepaid expenses	24	**313**	**2,779**
Goodwill	21	**—**	**—**
Intangible assets	76	**63**	**559**
Deferred tax assets (Note 11)	6	**269**	**2,389**
Lease and guarantee deposits	98	**95**	**843**
Long-term deposits (Note 3)	700	**—**	**—**
Deferred assets	1	**2**	**18**
Other	283	**301**	**2,673**
Total investments and other assets	3,642	**3,349**	**29,737**
Total assets	¥41,428	**¥43,644**	**$387,533**

LIABILITIES AND NET ASSETS	Millions of Yen FY2014	Millions of Yen FY2015	Thousands of U.S. Dollars (Note 1) FY2015
Current liabilities			
Short-term loans payable (Note 3)	¥ 476	**¥ 500**	**$ 4,440**
Current portion of bonds (Note 6)	95	**—**	**—**
Current portion of long-term loans payable (Note 6)	2,523	**3,560**	**31,611**
Lease obligations (Note 10)	144	**128**	**1,137**
Notes and accounts payable–trade (Note 3)	3,975	**2,088**	**18,540**
Electrically recorded obligation	2,036	**5,121**	**45,472**
Notes payable–facilities	239	**528**	**4,688**
Accrued expenses	2,340	**2,485**	**22,065**
Income taxes payable (Note 11)	753	**283**	**2,513**
Provision for sales promotion expenses	442	**419**	**3,720**
Other current liabilities	916	**544**	**4,830**
Total current liabilities	13,939	**15,656**	**139,016**
Long-term liabilities			
Bonds payable (Notes 3 and 6)	—	**200**	**1,776**
Long-term loans payable (Notes 3 and 6)	9,412	**8,740**	**77,606**
Lease obligations (Note 10)	261	**216**	**1,918**
Net defined benefit liability (Note 7)	544	**1,162**	**10,318**
Provision for directors' retirement benefits	374	**375**	**3,330**
Deferred tax liabilities—non-current	28	**75**	**666**
Deferred tax liabilities for land revaluation	1,234	**1,168**	**10,371**
Other	10	**10**	**89**
Total long-term liabilities	11,863	**11,946**	**106,074**
Net assets (Note 9)			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 42,614,205 shares in FY2014 and FY2013	4,305	**4,305**	**38,226**
Capital surplus	1,299	**1,306**	**11,596**
Retained earnings	7,526	**9,042**	**80,288**
Treasury stock	(986)	**(1,580)**	**(14,030)**
Sub total	12,144	**13,073**	**116,080**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	829	**749**	**6,651**
Deferred gains or losses on hedges	1	**—**	**—**
Revaluation surplus of land	2,527	**2,633**	**23,379**
Foreign currency translation adjustments	—	**(8)**	**(71)**
Remeasurements of defined benefit plans	119	**(413)**	**(3,667)**
Total accumulated other comprehensive income	3,476	**2,961**	**26,292**
Subscription rights to shares	6	**8**	**71**
Minority interests	—	**—**	**—**
Total net assets	15,626	**16,042**	**142,443**
Total liabilities and net assets	¥41,428	**¥43,644**	**$387,533**

See notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 (FY2015) and 2015 (FY2014)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2014	**FY2015**	**FY2015**
Net sales (Note 17)	¥35,119	**¥35,602**	**$316,125**
Cost of sales	18,353	**18,804**	**166,968**
Gross profit	16,766	**16,798**	**149,157**
Selling, general and administrative expenses (Note 13)	13,480	**13,653**	**121,231**
Operating income	3,286	**3,145**	**27,926**
Other income (expenses)			
Interest and dividends income	49	**59**	**524**
Interest expenses	(170)	**(152)**	**(1,350)**
Impairment loss	(90)	**—**	**—**
Loss on disposal of fixed assets	(39)	**—**	**—**
Other, net	58	**(106)**	**(941)**
	(192)	**(199)**	**(1,767)**
Income before income taxes and minority interests	3,094	**2,946**	**26,159**
Income taxes (Note 11)			
Current	1,142	**771**	**6,846**
Deferred	52	**214**	**1,900**
Total income taxes	1,194	**985**	**8,746**
Net income before minority interests	1,900	**1,961**	**17,413**
Minority interests in net income	—	**(1)**	**(8)**
Net income	¥ 1,900	**¥ 1,962**	**$17,421**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 (FY2015) and 2015 (FY2014)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2014	**FY2015**	**FY2015**
Net income before minority interest	¥1,900	**¥1,961**	**$17,413**
Valuation difference on available-for-sale securities	322	**(80)**	**(710)**
Deferred gains or losses on hedges	1	**(1)**	**(9)**
Revaluation surplus of land	126	**66**	**586**
Foreign currency translation adjustments	—	**(8)**	**(71)**
Remeasurements of defined benefit plans	205	**(533)**	**(4,733)**
Other comprehensive income	654	**(556)**	**(4,937)**
Comprehensive income	2,554	**1,405**	**12,476**
Total comprehensive income attributable to:			
Owners of the parent	2,554	**1,406**	**12,484**
Minority interests	—	**(1)**	**(8)**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 (FY2015) and 2015 (FY2014)

Millions of Yen

	Shareholders' Equity					Accumulated Other Comprehensive Income							
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Revaluation Surplus of Land	Foreign currency translation adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2014	¥4,305	¥1,299	¥6,056	¥(991)	¥10,669	¥508	-	¥2,401	-	¥(87)	¥2,822	¥10	¥13,501
Cumulative effects of changes in accounting policies			(26)		(26)								(26)
Dividends from surplus			(404)		(404)								(404)
Net income			1,900		1,900								1,900
Purchase of treasury stock				(5)	(5)								(5)
Disposal of treasury stock		0		10	10								10
Net changes of items other than shareholders' equity						321	1	126	-	206	654	(4)	650
Net change in the year		0	1,496	5	1,501	321	1	126	-	206	654	(4)	2,151
Balance at March 31, 2015	¥4,305	¥1,299	¥7,526	¥(986)	¥12,144	¥829	¥1	¥2,527	-	¥119	¥3,476	¥6	¥15,626
Dividends from surplus			**(404)**		**(404)**								**(404)**
Net income			**1,961**		**1,961**								**1,961**
Purchase of treasury stock				**(604)**	**(604)**								**(604)**
Disposal of treasury stock		**(1)**		**10**	**9**								**9**
Change in treasury shares of parent arising from transactions with non-controlling shareholders		**8**			**8**								**8**
Reversal of land revaluation excess			**(41)**		**(41)**								**(41)**
Net changes of items other than shareholders'equity						**(80)**	**(1)**	**106**	**(8)**	**(532)**	**(515)**	**2**	**(513)**
Net change in the year		**7**	**1,516**	**(594)**	**929**	**(80)**	**(1)**	**106**	**(8)**	**(532)**	**(515)**	**2**	**416**
Balance at March 31, 2016	**¥4,305**	**¥1,306**	**¥9,042**	**¥(1,580)**	**¥13,073**	**¥749**	-	**¥2,633**	**¥(8)**	**¥(413)**	**¥2,961**	**¥8**	**¥16,042**

	Thousands of U.S. Dollars												
	Shareholders' Equity					Accumulated Other Comprehensive Income							
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Revaluation Surplus of Land	Foreign currency translation adjustments	Remeasurements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2015	$38,226	$11,534	$66,826	$(8,756)	$107,830	$7,361	$9	$22,438	-	$1,057	$30,865	$53	$138,748
Dividends from surplus			**(3,587)**		**(3,587)**								**(3,587)**
Net income			**17,413**		**17,413**								**17,413**
Purchase of treasury stock				**(5,363)**	**(5,363)**								**(5,363)**
Disposal of treasury stock		**(9)**		**89**	**80**								**80**
Change in treasury shares of parent arising from transactions with non-controlling shareholders		**71**			**71**								**71**
Reversal of land revaluation excess			**(364)**		**(364)**								**(364)**
Net changes of items other than shareholders' equity						**(710)**	**(9)**	**941**	**(71)**	**(4,724)**	**(4,573)**	**18**	**(4,555)**
Net change in the year		**62**	**13,462**	**(5,274)**	**8,250**	**(710)**	**(9)**	**941**	**(71)**	**(4,724)**	**(4,573)**	**18**	**3,695**
Balance at March 31, 2016	**$38,226**	**$11,596**	**$80,288**	**$(14,030)**	**$116,080**	**$6,651**	-	**$23,379**	**$(71)**	**$(3,667)**	**$26,292**	**$71**	**$142,443**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2016 (FY2015) and 2015 (FY2014)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2014	**FY2015**	**FY2015**
Operating activities			
Income before income taxes and minority interests	¥ 3,094	**¥ 2,946**	**$26,159**
Depreciation and amortization	1,204	**1,180**	**10,478**
Impairment losses	90	**—**	**—**
Amortization of goodwill	151	**21**	**186**
(Decrease) increase in allowance for doubtful accounts	(3)	**(1)**	**(9)**
Increase (decrease) in provision for sales promotion expenses	102	**(24)**	**(213)**
Decrease in net defined benefit liability	(142)	**(153)**	**(1,359)**
Increase in provision for directors' retirement benefits	32	**1**	**9**
Interest and dividend income	(49)	**(59)**	**(524)**
Interest expenses	170	**156**	**1,385**
Loss on retirement of noncurrent assets	49	**2**	**18**
Increase in notes and accounts receivable–trade	(1,076)	**(1,443)**	**(12,813)**
Decrease (increase) in inventories	85	**147**	**1,305**
Decrease (increase) in other current assets	143	**(21)**	**(186)**
(Decrease) increase in notes and accounts payable–trade	(823)	**1,198**	**10,638**
Increase (decrease) in other current liabilities	9	**182**	**1,616**
Increase (decrease) in consumption taxes payable	531	**(338)**	**(3,001)**
Decrease (increase) in long-term prepaid expenses	10	**(5)**	**(44)**
Other, net	(15)	**4**	**35**
Subtotal	3,562	**3,793**	**33,680**
Interest and dividends income received	55	**65**	**577**
Interest expenses paid	(168)	**(155)**	**(1,376)**
Income taxes paid	(1,011)	**(1,252)**	**(11,117)**
Net cash provided by operating activities	2,438	**2,451**	**21,764**
Investing activities			
Payment into time deposits	(129)	**(124)**	**(1,101)**
Proceeds from withdrawal of time deposits	144	**826**	**7,334**
Purchases of property, plant and equipment	(2,066)	**(858)**	**(7,619)**
Purchases of investment securities	(5)	**(5)**	**(44)**
Payment of loans receivable to employees	—	**(1)**	**(9)**
Proceeds from collection of lease and guarantee deposits	4	**4**	**36**
Other payments	(13)	**(17)**	**(151)**
Other, net	(8)	**24**	**213**
Net cash used in investing activities	(2,073)	**(151)**	**(1,341)**
Financing activities			
Net decrease in short-term loans payable	(104)	**24**	**213**
Proceeds from long-term loans payable	3,850	**3,050**	**27,082**
Repayment of long-term loans payable	(3,068)	**(2,685)**	**(23,841)**
Proceeds from issuance of bonds	—	**200**	**1,776**
Redemption of bonds	(270)	**(95)**	**(844)**
Purchase of treasury shares	(5)	**(604)**	**(5,363)**
Cash dividends paid	(403)	**(404)**	**(3,587)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	**(295)**	**(2,619)**
Other, net	(137)	**(126)**	**(1,119)**
Net cash used in financing activities	(137)	**(935)**	**(8,302)**
Effect of exchange rate change on cash and cash equivalents	—	**(20)**	**(178)**
Net increase (decrease) in cash and cash equivalents	228	**1,345**	**11,943**
Cash and cash equivalents, at beginning of year	5,563	**5,791**	**51,421**
Cash and cash equivalents, at end of year (Note 14)	¥5,791	**¥7,136**	**$63,364**

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which differ in respect to certain aspects of application and disclosure requirements from international financial reporting standards.

The consolidated financial statements issued domestically have undergone certain reclassifications and rearrangements in order that they might be presented in a form with which readers outside Japan are more familiar. In addition, certain reclassifications have been made in the 2015 financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Chemiphar Co., Ltd. ("the Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.62 to US$1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted to U.S. dollars at that or any other rate.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2016, include the accounts of the Company and its four (three in 2015) subsidiaries (together, "the Group").

Under the control or influence concept, those companies in the operations of which the Company, directly or indirectly, is able to exercise control are fully consolidated. The companies over which the Group exercises significant influence are accounted for by the equity method.

Investments in one (one in 2015) affiliated company is accounted for by the equity method.

Of the Company's four consolidated subsidiaries, only Nippon Chemiphar Vietnam Co., Ltd., has a closing date of December 31.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Group have been eliminated.

b. Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, demand deposits and other short-term investments with an original maturity of three months from the date of acquisition.

c. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

Inventories of the Group are stated at cost determined by the first-in, first-out method.

d. Investment securities

In accordance with the accounting standard for financial instruments, the securities held by the Group are classified as (1) available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a component of accumulated other comprehensive income under net assets; and (2) investments in affiliates not accounted for by the equity method, which are stated at cost.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate, based on past credit loss experience and an evaluation of potential losses in receivables outstanding.

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998.

g. Intangible assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method.

Amortization of goodwill purchased is computed by the straight-line method over five years.

h. Deferred charges

Bond issuance costs are equally amortized over the years until the maturing dates.

i. Land revaluation

Under the Law of Land Revaluation, the Group revalued the land owned for its business use on March 31, 2000, based on the enforcement ordinance concerning revaluation of land. The resulting revaluation surplus of land represents unrealized appreciation of land and is stated, net of income taxes, as a component of accumulated other comprehensive income under net assets; its related deferred tax liabilities are recorded under long-term liabilities. The revaluation surplus of land was drawn down by ¥41 million due to sale. The difference between the carrying amount and its fair value at March 31, 2016 and 2015, was ¥1,411 million ($12,529 thousand) and ¥1,408 million, respectively.

j. Losses on impairment of fixed assets

In accordance with the accounting standard for impairment of fixed assets, the Group periodically reviews its fixed assets for impairment by grouping them in income-generating units whenever there is any indication of a significant decline in the fair value against book value based on an independent appraisal. When any impairment of the Group's assets is identified, an impairment loss is recognized and such amount is directly deducted from the related assets.

k. Retirement benefits

In calculating the projected benefit obligation, the benefit formula basis is used to allocate the expected benefit attributable to the respective fiscal year.

Unrecognized prior service cost is amortized on a straight-line basis over a period (11 years in 2016 and 2015) within the employees' average remaining service period at incurrence.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a period (11 years in 2015 and 2014) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

l. Conversion of a foreign currency to Japanese currency

Foreign currency transactions are translated into the functional currency using exchange rates at the dates of the transactions or approximations of rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rates at the consolidated fiscal year-end date. Exchange differences arising from translation or settlement are recognized in profit or loss.

m. Provision for directors' retirement benefits

Provision for directors' retirement benefits is recorded based on the estimated amount calculated in accordance with the Group rules.

n. Provision for sales promotion expenses

Provision for sales promotion expenses is recorded, based on the latest results, to provide for future payment of sales promotion expenses in connection with the products and goods sold by the end of the current fiscal year.

o. Leases

Lease assets related to finance lease transactions, excluding those that include the transfer of ownership. The expected asset life is assumed to be the lease period, and these assets are amortized using the straight-line method with a terminal value of zero.

p. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. Consumption tax

Consumption tax imposed on the Group's sales to customers is withheld by the Group at the time of sale and subsequently paid to the government. This consumption tax is not included in net sales in the accompanying statements of income, but is recorded as a liability, consumption tax payable.

Consumption tax that is paid by the Group on the purchases of goods and services from outside the Group is also not included in costs or expenses in the accompanying statements of income, but is offset against consumption tax payable. The net balance is reflected as consumption tax payable under other current liabilities in the accompanying consolidated balance sheet at March 31, 2016 and 2015.

r. Appropriation of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

s. Derivatives and hedging activities

The Group has time deposits with options and interest rate swap contracts, but does not enter into derivatives for trading or speculative purposes. The exposure of time deposits with options is limited to the interest amounts to be received, while interest rate swaps are utilized to hedge the interest rate exposure of long-term debt and are accounted for by the hedge accounting method. Because the counterparties to these derivatives are limited to financial institutions with a high credit rating, the Group does not anticipate any losses arising from credit risk.

t. Per-share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common stock outstanding for the effects of all dilutive potential common stock including stock options and other convertible instruments.

u. Adoption of the consolidated taxation system

The Company and its domestic consolidated subsidiaries adopted the Japanese consolidated taxation system beginning in the fiscal year ending March 31, 2017. Consequently, effective in the fiscal year ended March 31, 2016, the Company adopted the Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1) issued by the Accounting Standards Board of Japan ("ASBJ") Practical Issue Task Force ("PITF") No. 5, dated January 16, 2015, as well as the Practical Solution in Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2) issued by PITF No. 7, dated January 16, 2015.

3. FINANCIAL INSTRUMENTS

(1) Qualitative information on financial instruments

a. Policies for using financial instruments

The Group limits its investment of temporary surpluses to highly secure financial assets and raises the funds through loans from banks and other institutions, and by issuing corporate bonds. Derivatives are employed to hedge against the risks described below; the Group does not engage in speculative transactions.

b. Policies and systems for risk management

Notes and accounts receivable, which are claimable assets, involve credit risks on the part of customers. With regard to claimable assets, the Group manages claimable assets by transaction partners according to due date and balance.

Investment securities are subject to market price fluctuation risk. Regarding these risks, the Group has in place a system to determine periodically for each member company the fair value and the financial condition of the issuer.

Trade notes and accounts payable and electronically recorded obligations, which are trade liabilities, generally arise in the course of operating activities, and the majority of these are payable within one year.

Long-term loans payable and bonds payable are principally taken out to fund long-term working capital. Floating-rate loans are subject to interest rate fluctuation risk, but for long-term loans the Group minimizes the risk of fluctuations in interest payments by fixing payment interest rates, employing derivative transactions (interest rate swap transactions) to hedge against such risk.

Trade liabilities and loans are subject to liquidity risk. To manage this risk, all Group members create cash flow plans monthly.

c. Supplemental information on fair values

The fair value of financial instruments is based on their market value. The fair value of financial instruments that have no available market value is determined by using a rational method of calculation. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. Also, market risk related to derivative financial instruments is not included in the contract amounts of those instruments.

d. Concentration of credit risk

At March 31, 2016 and 2015, 51.7% and 55.0%, respectively, of operating receivables were due from specific major customers.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2016 (FY2015) and 2015 (FY2014), are the following:

Assets	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Carrying value			
Cash and deposits	¥ 5,881	**¥ 7,223**	**$ 64,136**
Notes and accounts receivable–trade	12,798	**14,241**	**126,452**
Investment securities	2,337	**2,202**	**19,552**
Long-term deposits	700	**—**	**—**
Total	21,716	**23,666**	**210,140**
Fair value			
Cash and deposits	5,881	**7,223**	**64,136**
Notes and accounts receivable–trade	12,798	**14,241**	**126,452**
Investment securities	2,337	**2,202**	**19,552**
Long-term deposits	711	**—**	**—**
Total	21,727	**23,666**	**210,140**
Difference			
Cash and deposits	—	**—**	**—**
Notes and accounts receivable–trade	—	**—**	**—**
Investment securities	—	**—**	**—**
Long-term deposits	11	**—**	**—**
Total	¥ 11	**¥ —**	**$ —**
Derivative transactions	1	**—**	**—**

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Carrying value			
Notes and accounts payable–trade	¥ 3,975	**¥ 2,088**	**$ 18,540**
Electrically recorded obligation	2,036	**5,121**	**45,472**
Short-term loans payable	476	**500**	**4,440**
Bonds payable	95	**200**	**1,776**
Long-term loans payable	11,935	**12,300**	**109,217**
Total	18,517	**20,209**	**179,444**
Fair value			
Notes and accounts payable–trade	3,975	**2,088**	**18,540**
Electrically recorded obligation	2,036	**5,121**	**45,472**
Short-term loans payable	476	**500**	**4,440**
Bonds payable	96	**193**	**1,714**
Long-term loans payable	11,932	**12,275**	**108,995**
Total	18,515	**20,177**	**179,161**
Difference			
Notes and accounts payable–trade	—	**—**	**—**
Electrically recorded obligations	—	—	—
Short-term loans payable	—	**—**	**—**
Bonds payable	(1)	**7**	**62**
Long-term loans payable	3	**25**	**222**
Total	¥ 2	**¥ 32**	**$ 284**
Derivative transactions	—	**80**	**710**

a. Cash and deposits; notes and accounts receivable—trade

As these instruments are settled within a short term and their fair values and book values are similar, their book values are assumed as their fair values.

b. Investment securities

The fair values of equity securities are determined by their prices on stock exchanges. See Note 4 for the description of securities by classification.

c. Long-term deposits

These amounts are based on valuations provided by financial institutions. For differences, only the fair valuation amounts of derivative portions are indicated in the table. These differences have minimal impact on profits and losses at the time of maturity.

d. Notes and accounts payable—trade, electronically recorded obligations, and short-term loans payable

As these instruments are settled within a short term and their fair values and book values are similar, their book values are assumed as their fair values.

e. Bonds payable

For the fair values of bonds, the total amount of principal and interest is discounted to present value using the assumed rate of interest on newly issued bonds of the same type.

f. Long-term loans payable

For the fair values of long-term loans, the total amount of principal and interest is discounted to present value using the assumed rate of interest on new loans of the same type. The fair value of long-term debt is determined by discounting the total amount of principal and interest by the assumed interest rate on new borrowings of the same type. Exceptional accounting is employed on interest rate swaps on long-term debt with floating interest rates.

(3) Financial instruments for which fair value is not readily determinable

The fair value of unlisted equity securities with a carrying amount of ¥101 million ($897 thousand) and ¥92 million as of March 31, 2016 and 2015, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2016 (FY2015), is as follows:

Millions of Yen

	FY2015			
	One Year or Less	More Than One Year, Less Than 5 Years	More Than Five Years, Less Than 10 Years	More Than 10 Years
Cash and deposits	**¥ 7,223**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**14,241**	**—**	**—**	**—**
Total	**¥ 21,464**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. Dollars			
	FY2015			
	One Year or Less	More Than One Year, Less Than 5 Years	More Than Five Years, Less Than 10 Years	More Than 10 Years
Cash and deposits	**$ 64,136**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable—trade	**126,452**	**—**	**—**	**—**
Total	**$ 190,588**	**$ —**	**$ —**	**$ —**

4. INVESTMENT SECURITIES

Investment securities at March 31, 2016 (FY2015) and 2015 (FY2014), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Available-for-sale securities:			
Marketable equity securities	¥2,275	**¥2,105**	**$18,691**
Unlisted equity securities	—	**41**	**364**
Others	62	**56**	**497**
Total	¥2,337	**¥2,202**	**$19,552**

The carrying amounts and aggregate fair values of investment securities at March 31, 2016 and 2015, are as follows:

	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2016				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	**¥1,095**	**¥1,010**	**¥ —**	**¥2,105**
Acquisition price exceeds value posted in consolidated balance sheet	**43**	**(2)**	**—**	**41**
Other	**58**	**(2)**	**—**	**56**
Total	**¥1,196**	**¥1,006**	**¥ —**	**¥2,202**

	Thousands of U.S. Dollars			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2016				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	**$9,723**	**$8,968**	**$ —**	**$18,691**
Acquisition price exceeds value posted in consolidated balance sheet	**382**	**(18)**	**—**	**364**
Other	**515**	**(18)**	**—**	**497**
Total	**$10,620**	**$8,932**	**$ —**	**$19,552**

	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2015				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	¥1,133	¥1,142	¥ —	¥2,275
Acquisition price exceeds value posted in consolidated balance sheet	—	—	—	—
Other	59	3	—	62
Total	¥1,192	¥1,145	¥ —	¥2,337

5. DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING IS NOT APPLIED

Derivative transactions to which hedge accounting at March 31, 2016 (FY2015) is not applied are as follows:

		Millions of Yen			
	Category	Contract Amount	Contracts of More Than One Year	Market Value	Valuation Gain (Loss)
Non-market transactions	Foreign exchange forward contracts Long position U.S. dollars	1,391	—	1,311	(80)
Total		1,391	—	1,311	(80)

		Thousands of U.S. Dollars			
	Category	Contract Amount	Contracts of More Than One Year	Market Value*	Valuation Gain (Loss)
Non-market transactions	Foreign exchange forward contracts Long position U.S. dollars	12,351	—	11,641	(710)
Total		12,351	—	11,641	(710)

* Method of market value calculation: Calculated on the basis of values presented by transacting financial institutions.

6. LONG-TERM DEBTS

Long-term debts at March 31, 2016 (FY2015) and 2015 (FY2014), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Corporate bonds	¥ 95	**¥ 200**	**$ 1,776**
Long-term loans	11,935	**12,300**	**109,217**
Total long-term debt	12,030	**12,500**	**110,993**
Less: current portion	(2,618)	**(3,560)**	**(31,611)**
	¥ 9,412	**¥ 8,940**	**$ 79,382**

Corporate bonds at March 31, 2016 (FY2015) and 2015 (FY2014), comprise the following:

Balance at March 31			Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Maturity
Issuer	Type	Issue Date	FY 2014	**FY 2015**	**FY2015**		
Nippon Chemiphar Co., Ltd.	Unsecured 7th issue	Sep. 30, 2010	¥ 50	**¥—**	**$ —**	0.57	Sep. 30, 2015
Nihon Pharmaceutical Industry Co. Ltd.	Unsecured 3rd issue	Oct. 31, 2007	45	**—**	**—**	1.40	Apr. 30, 2015
Safety Research Institute for Chemical Compounds Co., Ltd.	Unsecured 1st issue	Mar. 31, 2016	—	**200**	**1,776**	0.39	Mar. 31, 2023
Total			¥95	**¥200**	**$1,776**		

The annual aggregate of matured bonds is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ —	$ —
2018	—	—
2019	—	—
2020	—	—
2021	—	—

Long-term loans at March 31, 2016 (FY2015) and 2015 (FY2014), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2014	**FY2015**	**FY2015**		
Current portion of long-term loans	¥ 2,523	**¥ 3,560**	**$31,611**	1.4	—
Long-term loans	9,412	**8,740**	**77,606**	1.0	2017–2024
Total	¥11,935	**¥12,300**	**$109,217**		

The annual aggregate of matured long-term loans is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥2,071	$18,389
2019	1,951	17,324
2020	1,559	13,843
2021	1,235	10,966
2022 and after	1,924	17,084

In addition, the Company has entered agreements with five financial institutions to facilitate fund-raising activities. The status of the commitments based on the agreements is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2015**	**FY2015**
Aggregate agreed amount	¥3,000	**¥3,000**	**$26,638**
Used	—	**—**	**—**
Unused balance	¥3,000	**¥3,000**	**$26,638**

7. RETIREMENT BENEFITS

The Company and its consolidated subsidiaries have in place as defined-benefit pension plans both defined benefit corporate pension plans and lump-sum retirement plans, as well as being enrolled in an employees' pension fund operating as a corporate pension fund related to a multi-employer pension fund. Employees may also be entitled to certain additional payments upon retirement.

Defined benefit corporate pension plans (all of which are funded) are paid either as a lump sum or as an annuity, based on salary and service period. Lump-sum retirement plans (all of which are unfunded) are paid as a lump sum, based on salary and service period.

The Company and certain of its consolidated subsidiaries employ the compendium method when computing retirement benefit obligations.

1. Contributory defined benefit pension plan

(1) Reconciliation of the beginning and the ending balance of projected benefit obligation (excluding the amount of the simplified method)

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Balance at beginning of year	¥4,771	**¥4,761**	**$42,275**
Cumulative effects of changes in accounting policies	40	**—**	**—**
Restated balance	4,811	**4,761**	**42,275**
Service cost	203	**199**	**1,767**
Interest cost	77	**76**	**674**
Actuarial gain/loss incurred	6	**547**	**4,857**
Pension and severance payments	(336)	**(395)**	**(3,507)**
Balance at end of year	¥4,761	**¥5,188**	**$46,066**

(2) Reconciliation of the beginning and the ending balance of plan assets (excluding the amount of the simplified method)

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Balance at beginning of year	¥3,876	**¥4,286**	**$38,057**
Expected return on plan assets	97	**107**	**950**
Actuarial gain/loss incurred	320	**(231)**	**(2,051)**
Business owner's contribution	322	**331**	**2,939**
Pension and severance payments	(329)	**(391)**	**(3,472)**
Balance at end of year	¥4,286	**¥4,102**	**$36,423**

(3) Reconciliation of the beginning and the ending balance of liabilities of the simplified method

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Balance at beginning of year	¥65	**¥70**	**$622**
Pension expenses	12	**12**	**106**
Pension and severance payments	(7)	**(5)**	**(44)**
Balance at end of year	¥70	**¥77**	**$684**

(4) Reconciliation of the projected benefit obligation and plan assets to net defined benefit liability, and net defined benefit assets reported on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Funded projected benefit obligation	¥ 4,730	**¥ 5,145**	**$ 45,684**
Plan assets	(4,286)	**(4,102)**	**(36,423)**
	444	**1,043**	**9,261**
Unfunded projected benefit obligation	100	**119**	**1,057**
Net of liability and assets reported on the consolidated balance sheet	¥ 544	**¥ 1,162**	**$ 10,318**

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Net defined benefit liability	¥544	**¥1,162**	**$10,318**
Net defined benefit assets	—	**—**	**—**
Net of liability and assets reported on the consolidated balance sheet	¥544	**¥1,162**	**$10,318**

(5) Pension expenses

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Service cost	¥203	**¥199**	**$1,767**
Interest cost	77	**76**	**675**
Expected return on plan assets	(97)	**(107)**	**(950)**
Recognized actuarial loss	13	**23**	**204**
Amortization of prior service cost	(17)	**(17)**	**(151)**
Periodic benefit costs calculated under the compendium method	12	**11**	**98**
Retirement benefit expenses	¥191	**¥185**	**$1,643**

(6) Remeasurements of defined benefits plans in other comprehensive income

The breakdown of prior service cost and net actuarial gain or loss recognized in other comprehensive income before deduction of tax benefit is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Prior service cost	¥ (17)	**¥ (17)**	**$ (151)**
Net actuarial gain or loss	328	**(755)**	**(6,704)**
Total	¥310	**¥(772)**	**$(6,855)**

(7) Remeasurements of defined benefit plans

The breakdown of remeasurements of defined benefit plans (before deducting tax effect) is as shown below:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Unrecognized prior service cost	¥(111)	**¥ (94)**	**$ (835)**
Unrecognized net actuarial gain or loss	(65)	**690**	**6,127**
Total	¥(176)	**¥596**	**$5,292**

(8) Plan assets

Percentages for major categories within total plan assets are as follows:

	FY2014	**FY2015**
Stocks	34%	**30%**
Bonds	37%	**37%**
General account	20%	**21%**
Other	9%	**12%**
Total	100%	**100%**

Method of establishing the long-term expected return on plan assets

The long-term expected return on plan assets is determined by taking into consideration current and expected allocation of plan assets, as well as the current and future long-term expected profitability of the diverse assets that constitute the plan assets.

(9) Assumptions used for the year ended March 31, 2016 (FY2015), are as follows:

	FY2014	**FY2015**
Discount rate	1.6%	**0.2%**
Expected rate of return on plan assets	2.5%	**2.5%**

2. Multi-employer pension fund

As the amount of plan assets corresponding to the Company's contribution cannot be rationally calculated under this system, the same accounting treatment is applied as for defined contribution plans. The amount contributed to employee pension schemes that are multi-employer pension funds for which the same accounting treatment is applied as for defined contribution plans is ¥167 million ($1,483 thousand).

Items related to multi-employer pension funds, for which contributions are treated as periodic benefit costs.

(1) Items related to the state of funding for all pensions

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Plan assets	¥512,489	**¥571,380**	**$5,073,521**
Pension financing calculation of benefit obligations	522,290	**561,736**	**4,987,888**
Difference	¥ (9,801)	**¥ 9,644**	**$ 85,633**

(2) Nippon Chemiphar Group membership as a percentage of total fund membership
0.9%

(3) Supplemental information
The principal reasons for deductions to (1) above are the total of past service obligations of ¥49,751 million ($441,760 thousand) based on pension financing calculations and a surplus of ¥40,107 million ($356,127 thousand). Also, the proportion indicated in (2) above and the Nippon Chemiphar Group's actual proportion of the burden do not match.

8. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015, are ¥4 million ($36 thousand) and ¥3 million, respectively.

Following are details of the stock options the Company has as of March 31, 2016.

Stock Option Plans:	August 2011 Plan	August 2014 Plan
Number of grantees	6 directors, 5 employees	6 directors, 4 employees, 7 directors of 7 the subsidiaries
Number of options	Common stock: 72,000 shares	Common stock: 112,000 shares
Date of granted	August 2, 2011	August 5, 2014
Exercisable period	August 3, 2014– August 2, 2017	August 6, 2017– August 5, 2020
Exercise price	¥332 ($2.95)	¥519 ($4.61)
Fair value at date granted	¥85 ($0.75)	¥89 ($0.79)

Changes in stock options outstanding for the years ended March 31, 2016 and 2015 are as follows:

Movement of stock options	August 2008 plan	August 2011 plan	August 2014 plan
Before rights settlement			
Outstanding as of March 31, 2014	—	72,000	—
Granted	—	—	112,000
Vested	—	72,000	—
Outstanding as of March 31, 2015	—	72,000	112,000
Exercised	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding as of March 31, 2016	—	—	—
After rights settlement			
Outstanding as of March 31, 2014	34,000	—	—
Vested	—	72,000	—
Exercised	—	24,000	—
Forfeited	34,000	—	—
Outstanding as of March 31, 2015	—	48,000	—
Vested	—	—	
Exercised	—	20,000	—
Forfeited	—	—	—
Outstanding as of March 31, 2016	—	28,000	—

9. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), when a dividend distribution of a surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheet.

Under the Act, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit, or could be capitalized by resolution of the shareholders' meeting.

Additional, paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and the entire legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

10. LEASE TRANSACTIONS

Lease obligations at March 31, 2016 (FY2015) and 2015 (FY2014) comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Lease obligations	¥ 405	**¥ 344**	**$ 3,055**
Less current portion	(144)	**(128)**	**(1,137)**
Less obligations, less current portion	¥ 261	**¥ 216**	**$ 1,918**

11. INCOME TAXES

The Group is subjected to several types of taxes: corporate taxes, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 35.6% and 38.0% for the fiscal years ended 31st March, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2016 (FY2015) and 2015 (FY2014), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Deferred tax assets:			
Accrued enterprise tax	¥ 58	**¥ 24**	**$ 213**
Accrued bonuses	230	**218**	**1,936**
Loss on valuation of inventory	104	**77**	**684**
Allowance for doubtful accounts	19	**18**	**160**
Provision for sales promotion expenses	146	**129**	**1,145**
Internal margin elimination	115	**69**	**612**
Net defined benefit liability	176	**359**	**3,188**
Provision for directors' retirement benefits	121	**115**	**1,021**
Loss on valuation of investment securities	63	**60**	**533**
Other	493	**394**	**3,498**
Subtotal	1,525	**1,463**	**12,990**
Less valuation allowance	(543)	**(455)**	**(4,040)**
Total	982	**1,008**	**8,950**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	304	**246**	**2,184**
Deferred tax liabilities on revaluation of land	1,234	**1,168**	**10,371**
Other	0	**–**	**–**
Total	1,538	**1,414**	**12,555**
Net deferred tax liabilities	¥ (556)	**¥ (406)**	**$ (3,605)**

The reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2016 (FY2015) is as follows:

	FY2014	FY2015
Normal effective statutory tax rate	35.6%	–
Expenses not deductible for income tax purposes	1.7	–
Per capita inhabitant tax	1.3	–
Research and development cost tax credit	(2.7)	–
Effects of changes in taxation rates	4.3	–
Change in valuation allowance	(1.4)	–
Other—net	(0.2)	–
Actual effective tax rate	38.6	–

Note: The difference between the normal effective statutory tax rate and the actual effective tax rate was not material for the year ended March 31, 2016

On March 31, 2016, the Diet enhanced the "Act on Partial Revision of the Income Tax Act and Others" and "Act on Partial Revision of the Local Tax Act and Others." Under these acts, effective from the fiscal year beginning on or after April 1, 2016, a reduction in the corporate tax rate and other measures were implemented. Accompanying these changes, the effective statutory tax rate used to calculate deferred tax assets and liabilities in FY2015 (only those items expected to be reversed on or after April 1, 2016) was reduced—from the previously used 32.3%—to 30.9% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2016, and to 30.6% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2018.

Due to these changes in taxation rates, deferred tax assets (after deduction of deferred tax liabilities) decreased ¥44 million, deferred tax liabilities for land revaluation decreased ¥66 million, income taxes deferred in FY2015 increased ¥48 million, valuation difference on available-for-sale securities increased ¥13 million, revaluation of surplus land increased ¥66 million, and remeasurements of defined benefit plans decreased ¥10 million.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2016 (FY2015) and 2015 (FY2014), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Advertising expenses	¥ 247	**¥ 249**	**$ 2,211**
Sales promotion expenses	4,159	**4,354**	**38,661**
Traveling expenses	528	**530**	**4,706**
Salaries and allowances	3,399	**3,417**	**30,341**
Retirement benefit expenses	160	**152**	**1,350**
Commissions	993	**916**	**8,134**
Research and development costs	1,755	**1,889**	**16,773**

13. AMOUNTS PER SHARE

Net assets per share at March 31, 2016 (FY2015) and 2015 (FY2014), and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Net assets	¥390.01	**¥409.97**	**$3.6403**
Basic net income	47.45	**49.91**	**0.4432**
Diluted net income	47.42	**49.88**	**0.4429**

The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2016 (FY2015) and 2015 (FY2014), is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Net income per share:			
Net income	¥ 1,900	**¥ 1,962**	**$17,421**
Net income available for distribution to shareholders of common stock	1,900	**1,962**	**17,421**
Weighted average number of shares of common stock outstanding (thousands of shares)	40,033	**39,297**	
Diluted net income per share:			
Increase in common stock (thousands of shares)	26,959	**23,946**	

14. CASH AND CASH EQUIVALENTS

The reconciliation between cash and cash equivalents reported in the consolidated statement of cash flow, and cash and deposits reported in the consolidated balance sheet are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Cash and deposits	¥5,881	**¥7,223**	**$64,136**
Time deposits maturing over three months	(90)	**(87)**	**(772)**
Cash and cash equivalents	¥5,791	**¥7,136**	**$63,364**

Increase in long-term prepaid expenses, due to contribution in kind stemming from the establishment of a consolidated subsidiary in FY2015: ¥299 million.

15. COMMITMENT AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2016 (FY2015) and 2015 (FY2014).

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Trade notes discounted	¥636	**¥ —**	**$ —**

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016 (FY2015) and 2015 (FY2014), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥ 444	**¥ (139)**	**$ (1,234)**
Reclassification adjustments to profit or loss	(0)	**—**	**—**
Amount before income tax effect	444	**(139)**	**(1,234)**
Income tax effect	(122)	**59**	**524**
Total	322	**(80)**	**(710)**
Deferred gains or losses on hedges:			
Gains arising during the year	1	**—**	**—**
Reclassification adjustments to profit or loss	—	**(1)**	**(9)**
Amount before income tax effect	1	**(1)**	**(9)**
Income tax effect	(0)	**0**	**0**
Total	1	**(1)**	**(9)**
Revaluation surplus of land:			
Gains arising during the year	—	**—**	**—**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	—	**—**	**—**
Income tax effect	126	**66**	**586**
Total	126	**66**	**586**
Foreign currency translation adjustments:			
Gains arising during the year	—	**(8)**	**(71)**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	—	**(8)**	**(71)**
Income tax effect	—	**—**	**—**
Total	—	**(8)**	**(71)**
Remeasurements of defined benefit plans:			
Gains arising during the year	314	**(778)**	**(6,908)**
Reclassification adjustments to profit or loss	(3)	**6**	**53**
Amount before income tax effect	311	**(772)**	**(6,855)**
Income tax effect	(105)	**239**	**2,122**
Total	206	**(533)**	**(4,733)**
Total other comprehensive income	¥ 654	**¥ (556)**	**$ (4,937)**

17. SEGMENT INFORMATION

(1)Overview of reporting segments

The Group's reporting segments comprise those individual business units for which separate financial information is available, about which the Board of Directors makes decisions regarding the allocation of management resources, and for which operating performance can be evaluated, allowing the segments to be examined periodically.

The Group locates its operating division at its headquarters, formulates overall strategies for the products handled by the divisions, and promotes the expansion of its operations. Accordingly, the Group has established as its reporting division the Pharmaceutical Products Business, which is its operating division and core segment. The division is engaged primarily in the manufacture and sale of pharmaceutical products.

(2)Methods of calculating sales, income or loss, assets, liabilities and other items.

Methods of accounting for reported business segments are in principal the same as those indicated in Note 2 "Summary of Significant Accounting Policies." Income or losses of reporting statements are based on operating income. Income or losses between segments and transfer amounts are based on market prices.

(3)Reporting segment information on sales, profit (loss), assets, liabilities and other items for the Companies as of and for the years ended March 31, 2016 (FY2015) and 2015 (FY2014), is summarized as follows:

Millions of Yen

	FY2015				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**¥34,510**	**¥1,092**	**¥35,602**	**¥ —**	**¥35,602**
Intersegment	**17**	**116**	**133**	**(133)**	**—**
Total sales	**34,527**	**1,208**	**35,735**	**(133)**	**35,602**
Segment profit	**3,089**	**56**	**3,145**	**—**	**3,145**
Segment assets	**¥34,927**	**¥2,327**	**¥37,254**	**¥6,390**	**¥43,644**
Other:					
Depreciation and amortization	**1,106**	**73**	**1,179**	**—**	**1,179**
Amortization of goodwill	**21**	**—**	**21**	**—**	**21**
Investments in affiliates	**56**	**—**	**56**	**—**	**56**
Capital expenditure	**1,148**	**25**	**1,173**	**—**	**1,173**

Thousands of U.S. Dollars

	FY2015				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**$306,429**	**$9,696**	**$316,125**	**$ —**	**$316,125**

Intersegment	**151**	**1,030**	**1,181**	**(1,181)**	**—**
Total sales	**306,580**	**10,726**	**317,306**	**(1,181)**	**316,125**
Segment profit	**27,429**	**497**	**27,926**	**—**	**27,926**
Segment assets	**$310,132**	**$20,662**	**$330,794**	**$ 56,739**	**$387,533**
Other:					
Depreciation and amortization	**9,821**	**648**	**10,469**	**—**	**10,469**
Amortization of goodwill	**186**	**—**	**186**	**—**	**186**
Investment in affiliates	**497**	**—**	**497**	**—**	**497**
Capital expenditure	**10,194**	**222**	**10,416**	**—**	**10,416**

Millions of Yen

	FY2014				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	¥34,169	¥950	¥35,119	¥ —	¥35,119
Intersegment	10	17	27	(27)	—
Total sales	34,179	967	35,146	(27)	35,119
Segment profit	3,244	42	3,286	—	3,286
Segment assets	¥34,026	¥2,134	¥36,160	¥5,268	¥41,428
Other:					
Depreciation and amortization	1,129	72	1,201	—	1,201
Amortization of goodwill	151	—	151	—	151
Impairment loss	90	—	90	—	90
Investment in affiliates	47	—	47	—	47
Capital expenditure	1,709	2	1,711	—	1,711

Additional information

(4) Information about products and services

This information is omitted, as the sale of individual categories of products and services to outside customers accounts for more than 90% of net sales in the consolidated statements of income.

(5) Information about geographical areas

Information on sales by geographical area is omitted, since sales to customers outside Japan account for more than 90% of net sales in the consolidated statements of income. Further, as there is no property, plant and equipment outside Japan, this information also is omitted.

(6) Information about major customers

		Millions of Yen		Thousands of U.S. Dollars (Note 1)
Customer	Related Segment	FY2014	**FY2015**	**FY2015**
Mediceo Corporation	Pharmaceutical Products	¥6,857	**¥7,373**	**$ 65,468**
Alfresa Corporation	Pharmaceutical Products	¥6,841	**¥7,226**	**$ 64,163**

(7) Amortization of goodwill and unamortized balances by reporting segment

Millions of Yen

	FY2015			
	Pharmaceutical Products	Other Business	Adjustment	Total
Unamortized balance of goodwill	**¥ —**	**—**	**—**	**—**

Thousands of U.S. Dollars

	FY2015			
	Pharmaceutical Products	Other Business	Adjustment	Total
Unamortized balance of goodwill	**$ —**	**—**	**—**	**—**

Millions of Yen

	FY2014			
	Pharmaceutical Products	Other Business	Adjustment	Total
Unamortized balance of goodwill	¥21	—	—	—

Since information on amortization of goodwill is reported with segment information, it has been omitted here.

18. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2016 (FY2015) and 2015 (FY2014), and the related account balances at each fiscal year end are as follows:

Transactions between the Company and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2014	**FY2015**	**FY2015**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,723	**¥1,850**	**$16,427**
Purchaser: the Company	Notes, accounts payable	¥ 725	**¥ 837**	**$ 7,432**

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2014	**FY2015**	**FY2015**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥2,216	**¥1,670**	**$14,829**
Purchaser: Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 636	**¥ 810**	**$ 7,192**

At March 31, 2016, the Company has 5.4% (5.4% at March 31, 2015) of the voting rights in Japan Sopharchim Co., Ltd., which has 18.2% (17.7% at March 31 2015) of the voting rights in the Company.

Nihon Pharmaceutical Industry Co., Ltd. is the consolidated subsidiary of the Company. In addition, the representative director of the Company has 73.0% (73.0% at March 31 2015) of the voting rights in the Company.

19. RENTAL PROPERTY

The Company owns available-for-lease facilities in Tokyo and other areas. During the years ended March 31, 2016 (FY2015) and 2015 (FY2014), rental income on this real estate amounted to ¥26 million ($231 thousand) and ¥27 million, respectively. Rental income is recorded in net sales, whereas leasing expenses are principally recorded as cost of sales.

Pursuant to the new accounting standards, information about fair value of rental property is disclosed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2014	**FY2015**	**FY2015**
Carrying value[1] at beginning of year	¥670	**¥661**	**$5,869**
Decrease in book value during year	(9)	**202**	**1,794**
Carrying value[2] at end of year	661	**863**	**7,663**
Fair value at end of year	494	**740**	**6,571**

Notes:

1. The carrying value represents acquisition cost less accumulated depreciation.
2. The principal increase was due to transfers from Company-use property becoming rental property (¥233 million).
3. Fair value as of March 31, 2016 and 2015, for principal properties is primarily the real estate appraisal value as determined by an outside real estate appraiser. For other properties, fair value is determined by the Company based on appraisal amounts and indices that are judged to reflect market value.

20. ACQUISITION OF ALL SHARES OF VIETNAM JOINT VENTURE

The Company acquired all the shares of its joint venture in Vietnam through its subsidiary Nihon Pharmaceutical Industry Co., Ltd.

(1) Overview of transaction

a. Name of combined company: Nippon Chemiphar Vietnam Joint Venture Co., Ltd.
Business: Manufacture of pharmaceuticals

b. Date of business combination: October 19, 2015

c. Legal form of business combination: Equity acquisition from non-controlling interest

d. Company name after combination: Nippon Chemiphar Vietnam Co., Ltd.

e. Reason for share acquisition: The Company set up a joint venture with local pharma company M.S.T Pharm Co Ltd to expand production and cut manufacturing costs. Then, to step up decision making and business expansion, Chemiphar acquired all the shares.

(2) Accounting overview

Based on the Revised Accounting Standards for Business Combinations and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures, handled as transactions with non-controlling interests, within transactions under common control.

(3) Acquisition price of acquired company and acquisition by type of consideration

Acquisition consideration: Cash of US$2,465 thousand (¥296 million)

(4) Changes in the Company's equity related to transactions with non-controlling interest

Main reason for changes in capital surplus: Acquisition of additional interest

Increase in capital surplus due to transactions with non-controlling interest: ¥8 million

21. CHANGE IN PER SHARE UNIT AND CONSOLIDATION OF SHARES

At its board of directors meeting on May 25, 2016, the Company resolved to submit a proposal for the consolidation of shares, a change in the number of shares per share unit, and a partial amendment to its articles of incorporation to the 84th ordinary general meeting of shareholders to be held on July 29, 2016 and approved at that meeting.

(1) Change in the number of shares per share unit

a. Purpose

The Tokyo Stock Exchange (TSE) announced an agenda, the Action Plan for the Consolidating Trading Units, that would standardize—at 100 shares—the trading units of common stock of all listed domestic corporations. As an enterprise listed on the TSE, the Company respects the objectives of the plan and will change its trading unit (share unit).

b. Details

The Company will change the number of shares per share unit of common stock from 1,000 to 100 on October 1, 2016.

(2) Consolidation of shares

a. Purpose

To maintain the price per stock trading unit and number of voting rights after the above change.

b. Details

i. Class of shares to be consolidated: Common stock

ii. Consolidation method and ratio: On October 1, 2016, the Company will consolidate every 10 shares into one share, based on the number of shares held by shareholders listed in the final shareholder's register as of the end of September 30, 2016.

iii. Decrease in number of shares due to consolidation

Number of outstanding shares before consolidation (As of March 31, 2016)	42,614,205
Decreased in number of shares due to consolidation*	38,352,785
Number of outstanding shares after consolidation*	4,261,420

* "Decrease in number of shares due to consolidation" and "Number of outstanding shares after consolidation" are theoretical values calculated by multiplying the number of outstanding shares before consolidation by the consolidation ratio.

iv. Handling of fractional shares (less than one share)

If any fractional shares are created as a result of the consolidation of shares, such fractional shares will be distributed to shareholders who held the shares in proportion to the number of fractional shares they held.

(3) Change in total number of authorized shares

a. Purpose

Total number of authorized shares will change to reflect the above consolidation of shares.

b. Details

Total number of authorized shares before consolidation (As of March 31, 2016)	154,000,000
Total number of authorized shares after consolidation	15,400,000

(4) Schedule

Date of resolutions by the board of directors: May 25, 2016

Date of resolutions of shareholders' general meeting: June 29, 2016

Effective date of changed per-share unit, consolidation, and partial amendment of articles of incorporation: October 1, 2016

(5) Impact of per-share information

(¥)

	FY2014	FY2015
Book-value per share	3,900.05	4,099.74
Earnings per share	474.49	499.12
Diluted earnings per share	474.17	498.82

Corporate Data

Corporate Data

Company Name: Nippon Chemiphar Co., Ltd.
Established: June 16, 1950
Capitalization: ¥4,304 million
Securities Exchange: Tokyo Stock Exchange (First Section)
Employees: 756 (Consolidated)
Website: http://www.chemiphar.co.jp/english/

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Group Companies

Subsidiaries:
Nihon Pharmaceutical Industry Co., Ltd.
Safety Research Institute for Chemical Compounds Co., Ltd.
Nippon Chemiphar Vietnam Co., Ltd.

Affiliated Company:
Japan Sopharchim Co., Ltd.

History

1950	Hitachi Chemical Co., Ltd. (as Chemiphar was formerly known) is set up
1969	Nihon Pharmaceutical Industry Co., Ltd. (NPI) becomes an affiliated company
1970	Company changes name to Nippon Chemiphar Co., Ltd.
1971	Listed on Tokyo Stock Exchange (Second Section)
1976	Listed on Tokyo Stock Exchange (First Section) Starts diagnostics business Establishes Japan Sopharchim Co., Ltd. (currently an affiliated company)
1986	Safety Research Institute for Chemical Compounds Co., Ltd. becomes a subsidiary
1988	Launches Uralyt-U (soluble powder)
1993	Launches Soleton Tab. 80
1995	Launches Calvan Tab.
2001	Launches DP2000 and IgE NC
2002	Concludes comprehensive business alliance with Ranbaxy Laboratories Limited, India
2009	Dissolves alliance with Ranbaxy
2010	NPI becomes a wholly owned Chemiphar subsidiary; Chemiphar spins off its Ibaraki Factory to NPI (NPI's current Tsukuba Factory)
2012	Launches DP3000
2014	New plant at NPI's Tsukuba Factory comes on line
2015	Establishes Nippon Chemiphar Vietnam Co., Ltd.

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