Nippon Chemiphar Co., Ltd.

NIPPON CHEMIPHAR

CORPORATE REPORT 2017

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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, 2016–March 31, 2017
- Reporting companies: Nippon Chemiphar Co., Ltd. and its Group companies

● Note Regarding Forward-looking Statements

Statements made in this Corporate 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

Nippon Chemiphar—established in 1950—has concentrated its resources on generics business since 2000, in addition to the manufacture and marketing of original formulations with distinctive characteristics. 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.

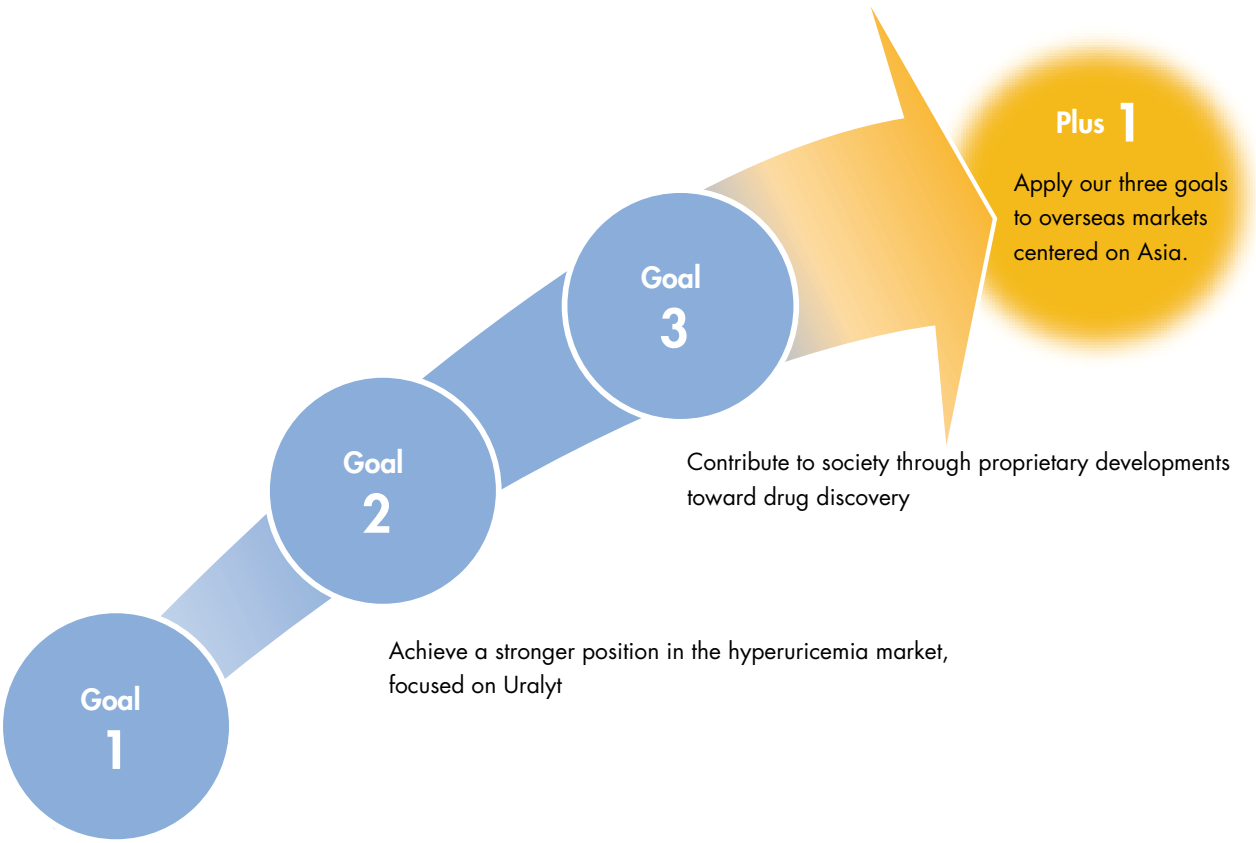
Focused on our specialties of hyperuricemia and pain, Nippon Chemiphar is also aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs in response to unmet medical needs.

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

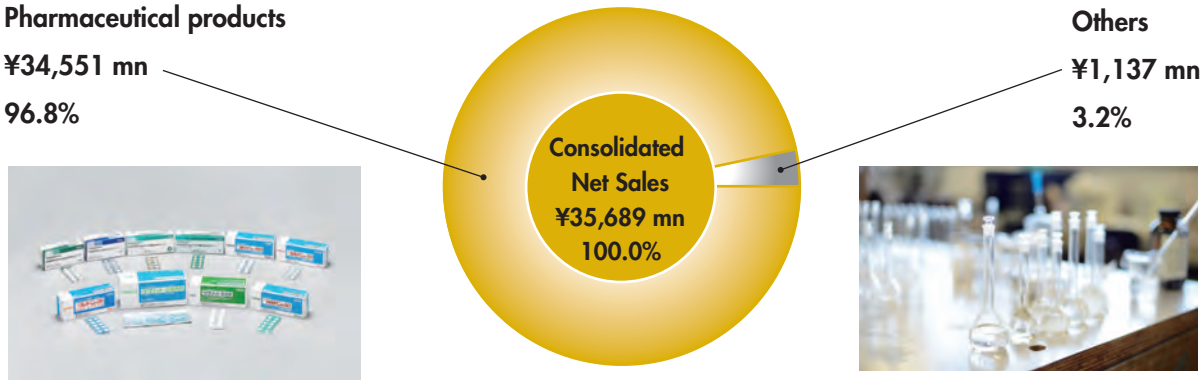
Pharmaceutical Products

- Generic drugs
- Proprietary products and Drug discovery
- Diagnostics

Others

- Contracted testing
- Healthcare-related

FY2016 Breakdown of Consolidated Net Sales



Breakdown of Pharmaceutical Product Sales

	Amount (¥mn)	Distribution (%)
Generic drugs	30,445	88.1
Proprietary products	2,308	6.7
Diagnostics	1,798	5.2
Total	34,551	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 no later than the end of September 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 to be launched on 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 inhouse 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 thus 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. This is designed to ensure that only high-quality products are delivered.

In addition, the Company is determined to secure a stable supply of products while at the same time achieving lower costs. Thus, facility enhancements are being carried out to reflect demand-related requirements at the Tsukuba Factory No. 3. The facility, which belongs to Group company Nihon Pharmaceutical Industry Co., Ltd., is a cutting-edge plant and the first pharmaceutical factory in Japan to have a fully seismic-isolated structure. Also reflecting current production requirements, the Company is now outfitting its first overseas factory located in Vietnam. The plant is scheduled to commence full-scale operation in FY2018 (ending March 31, 2019).
☞ Please refer to pages 12–13 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 pain.

☞ Please refer to page 16 for details.

2 Diagnostics

The Group develops and markets clinical laboratory equipment and reagents that meet the needs of patients and medical professionals, indicating our support for medical care.

With the number of patients suffering from allergies and lifestyle-related diseases continuing to grow, the early devising of diagnostic and treatment plans is essential. To this end, the rapid availability of test reports, facilitated by the Group's products, is a major contributor to the swift assessment of test results.

● 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.

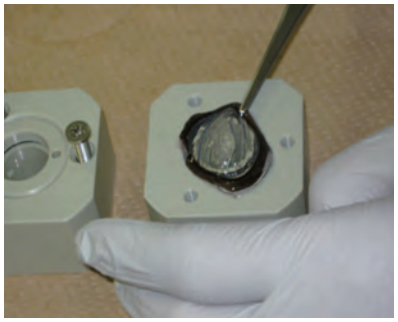
1. Divisions of Nippon Chemiphar involved in the design and development of extracorporeal diagnostics, purchasing and quality assurance. Divisions at the Tsukuba Factory of Nihon Pharmaceutical Industry involved in the manufacture of extracorporeal diagnostics.
2. Regulations relating to production management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

Safety Research Institute for Chemical Compounds Co., Ltd., our Group company, 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 with the Bovine Corneal Opacity and Permeability test method., and test systems for regenerative medicine. In April 2016, the company acquired GLP compliance certification for generative 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)

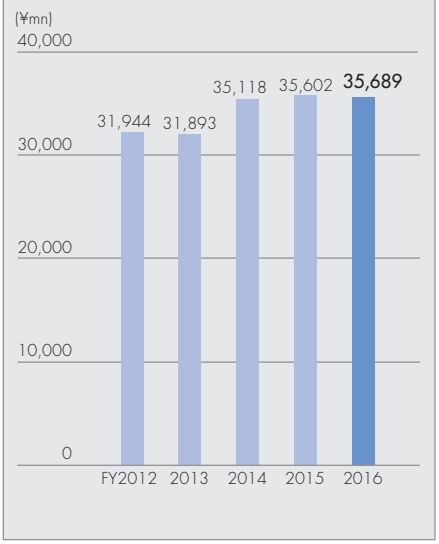
● Health products

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

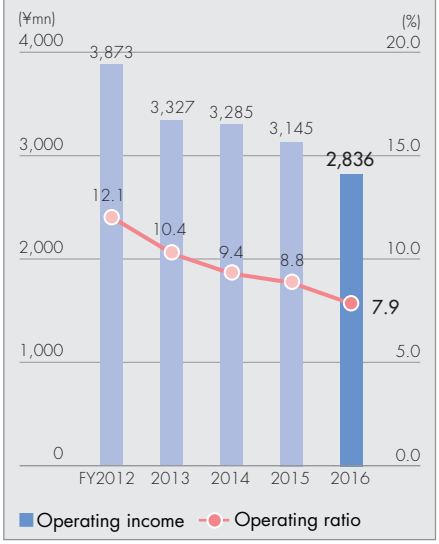
Hime-matsutake (Agaricus blazei Murrill)

Financial Highlights

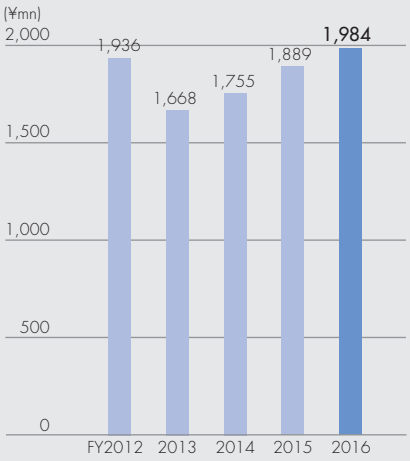
Net Sales



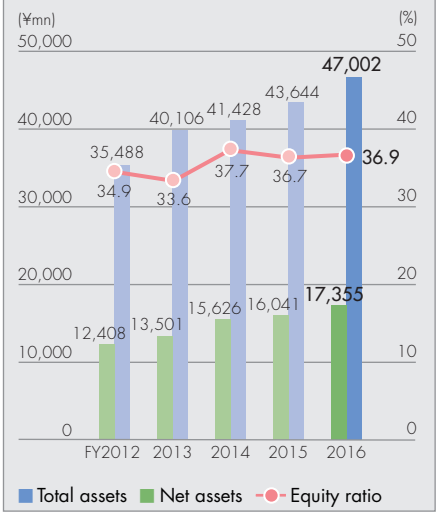
Operating Income



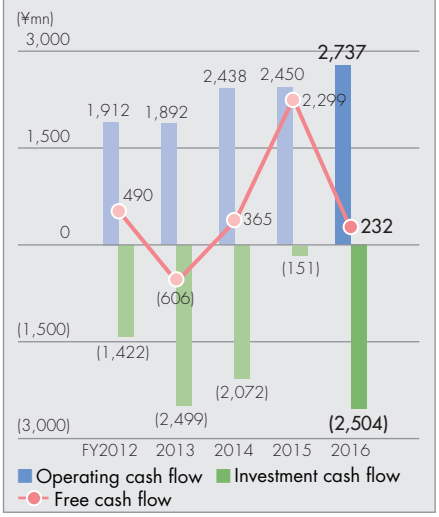
R&D Expenses



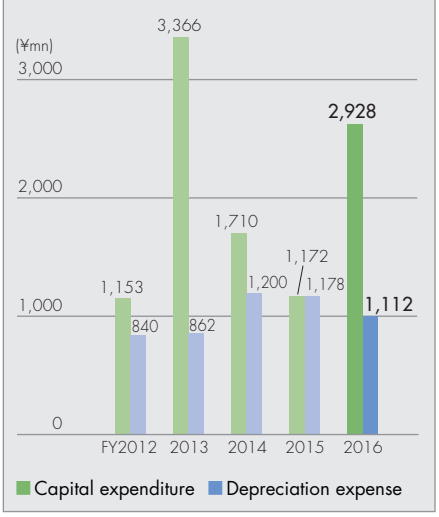
Total Assets, Net Assets, and Equity Ratio



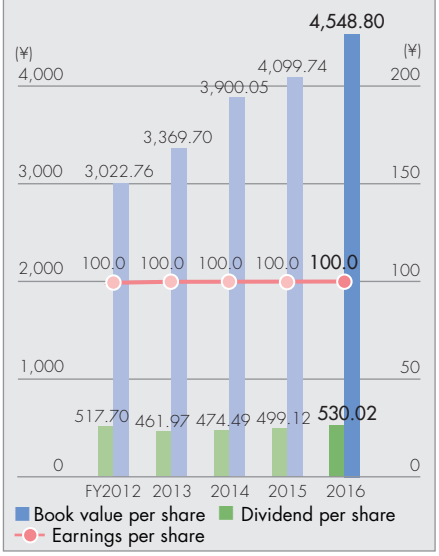
Cash Flows



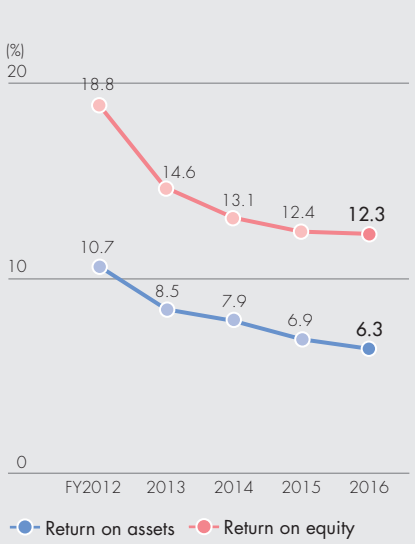
Capital Expenditure, Depreciation Expense



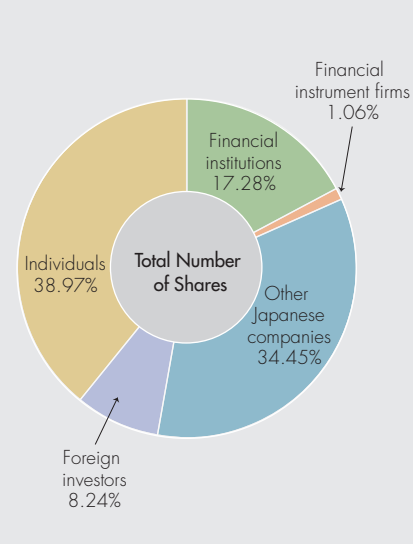
Amounts per Share*



ROE, ROA



Composition of Shareholders



* As we conducted a 10:1 reverse stock split on October 1, 2016, per share data have been adjusted as if the split had been conducted at the start of FY2012.

Message to Our Stakeholders

Under the 2017 Basic Policy on Economic and Fiscal Management and Reform announced by the Japanese government in June 2017, the Cabinet decided that the NHI drug pricing system would undergo drastic reform. This is to include a sweeping zero-based review of Premium for Promotion of New Drug Creation and Resolution of Unapproved Drugs/Indications; annual market price surveys and NHI drug price revisions; and the full-scale introduction of a cost-effectiveness assessment.

The pricing system reform is to be carried out ahead of revisions of the medical services payment system, scheduled for April 2018.

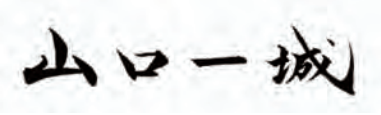
The new reviews specifically reflect ongoing discussions by the Council on Economic and Fiscal Policy and the Central Social Insurance Medical Council concerning the increases in healthcare costs that are being driven both by a rapidly aging population and healthcare advances.

At the same time, the environment surrounding the financial administration of healthcare is by no means secure, due first to the decline in working-age Japanese who are supporting the National Health Insurance system and, second, to lower tax revenues reflecting stagnant economic growth. Thus, it is not difficult to imagine that reform of the drug pricing system may not be to the pharmaceutical industry's advantage.

Since 2000, the Nippon Chemiphar Group has developed business under a management strategy focused on three principle goals: establishing a strong presence in the generics business; becoming a leader in the field of hyperuricemia with a focus on Uralyt; and pursuing proprietary drug discovery and development.

Given the dizzying changes in the environment surrounding our industry in Japan, we augmented this strategy in 2015 with an additional goal: Plus 1, representing our expansion into overseas markets. In addition to generic drugs, which are currently driving our earnings, in recent years we have begun to see results in the hyperuricemia market and our search for promising candidate compounds. Thus, we will accomplish our three goals and further accelerate the efforts for Plus 1 initiatives.

To lower patient costs and reduce government healthcare expenditure—despite Japan's ever-changing economic and pharmaceutical industry environments—the Nippon Chemiphar Group will continue to pursue this 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 2017

Q1 What is the status of the generic drug market and the outlook for FY2017?

A 1 **Although market growth has slowed down, newly launched drugs are expected to result in higher net sales. On the other hand, we expect a lower operating profit as a result of R&D and other strategic investment expenses.**

Market growth momentum of generic drugs clearly slowed after the April 2016 introduction of National Health Insurance (NHI) price revisions designed to promote the use of generics. These revisions were accompanied by incentives to prescribe generic drugs, and revised incentives to dispense them. But so far, we can only say that the effect of the incentives has been limited.

Meanwhile, it is becoming increasingly more likely that the Japanese government will achieve its goal of having generics account for a 70% volume share of the pharmaceutical market by mid-2017.[1] Were we to aim for an 80% volume share, I believe that greater emphasis would have to be placed on generics promotion when the next NHI price revision takes place.

While NHI price will not be revised during the current fiscal year, we are planning for the wide distribution of several generics. That should push up generic drugs sales 11.6% year on year.

With regard to our proprietary products, we expect a decline in sales of 9.0% year on year as a result of the continued domestic transition to generics. Consolidated net sales, thus, are forecast to grow 6.5% year on year, to ¥38.0 billion.

At the same time, in terms of income, in addition to increasing development costs for generic drugs and in-house drug discovery, we will incur testing expenses as we start commercial production at Nippon Chemiphar Vietnam Co., Ltd. as well as the associated full fiscal year depreciation and amortization expenses. Therefore, we expect operating income to decrease 11.9% year on year to ¥2.5 billion, and an operating income to sales ratio of 6.6%. Since we anticipate that NHI price revisions will be conducted every year beginning in FY2018, it is absolutely necessary that we continue strategic investments to establish new revenue streams, and enhance cost competitiveness. We look forward to the continued support of all our stakeholders in these endeavors.

1. Seventy percent or more by mid-FY2017; 80% or more by the end of September 2020.

Consolidated Sales and Income

(¥mn)

	FY2016		FY2017 (Forecasts)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net Sales	35,689	100.0	38,000	100.0	6.5
Pharmaceuticals	31,513		34,700		10.1
Generics	29,204		32,600		11.6
Proprietary products	2,308		2,100		(9.0)
Operating income	2,836	7.9	2,500	6.6	(11.9)
Profit attributable to owners of parent	2,054	5.8	1,550	4.1	(24.6)

Q2 Is construction of the Vietnam factory on track?

A 2 **We took delivery of the building in March 2017 as planned, and equipment now is being installed.**

Thanks to everyone's efforts, we took delivery of the building in March of this year. The project faced many challenges, since construction took place in a developing country with a socialist government. Yet, construction was completed on schedule—for which I wish to express my deep gratitude to the construction company and all the people involved.

As we speak, equipment is being installed, application procedures are underway, and we are hiring and training local individuals. Full-fledged commercial operation of the factory is slated to commence in FY2018.

As of June 31, we had hired 37 local workers, 13 of whom will play a central role in business execution. The latter individuals took part in a six-month training program that began in October 2016 at the Ibaraki and Tsukuba factories of Group company Nihon Pharmaceutical Industry Co., Ltd.

The trainees were greatly admired for their serious approach to training, the skills they demonstrated, their overall efforts, and also the fact in only six months their language abilities had improved to a level at which they were able to conduct presentations in Japanese.

Q3 What is the current status of drug discovery?

A 3 Research is proceeding on track. Of the four drugs in the pipeline in FY2016, two are in phase I and two have begun undergoing preclinical testing.

In FY2016, two drugs candidates entered phase I trials. The first is NC-2500 (xanthine oxidoreductase inhibitor), which lowers uric acid levels and is being developed as a treatment for hyperuricemia which is one of Chemiphar's three principle business goals. We began additional phase I trials with an improved formulation in June 2016. The second drug candidates is NC-2600 (P2X4 antagonist), which, with the support of the Japan Agency for Medical Research and Development (AMED), entered phase I trials in June 2016. The drug candidate developed in collaboration with Kyushu University, is expected to be the first-in-class drug for neuropathic pain that targets glial cells.

At present, two drug candidates are undergoing preclinical trials. One is NC-2800 (delta opioid receptor agonist) for depression and anxiety. Jointly developed with Kitasato University, the University of Tsukuba and the National Center of Neurology and Psychiatry, it will proceed to preclinical trials this fiscal year, again with support from AMED.

In November 2016, we presented our current research results to the Society for Neuroscience, the world's largest organization of scientists and physicians devoted to understanding the brain and nervous system. Our findings indicated that even though low doses of NC-2800 were administered to laboratory animals with depression, the therapeutic effect was excellent from early on.

This fiscal year, we commenced preclinical trials of NC-2700 (URAT1 inhibitor), which has been developed as a new antihyperuricemic agent following NC-2500.

With our research on track, since FY2016 we have been preparing to license out these drugs to other makers. Both NC-2600 and NC-2800—for which we have been receiving public support from AMED—are regarded as groundbreaking therapeutic drug candidates. Thus, I look forward to progress with respect to these developments.

Q4 What is your outlook for the achievement of the Three Plus 1 Principal Goals?

A 4 Based on our recognition of the need to earn, reduce costs, and prevent interference in product supplies, we are ready for our goals to take off in 2020.

In-house, I am asking our employees to be aware of the company's need to earn; to reduce the cost of active pharmaceutical ingredients and products purchased; and to prevent stable product supplies from being impeded. Staff are also reminded that profit comes later since, after all, it is derived from the value a company creates and its contribution to society. As a publicly traded company, we are required to make a profit, but I believe that this alone cannot maintain an ongoing business. By realizing the Three Plus 1 Principal Goals, we can create value and contribute to society. Ultimately, this will result in earnings which, I believe, will create a virtuous cycle leading to perpetual Group development.

Earlier, I mentioned strategic investments cost. Cost management is becoming extremely important, particularly in the generics business. Over the past few years, we have focused on reducing the cost of active pharmaceutical ingredients and products purchased, and in FY2016 we saw the cost reduction effects of these measures including reductions in general expenses.

In addition, it goes without saying that it is our duty to supply our drugs stably. To this end, our efforts have included securing multiple sources of active pharmaceutical ingredients, ensuring our factories are earthquake-resistant, and establishing overseas manufacturing bases. During the current fiscal year, we also are considering doubling our domestic logistics bases. These efforts are aimed at ensuring the stability of our supplies.

In 2020 we will celebrate our 70th anniversary. Currently we have a firm grip on in-house drug discovery and overseas development, supporting our business fundamentals by the gainings of generics. Using the analogy of an airplane for a moment, the Chemiphar plane have left the parking apron and is taxiing down the runway. I believe, that we will achieve our Three Plus 1 Principal Goals and make an excellent takeoff.

Initiatives to Realize Our Goals

Since 2000, Nippon Chemiphar has promoted a basic management strategy based on three goals: establishing a strong presence in the generics business; becoming a leader in the treatment of hyperuricemia, with a focus on Uralyt; and pursuing in-house drug discovery and development. We believe these objectives will help resolve many of the problems facing society.

As initiatives designed to attain these three goals, first we are currently bolstering profitability in the generics business, where the market is expanding. In addition, we are conducting clinical research and pursuing educational activities to become a frontrunner in hyperuricemia treatment, which we hope to make a core business following the generics business. Further for in-house drug discovery and development, we are conducting to pursue medium- to long-term initiatives, so that we might discover revolutionary candidate compounds.

By simultaneously pursuing the above initiatives, with different timelines, we believe the Company can achieve sustainable growth. To this end, we intend to strengthen our overseas initiatives with a focus on Asia, so that we might further boost the results in the goals that have already shown certain achievement.

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.

Centered 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. And due to the decreasing population associated with a falling birthrate and aging society, as well as concerns about public finance, we see a shrinking Japanese market as unavoidable. 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 business and knowhow cultivated over 16 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 FY2016 Operations

In FY2016, the Nippon Chemiphar Group's consolidated sales of generics amounted to ¥29,204 million, up 0.6% year on year. This was due to a slight increase in sales to medical institutions, driven by the impact of cuts in sales prices from NHI drug price revision and intensified competition, and a decline in sales to other manufacturers.[1] Overall generics sales, including those involving original design manufacturing (ODM) products,[2] amounted to ¥30,445 million, up 0.7% year on year.

(1) Sales to Medical Institutions

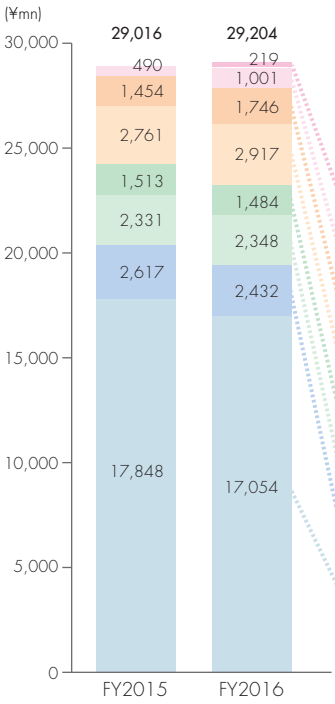
Pharmaceutical Sales (Consolidated)

(¥mn)

	FY2015	FY2016	
	Amount	Amount	YOY (%)
Total (a+b)	31,937	31,513	(1.3)
a. Generics	29,016	29,204	+0.6
To medical institutions	27,404	27,808	+1.5
To other makers	1,612	1,395	(13.4)
Amlodipine	3,159	2,865	(9.3)
Lansoprazole	2,182	2,279	+4.4
Donepezil	1,712	1,642	(4.1)
Rabeprazole	1,737	1,586	(8.7)
Limaprost Alfadex	1,487	1,469	(1.2)
Pravastatine	1,260	1,173	(6.9)
Voglibose	1,004	957	(4.6)
Others	16,471	17,229	+4.6
b. Proprietary products	2,920	2,308	(20.9)
Uralyt	1,723	1,409	(18.2)
Soleton	928	679	(26.8)
Calvan	268	219	(18.3)
Total (a+c)	30,243	30,445	+0.7
c. ODM	1,226	1,240	+1.2

Sales of generics expanded 1.5% year on year, with growth in sales to hospitals (mainly DPC hospitals[3]) compensating for the impact of NHI drug price revisions.

Sales of Generics by Launch Year (Consolidated)



Year-on-year Change by Fiscal Year Launched

Launch Year	Total	Sales to Medical Institutions (%)
FY2016	No results for previous year	
FY2015	+104.2	+142.8
FY2014	+20.1	+12.0
FY2013	+5.6	+3.8
FY2012	(1.9)	+2.8
FY2011	+0.7	(1.2)
FY2010	(7.1)	(4.2)
FY2009 and before	(4.4)	(2.8)

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 our generics—hospitals account for 15%, clinics 12%, and pharmacies 73%. In FY2016, sales to hospitals (mainly DPC hospitals) grew 5.3% year on year.

Composition of Generics Sales by Destination (Non-consolidated)

(%)

	FY2014	FY2015		FY2016	
	Distribution	Distribution	YOY	Distribution	YOY
Total	100	100	+9.2	100	(0.6)
Hospitals (100 beds or more)	13	14	+19.5	15	+3.2
Clinics (less than 100 beds)	12	12	+2.5	12	(5.2)
Of which, DPC hospitals[1]	–	–	+24.9	–	+5.3
Pharmacies[2]	75	74	+8.5	73	(0.6)

1. We have a coverage ratio of 80% of the market for DPC hospitals, which number around 1,700 (non-consolidated basis, value for generics only).
2. We have a coverage ratio of 70% of the market for dispensing pharmacies, which number around 58,000 (non-consolidated basis, value for generics only).

(2) Sales to Other Makers

As a result of NHI drug price revisions and the fact that a number of suppliers stopped selling some products, sales of generics to other makers declined 13.4% year on year. However, overall sales of generics, including ODM products, increased to ¥1,240 million, up 1.2% year on year, the same level as for the previous year

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 FY2016, we launched five drugs from four agents, centered on items developed in-house. That brought the number of products we handled to a total of 218 (as of March 31, 2017).

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, our ability to be the first to bring products to market, and 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 20 for information on drug formulations and packaging.

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(2) Manufacturing

Recognizing that ensuring production capacity and lowering costs are issues of particular importance in the generics business, we are continuing efforts to reinforce manufacturing capacity in Japan and abroad.

In FY2016, facility enhancements were conducted at the new third manufacturing building at the Nihon Pharmaceutical Industry's Tsukuba Factory, which is the first pharmaceutical factory in Japan to have a fully seismic-isolated structure. This included the installation of equipment on the first floor, as a result the Nippon Chemiphar Group's annual production capacity increases from 1.1 billion to 1.2 billion pills. Were the amount of equipment that this new building can support maximized, the Group could boost capacity further, to 1.4 billion pills.

Further capital investment for equipment on the second floor will be considered when necessary, while a close watch will be kept on supply, demand, and overseas production conditions.

At the same time, we are making progress at our factory in Vietnam.

Tsukuba factory

(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.

(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. 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.

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.

b. 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.

Study groups forum

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

Besides efforts to raise awareness regarding the need to improve acid-base equilibrium in connection with gout and hyperuricemia, we have also been stressing the importance of alkalization therapies. This has been prompted by the mounting incidence of chronic kidney disease—resulting from hyperuricemia and metabolic acidosis—and the inhibitory effect on chronic kidney disease of alkalization therapies administered to treat acidosis.

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 some 30 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 In-house Drug Discovery and development

We are working to develop new breakthrough drugs against diseases for which there are no appropriate therapeutic drugs. 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. This drug research venture system should allow newly found compounds to be brought to market as quickly as possible.

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	Phase I (Japan)	Began phase I clinical testing of improved formulation in June 2016. Scheduled for completion in FY2017.
NC-2600*/ P2X4 receptor antagonist	Neuropathic pain	Phase I (Japan)	Joint research with Kyushu University. Began phase I clinical testing in June 2016. Single-dose testing completed; repeat dose testing commenced in May 2017 and scheduled for completion in FY2017.
NC-2700 / URAT1 inhibitor	Hyperuricemia	Preclinical testing (Japan)	Currently in preclinical testing.
NC-2800*/ Delta opioid receptor agonist	Depression / anxiety	Preclinical testing (Japan)	Joint research, conducted with the Kitasato University, University of Tsukuba, and the National Center of Neurology and Psychiatry. Resulted in a pre-clinical testing.

*Research supported by the Japan Agency for Medical Research and Development.

2 Public-funded Themes

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

With financial support from the government-funded Japan Agency for Medical Research and Development (AMED), we are working with Kyushu University to develop a P2X4 receptor antagonist to treat neuropathic pain. Phase I clinical testing started in June 2016 and is set for completion in FY2017.

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 funding from AMED, we are working with Kitasato University, the University of Tsukuba, and the National Center of Neurology and Psychiatry to research NC-2800. The project was selected from AMED's industry–academia collaboration program and is currently in preclinical trials.

In November 2016, we presented the research results to a meeting of the Society for Neuroscience, the world's largest organization of scientists and physicians. There we announced that NC-2800 was expected to have excellent therapeutic effects, at low doses and from the early stages of administration.

Providing patients with new drugs

Concentrating on our areas of specialization, we are conducting drug discovery-related research with an emphasis on efficiency and innovation. We hope to develop pioneering medicines for niche markets by repositioning resources created through this research.

In addition to seeking the cooperation of university professors engaged in cutting-edge research, we are also focusing on acquiring public funding. Our aim is to make NC-2600 a truly ground-breaking neuropathic pain treatment, the result of a Japanese industry–government–academia partnership.

I am eager to provide this drug to patients who are suffering from neuropathic pain as soon as possible.

Toshiyasu Imai
Head of NC-2600 research group,
Discovery Research Laboratoriess

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, as of April 2017 we have gained approvals for six products, and sell them in three countries. At present, we have applications pending for three 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 products primarily in Asia. Our efforts are mainly focused on our allergy testing equipment (DiaPack 3000), which is the world's fastest, as well as on allergy testing reagents (Oriton IgE).

2 Manufacturing

We are moving forward with preparations at Nippon Chemiphar Vietnam Co., Ltd., an overseas manufacturing base designed to boost capacity, lower the cost of sales, and serve as a foothold for future sales overseas. Having taken delivery of the facility as planned in March 2017, we are currently installing equipment, hiring and training local human resources, and fulfilling various application-related procedures ahead of the start of commercial production in FY2018.

Installation of a pillow-type packaging machine

Vietnam factory

Commencement of operations at the Vietnam factory

I joined the Company in May 2016 and am responsible for human resources and general affairs. Currently, we are recruiting pharmacists, technical staff, and other necessary personnel ahead of the start of operations at the factory. To ensure that commercial production and shipments will be stable when they start in the fall of 2018, 35 employees are working hard to obtain regulatory approvals, strengthen production systems and reinforce internal control systems. As the manager of human resources and general affairs, I will make every effort to make use of a diverse array of personnel and ensure all employees are able to maximize their skills in a safe, comfortable factory environment.

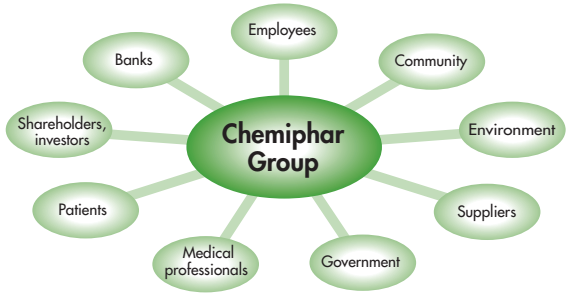
Tran Huynh
Human Resource & General Affairs
Nippon Chemiphar Vietnam Co., Ltd.

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 a variety of viewpoints and ways of thinking in business management. We will continue to make our workplaces more enjoyable and the work more fulfilling through the presence of hardworking female veteran employees and managers, who serve as role models for ambitious female colleagues.

Our support for participation by female employees involves efforts to raise awareness among all employees. As an example of our approach, we conduct surveys of employee awareness and needs concerning the promotion of active participation by women. Further, through the Company newsletter, we inform staff about topics related to work–life balance; roundtable discussions held by female employees raising children; and the activities of men who have taken childcare leave. We also have formulated an action plan, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, the details and numerical targets of which are given below. We plan to continue our efforts to create an organization that enables female employees and managers to take pride in their work.

Numerical targets	Result
1) Woman are to account for more than 50% of ratios of women among newly hired recent graduates, to improve the woman ratio of women in sales jobs.	66.7%
2) Woman are to account for more than 10% of ratios of female among the managers.	11.2%

A roundtable discussion held by female employees raising children.

2 Employing diverse human resources

In response to the establishment of the Vietnam factory and increased business with companies abroad, we are engaged in recruiting—without regard for nationality or gender—human resources highly specialized in our Group's strategic areas.

Further, we intend to expand employment opportunities for people with disabilities and provide a workplace environment that is comfortable for everyone.

3 Promoting Diverse Workstyles

We have a variety of systems enabling all employees to show their skills and, at the same time, continue working comfortably. Under discretionary work system, flextime work allows employees to decide for themselves when to start and end their workday. 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 Community Participation

As members of local communities and society, we support projects that benefit the communities and society in which our offices are located. 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 Volunteer Activities

We have established an internal volunteer leave system that encourages employees to take an active part in volunteer activities, including social welfare initiatives and rescue efforts in areas affected by disaster.

3 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.

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.

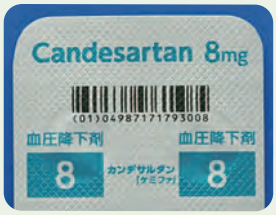
(2) Providing Information

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

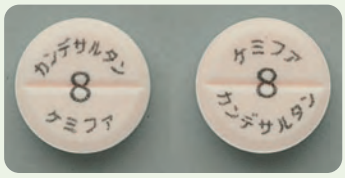


Visibility

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 of medications—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.

Further support for stable supplies comes from a Group company's Tsukuba Factory, which has the industry's first fully seismically isolated structure in this earthquake-prone nation. In addition, we have built a factory in Vietnam and, still focusing on attaining stable supplies, we continue to make improvements throughout the supply chain, from development and manufacturing to sales. We have also established a supply system through 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 Employees

Since the sustainable growth of the company depends on the development of all our employees' abilities, 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 Career Development

We provide employees with training and support systems, tailored to different ages and types of work, in order to expand their capabilities and develop next-generation managers. Aiming to develop human resources to play an active role on the global stage, we send researchers to an overseas university, support employees studying to earn an MBA, and subsidize the TOEIC test.

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 test

2 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.

3 Supporting Work–Life Balance

For the past several years, we have enhanced our efforts to curtail long working hours and promote our employees' work–life balance. We no longer support overtime or working after 8:00 p.m., instead recommending the use of the morning hours.

In FY2016, we introduced a system whereby employees can leave work on time, to ensure they have sufficient private time. As a result of raising awareness regarding efficient work styles through these measures, in addition to ongoing follow-ups, the average monthly overtime per employee was about 2.1 hours. This marks a reduction of more than 60% compared with the overtime clocked before these initiatives were launched.

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.

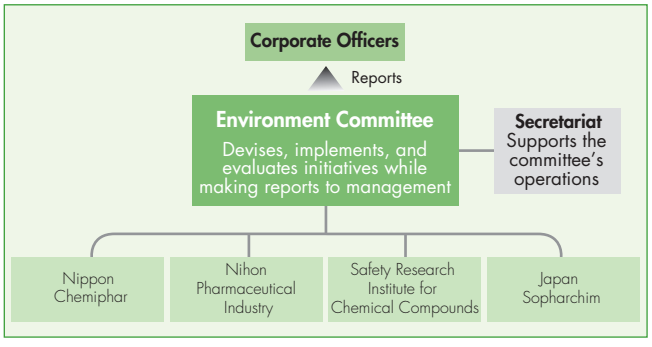
The Nippon Chemiphar Group conducts its activities in accordance with the philosophy and basic policies it has formulated, endeavoring to reduce the environmental impact of its business pursuits.

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, 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 FY2013 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

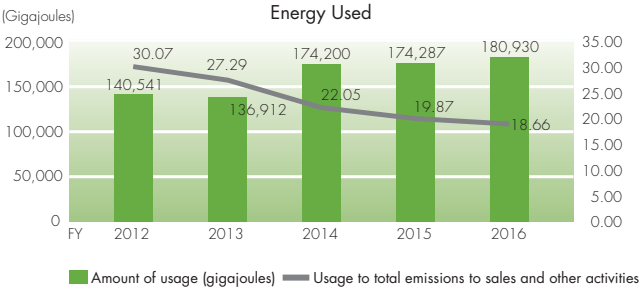
Material Balance in Our Business Activities

INPUT			
Energy			
	Electricity	12,362,000	kwh
	Gasoline	553	kl
	Heavy oil	392	kl
	Kerosene	628	kl
	LPG	4	t
	Town gas	0	t
	Total	180,930	GJ
Water Consumption (by factories, laboratory)			
	Tap water	25,907	m^3
	Well water	76,854	m^3
	Total	95,395	m^3
Materials			
	Raw materials	268	t
	Packaging materials	147	t
	Total	415	t

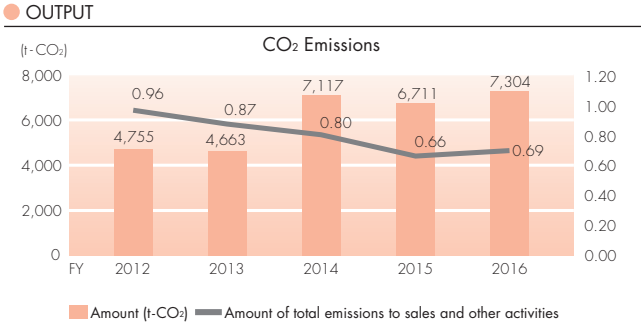
OUTPUT			
Into Atmosphere			
	CO_2 emissions	7,304	t-CO_2
	PRTR-related substances	0.00	t
As Industrial Waste Water (from factories, laboratory)			
	Used water	74,443	m^3
	PRTR-related substances	0.35	t
As Waste			
	Non-industrial waste	36	t
	Industrial waste	160	t
	PRTR-related substances	4.27	t
Recycling			
	Container and package recycling	23	t

Calculation method
- Period: From April 1, 2016 to March 31, 2017
- 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 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.

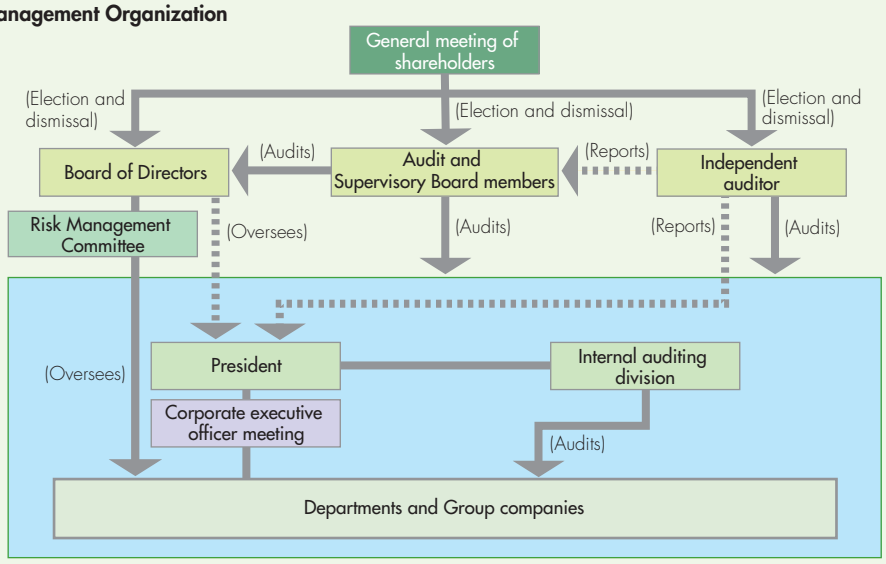
(2) Risk Management and Compliance

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. This body 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, 2017)

(Back row, from left)
Outside Director: **Masaaki Hatakeyama**; Directors and Corporate Officers: **Masahide Yasumoto**, **Yasushi Hatakeda**;
Outside Director: **Yuji Harada**
(Front row, from left)
Director and Managing Corporate Officer: **Tsuyoshi Koyama**; President and CEO: **Kazushiro Yamaguchi**;
Director and Senior Managing Corporate Officer: **Masanori Kutsuwada**;
Director and Managing Corporate Officer: **Tomio Yamakawa**

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

(From left)
Corporate officers: **Toshiki Nakai, Shingo Kinmei** and **Shinji Nakajima**

Financial Section

Ten-year Consolidated Performance Overview[1]

	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)	FY2012 (Ended March 31, 2013)
Income Statement:						
Net sales	20,918	22,308	23,982	27,361	28,514	31,944
Pharmaceutical products segment	19,823	21,490	22,907	26,205	27,326	30,865
Generics	9,680	11,787	14,528	17,990	19,721	23,630
Proprietary products	8,155	7,479	7,056	6,148	5,746	4,795
Others segment	1,095	817	1,075	1,156	1,188	1,079
Cost of sales	8,781	10,388	11,448	12,990	12,872	14,923
Selling, general and administrative expenses	10,967	11,339	11,767	12,371	12,719	13,148
R&D expenses	1,317	1,427	1,722	1,879	1,791	1,937
Operating income	1,170	581	767	1,999	2,923	3,874
Income before income taxes and minority interests	917	498	557	1,416	2,699	3,602
Profit attributable to owners of parent	390	168	271	573	1,440	2,125
Financial position at year end:						
Total assets	21,765	24,697	29,601	30,787	33,791	35,489
Total net assets	6,944	6,848	7,866	8,965	10,231	12,409
Cash flow from:						
Operating activities	(82)	(3,261)	1,890	2,748	1,753	1,913
Investing activities	(597)	(1,742)	(1,451)	(640)	(227)	(1,422)
Financing activities	(564)	4,154	1,509	(949)	63	(714)
Capital expenditure and other:						
Capital expenditure	1,116	889	681	584	1,015	1,154
Depreciation and amortization	283	580	694	776	748	840
Amounts per share[2]:						
Earnings per share	102.23	44.08	70.99	139.46	346.21	517.70
Book value per share	1,819.87	1,795.45	1,852.20	2,129.16	2,489.19	3,022.76
Dividends per share	30.0	30.0	30.0	30.0	50.0	100.0
Indexes:						
EBITDA (millions of yen)	1,467	1,123	1,517	2,824	3,745	4,748
Operating income to sales (%)	5.6	2.6	3.2	7.3	10.3	12.1
Return on equity (%)	5.7	2.4	3.9	7.2	15.0	18.8
Return on assets[3] (%)	1.8	0.7	1.0	1.9	4.5	6.1
Debt-to-equity ratio (%)	73.2	136.8	166.0	122.4	113.1	90.6
Equity ratio (%)	31.9	27.7	23.9	29.1	30.3	34.9
Dividend payout ratio (%)	29.4	68.0	42.3	21.5	14.4	19.3
Number of employees	591	624	714	711	682	679

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. As we conducted a 10:1 reverse stock split on October 1, 2016, per share data have been adjusted as if the split had been conducted at the start of FY2007.
3. Return on assets = net income / [(total assets for the previous term + total assets for this term) / 2].
4. Announced on May 11, 2017.

Analyses of Operating Results and Financial Position for FY2016

I. Summary of FY2016 Business Results

1. Sales

Generics sales to medical institutions were up 1.5% year on year, because of NHI drug price revision, increased competition, and slower growth of generics market in spite of additional governmental promotions in April 2016. Our total sales to other makers fell 13.4% because of the negative impact of the NHI drug price revision and because some makers purchased fewer products, reflecting severe market conditions. Therefore, our generic drug sales were ¥ 29.2 billion (up 0.6% year on year).

Sales of proprietary products declined 20.9% year on year, due to both the NHI drug price revision and the market's ongoing switch to generics. Consequently, pharmaceutical products segment sales totaled ¥34.5 billion (up 0.1% year on year).

As a result, we recorded consolidated net sales of ¥35.6 billion (up 0.2% year on year), almost the same as in the previous fiscal year.

2. Operating Income

The market growth rate of generic drugs fell below the same period of the previous year due to the impact of the NHI drug price revision. Although our sales volume of generic drugs increased, the actual sales amount remained almost the same as for the same period in the previous year. In terms of expenses, in

FY2013 (Ended March 31, 2014)	FY2014 (Ended March 31, 2015)	FY2015 (Ended March 31, 2016)	FY2016 (Ended March 31, 2017)	Forecast for FY2017[4]
				(Millions of yen)
31,893	35,119	35,602	35,690	38,000
30,774	34,169	34,510	34,552	–
24,405	27,400	29,016	29,204	32,600
4,312	3,400	2,920	2,308	2,100
1,120	950	1,092	1,138	–
15,128	18,353	18,804	19,450	–
13,437	13,480	13,653	13,404	–
1,668	1,755	1,889	1,984	2,350
3,328	3,286	3,145	2,836	2,500
3,055	3,094	2,946	2,849	2,400
1,887	1,900	1,961	2,054	1,550
				(Millions of yen)
40,106	41,428	43,644	47,002	–
13,501	15,626	16,042	17,356	–
				(Millions of yen)
1,892	2,438	2,451	2,737	–
(2,499)	(2,073)	(151)	(2,505)	–
(205)	(137)	(935)	787	–
				(Millions of yen)
3,367	1,711	1,173	2,928	1,550
862	1,201	1,179	1,113	1,350
				(¥)
461.97	474.49	499.12	530.02	399.89
3,369.70	3,900.05	4,099.74	4,548.80	–
100.0	100.0	100.0	100.0	100.0
4,253	4,589	4,280	4,104	–
10.4	9.4	8.8	7.9	6.6
14.6	13.1	12.4	12.3	–
5.0	4.7	4.6	4.5	–
89.7	80.1	81.1	85.3	–
33.6	37.7	36.7	36.9	–
21.6	21.1	20.0	18.9	25.0
699	743	756	769	–

addition to reducing the cost of APIs and the price of purchased products, we have kept the increasing region of cost of sales ratio within 1.7 percentage points. The SG & A expense ratio fell 0.7 percentage points due to the efficient apportioning of SG&A expenses. As a result, operating income came to ¥2.8 billion (down 9.8% year on year).

3. Capital Expenditure

In response to the recent growing demand for generics, we have invested about ¥1 billion for additional equipment at the third building at the Nihon Pharmaceutical Industry Tsukuba Factory, and about ¥1.6 billion for construction of factory for Nippon Chemiphar Vietnam, Co., Ltd. As a result, total capital investment was approximately ¥2.9 billion, 2.5 times the previous year's level.

II. Forecast for FY2017

Although the generic drug market grew at a slower pace than in the previous fiscal year, the effects of governmental promotions started in April 2016 are gradually beginning to show, and we believe that generic drugs will remain in demand. Therefore, we expect that consolidated net sales for the fiscal year ending March 31, 2018 will be ¥ 38 billion (up 6.5% year on year). Meanwhile, in terms of income, in addition to increasing development costs for generic drugs and in-house drug discovery, we will incur testing expenses for the start of commercial production of Nippon Chemiphar Vietnam Co., Lt. and its depreciation and amortization expenses for the full fiscal year. Therefore, we expect operating income to be ¥ 2.5 billion (down 11.9% year on year).

1. Pharmaceutical Sales

Assuming that the year brings no NHI drug price revisions and that the market continues to expand, we expect FY2017 generics sales to medical institutions to reach ¥31.3 billion, up 12.6% year on year. But, given the trend during the last fiscal year, we foresee a 6.8% year-on-year decline in sales to other makers, for a total of ¥1.3 billion. Further, reflecting the ongoing market shift to generics and the intensifying competition of rival products, we forecast a 9.0% year-on-year decline in sales of proprietary products for a total of ¥2.1 billion. Meanwhile, we also anticipate that consolidated pharmaceutical sales will total ¥34.7 billion, up 10.1% year on year.

2. Per Share Information

As mentioned earlier, we forecast increased sales in the fiscal year ending March 2018. That said, strategic investments are expected to increase costs, so we anticipate a year-on-year decline in net income per share. Nevertheless, we plan to maintain our dividend per share at ¥100 for the fifth consecutive year, and expect the payout ratio to increase six percentage points year on year to reach 25%.

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2017 (FY2016) and 2016 (FY2015)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	FY2015	**FY2016**	**FY2016**
Current assets			
Cash and deposits (Notes 4 and 15)	¥ 7,223	**¥ 8,170**	**$ 72,823**
Notes and accounts receivable–trade (Note 4)	12,734	**9,886**	**88,118**
Electronically recorded monetary claims (Note 4)	1,507	**4,354**	**38,809**
Inventories	5,175	**5,701**	**50,816**
Deferred tax assets (Note 12)	570	**567**	**5,054**
Other current assets	169	**331**	**2,950**
Total current assets	27,378	**29,009**	**258,570**
Property, plant and equipment			
Land	5,449	**5,449**	**48,569**
Buildings	13,544	**14,262**	**127,124**
Machinery, equipment and vehicles	6,369	**7,155**	**63,776**
Tools, furniture and fixtures	1,875	**1,948**	**17,363**
Lease assets (Note 11)	685	**576**	**5,134**
Construction in progress	689	**1,774**	**15,813**
Total property, plant and equipment	28,611	**31,164**	**277,779**
Accumulated depreciation	(15,694)	**(16,457)**	**(146,689)**
Net property, plant and equipment	12,917	**14,707**	**131,090**
Investments and other assets			
Investments in securities (Notes 4 and 5)	2,303	**2,413**	**21,508**
Long-term loans receivable	3	**3**	**27**
Long-term prepaid expenses	313	**293**	**2,612**
Intangible assets	63	**67**	**597**
Deferred tax assets (Note 12)	269	**96**	**856**
Lease and guarantee deposits	95	**95**	**847**
Deferred assets	2	**2**	**18**
Other	301	**317**	**2,825**
Total investments and other assets	3,349	**3,286**	**29,290**
Total assets	¥ 43,644	**¥ 47,002**	**$ 418,950**

Liabilities and Net Assets	Millions of Yen FY2015	Millions of Yen **FY2016**	Thousands of U.S. Dollars (Note 1) **FY2016**
Current liabilities			
Short-term loans payable(Note 4)	¥ 500	**¥ 496**	**$ 4,421**
Current portion of long-term loans payable (Note 7)	3,560	**2,371**	**21,134**
Lease obligations (Note 11)	128	**110**	**981**
Notes and accounts payable-trade (Note 4)	2,088	**1,761**	**15,697**
Electrically recorded obligation (Note 4)	5,121	**5,548**	**49,452**
Notes payable-facilities	528	**296**	**2,638**
Accrued expenses	2,485	**2,618**	**23,335**
Income taxes payable(Note 12)	283	**422**	**3,761**
Provision for sales promotion expenses	419	**448**	**3,993**
Other	544	**870**	**7,755**
Total current liabilities	15,656	**14,940**	**133,167**
Long-term liabilities:			
Bonds payable (Notes 4 and 7)	200	**200**	**1,783**
Long-term loans payable (Notes 4 and 7)	8,740	**11,737**	**104,617**
Lease obligations(Note 11)	216	**235**	**2,094**
Net defined benefit liability (Note 8)	1,162	**948**	**8,450**
Provision for directors' retirement benefits	375	**407**	**3,628**
Deferred tax liabilities-non current	75		
Deferred tax liabilities for land revaluation (Note 12)	1,168	**1,169**	**10,420**
Other	10	**10**	**89**
Total long-term liabilities	11,946	**14,706**	**131,081**
Net assets (Notes 9 and 10)			
Capital stock:			
Authorized: 15,400,000 shares			
Issued: 4,261,420 shares in FY2016 and FY2015	4,305	**4,305**	**38,372**
Capital surplus	1,306	**1,304**	**11,623**
Retained earnings	9,042	**10,702**	**95,392**
Treasury stock	(1,580)	**(2,067)**	**(18,424)**
Total shareholders' equity	13,073	**14,244**	**126,963**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	749	**822**	**7,327**
Revaluation surplus of land	2,633	**2,633**	**23,469**
Foreign currency translation adjustments	(8)	**(6)**	**(53)**
Remeasurements of defined benefit plans	(413)	**(346)**	**(3,084)**
Total accumulated other comprehensive income	2,961	**3,103**	**27,659**
Subscription rights to shares	8	**9**	**80**
Total net assets	16,042	**17,356**	**154,702**
Total liabilities and net assets	¥ 43,644	**¥ 47,002**	**$ 418,950**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 (FY2016) and 2016 (FY2015)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2015	**FY2016**	**FY2016**
Net sales (Note 17)	¥ 35,602	**¥ 35,690**	**$ 318,121**
Cost of sales	18,804	**19,450**	**173,367**
Gross profit	16,798	**16,240**	**144,754**
Selling, general and administrative expenses (Note 13)	13,653	**13,404**	**119,476**
Operating income	3,145	**2,836**	**25,278**
Other income (expenses)			
Interest and dividends income	59	**45**	**401**
Interest expenses	(152)	**(139)**	**(1,239)**
Other, net	(106)	**107**	**954**
	(199)	**13**	**116**
Income before income taxes and minority interests	2,946	**2,849**	**25,394**
Income taxes (Note 12)			
Current	771	**758**	**6,756**
Deferred	214	**37**	**330**
	985	**795**	**7,086**
Net income before minority interests	1,961	**2,054**	**18,308**
Minority interests in net income	(1)		
Net income	¥ 1,962	**¥ 2,054**	**$ 18,308**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 (FY2016) and 2016 (FY2015)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2015	**FY2016**	**FY2016**
Net income before minority interests	¥ **1,961**	**¥ 2,054**	**$ 18,308**
Valuation difference on available-for-sale securities	**(80)**	**73**	**651**
Deferred gains or losses on hedges	**(1)**		
Revaluation surplus of land	**66**		
Foreign currency translation adjustments	**(8)**	**2**	**18**
Remeasurements of defined benefit plans	**(533)**	**67**	**597**
Other comprehensive income	**(556)**	**142**	**1,266**
Comprehensive income	**1,405**	**2,196**	**19,574**
Total comprehensive income attributable to:			
Owners of the parent	**1,405**	**¥ 2,196**	**$ 19,574**
Minority interests	¥ **(1)**		

See notes to consolidated financial statements.

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 Adjustment	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2015	¥4,305	¥1,299	¥7,526	¥(985)	¥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
Dividends from surplus			**(394)**		**(394)**								**(394)**
Net income			**2,054**		**2,054**								**2,054**
Purchase of treasury stock				**(501)**	**(501)**								**(501)**
Disposal of treasury stock		**(2)**		**14**	**12**								**12**
Net changes of items other than shareholders' equity						**73**			**2**	**67**	**142**	**1**	**143**
Net change in the year		**(2)**	**1,660**	**(487)**	**1,171**	**73**			**2**	**67**	**142**	**1**	**1,314**
Balance at March 31, 2017	**¥4,305**	**¥1,304**	**¥10,702**	**¥(2,067)**	**¥14,244**	**¥822**		**¥2,633**	**¥(6)**	**(346)**	**¥3,103**	**¥9**	**¥17,356**

	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 Adjustment	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2016	$38,372	$11,641	$80,595	$(14,083)	$116,526	$6,676	—	$23,469	$(71)	$(3,681)	$26,393	$71	$142,990
Dividends from surplus			**(3,512)**		**(3,512)**								**(3,512)**
Net income			**18,308**		**18,308**								**18,308**
Purchase of treasury stock				**(4,466)**	**(4,466)**								**(4,466)**
Disposal of treasury stock		**(18)**		**125**	**107**								**107**
Net changes of items other than shareholders' equity						**651**			**18**	**597**	**1,266**	**9**	**1,275**
Net change in the year		**(18)**	**14,796**	**(4,341)**	**10,437**	**651**			**18**	**597**	**1,266**	**9**	**11,712**
Balance at March 31, 2017	**$38,372**	**$11,623**	**$95,392**	**$(18,424)**	**$126,963**	**$7,327**		**$23,469**	**$(53)**	**(3,084)**	**$27,659**	**$80**	**$154,702**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 (FY2016) and 2016 (FY2015)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2015	**FY2016**	**FY2016**
Operating activities:			
Income before income taxes and minority interests	¥ 2,946	**¥ 2,850**	**$ 25,403**
Depreciation and amortization	1,180	**1,113**	**9,921**
Amortization of goodwill	21		
(Decrease) increase in provision for sales promotion expenses	(24)	**29**	**259**
Decrease in net defined benefit liabilities	(153)	**(117)**	**(1,043)**
Increase in provision for directors' retirement benefits	1	**33**	**294**
Interest and dividends income	(59)	**(45)**	**(401)**
Interest expenses	156	**136**	**1,212**
Foreign exchange losses (gains)	12	**(19)**	**(169)**
(Increase) decrease in notes and accounts receivable-trade	(1,443)	**1**	**9**
Decrease (increase) in inventories	147	**(526)**	**(4,688)**
Increase in other current assets	(21)	**(164)**	**(1,462)**
Increase in notes and accounts payable-trade	1,198	**99**	**882**
Increase in other current liabilities	182	**214**	**1,907**
Decrease in consumption taxes payable	(338)	**(142)**	**(1,266)**
Increase (decrease) in long-term prepaid expenses	(5)	**11**	**98**
Other,net	(7)	**23**	**205**
Sub total	3,793	**3,496**	**31,161**
Interest and dividends income received	65	**49**	**437**
Interest expenses paid	(155)	**(139)**	**(1,239)**
Income taxes paid	(1,252)	**(669)**	**(5,963)**
Net cash provided by operating activites	2,451	**2,737**	**24,396**
Investing activites:			
Payment into time deposits	(124)	**(124)**	**(1,105)**
Proceeds from withdrawal of time deposits	826	**126**	**1,123**
Purchase of property,plant and equipment	(858)	**(2,435)**	**(21,704)**
Purchase of investment securities	(5)	**(5)**	**(45)**
Payment of loans receivable to employees	(1)		
Proceeds from collection of lease and guarantee deposits	4	**3**	**27**
Payments from the settlement of foreign exchange reserve		**(99)**	**(882)**
Other payments	(17)	**(18)**	**(161)**
Other proseeds		**46**	**410**
Other,net	24	**1**	**9**
Net cash used in investing activites	(151)	**(2,505)**	**(22,328)**
Financing activities			
Net increase (decrease) in short-term loans payable	24	**(4)**	**(35)**
Proceeds from long-term loans payable	3,050	**5,500**	**49,024**
Repayment of long-term loans payable	(2,685)	**(3,691)**	**(32,900)**
Proceeds from issuances of bonds	200		
Redemption of bonds	(95)		
Purchase of treasury shares	(604)	**(501)**	**(4,466)**
Cash dividends paid	(404)	**(395)**	**(3,521)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(295)		
Oter,net	(126)	**(122)**	**(1,087)**
Net cash (used in) provided by financing activites	(935)	**787**	**7,015**
Effect of exchange rate change on cash and cash equivalents	(20)	**(70)**	**(624)**
Net increase in cash and cash equivalents	1,345	**949**	**8,459**
Cash and cash equivalents , at beginning of year	5,791	**7,136**	**63,606**
Cash and cash equivalents , at end of year	¥ 7,136	**¥ 8,085**	**$ 72,065**

See notes to consolidated financial statements.

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 (FY2016) and 2016 (FY2015)

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 2016 financial statements to conform to the classifications used in 2017.

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 ¥112.19 to US$1, the approximate rate of exchange at March 31, 2017. 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, 2017, include the accounts of the Company and its four 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 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, and building fixtures and structures acquired on or after April 1, 2016.

Overseas subsidiaries adopt the straight-line method.

g. Intangible assets

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

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 difference between the carrying amount and its fair value at March 31, 2017 and 2016, was ¥1,353 million ($12,060 thousand) and ¥1,371 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 2017 and 2016) 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 2016 and 2015) 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 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, 2017 and 2016.

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 implementation guidance on recoverability of deferred tax assets

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued on March 28, 2016) from the beginning of the subject fiscal year.

3. Changes in Accounting Policies

Due to a change in the corporate tax law, effective the year ended March 31, 2017, the Company and its domestic subsidiaries have adopted "Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes" (ASBJ Practical Issues Task Force No.32, issued on June 17, 2016). The depreciation for concerning structures attached to the buildings and structures which were acquired on or after April 1, 2016 was changed to the straight-line method from the declining-balance method. The effect of the adoption on the accompanying consolidated financial statements for the year ended March 31, 2017 was immaterial.

4. 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 electrically 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, 2017 and 2016, 55.8% and 51.7%, 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, 2017 (FY2016) and 2016 (FY2015), are the following:

Assets	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Carrying value			
Cash and deposits	¥7,223	**¥8,170**	**$72,823**
Notes and accounts receivable–trade	12,734	**9,886**	**88,118**
Electronically recorded monetary claims	1,507	**4,354**	**38,809**
Investment securities	2,202	**2,311**	**20,599**
Total	23,666	**24,721**	**220,349**
Fair value			
Cash and deposits	7,223	**8,170**	**72,823**
Notes and accounts receivable–trade	12,734	**9,886**	**88,118**
Electronically recorded monetary claims	1,507	**4,354**	**38,809**
Investment securities	2,202	**2,311**	**20,599**
Total	¥23,666	**¥24,721**	**$220,349**
Difference			
Cash and deposits			
Notes and accounts receivable–trade			
Electronically recorded monetary claims			
Investment securities			
Total			
Derivative transactions			

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Carrying value			
Notes and accounts payable–trade	¥2,088	**¥1,761**	**$15,697**
Electrically recorded obligation	5,121	**5,548**	**49,452**
Short-term loans payable	500	**496**	**4,421**
Bonds payable	200	**200**	**1,783**
Long-term loans payable	12,300	**14,108**	**125,751**
Total	20,209	**22,113**	**197,104**
Fair value			
Notes and accounts payable–trade	2,088	**1,761**	**15,697**
Electrically recorded obligation	5,121	**5,548**	**49,452**
Short-term loans payable	500	**496**	**4,421**
Bonds payable	192	**191**	**1,702**
Long-term loans payable	12,275	**14,096**	**125,644**
Total	20,176	**22,092**	**196,916**
Difference			
Notes and accounts payable–trade			
Electrically recorded obligation			
Short-term loans payable			
Bonds payable	7	**9**	**81**
Long-term loans payable	25	**12**	**107**
Total	32	**¥21**	**$188**
Derivative transactions	¥80		

a. Cash and deposits, notes and accounts receivable–trade, electronically recorded monetary claims

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. Notes and accounts payable—trade, electrically 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.

d. 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.

e. 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 ($903 thousand) and ¥101 million as of March 31, 2017 and 2016, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2017 (FY2016), is as follows:

	Millions of Yen			
	FY2016			
	1 Year or Less	More Than 1 Year, Less Than 5 Years	More Than 5 Years, Less Than 10 Years	More Than 10 Years
Cash and deposits	**¥8,170**			
Notes and accounts receivable–trade	**9,886**			
Electronically recorded monetary claims	**4,354**			
Total	**¥22,410**			

	Thousands of U.S. Dollars			
	FY2016			
	1 Year or Less	More Than 1 Year, Less Than 5 Years	More Than 5 Years, Less Than 10 Years	More Than 10 Years
Cash and deposits	**$72,823**			
Notes and accounts receivable–trade	**88,118**			
Electronically recorded monetary claims	**38,809**			
Total	**$199,750**			

5. Investment Securities

(1) The following tables summarize acquisition costs and fair market values of available-for-sale securities with available fair values as of March 31, 2017 and 2016.

a. Securities with fair market values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. Dollars		
	FY2016			**FY2016**		
	Acquisition Cost	Unrealized Gain	Book Value	Acquisition Cost	Unrealized Gain	Book Value
Equity securities	**¥1,143**	**¥1,115**	**¥2,258**	**$10,188**	**$9,939**	**$20,127**

	Millions of yen		
	FY2015		
	Acquisition Cost	Unrealized Gain	Book Value
Equity securities	¥1,095	¥1,010	¥2,105

b. Securities with fair market values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. Dollars		
	FY2016			**FY2016**		
	Acquisition Cost	Unrealized Loss	Book Value	Acquisition Cost	Unrealized Loss	Book Value
Others	**¥57**	**¥(4)**	**¥53**	**$508**	**$(36)**	**$472**

	Millions of yen		
	FY2015		
	Acquisition Cost	Unrealized Loss	Book Value
Equity securities	¥42	¥(2)	¥40
Others	¥58	¥(2)	¥56

(2) Acquisition costs of securities with no available fair values as of March 31, 2017 were as follows:

Unlisted equity securities : ￥101million ($ 903 thousand).

Acquisition costs of securities with no available fair values as of March 31, 2016 were as follows:

Unlisted equity securities : ￥101million.

6. Derivative Transactions

(1) 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)

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

(2) Derivative transactions to which hedge accounting at March 31, 2017(FY2016) is applied are as follows:

			Millions of Yen		
Method of hedge accounting	Description of transaction	Hedged items	Contracts value (notional principal amount)	Contracts value (notional principal amount) (over 1 year)	Estimated fair value
Interest rate swaps under exceptional accounting treatment	Interest rate swaps contracts Pay fixed/Receive floating	Long-term loans payable	**¥2 500**	**¥2,500**	**Note**

			Thousands of U.S. Dollars		
Method of hedge accounting	Description of transaction	Hedged items	Contracts value (notional principal amount)	Contracts value (notional principal amount) (over 1 year)	Estimated fair value
Interest rate swaps under exceptional accounting treatment	Interest rate swaps contracts Pay fixed/Receive floating	Long-term loans payable	**$22,284**	**$22,284**	**Note**

Note: The market values of financial derivative instruments including interest rate swaps under exceptional accounting treatment are included treatment in the market values of loans payable because they are accounted for as an integral part of loans payable which are hedged items.

7. Long-term Debts and Bonds Payable

(1) Long-term debts and bonds payable at March 31, 2017 (FY2016) and 2016 (FY2015), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Corporate bonds	¥200	**¥200**	**$1,783**
Long-term loans	12,300	**14,108**	**125,751**
Total	12,500	**14,308**	**127,534**
Less: current portion	(3,560)	**(2,371)**	**(21,134)**
Total	¥8,940	**¥11,937**	**$106,400**

(2) Corporate bonds at March 31, 2017 (FY2016) and 2016 (FY2015), comprise the following:

			Millions of Yen		Thousands of U.S. Dollars		
Issuer	Type	Issue Date	FY 2015	**FY 2016**	**FY2016**	Interest Rate (%)	Maturity
Safety Research Institute for Chemical Compounds Co., Ltd.	Unsecured 1st issue	March 31, 2016	¥200	**¥200**	**$1,783**	0.39	March 31, 2023
Total			¥200	**¥200**	**$1,783**		

(3) The annual aggregate of matured bonds is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018		
2019		
2020		
2021		
2022		

(4) Long-term loans at March 31, 2017 (FY2016) and 2016 (FY2015), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2015	**FY2016**	**FY2016**		
Current portion of long-term loans	¥3,560	**¥2,371**	**$21,134**	1.0	
Long-term loans	8,740	**11,737**	**104,617**	0.9	2018–2027
Total	¥12,300	**¥14,108**	**$125,751**		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥2,251	$20,064
2020	2,037	18,157
2021	1,892	16,864
2022	1,382	12,318
2023 and after	¥4,175	$37,214

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	**FY2016**	**FY2016**
Aggregate agreed amount	¥3,000	**¥3,000**	**$26,740**
Used			
Unused balance	¥3,000	**¥3,000**	**$26,740**

8. 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

a. 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
	FY2015	**FY2016**	**FY2016**
Balance at beginning of year	¥4,761	**¥5,188**	**$46,243**
Service cost	199	**245**	**2,184**
Interest cost	76	**9**	**80**
Actuarial gain/loss incurred	547	**71**	**633**
Pension and severance payments	(395)	**(683)**	**(6,088)**
Balance at end of year	¥5,188	**¥4,830**	**$43,052**

b. 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
	FY2015	**FY2016**	**FY2016**
Balance at beginning of year	¥4,286	**¥4,102**	**$36,563**
Expected return on plan assets	107	**103**	**918**
Actuarial gain/loss incurred	(231)	**88**	**784**
Business owner's contribution	331	**336**	**2,995**
Pension and severance payments	(391)	**(677)**	**(6,034)**
Balance at end of year	¥4,102	**¥3,952**	**$35,226**

c. Reconciliation of the beginning and the ending balance of liabilities of the simplified method

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Balance at beginning of year	¥70	**¥77**	**$686**
Pension expenses	12	**13**	**116**
Pension and severance payments	(5)	**(19)**	**(169)**
Balance at end of year	¥77	**¥71**	**$633**

d. 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
	FY2015	**FY2016**	**FY2016**
Funded projected benefit obligation	¥5,145	**¥4,792**	**$42,713**
Plan assets	(4,102)	**(3,952)**	**(35,226)**
Subtotal	1,043	**840**	**7,487**
Unfunded projected benefit obligation	119	**108**	**963**
Net of liability and assets reported on the consolidated balance sheet	¥1,162	**¥948**	**$8,450**

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Net defined benefit liability	¥1,162	**¥948**	**$8,450**
Net defined benefit assets			
Net of liability and assets reported on the consolidated balance sheet	¥1,162	**¥948**	**$8,450**

e. Pension expenses

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Service cost	¥199	**¥246**	**$2,193**
Interest cost	76	**9**	**80**
Expected return on plan assets	(107)	**(103)**	**(918)**
Recognized actuarial loss	23	**96**	**856**
Amortization of prior service cost	(17)	**(17)**	**(152)**
Periodic benefit costs calculated under the compendium method	11	**13**	**116**
Retirement benefit expenses	¥185	**¥244**	**$2,175**

f. 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
	FY2015	**FY2016**	**FY2016**
Prior service cost	¥(17)	**¥(17)**	**$(152)**
Net actuarial gain or loss	(755)	**113**	**1,007**
Total	¥ (772)	**¥96**	**$ 855**

g. 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
	FY2015	**FY2016**	**FY2016**
Unrecognized prior service cost	¥(94)	**¥(76)**	**$(677)**
Unrecognized net actuarial gain or loss	690	**575**	**5,125**
Total	¥596	**¥499**	**$4,448**

h. Plan assets

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

	FY2015	**FY2016**
Stocks	30%	**31%**
Bonds	37%	**38%**
General account	21%	**20%**
Other	12%	**11%**
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.

i. Assumptions used for the year ended March 31, 2017 (FY2016), are as follows:

	FY2015	**FY2016**
Discount rate	0.2%	**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 ¥143 million ($1,275 thousand).

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

a. Items related to the state of funding for all pensions

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Plan assets	¥571,380	**¥531,916**	**$4,741,207**
Pension financing calculation of benefit obligation	561,736	**538,160**	**4,796,862**
Difference	¥9,644	**¥ (6,244)**	**$ (55,655)**

b. Nippon Chemiphar Group membership as a percentage of total fund membership.

0.9%

c. Supplemental information

Principal reasons for deductions to (1) above are the total of past service obligations of ¥34,540 million ($307,871 thousand) based on pension financing calculations and a surplus of ¥28,296 million ($252,215 thousand). Also, the proportion indicated in (2) above and the Nippon Chemiphar Group's actual proportion of the burden do not match.

9. Stock Options

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2017 and 2016, are ¥3 million ($27 thousand) and ¥4 million, respectively.

Following are details of the stock options the Company has as of March 31, 2017.

Stock option plans:	August 2011 plan	August 2014 plan
Number of grantees	6 directors, 5 employees	6 directors, 4 employees, 7 directors of the subsidiaries
Number of options	Common stock: 7,200 shares	Common stock: 11,200 shares
Date of grant	August 2, 2011	August 5, 2014
Exercisable period	August 3, 2014–August 2, 2017	August 6, 2017–August 5, 2020
Exercise price	¥3,320 ($29.59)	¥5,190 ($46.26)
Fair value at grant date	¥850 ($7.58)	¥890 ($7.93)

Changes in stock options outstanding for the years ended March 31, 2017 and 2016 are as follows:

Movement of stock options	August 2011 plan	August 2014 plan
Before rights settlement		
Outstanding as of March 31, 2015		11,200
Granted		
Vested		
Outstanding as of March 31, 2016		11,200
Exercised		
Granted		
Forfeited		
Vested		
Outstanding as of March 31, 2017		11,200
After rights settlement		
Outstanding as of March 31, 2015	4,800	
Vested		
Exercised	2,000	
Forfeited		
Outstanding as of March 31, 2016	2,800	
Vested		
Exercised	2,800	
Forfeited		
Outstanding as of March 31, 2017		

10. 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.

11. LEASE TRANSACTIONS

Lease obligations at March 31, 2017 (FY2016) and 2016 (FY2015) comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Lease obligations	¥344	**¥345**	**$3,075**
Less current portion	(128)	**(110)**	**(980)**
Less obligations, less current portion	¥216	**¥235**	**$2,095**

12. 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 30.9% and 33.1% for the fiscal years ended 31st March, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2017 (FY2016) and 2016 (FY2015), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Deferred tax assets:			
Accrued enterprise tax	¥24	**¥37**	**$330**
Accrued bonuses	218	**217**	**1,934**
Loss on valuation of inventory	77	**38**	**339**
Allowance for doubtful accounts	18	**18**	**160**
Provision for sales promotion expenses	129	**138**	**1,230**
Internal margin elimination	69	**87**	**775**
Net defined benefit liability	359	**293**	**2,612**
Provision for directors' retirement benefits	115	**125**	**1,114**
Loss on valuation of investment securities	60	**60**	**535**
Other	394	**378**	**3,370**
Subtotal	1,463	**1,391**	**12,399**
Less valuation allowance	(455)	**(450)**	**(4,011)**
Total	1,008	**941**	**8,388**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	246	**278**	**2,478**
Deferred tax liabilities on revaluation of land	1,168	**1,169**	**10,420**
Other			
Total	1,414	**1,447**	**12,898**
Net deferred tax liabilities	¥(406)	**¥(506)**	**$(4,510)**

Note: The note is omitted because the difference between the normal statutory tax rate and the actual effective tax rate was not material for the year ended March 31, 2017 (FY2016) and 2016(FY2015).

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2017 (FY2016) and 2016 (FY2015), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Advertising expenses	¥249	**¥146**	**$1,301**
Sales promotion expenses	4,354	**4,015**	**35,788**
Traveling expenses	530	**512**	**4,564**
Salaries and allowances	3,417	**3,468**	**30,912**
Retirement benefit expenses	152	**197**	**1,756**
Commissions	916	**892**	**7,951**
Research and development costs	¥1,889	**¥1,984**	**$17,684**

14. AMOUNTS PER SHARE

Net assets per share at March 31, 2017 (FY2016) and 2016 (FY2015), and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Net assets	¥4,099.74	**¥4,548.80**	**$40.55**
Basic net income	499.12	**530.02**	**4.72**
Diluted net income	¥498.82	**¥529.91**	**$4.72**

As the company conducted a 10:1 reverse stock split on October 1, 2016, data in the above table are adjusted as if the reverse stock split was conducted at the beginning of the fiscal year ended March 31, 2016.

The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2017 (FY2016) and 2016 (FY2015), is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Net income per share:			
Net income	¥1,962	**¥2,054**	**$18,308**
Net income available for distribution to shareholders of common stock	1,962	**2,054**	**$18,308**
Weighted average number of shares of common stock outstanding (thousands of shares)	3,929	**3,876**	
Diluted net income per share:			
Increase in common stock (thousands of shares)	¥2	**¥1**	

15. 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
	FY2015	**FY2016**	**FY2016**
Cash and deposits	¥7,223	**¥8,170**	**$72,823**
Time deposits maturing over three months	(87)	**(85)**	**(758)**
Cash and cash equivalents	¥7,136	**¥8,085**	**$72,065**

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

16. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2017 (FY2016) and 2016 (FY2015), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2015	**FY2016**	**FY2016**
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥(139)	**¥105**	**$936**
Reclassification adjustments to profit or loss			
Amount before income tax effect	(139)	**105**	**936**
Income tax effect	59	**(32)**	**(285)**
Total	(80)	**73**	**651**
Deferred gains or losses on hedges:			
Gains arising during the year			
Reclassification adjustments to profit or loss	(1)		
Amount before income tax effect	(1)		
Income tax effect			
Total	(1)		
Revaluation surplus of land:			
Gains arising during the year			
Reclassification adjustments to profit or loss			
Amount before income tax effect			
Income tax effect	66		
Total	66		
Foreign currency translation adjustments:			
Gains arising during the year	(8)	**2**	**18**
Reclassification adjustments to profit or loss			
Amount before income tax effect	(8)	**2**	**18**
Income tax effect			
Total	(8)	**2**	**18**
Remeasurements of defined benefit plans:			
Gains arising during the year	(778)	**17**	**152**
Reclassification adjustments to profit or loss	6	**79**	**704**
Amount before income tax effect	(772)	**96**	**856**
Income tax effect	239	**(29)**	**(258)**
Total	(533)	**67**	**597**
Total other comprehensive income	¥(556)	**¥142**	**$1,266**

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, 2017 (FY2016) and 2016 (FY2015), is summarized as follows:

Millions of Yen

	FY2016				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**¥34,552**	**¥1,138**	**¥35,690**		**¥35,690**
Intersegment	**16**	**59**	**75**	**(75)**	
Total sales	**34,568**	**1,196**	**35,764**	**(75)**	**35,690**
Segment profit	**2,806**	**31**	**2,836**		**2,836**
Segment asset	**38,765**	**2,382**	**41,147**	**¥5,856**	**47,002**
Other:					
Depreciation and amortization	**1,047**	**66**	**1,113**		**1,113**
Investments in affiliates	**56**		**56**		**56**
Capital expenditure	**¥2,428**	**¥94**	**¥2,522**		**¥2,522**

Thousands of U.S. Dollars

	FY2016				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**$307,978**	**$10,144**	**$318,121**		**$318,121**
Intersegment	**143**	**526**	**669**	**(669)**	
Total sales	**308,120**	**10,660**	**318,781**	**(669)**	**318,121**
Segment profit	**25,011**	**276**	**25,279**		**25,279**
Segment assets	**345,530**	**21,232**	**366,762**	**$52,197**	**418,950**
Other:					
Depreciation and amortization	**9,332**	**588**	**9,921**		**9,921**
Investment in affiliates	**499**		**499**		**499**
Capital expenditure	**$21,642**	**$838**	**$22,480**		**$22,480**

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
Investment in affiliates	56		56		56
Capital expenditure	¥1,148	¥94	¥1,173		¥1,173

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. Information of property, plant and equipment outside Japan is summarized as follows:

Millions of Yen			Thousands of U.S. Dollars		
FY2016			**FY2016**		
Japan	Vietnam	Total	Japan	Vietnam	Total
¥12,921	**¥1,786**	**¥14,707**	**$115,171**	**$15,919**	**$131,099**

(6) Information about major customers

		Millions of Yen		Thousands of U.S. Dollars
Customer	Related Segment	FY2015	**FY2016**	**FY2016**
Alfresa Corporation	Pharmaceutical Products Business	¥7,226	**¥7,822**	**$69,721**
Mediceo Corporation	Pharmaceutical Products Business	¥7,373	**¥7,427**	**$66,200**

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

	Millions of Yen			
	FY2015			
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill				

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, 2017 (FY2016) and 2016 (FY2015), 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
		FY2015	**FY2016**	**FY2016**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,850	**¥2,204**	**$19,645**
Purchaser: the Company	Notes, accounts payable	¥837	**¥891**	**$7,951**

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2015	**FY2016**	**FY2016**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,670	**¥2,029**	**$18,085**
Purchaser: Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 810	**¥910**	**$8,111**

At March 31, 2017, the Company has 6.1% (5.4% at March 31, 2016) of the voting rights in Japan Sopharchim Co., Ltd., which has 18.7% (18.2% at March 31 2016) 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 81.8% (73.0% at March 31 2016) 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, 2017 (FY2016) and 2016 (FY2015), rental income on this real estate amounted to ¥31 million ($276 thousand) and ¥26 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
	FY2015	**FY2016**	**FY2016**
Carrying value[1] at beginning of year	¥714	**¥916**	**$8,165**
Increase (decrease) in book value during year	202	**(8)**	**(71)**
Carrying value[2] at end of year	916	**908**	**8,093**
Fair value[3] at end of year	¥792	**¥796**	**$7,095**

Notes:

1. The carrying value represents acquisition cost less accumulated depreciation.
2. The principal increase in FY2015 was due to transfers from Company-use property to rental property (¥233 million).
3. Fair value as of March 31, 2017 and 2016, 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.

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) and 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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