Nippon Chemiphar Co., Ltd.

CORPORATE REPORT 2015

Profile

Pharmaceutical maker Nippon Chemiphar was established in 1950.

In addition to the manufacture and marketing of original formulations with distinctive characteristics, the Company is one of the first Japanese new-drug manufacturers to develop, manufacture and market generics.

Since 2000, generic drugs have been strategically important for Nippon Chemiphar. At present, as a manufacturer of both new and generic drugs, the Company ranks as one of Japan's leading groups in the generics field in terms of sales and product lineup, and is one of the few groups in Japan to cover the full generic drug value chain, from development through to manufacturing and marketing within the Group.

Nippon Chemiphar is also responding to the challenge of drug discovery, centering on our specialty fields, such as those of hyperuricemia and algia (pain). Focusing on these themes, it responds to unmet medical needs.

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, 2014–March 31, 2015
- Reporting companies: Nippon Chemiphar Co., Ltd., and its Group companies

● Note Regarding Forward-looking Statements

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

Corporate Philosophy

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.

In order to maintain sound growth and earnings goals, to protect the interests of the Company and our stakeholders, we steadfastly support the following.

1. Society
   By providing high-quality and safe pharmaceutical products, we contribute to creating a healthy and secure society.
2. Stakeholders
   Our activities are designed to earn the trust and respect, and meet the needs, of all stakeholders.
3. Commitment to Integrity
   We are committed to engaging with, and inspiring, others as we build and maintain a culture of ethical behavior and responsibility.
4. Internal Innovation
   We welcome change, and pursue innovation as we strive for excellence in all we do.
5. Compliance
   We always comply with laws and ordinances and strive to be a model for society.

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.

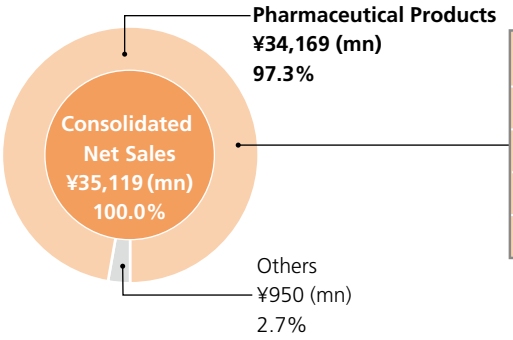
Nippon Chemiphar's Three Principal Goals	
1. Secure our presence in the generics business	As a Group that possesses integrated capabilities in the development, manufacture and marketing of not only new drugs but also generics, Nippon Chemiphar strives to provide high-quality, economical generic drugs, which meet the needs of patients and healthcare professionals.
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.
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	
Develop the Group's overseas business	Centering on the high-growth Asia region, demand is growing in such areas as therapeutic drugs for lifestyle-related diseases—including hyperuricemia—and value-added generic drugs. We intend to utilize the accomplishments of our above three goals to strengthen our presence in overseas markets.

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 healthcare and contracted testing businesses.

FY2014 Breakdown of Consolidated Net Sales



Breakdown of Pharmaceutical Product Sales

	Amount (¥mn)	Distribution (%)
Generics business	28,918	84.6
Proprietary products	3,400	10.0
Diagnostics, etc.	1,850	5.4
Total	34,169	100.0

I Pharmaceutical Products Segment

1. Ethical Drug Business

(i) Generic Drugs

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

To restrain ever-increasing healthcare expenses and improve its fiscal situation, the Japanese government is promoting the use of generic drugs. Within such an environment, the Nippon Chemiphar Group—possessing integrated capabilities, from development to manufacturing and marketing of both new drugs and generics—pursues the development of generics that reflect the needs of patients and healthcare professionals. For example, our track record includes the use of such innovations as press-through package sheets and tablet printing.

☞ Please refer to page 8 for details.

Research and Development

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

Manufacturing

Pharmaceuticals are manufactured under extremely strict regulations and standards. The Group carries out stringent quality assurance for both new drugs and generics to ensure that it delivers high-quality products. In March 2014, Group company Nihon Pharmaceutical Industry Co., Ltd. commenced operations at the new building of its Tsukuba Factory. Among such facilities operated in Japan by pharmaceutical manufacturers, it is the first to have a fully seismic-isolated structure. It is an example of the Group's commitment to ensuring stable supply through state-of-the-art systems.

Marketing and Provision of Information

Pharmaceutical companies are mandated by law to conduct post-marketing surveillance. The reason behind this requirement is that no matter how excellent a drug is, if it is not used properly, it will not be able to produce the correct effect. Through its team of medical representatives assigned nationwide, we collects and provides information in the same way for both new drugs and generics. The information collected relating to the needs of healthcare professionals and patients, as well as that on product quality and side effects, is useful in the development of new products and for improvement of existing products. We believe that it is also the duty of us as a pharmaceutical manufacturer, to provide a summary of the information gathered as feedback to medical institutions and dispensing pharmacies.

(ii) Core Products and New Drug Development

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

As a new-drug manufacturer, Nippon Chemiphar has strived to develop products with distinctive features. At present, we have three proprietary products: alkalization therapeutic drug Uralyt-U, analgesic and anti-inflammatory drug Soleton and 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.

Centering on formulation development in the areas of hyperuricemia and inflammation/pain relief—matters regarding which the Group excels—we are aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs.

☞ Please refer to page 13 for details.

2. Diagnostics Business

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

● **IgE NC: Reagent to measure allergen-specific IgE**

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

● **DP3000: Device for allergen-specific IgE measurements**

Rapid reporting, with the first result in 12 minutes, and 39 tests in 90 minutes. This device realizes even greater speed in allergy testing.

● **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]

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

● **CE Marking Declaration**

In FY2013, Nippon Chemiphar issued CE marking declarations of conformity for DiaPack3000 and Oriton IgE Chemiphar.

Ⅱ Others Segment

1. Healthcare Business

The Nippon Chemiphar Group handles a diverse array of healthcare products, including various types of creams classified as quasi-drugs, health foods and cosmetics. Utilizing the Group's trustworthiness and development expertise as a pharmaceutical product manufacturer, we are committed to creating items that will make a difference in people's lives and provide a high level of value added.

Moisporia White
(Hand cream)

Hime-Matsutake
(Agaricus blazei Murill)

2. Contracted Testing Business

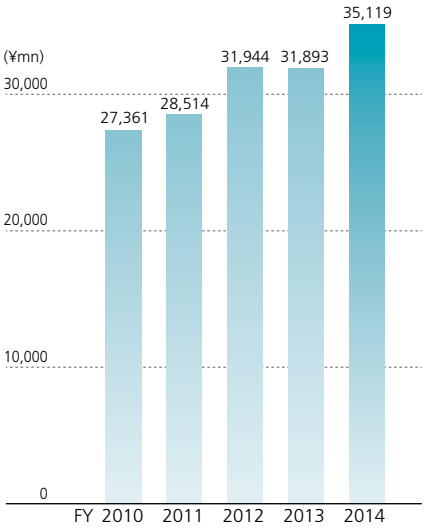
The Nippon Chemiphar Group supports the creation of safe, high-quality products through clinical and non-clinical testing as part of drug development.

In particular, in recent years the Group has responded to diverse changes in the operating environment—such as stricter regulation of animal testing—through a wide range of advanced measures. These include the development of both alternatives to animal testing, as well as test systems in the field of regenerative medicine.

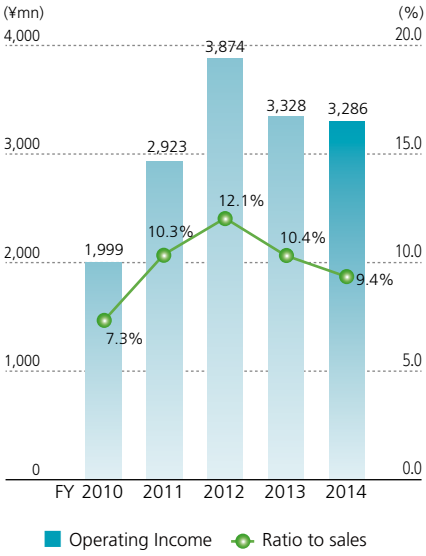
Part of a test conducted by Group company Safety Research Institute for Chemical Compounds Co., Ltd. The Bovine Corneal Opacity Permeability Test is an alternative to animal testing, and this Group company was the first in Japan to offer the test as a contracted service.

Financial Highlights

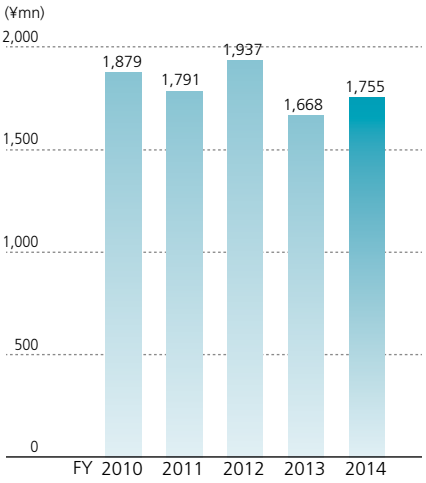
Net Sales



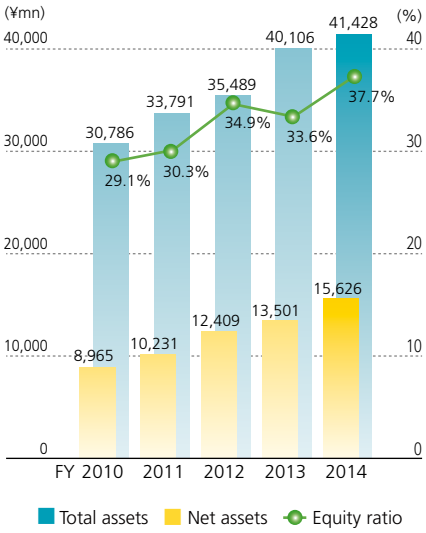
Operating income



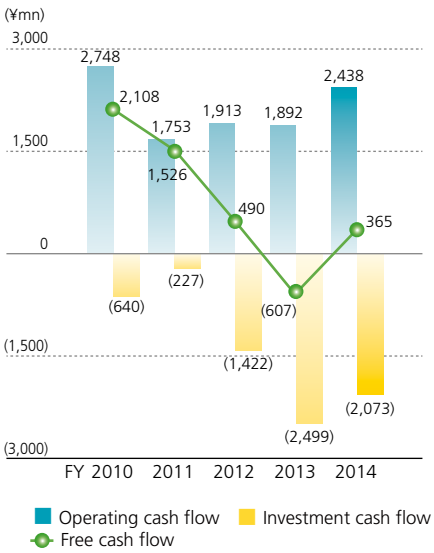
R&D Expenses



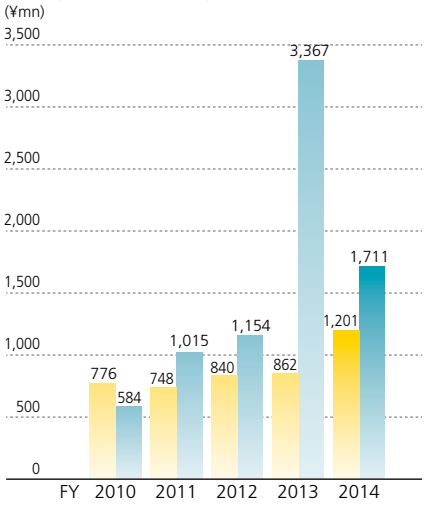
Total Assets, Nets Assets and Equity Ratio



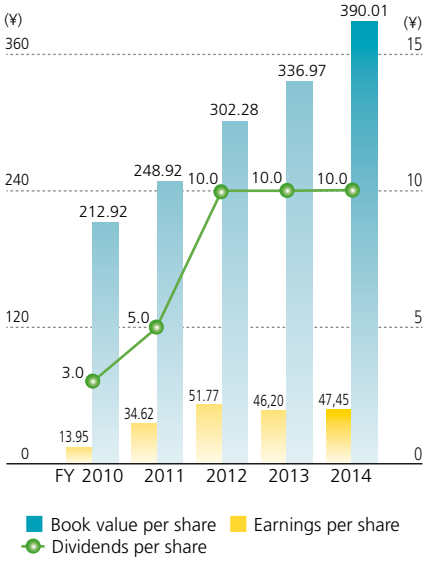
Cash Flows



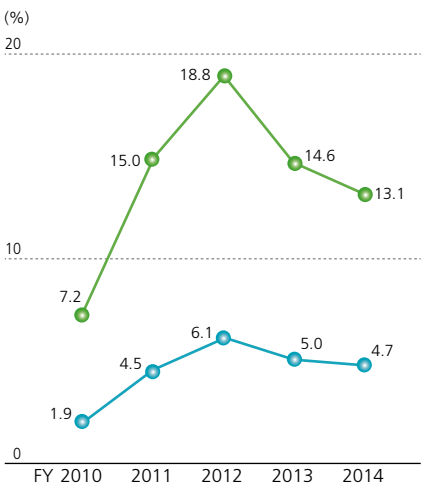
Capital Expenditure, Depreciation Expense



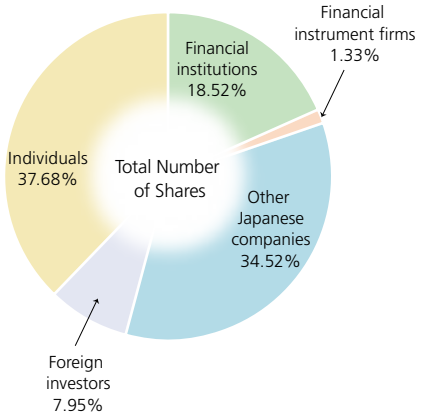
Amounts per Share



ROE, ROA



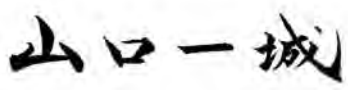
Composition of Shareholders



In fiscal year 2014, ended March 31, 2015, the Japanese domestic pharmaceuticals market saw diverse changes in the environment, including an overhaul of price calculation method under the National Health Insurance system. The impact of many of these changes have considerable effect on the Nippon Chemiphar Group. For example, regard to long-term listed items whose patent has expired, new drug-price reduction rules were adopted, with prices being proportional to the rate of conversion to generics. Furthermore, with regard to generic drugs, additional usage promotion programs were introduced to raise the penetration rate, while such measures as price aggregation and initial listing price reductions were adopted. All of these changes are designed to curb increases in healthcare costs driven by a rising elderly population. On a unit-volume basis, the Group's sales of generic drugs grew substantially. However, owing to unit price reductions, on a sales revenue basis the rate of growth was held down.

Under such circumstances, the rate of penetration of generic drugs in Japan is still lower than in Europe and North America. With the objective of curbing social welfare expenditure, the Japanese government looks set to continue promoting the use of generic drugs. Consequently, the market is expected to remain in a growth trend in the foreseeable future. For the Group, we are implementing a broad array of measures across all functions, from development to manufacturing and marketing, to maximize the benefits of this market expansion. In particular, on the manufacturing front, following the opening of the new building at the Tsukuba Factory of subsidiary Nihon Pharmaceutical Industry Co., Ltd., the Company decided to make its first major overseas investment. This will involve setting up a manufacturing facility in Vietnam, which is expected to commence operation by 2018. To respond to the growing market, we intend to expand our production capacity and continue taking up new challenges aimed at reducing manufacturing costs in anticipation of future needs.

With changes occurring in the Japanese economy and the pharmaceutical industry operating environment on a daily basis, we are determined to contribute to improvements in patients' quality of life and reducing their cost burden, as well as to the trimming of healthcare costs faced by the Japanese government. To do so, the entire Nippon Chemiphar Group remains committed to realizing its three strategic principal goals—to establish a strong presence in the generics business; become a leader in the hyperuricemia field underpinned by its field centered on Uralyt; and to pursue proprietary drug discovery and development. By seeking these goals not only in Japan but also abroad—centering on Asia—we will strive to contribute to society while growing our business. We look forward to the continued support of all our stakeholders in these endeavors.



Kazushiro Yamaguchi
President & CEO
July 2015

Question 1

Please outline your plans for FY2015.

Answer 1

We plan to carry out future-oriented strategic investments backed by a clear message.

In FY2015, we do not foresee any impact from the National Health Insurance price revision, while the effects of the Japanese government's generic drug promotion policies implemented last fiscal year are expected to continue. Consequently, sales to medical institutions—which are sales generated by medical representatives—are forecast to increase 12.6% compared with the previous fiscal year. In contrast, it is predicted that sales to other makers will decline 36.2%. This reflects the large jump in demand during the previous fiscal year. Net sales overall are projected to increase 4.2% compared with FY2014.

Our operating profit is expected to decrease 14.8% compared with last fiscal year, particularly reflecting a rise in research and development expenses. For example, in addition to a rise in the number of products under development driven by front-loaded generic drug development, we are pursuing additional phase Ⅰ clinical trials for hyperuricemia therapeutic drug candidate NC-2500, and taking other drug-discovery research themes to new development stages.

Although we are forecasting increased sales and lower profits, the Company is constantly making an effort to reduce routine expenses while carrying out strategic investments. Hence, our expense control is backed by the very clear message that we are determined to secure the funds necessary for investments in future growth.

In the past, the Group has promoted three strategic principal goals. Amid a constantly changing operating environment—both in the Japanese economy as a whole and in the pharmaceuticals industry—in FY2015 we added a fourth principal goal: overseas expansion. Hence, we have renamed our fundamental strategy the Three Plus 1 Principal Goals.

Question 2

At present, what kind of new-drug development is the Group implementing?

Answer 2

We are pursuing multiple development themes, focusing on such areas as hyperuricemia and algia (pain).

Firstly, in the hyperuricemia sphere, there is antihyperuricemic agent NC-2500. By blocking an enzyme called xanthine oxidoreductase, this agent has the effect of suppressing the formation of uric acid. In FY2014, we concluded phase Ⅰ trials, and confirmed the safety of NC-2500. However, we judged that by improving the formulation, we could achieve even more desirable results. Hence, using an improved formulation we have decided to conduct a new set of phase Ⅰ trials, which are scheduled to conclude in FY2016 (ending March 31, 2017).

Furthermore, two of our research themes have been selected by a support program of the Japan Agency for Medical Research and Development (AMED), which was launched in April 2015. One of these is NC-2600, a selective P2X4 receptor antagonist. Using intrathecal administration, this agent has already shown strong analgesic action in a neuropathic model. However, we are aiming to develop a drug candidate compound that is effective using oral administration. AMED'S predecessor, the Japan Science and Technology Agency (JST), chose NC-2600 for a program that seeks to generate practical applications. Based on the novelty of NC-2600, AMED approved the continuation of development, and in October 2014 we began preclinical studies. We plan to conclude preclinical studies within around a year while utilizing public funding, and are pursuing development with a view to conducting phase Ⅰ trials during the period in which we are receiving development funding support.

The other theme chosen by an AMED support program is a delta opioid agonist. This agent was created with the aim of developing a new analgesic, but the target application was subsequently changed. In 2013, the agent was chosen under the JST's adaptable and seamless technology transfer program through target-driven R&D, known as A-STEP. Under its high-

Consolidated Sales and Income

(¥mn)

	FY2014		FY2015 (Forecasts)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net Sales	35,119	100.0	36,600	100.0	4.2
Pharmaceutical Sales	30,800		32,510		5.5
Generics	27,400		29,730		8.5
Core products	3,400		2,780		(18.2)
Operating income	3,286	9.4	2,800	7.7	(14.8)
Net income	1,900	5.4	1,700	4.6	(10.5)

risk challenge plan, and we are currently conducting research while receiving support from AMED. Research under this theme is being undertaken jointly by four parties—Kitazato University, the University of Tsukuba, the National Center of Neurology and Psychiatry, and Nippon Chemiphar.

Question 3

Please summarize the current status of your overseas business development.

Answer 3

In March 2015, we launched a joint venture company in Vietnam in order to set up a production base.

With regard to overseas business development, discussing manufacturing and marketing separately will probably provide a clearer understanding.

Firstly, on the manufacturing side, we recently concluded trial production for the first specific product under our contract manufacturing relationship with STADA Vietnam. At present, we are carrying out administrative procedures in preparation for the importation of this product. We have already achieved adequate quality, and plan to begin distribution of the product in Japan during FY2015.

Furthermore, we are also steadily pursuing the establishment of a Group manufacturing facility overseas. In March 2015, also in Vietnam, we set up Nippon Chemiphar Vietnam Joint Venture Co., Ltd., as a joint venture between Group company Nihon Pharmaceutical Industry (NPI) and a Vietnamese pharmaceutical company. We have begun to design the factory, and plan to commence building by the end of 2015. Construction is scheduled for completion by the end of 2016, with actual production planned to begin in FY2018 (ending March 31, 2019). When this Vietnam factory moves into full-scale operation, and facilities at the new building at the NPI Tsukuba Factory—which was completed last year—are fully utilized, the Group's current annual output capacity of approximately 1.1 billion pills is expected to almost double within four to five years, to around 2.0 billion pills.

With regard to marketing, in light of Japan's shrinking population—driven by a low birthrate and an increasing percentage of elderly people—and a financial matter, I have always taken the view that, in the future, it is inevitable that the Japanese pharmaceutical market will move into a phase of decline. Consequently, I believe that entry into overseas markets is essential. While the scale of our overseas business is still relatively small, for the aforementioned reason we have developed businesses in such markets as Association of Southeast Asian Nations (ASEAN) countries and China. In FY2014, we received approval for the sale of pioglitazone in Hong Kong, and at present we have five products awaiting approval in ASEAN countries and China. In addition, we are also preparing approval applications for several more products. With regard to the production facility in Vietnam that I mentioned earlier, although the objective in the foreseeable future is to manufacture products for the Japanese market, we also see it as a stepping stone toward future expansion into supply for the local market and other emerging markets.

Question 4

What tasks do you see as key to achieving the Three Plus 1 Principal Goals?

Answer 4

I believe that one of our most vital tasks is human resource development.

When considering our responses to the rapidly changing Japanese market as well as development of our overseas business, I believe that one of the most vital tasks we must address is that of human resource development. What I am referring to here is not training programs and job rotation but, rather, the actual way in which employees are involved in their work. I often talk to employees about how I want them to use their own initiative to find job fulfillment by stepping back and earnestly examining the essence of their own jobs. In addition, for employees who manage subordinates, I ask them to look carefully at the jobs of their subordinates and provide ongoing supervision and advice. By doing so, I believe that each individual can begin to truly feel the enjoyment of being involved in their work.

By feeling the pleasure of what they do, and without forgetting the motivation they felt when they first took on their current job, employees will be able to develop and grow as members of the Nippon Chemiphar Group. I have a strong wish to see our employees reach their full potential in this way.

We have identified three strategic principal goals—the generics business, the hyperuricemia market, centered on Uralyt, and proprietary drug discovery—and are undertaking initiatives to realize them. Although our rate of progress in each differs, we are making steady progress in each, and plan to redouble our efforts. In the interest of sustainable growth, we are also leveraging these successes to develop our business overseas.

Overview of Initiatives

- The Japanese market for generics continues to grow each year by volume, but the business environment is changing significantly due a growing number of new companies entering the industry and changes in NHI price calculation method. Looking to the future changes that are expected, we recognize the need to transform our operations, differentiating ourselves on the basis of quality as never before.
- During the past few years, we have made steady progress in the hyperuricemia market with products such as Uralyt and in new drug development. We are now working to accelerate these initiatives.
- Given the population decreases associated with a falling birthrate and an aging society, as well as concerns about public finances, we see a shrinking Japanese market as unavoidable. By achieving success in our three goals, in addition to Japan we aim to expand our business overseas, particularly in rapidly growing Asian markets.

I 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. The Nippon Chemiphar Group has positioned generics as a strategic business in 2000, taking the lead among companies focused on new drug development. By leveraging our expertise in new drug sales and knowhow cultivated over 15 years in the generics business, we will work to maintain high quality and stable supplies. At the same time, we will concentrate on providing accurate information and manufacturing products catering to the needs of medical professionals and patients. By providing unique added value, we aim to increase our presence in this market.

1. Overview of Operations in FY2014

In FY2014, The Nippon Chemiphar Group's consolidated generics sales were amounted to ¥27,400 million, up 12.3% year on year. In addition to our sales to other manufacturers[1] having expanded, sales to medical institutions have grown despite the impact of National Health Insurance price revisions. Overall sales from the generics business, including ODM sales,[2] amounted to ¥28,918 million, up 15.3% year on year.

Generics Sales (Consolidated)

(¥mn)

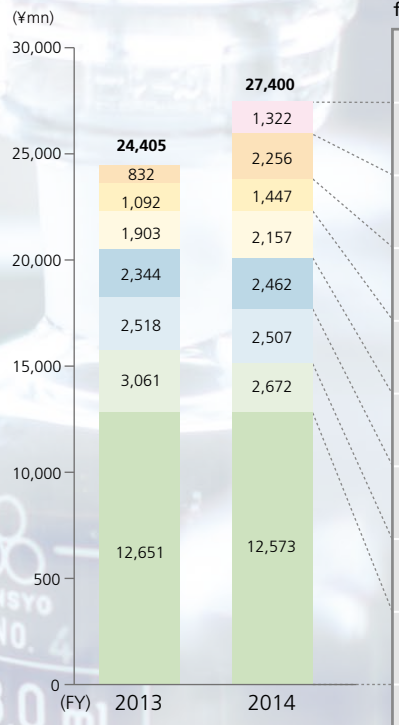
	FY2013	FY2014	
	Amount	Amount	YOY (%)
① Generics	24,405	27,400	+12.3
Sales to medical institutions	23,579	25,079	+6.4
Sales to other makers	826	2,321	+180.9
Amlodipine	3,333	3,011	(9.6)
Lansoprazole	1,988	1,935	(2.7)
Limaprost Alfadex	1,417	1,509	+6.5
Rabeprazole	1,533	1,595	+4.1
Donepezil	1,301	1,704	+31.0
Pravastatine	1,317	1,273	(3.3)
Voglibose	1,083	1,013	(6.4)
Others	12,432	15,357	+23.5
Total (① + ②)	25,079	28,918	+15.3
① Generics	24,405	27,400	+12.3
② ODM	674	1,518	+125.1

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.

(1) Sales to Medical Institutions

Thanks to government measures promoting the use of generics, there has been a notable increase in sales of generics to medical institutions, particularly DPC hospitals.[3] As a result, sales of these products increased a significant 25% year on year in volume terms, centering on recently launched products. However, the impact of the April 2014 NHI price revision was substantial, limiting year-on-year growth in monetary terms to 6.4%, for a total of ¥25,079 million.

Sales of Generics by Launch Year (Consolidated)



Year-on-year change by fiscal year launched

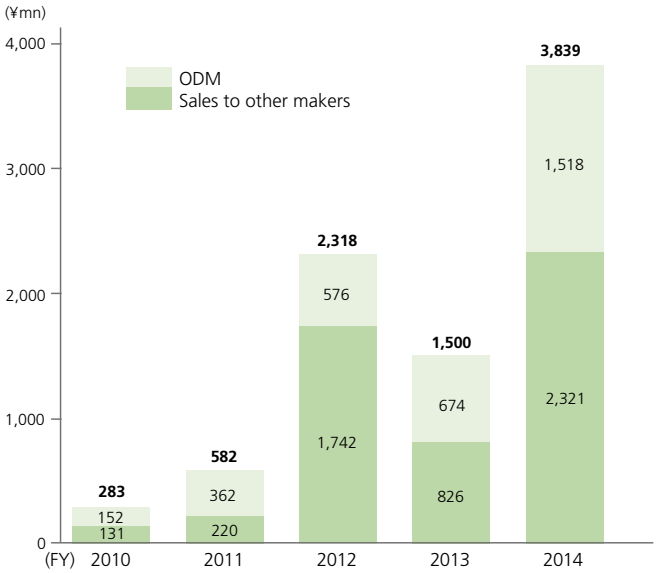
Launch Year	YOY (%)
FY2014	No results for previous year
FY2013	+171.0
FY2012	+32.4
FY2011	+13.4
FY2010	+5.0
FY2009	(0.4)
FY2008	(12.7)
FY2007	(0.6)
Total	+12.3

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.

(2) Sales to Other Makers

Sales of generics to other makers benefited from both increased orders placed by existing business partners, and transactions with new customers. These sales combined with exports surged 180.9% year on year, to ¥2,321 million. Meanwhile, joint development of our core generics pushed up ODM sales of generics 125.1%, to ¥1,518 million.

Sales to Other Manufacturers (Consolidated)



Sales by Medical Institutions

Looking at Chemiphar's non-consolidated sales of generics based on the type of medical institution buying, hospitals accounted for 12.8%, clinics 12.5%, and pharmacies 73.8%. Spurred on by FY2014 measures to promote the use of generics, the year-on-year increase in sales to the pharmacy market was particularly pronounced, up 9.6%, while that to the hospital market was 4.8%.

Meanwhile, growth was high—at 14.5%—in sales to DPC hospitals that were applied a system of evaluation for reimbursement of medical fees based on the percentage of generics used (functional evaluation coefficient 2 used to evaluate rate of generic drug use).

Composition of Generics Sales by Destination (Non-consolidated)

(%)

	FY2013	FY2014	
	Distribution	Distribution	YOY
Overall	100.0	100.0	+5.7
Hospitals (100 beds or more)	12.9	12.8	+4.9
Clinics (less than 100 beds)	14.7	12.5	(10.1)
Pharmacies	71.2	73.8	+9.6
Other	1.2	0.9	(19.5)

Of which, DPC hospitals (%)

FY2013	FY2014	
Distribution	Distribution	YOY
8.6	9.3	+14.5

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 FY2014, we launched 16 drugs from seven agents, centered on items developed in-house, raising our total number of products handled to 224 (as of March 31, 2015).

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 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, in addition to the drug formulations mentioned above, we need to redouble our efforts to differentiate ourselves on the basis of the quality of the products we achieve. By concentrating and augmenting the efficiency of our development resources, we will seek to make the products we develop even more competitive. Through these efforts, we aim to gain a solid market reputation as a drug manufacturer.

☞ Please refer to page 19 for information on drug formulations and packaging.

Products Launched in FY2014

Month listed	Product
June	Valsartan
	Losartan Potassium-Hydrochlorothiazide
	Cilostazol
December	Candesartan
	Imatinib
	Levofloxacin

Products of Possible Interest to Chemiphar

Patent Expires	FY2015	FY2016	FY2017
Principal products	Clopidogrel Naftopidil OD[1]	Montelukast	Olmesartan Telmisartan Rosuvastatin
Market total[2]	¥280bn	¥260bn	¥440bn

1. Oral dissolving tablet.
2. Total sales of products for which patents to be expired. (as of FY2013)

(2) Manufacturing

In June 2014, the new manufacturing building at the Nihon Pharmaceutical Industry Tskuba Factory—the first pharmaceutical plant in Japan to employ a fully seismically isolated structure—commenced operations. This addition raised the Nippon Chemiphar Group's annual production capacity from 900 million pills to 1.1 billion. Furthermore, maximizing the amount of equipment that this new buiding can support would allow the Group to boost capacity even more, from 1.1 billion pills to 1.4 billion. We are considering additional capital investment depending on future demand conditions.

In addition to bolstering capacity in Japan, we are undertaking initiatives to manufacture overseas. In recognition that ensuring production capacity and lowering costs are issues of particular importance in the generics business, we plan to continue with efforts to reinforce manufacturing capacity in Japan and abroad.

☞ Please refer to page 15 for information on overseas production.

(3) Quality Assurance

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

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

(4) Provision of Information

As information is crucial for the promotion of generics, we provide healthcare professionals with the same quality of information for generics as for new drugs.

a. Providing Information via Medical Representatives (MRs)

Nationwide, we have approximately 280 MRs, whose function is to provide consultations on the use of drugs and patient instructions, and accurate information promptly to meet other needs of medical institutions.

By maintaining ties with individual medical institutions, particularly core hospitals that are central to regional healthcare, we continue working to ensure the efficiency of our MRs' activities.

b. Supporting Various Research Groups

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

c. Augmenting Access to the Oncology Market

With the number of cancer patients growing as the population ages, demand is increasing for generic anti-cancer agents. To strengthen our initiatives in this area, we set up the oncology promotion section in 2013. This department is tasked with providing information and holding seminars for physicians.

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 therapy, as well as on health management. Through these multitude of 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 all our generics via nationwide pharmaceutical wholesalers, resulting in 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 APIs' suppliers in Japan and overseas.

Providing Accurate Information with Communication Techniques

Each month, the customer support center fields some 500 inquiries, ranging from questions about side effects to dosage methods and drug formulation characteristics. Because the handling of pharmaceuticals has life-related implications, our first priority is to ensure the accuracy of our responses. Each week, the center holds meetings to consider case studies and provide information updates. We also conduct training on techniques for communicating information accurately, evaluating communications, inviting instructors from outside the Company as part of our efforts to ensure that information is correct and precise.

Kazumi Yamakami
Manager,
Customer Support

Ⅱ 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 contribute 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.

About Uralyt

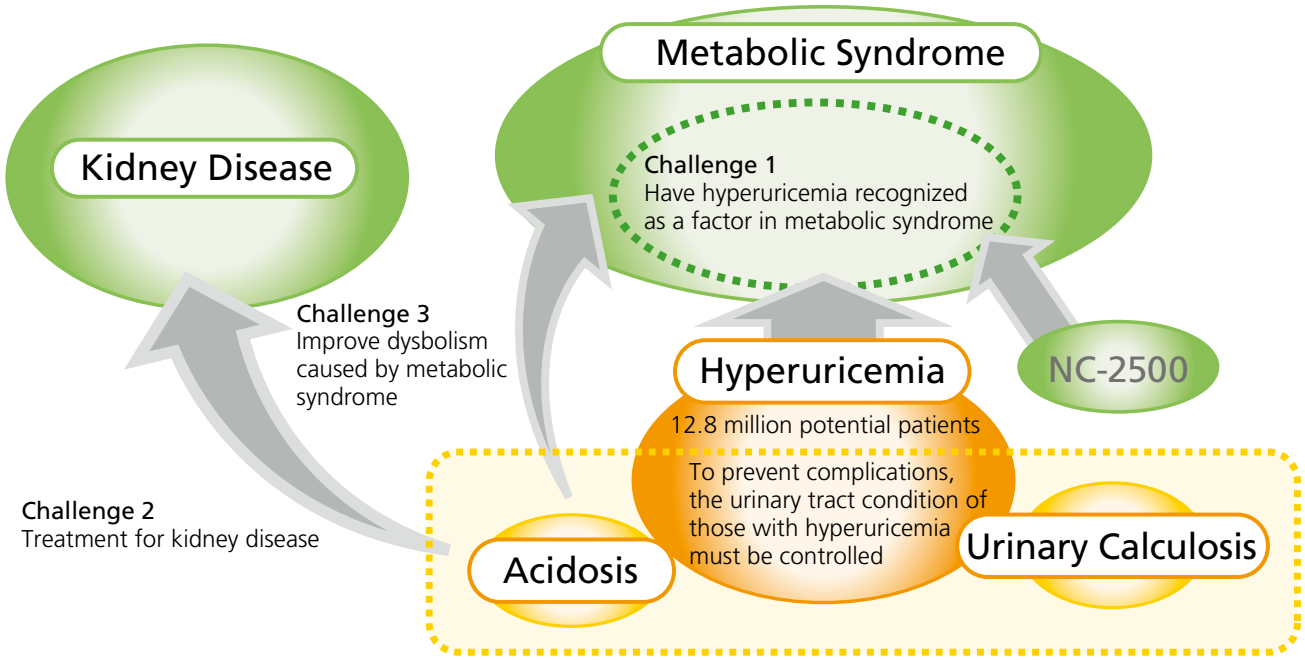
It is not uncommon for hyperuricemia and gout to lead to high levels of acid in urine. Left untreated, acid urine will insolubly remaind and it leads to stones in the urinary tract. Chemiphar launched Uralyt in 1998 as an alkalization treatment to improve acid urine. For the past 27 years, we have been working to raise awareness of acid urine improvement 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.

2. Market Expansion Initiatives

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

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

Potential Uralyt Market



Ⅲ New Drug Development

We are working to develop new breakthrough drugs for patients suffering from diseases for which therapeutic drugs are still insufficient. In order to bring newly found compounds to market as quickly as possible, we are focusing our drug research on discovery and, typically at an early stage, out-licensing development to highly specialized companies at home and abroad through our drug research venture system. We are tackling drug discovery challenges concentrating on our specialty fields of hyperuricemia and anti-inflammatory drug development.

Compounds Being Developed

(1) NC-2400 / PPAR agonist (lipid metabolism agent)

This treatment is aimed at improving the mechanism for eliminating cholesterol accumulation in blood vessels. Licensed out in 2005 to development venture Cerenis Therapeutics SA, headquartered in France, the product is currently undergoing phase Ⅰ trials in the United States.

(2) NC-2500 / XOR inhibitor (hyperuricemia treatment)

This treatment reduces uric acid levels by inhibiting the body's production of the acid. Phase Ⅰ testing of this treatment concluded in FY2013, but to achieve better results we have decided to improve the formulation and conduct phase Ⅰ trials again. This is scheduled for completion in FY2016.

(3) NC-2600 / P2X4 antagonist (for neuropathic pain)

In collaboration with Kyushu University, we are studying P2X4 receptor antagonists for their possible use in the treatment of neuropathic pain. In FY2012, we applied to the Japan Science and Technology Agency (JST) for funding under the Adaptable and Seamless Technology Transfer Program (A-STEP) for our study. Our research was chosen to receive financial backing due to its potential for practical application. Up to ¥1 billion in public funds will support our research on this compound over the next five years.

Although the JST's medical research and development support program was transferred to the Japan Agency for Medical Research and Development (AMED), which was launched in April 2015, support for this theme is continuing.

Neuropathic pain is debilitating patients to the point where it interferes with sufferers' everyday life, but there are few options of remedies, leading to the need for a new treatment to be developed. Against this backdrop, October 2014, we saw the start of preclinical testing on this theme, which is expected to conclude in about one year.

After that, we plan to continue applying for public funding during the support period to advance toward phase I trials.

(4) Delta Opioid receptor agonist (emotional adjustment)

We are conducting collaborative research on this theme with three other organizations: the universities of Kitasato and Tsukuba, and the National Center of Neurology and Psychiatry. A recipient of public funding through March 2013 under the JST's A-STEP program for nurturing drug seeds targeting algia (pain), collaborative research led to the generation of a number of selective opioid receptor agonists.

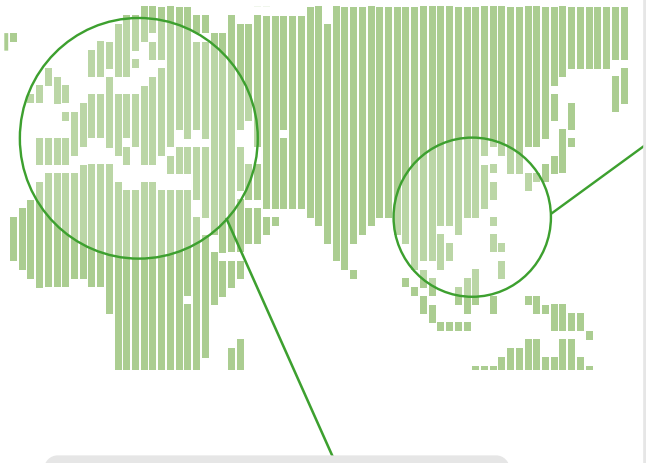
In FY2013, we again applied to the JST's A-STEP program, this time in the high-risk challenge category and with the target changed to emotional adjustment. We were accepted, and will continue to conduct joint research after the JST's medical research and development support program is transferred to AMED.

Ⅳ 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 joint venture company in Vietnam.

Overseas Access



Diagnostics Business

We are working with a partner on overseas marketing, leveraging our allergy diagnostic device (DiaPack3000), which has the fastest reaction time of any currently in use.

Pharmaceutical Business

We are accelerating our activities in this area, centered on ASEAN members, China and other Asian countries. We aim to increase the number of applications we submit for approval.

■ Status of Activities in Vietnam

We have in place a manufacturing contract with a local producer, and commercial production is set to commence in FY2015. We are also establishing a joint venture production base, where construction is slated for completion in 2016. This facility will serve as our foothold for future Asian development.

■ Status of Other Initiatives

China — We are currently working with a local partner. Calvan is set to go on sale in FY2015, and we are submitting applications to sell other products.

South Korea — Soleton and Calvan are being sold through partners.

Hong Kong — Pioglitazone has been approved, and we are preparing to sell it.

Thailand — Uralyt is currently being sold through a partner.

1. Sales

In the areas of pharmaceuticals, we work with local distributors to sell our core products in Thailand, China and South Korea. In addition, to enhance the access of our generics to the ASEAN market, we acquired approval in FY2014 for the sale of pioglitazone in Hong Kong. We are currently applying for approval to market five products, and are preparing to further increase the number of countries where our products are available.

In the diagnostics business, we are marketing our allergy diagnostic instrument overseas in cooperation with local distributors.

2. Manufacturing

With regard to commissioned production in Vietnam, we are proceeding with import procedures, and plan to commence sales of these products in Japan within FY2015. In March 2015, we set up Nippon Chemiphar Vietnam Joint Venture Co., Ltd., with the Vietnamese firm M.S.T Pharm Co., Ltd. This we did in the interests of boosting capacity and lowering the cost of sales, as well as to serve as a foothold for future sales overseas. Construction of a factory in Vietnam is scheduled to begin in fall 2015 and to be completed the following year, with production to commence in 2018.

Overview of the Joint Venture

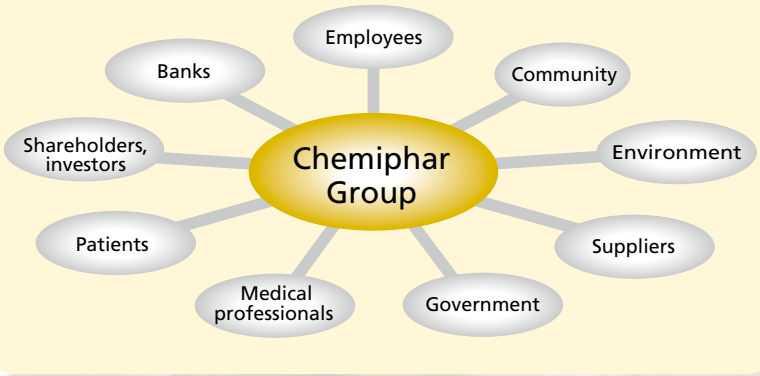
- **Name:** Nippon Chemiphar Vietnam Joint Venture Co., Ltd.
- **Location:** Binh Duong Province, Socialist Republic of Vietnam
- **Paid in capital:** US$7,500,000
- **Establishment date:** March 2015
- **Ownership ratio:** NPI, 60%; M.S.T, 40%

December 2014 signing of the joint venture agreement in Ho Chi Minh City, Vietnam

Fully aware of our mission—to make a difference in society by providing pharmaceutical drugs and healthcare-related services to help people become and remain healthy—the company aims to contribute to society by providing a steady supply of high-quality, economical generics, taking part in activities to promote hyperuricemia treatment and developing new treatments.

Fundamental CSR Policy

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



I 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. Underlying Philosophy

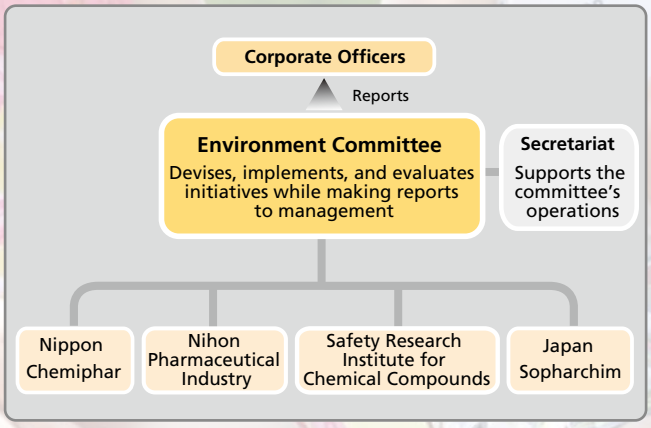
In order to help make our society more sustainable, the Nippon Chemiphar Group promote environment enterprises.

2. Basic Policies

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

3. Environment Conservation

We have an Environment Committee to devise, implement and evaluates environment-related conservation initiatives for the entire Company. In FY2014, we worked to reduce CO_2 emissions and undertook initiatives centered on all-employee participatory awareness activities. This fiscal year, we are continuing to make initiatives to protect the global environment a companywide theme, as we participate in a campaign to conserve electricity and conduct in-house training to enhance awareness of environment promotion activities.



4. CO_2 Emissions

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

5. Impact of Group Operations

Material Balance in Our Business Activities

INPUT

Energy

Electricity	10,971,000	kwh
Gasoline	596	kl
Heavy oil	500	kl
Kerosene	668	kl
LPG	3	t
Total	174,200	GJ

Water Consumption (from factories, laboratory)

Tap water	29,318	m^3
Well water	66,383	m^3
Total	85,227	m^3

Materials

Raw materials	287	t
Packaging materials	143	t
Total	431	t

OUTPUT

Into Atmosphere

CO_2 emissions	7,117	t-CO_2
PRTR-related substances	0.0	t

As Industrial Waste Water (from factories, laboratory)

Used water	56,579	m^3
PRTR-related substances	5.7	t

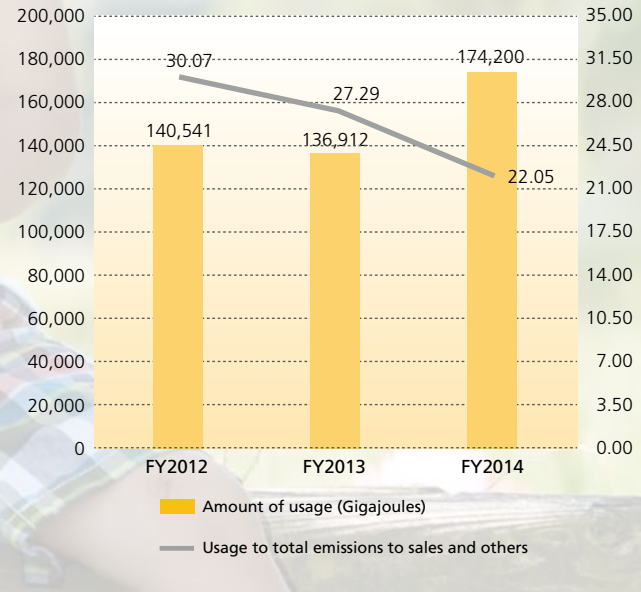
As Waste

Non-industrial waste	39	t
Industrial waste	177	t
PRTR-related substances	0.0	t
Container and package recycling	31	t

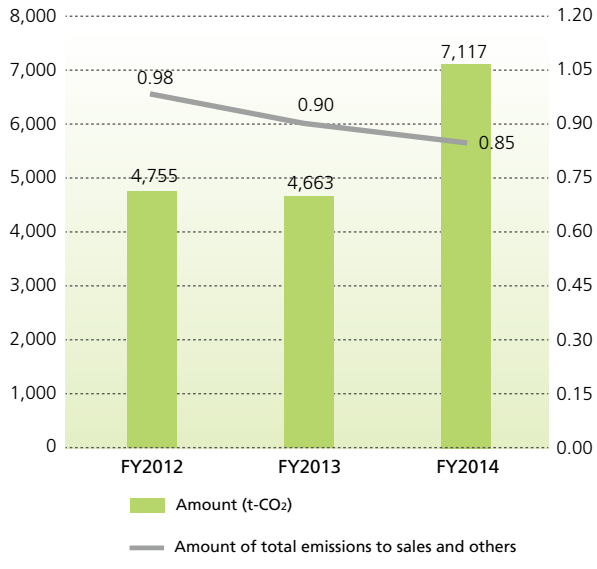
Calculation method

- Period: From April 1, 2014 to March 31,2015
- Scope: All Nippon Chemiphar Group offices

Energy Used



CO_2 Emissions



Units of output based on the following parameters, reflecting company conditions.

- Nippon Chemiphar Co., Ltd.: Tablets sold
- Nihon Pharmaceutical Industry Co., Ltd.: Working hours x floor space
- Safety Research Institute for Chemical Compounds Co., Ltd.: Net sales

Ⅱ Community Participation

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

1. Cooperation with Local Communities

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

2. Recycling, Support for Developing Countries

We help developing countries through such activities as collecting pet bottle caps 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.

3. Volunteer Activities

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

4. Free Use of Our Baseball Field

One of our community activities is to make a baseball field at the Nihon Pharmaceutical Industry Tsukuba Factory available for use by a youth baseball team.

Currently, the field is used as a home field for around 30 junior high school students who belong to the Chikusei Tamiya Boys team, a member of the Ibaraki chapter of Japan Boys League Inc.

Ⅲ For 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 own 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.

Member of a Team Aiming for Better Healthcare through MR activities

The information we MRs gather from medical professionals is not just about side effects and other topics related to the uses of drugs. Sometimes we also get tips about ways to improve the usability and safety of drugs. One such comment caused us to take the industry lead in printing on both sides of tablets. As I go about my MR activities, I hope to continue working as a member of a team that includes physicians and pharmacists who collaborate with a view to improving healthcare.

Noriko Ishiwata
Deputy Branch Manager,
Tokyo Branch Sales Office 1

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

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

2. Strengthening Our Stable Supply System

To provide a stable supply, as called for in the "Roadmap for further promotion of the use of generic medicines" formulated by the Ministry of Health, Labour and Welfare, we are diversifying our active pharmaceutical ingredient procurement partners and stepping up inspections of local manufacturing facilities. We also are continuing to make improvements to ensure stable provision throughout the supply chain, including development, manufacturing and sales. Our new factory employs the industry's first fully seismically isolated structure, we are establishing production bases overseas, and we have set up a supply system featuring 100% pharmaceutical wholesaling.

3. Safer, More User-friendly Products

We are working on initiatives to ensure the quality of both generics and proprietary drugs, 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 safety and security for medical professionals and patients alike. Examples of this include using press-through packaging (PTP) sheets for oral medications and employing external packaging to prevent exposure to anti-cancer medications.

Product Initiatives Aimed at Safety and Convenience

Improving Visibility and Convenience

Visibility

1. Matte PTP backing
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 PTP 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 and 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.

Ⅳ Employees

Since the sustainable growth of the company depends on the development of all our employees, we have created an inviting work environment.
We offer equal-opportunity employment, cultivate our human assets through training programs, and have adopted a corporate culture that supports respect for human rights. In addition, we ensure that there is a good work–life balance company wide.

1. Career Development

We have in place training and support systems tailored to different ages and types of work in order to discover employee capabilities and cultivate the next generation of management.

Support to Increase Human Resources Capabilities

Rank-based Training

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

Support for Elective Education

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

Personal Development

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

2. Hiring

We hire employees through a fair and unbiased process, candidates having multiple interviews with members of the HR team and relevant departments. We aim to increase employment opportunities for people with disabilities and strive to provide an appropriate working environment. (Employment ratio of people with disabilities: 1.55% as of March 31, 2015)

3. Preventing Harassment

We have formulated a sexual harassment manual and conduct training to prevent our employees from being perpetrators or victims, either within the Company or outside. In addition to holding courses for managers about power harassment, we have in place internal and third-party hotlines as part of our system for preventing and improving responses to various types of harassment.

4. Supporting Work–Life Balance

We have introduced a flex-time system so that employees can vary their starting and finishing times according to their home needs and conditions at work. As well as childcare leave and nursing care leave regulations, in April 2015 we formulated new regulations for a system enabling employees to return to work after having resigned. Through efforts such as these, we aim to create an environment that caters to diverse and flexible working styles.
(People who took childcare leave between April 2012 and March 2015: 15)

V Management Systems

1. Corporate Governance

(1) Underlying Philosophy

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

(2) Organization

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

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

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

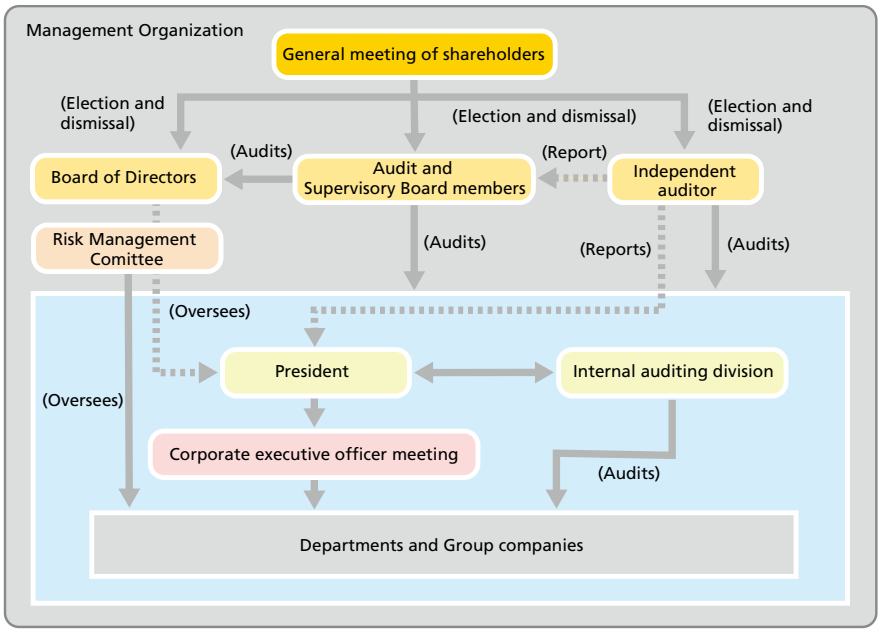
2. Internal Control

(1) Internal Control System

The Company has formulated a Basic Policy on Internal Control, based on the Companies Act and the Order for Enforcement of the Companies Act, and we have in place systems to ensure operational appropriateness with regard to areas including risk management, compliance, efficiency of operational execution and the reliability of financial reporting. Moreover, we have established an internal audit department under the direct control of the Company president. This department liaises with the Risk Management Committee and other committees to audit and advise on improvements concerning operational appropriateness.

(2) Risk Management and Compliance

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



3. Directors, Corporate Auditors and Executive officers (As of June 26, 2015)

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

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

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

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

Ten-year Consolidated Performance Overview[1]

	FY2005 (Ended March 31, 2006)	FY2006 (Ended March 31, 2007)	FY2007 (Ended March 31, 2008)	FY2008 (Ended March 31, 2009)	FY2009 (Ended March 31, 2010)
Income Statement:					
Net sales	20,500	20,966	20,918	22,308	23,982
Generics	7,835	9,013	9,680	11,787	14,528
Proprietary products	8,668	7,959	8,155	7,479	7,056
Cost of sales	7,576	8,682	8,781	10,388	11,448
Selling, general and administrative expenses	11,292	10,888	10,967	11,339	11,767
R&D expenses	1,462	1,465	1,317	1,427	1,722
Operating income	1,632	1,396	1,170	581	767
Income before income taxes and minority interests	2,706	947	917	498	557
Net income	2,123	366	390	168	271
Financial position at year end:					
Total assets	22,842	21,040	21,765	24,697	29,601
Total net assets	6,722	6,771	6,944	6,848	7,866
Cash flow from:					
Operating activities	1,646	(502)	(82)	(3,261)	1,890
Investing activities	2,140	(28)	(597)	(1,742)	(1,451)
Financing activities	(2,469)	(434)	(564)	4,154	1,509
Capital expenditure and other:					
Capital expenditure	183	175	1,116	889	681
Depreciation and amortization	246	253	283	580	694
Amounts per share:					
Earnings per share	55.57	9.59	10.22	4.41	7.10
Book value per share	176.02	177.36	181.99	179.55	185.22
Dividends per share	–	2.0	3.0	3.0	3.0
Indexes:					
EBITDA (millions of yen)	1,888	1,560	1,467	1,123	1,517
Operating income to sales (%)	8.0	6.7	5.6	2.6	3.2
Return on equity (%)	37.8	5.4	5.7	2.4	3.9
Return on assets[2] (%)	9.4	1.7	1.8	0.7	1.0
Debt-to-equity ratio (%)	89.0	82.1	73.2	136.8	166.0
Equity ratio (%)	29.4	32.2	31.9	27.7	23.9
Dividend payout ratio (%)	–	20.9	29.4	68.0	42.3
Number of employees	603	575	591	624	714

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

Analyses of Operating Results and Financial Position for FY2014

1. FY2014 Operating Environment

During FY2014, ended March 31, 2015, the Japanese economy showed signs of recovery. Although personal consumption remained sluggish in the aftermath of the consumption tax rate hike, exports rose, and the employment and income situation improved. A major recent development in the pharmaceutical industry was the April 2013 announcement of the Ministry of Health, Labour and Welfare's roadmap designed to further promote the use of generic drugs. As the plan's goal, to be attained by March 2018, is to increase to at least 60% the usage ratio of off-patent pharmaceuticals to all pharmaceutical products, the market for generics is expected to continue expanding. At the same time, in April 2014, the National Health Insurance (NHI) reduced prices for generics that are new on the market. In addition, prices for listed generic drugs were concentrated into three prices, compared with previous product-specific marketing activities that tended to be based on price. These revisions were thus more stringent than previous iterations, and are likely to require pharmaceutical manufacturers to further step up efficiencies and management efforts.

Operating in this environment, the Nippon Chemiphar Group worked to promote the spread of reliable generics. Based on the safety and security initiatives we have cultivated as a pharmaceutical manufacturer, we sought to maintain high quality levels and ensure a stable supply of generics. Simultaneously, we redoubled efforts to achieve higher levels of productivity and efficiency.

2. Sales and Income

(1) Overview of Performance in FY2014

Despite the NHI price revisions introduced in April 2014, the Group recorded a 10.1% year-on-year increase in consolidated net sales, to ¥35,119 million. The primary reasons for the rise were higher sales

FY2010 (Ended March 31, 2011)	FY2011 (Ended March 31, 2012)	FY2012 (Ended March 31, 2013)	FY2013 (Ended March 31, 2014)	FY2014 (Ended March 31, 2015)
				(Millions of yen)
27,361	28,514	31,944	31,893	35,119
17,990	19,721	23,630	24,405	27,400
6,148	5,746	4,795	4,312	3,400
12,990	12,872	14,923	15,128	18,353
12,371	12,719	13,148	13,437	13,480
1,879	1,791	1,937	1,668	1,755
1,999	2,923	3,874	3,328	3,286
1,416	2,699	3,602	3,055	3,094
573	1,440	2,125	1,887	1,900
				(Millions of yen)
30,787	33,791	35,489	40,106	41,428
8,965	10,231	12,409	13,501	15,626
				(Millions of yen)
2,748	1,753	1,913	1,892	2,438
(640)	(227)	(1,422)	(2,499)	(2,073)
(949)	63	(714)	(205)	(137)
				(Millions of yen)
584	1,015	1,154	3,367	1,711
776	748	840	862	1,201
				(¥)
13.95	34.62	51.77	46.20	47.45
212.92	248.92	302.28	336.97	390.01
3.0	5.0	10.0	10.0	10.0
2,824	3,745	4,748	4,253	4,589
7.3	10.3	12.1	10.4	9.4
7.2	15.0	18.8	14.6	13.1
1.9	4.5	6.1	5.0	4.7
122.4	113.1	90.6	89.7	80.1
29.1	30.3	34.9	33.6	37.7
21.5	14.4	19.3	21.6	21.1
711	682	679	699	743

of generic drugs, bolstered by stronger government endorsement of generics.

In the meantime, because the NHI price revisions pushed down unit selling prices and revenues of our proprietary products declined, the cost of sales ratio increased 4.9 percentage points YOY, to 52.3%. However, through successful efforts to improve cost efficiencies in individual segments, we were able to maintain income levels essentially unchanged. Operating income dipped 1.3% YOY, to ¥3,286 million and net income was ¥1,900 million, up 0.7% YOY.

(2) Pharmaceutical Sales

Within generics, volume-based sales expanded 25% YOY, reflecting government promotion in line with the medical service fee revision. However, the NHI price revision and reduction in prices of products new on the market had a significant impact, allowing an increase of only 6.4% year on year in monetary terms. In addition, new transactions and repeat orders prompted a 2.8-fold year-on-year increase in sales of generics to other makers. Consequently, our generics sales, including original design manufacturer (ODM) sales, rose 15.3% year on year, to ¥28,918 million.

Meanwhile, sales of our proprietary products were down 21.2%, reflecting the NHI price revision and the shift toward generics. As a result, overall sales of pharmaceuticals totaled ¥30,800 million, up 7.3% year on year.

3. Balance Sheet Overview

Current assets stood at ¥24,845 million on March 31, 2015, up 4.4% from one year earlier. The main reason was a ¥1,075 million increase in notes and accounts receivable–trade, as we converted trust beneficiary rights to cash reserves. Property, plant and equipment increased 1.7%, to ¥12,941 million, due to such factors as a ¥796 million increase in machinery, equipment and vehicles. As a result, total assets at fiscal year-end amounted to ¥41,428 million, up 3.3% from the end of the preceding fiscal year.

Current liabilities decreased 7.1%, to ¥13,939 million, due to a 12.0% reduction in notes and account from the end of the payable–trade, to ¥6,011 million, although consumption taxes payable increased. Long-term liabilities rose 2.3%, to ¥11,863 million, mainly due to an increase in long-term loans payable.

Net assets as of March 31, 2015, were ¥15,626 million, up 15.7% year on year. The primary contributor was the posting of ¥1,900 million in net income.

4. Cash Flows

Cash and cash equivalents totaled ¥5,791 million at fiscal year-end, up 4.1% from the end of the preceding fiscal year. This rise was the net result of ¥2,438 million in net cash provided by operating activities, ¥2,073 million in net cash used in investing activities and ¥137 million used in financing activities.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities during the year was ¥2,438 million, up from ¥1,892 million provided by these activities in the previous fiscal year, due to the posting of income before income taxes and minority interests, despite increased outflows such as income taxes paid and an increase in notes and accounts receivable–trade.

(2) Cash Flows from Investing Activities

Net cash used in investing activities came to ¥2,073 million, compared with ¥2,499 million used in these activities in the preceding term. The principal use of cash was for purchases of property, plant and equipment.

(3) Cash Flows from Financing Activities

Despite the cash provided by proceeds from long-term loans payable, cash was used for the repayment of long-term loans payable and cash dividends paid. Consequently, net cash used in financing activities totaled ¥137 million, compared with ¥205 million used for these activities in the previous fiscal year.

Consolidated Balance Sheet

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2015 (FY2014) and 2014 (FY2013)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	FY2013	**FY2014**	**FY2014**
Current assets			
Cash and deposits (Notes 3 and 15)	¥ 5,668	**¥ 5,881**	**$ 48,947**
Notes and accounts receivable–trade (Note 3)	11,723	**12,798**	**106,517**
Allowance for doubtful accounts	(1)	**(1)**	**(8)**
Inventories	5,408	**5,323**	**44,303**
Deferred tax assets (Note 11)	713	**700**	**5,826**
Other current assets	290	**144**	**1,198**
Total current assets	23,801	**24,845**	**206,783**
Property, plant and equipment			
Land (Note 13)	5,460	**5,460**	**45,443**
Buildings (Note 13)	13,625	**13,692**	**113,958**
Machinery, equipment and vehicles (Note 13)	4,985	**6,251**	**52,027**
Tools, furniture and fixtures (Note 13)	1,660	**1,743**	**14,507**
Lease assets (Note 10)	716	**657**	**5,468**
Construction in progress	221	**1**	**8**
Total property, plant and equipment	26,667	**27,804**	**231,411**
Accumulated depreciation	(13,938)	**(14,863)**	**(123,704)**
Net property, plant and equipment	12,729	**12,941**	**107,707**
Investments and other assets			
Investment securities (Notes 3 and 4)	1,968	**2,429**	**20,216**
Long-term loans receivable	6	**4**	**33**
Long-term prepaid expenses	34	**24**	**200**
Goodwill	173	**21**	**175**
Intangible assets	97	**76**	**633**
Deferred tax assets (Note 11)	230	**6**	**50**
Lease and guarantee deposits	97	**98**	**816**
Long-term deposits (Note 3)	700	**700**	**5,826**
Deferred assets	4	**1**	**8**
Other	267	**283**	**2,355**
Total investments and other assets	3,576	**3,642**	**30,312**
Total assets	¥40,106	**¥41,428**	**$344,802**

LIABILITIES AND NET ASSETS	Millions of Yen FY2013	Millions of Yen **FY2014**	Thousands of U.S. Dollars (Note 1) **FY2014**
Current liabilities			
Short-term loans payable (Note 3)	¥ 580	**¥ 476**	**$ 3,962**
Current portion of bonds (Note 6)	270	**95**	**791**
Current portion of long-term loans payable (Note 6)	2,649	**2,523**	**20,999**
Lease obligations (Note 10)	143	**144**	**1,198**
Notes and accounts payable–trade (Note 3)	6,834	**6,011**	**50,029**
Notes payable–facilities	659	**239**	**1,989**
Accrued expenses	2,358	**2,340**	**19,476**
Income taxes payable (Note 11)	617	**753**	**6,266**
Provision for sales promotion expenses	340	**442**	**3,679**
Other current liabilities	558	**916**	**7,624**
Total current liabilities	15,008	**13,939**	**116,013**
Long-term liabilities			
Bonds payable (Notes 3 and 6)	95	**—**	**—**
Long-term loans payable (Notes 3 and 6)	8,504	**9,412**	**78,335**
Lease obligations (Note 10)	326	**261**	**2,172**
Net defined benefit liability (Note 7)	960	**544**	**4,528**
Provision for directors' retirement benefits	342	**374**	**3,113**
Deferred tax liabilities—non-current	—	**28**	**233**
Deferred tax liabilities for land revaluation	1,360	**1,234**	**10,271**
Other	10	**10**	**83**
Total long-term liabilities	11,597	**11,863**	**98,735**
Net assets (Note 9)			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 42,614,205 shares in FY2014 and FY2013	4,305	**4,305**	**35,830**
Capital surplus	1,299	**1,299**	**10,812**
Retained earnings	6,056	**7,526**	**62,638**
Treasury stock	(991)	**(986)**	**(8,206)**
Sub total	10,669	**12,144**	**101,074**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	508	**829**	**6,900**
Deferred gains or losses on hedges	—	**1**	**8**
Revaluation surplus of land	2,401	**2,527**	**21,032**
Remeasurements of defined benefit plans	(87)	**119**	**991**
Total accumulated other comprehensive income	2,822	**3,476**	**28,931**
Subscription rights to shares	10	**6**	**49**
Minority interests	—	**—**	**—**
Total net assets	13,501	**15,626**	**130,054**
Total liabilities and net assets	¥40,106	**¥41,428**	**$344,802**

See notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 (FY2014) and 2014 (FY2013)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2013	**FY2014**	**FY2014**
Net sales (Note 18)	¥31,893	**¥35,119**	**$292,293**
Cost of sales	15,128	**18,353**	**152,751**
Gross profit	16,765	**16,766**	**139,542**
Selling, general and administrative expenses (Note 12)	13,437	**13,480**	**112,193**
Operating income	3,328	**3,286**	**27,349**
Other income (expenses)			
Interest and dividends income	39	**49**	**408**
Interest expenses	(184)	**(170)**	**(1,415)**
Impairment loss (Note 13)	(148)	**(90)**	**(749)**
Loss on disposal of fixed assets	(4)	**(39)**	**(325)**
Other, net	24	**58**	**483**
	(273)	**(192)**	**(1,598)**
Income before income taxes and minority interests	3,055	**3,094**	**25,751**
Income taxes (Note 11)			
Current	1,236	**1,142**	**9,505**
Deferred	(68)	**52**	**433**
Total income taxes	1,168	**1,194**	**9,938**
Net income before minority interests	1,887	**1,900**	**15,814**
Minority interests in net income	—	**—**	**—**
Net income	¥ 1,887	**¥ 1,900**	**$ 15,814**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 (FY2014) and 2014 (FY2013)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2013	**FY2014**	**FY2014**
Net income before minority interest	¥1,887	**¥1,900**	**$15,814**
Valuation difference on available-for-sale securities	208	**322**	**2,680**
Deferred gains or losses on hedges	—	**1**	**8**
Revaluation surplus of land	—	**126**	**1,049**
Remeasurements of defined benefit plans	—	**205**	**1,706**
Other comprehensive income	208	**654**	**5,443**
Comprehensive income	2,095	**2,554**	**21,257**
Total comprehensive income attributable to:			
Owners of the parent	2,095	**2,554**	**21,257**
Minority interests	—	**—**	**—**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 (FY2014) and 2014 (FY2013)

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	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2013	¥4,305	¥1,297	¥4,526	¥(486)	¥9,642	¥ 299	-	¥2,459	-	¥2,758	¥ 9	¥12,409
Dividends from surplus			(414)		(414)							(414)
Net income			1,887		1,887							1,887
Purchase of treasury stock				(507)	(507)							(507)
Disposal of treasury stock		1		2	3							3
Net changes of items other than shareholders' equity			57		57	209	-	(57)	(87)	65	1	123
Net change in the year		1	1,531	(505)	1,027	209	-	(57)	(87)	65	1	1,093
Balance at March 31, 2014	¥4,305	¥1,299	¥6,056	¥(991)	¥10,669	¥508	-	¥2,401	¥(87)	¥2,822	¥10	¥13,501
Cumulative effects of changes in accounting policies			**(26)**		**(26)**							**(26)**
Dividends from surplus			**(404)**		**(404)**							**(404)**
Net income			**1,900**		**1,900**							**1,900**
Purchase of treasury stock				**(5)**	**(5)**							**(5)**
Disposal of treasury stock		**0**		**10**	**10**							**10**
Net changes of items other than shareholders' equity						**321**	**1**	**126**	**206**	**654**	**(4)**	**650**
Net change in the year		**0**	**1,496**	**5**	**1,501**	**321**	**1**	**126**	**206**	**654**	**(4)**	**2,151**
Balance at March 31, 2015	**¥4,305**	**¥1,299**	**¥7,526**	**¥(985)**	**¥12,144**	**¥829**	**¥1**	**¥2,527**	**¥119**	**¥3,476**	**¥6**	**¥15,626**

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	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2014	$35,830	$10,812	$50,404	$(8,248)	$88,797	$4,228	-	$19,982	$(724)	$23,487	$83	$112,368
Cumulative effects of changes in accounting policies			**(216)**		**(216)**							**(216)**
Dividends from surplus			**(3,362)**		**(3,362)**							**(3,362)**
Net income			**15,814**		**15,814**							**15,814**
Purchase of treasury stock				**(41)**	**(41)**							**(41)**
Disposal of treasury stock		**0**		**83**	**83**							**83**
Net changes of items other than shareholders' equity						**2,672**	**8**	**1,049**	**1,715**	**5,444**	**(34)**	**5,410**
Net change in the year		**0**	**12,452**	**42**	**12,493**	**2,672**	**8**	**1,049**	**1,715**	**5,444**	**(34)**	**17,903**
Balance at March 31, 2015	**$35,830**	**$10,812**	**$62,638**	**$(8,206)**	**$101,074**	**$6,900**	**$8**	**$21,032**	**$991**	**$28,931**	**$49**	**$130,054**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 (FY2014) and 2014 (FY2013)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2013	**FY2014**	**FY2014**
Operating activities			
Income before income taxes and minority interests	¥ 3,055	**¥ 3,094**	**$25,751**
Depreciation and amortization	867	**1,204**	**10,021**
Impairment losses	148	**90**	**749**
Amortization of goodwill	173	**151**	**1,257**
(Decrease) increase in allowance for doubtful accounts	0	**(3)**	**(25)**
Increase (decrease) in provision for sales promotion expenses	(11)	**102**	**849**
Decrease in net defined benefit liability	(26)	**(142)**	**(1,182)**
Increase in provision for directors' retirement benefits	14	**32**	**266**
Interest and dividend income	(39)	**(49)**	**(408)**
Interest expenses	184	**170**	**1,415**
Loss on retirement of noncurrent assets	11	**49**	**408**
Increase in notes and accounts receivable–trade	(1,432)	**(1,076)**	**(8,955)**
Decrease (increase) in inventories	(1,413)	**85**	**707**
Decrease (increase) in other current assets	(95)	**143**	**1,190**
(Decrease) increase in notes and accounts payable–trade	2,441	**(823)**	**(6,850)**
Increase (decrease) in other current liabilities	(41)	**9**	**75**
Increase (decrease) in consumption taxes payable	(202)	**531**	**4,420**
Decrease (increase) in long-term prepaid expenses	(23)	**10**	**83**
Other, net	7	**(15)**	**(125)**
Subtotal	3,618	**3,562**	**29,646**
Interest and dividends income received	41	**55**	**458**
Interest expenses paid	(184)	**(168)**	**(1,398)**
Income taxes paid	(1,583)	**(1,011)**	**(8,415)**
Net cash provided by operating activities	1,892	**2,438**	**20,291**
Investing activities			
Payment into time deposits	(152)	**(129)**	**(1,074)**
Proceeds from withdrawal of time deposits	156	**144**	**1,199**
Purchases of property, plant and equipment	(2,487)	**(2,066)**	**(17,195)**
Purchases of investment securities	(5)	**(5)**	**(42)**
Payment of loans receivable to employees	(2)	**—**	**—**
Proceeds from collection of lease and guarantee deposits	18	**4**	**33**
Other payments	(15)	**(13)**	**(108)**
Other, net	(12)	**(8)**	**(66)**
Net cash used in investing activities	(2,499)	**(2,073)**	**(17,253)**
Financing activities			
Net decrease in short-term loans payable	—	**(104)**	**(865)**
Proceeds from long-term loans payable	4,600	**3,850**	**32,043**
Repayment of long-term loans payable	(3,364)	**(3,068)**	**(25,535)**
Redemption of bonds	(370)	**(270)**	**(2,247)**
Cash dividends paid	(412)	**(403)**	**(3,354)**
Other, net	(659)	**(142)**	**(1,182)**
Net cash used in financing activities	(205)	**(137)**	**(1,140)**
Net increase (decrease) in cash and cash equivalents	(812)	**228**	**1,898**
Cash and cash equivalents, at beginning of year	6,375	**5,563**	**46,300**
Cash and cash equivalents, at end of year (Note 15)	¥ 5,563	**¥5,791**	**$48,198**

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements issued domestically have undergone certain reclassifications and rearrangements in order that they might be presented in a form with which readers outside Japan are more familiar. In addition, certain reclassifications have been made in the 2014 financial statements to conform to the classifications used in 2015.

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 ¥120.15 to US$1, the approximate rate of exchange at March 31, 2015. 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, 2015, include the accounts of the Company and its three (three in 2014) subsidiaries (together, "the Group").

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

Investments in one (one in 2014) affiliated company is accounted for by the equity method.

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

b. Cash equivalents

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

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

c. Inventories

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

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

d. Investment securities

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

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

e. Allowance for doubtful accounts

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

f. Property, plant and equipment

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

g. Intangible assets

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

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

h. Deferred charges

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

i. Land revaluation

Under the Law of Land Revaluation, the Group revalued the land owned for its business use on March 31, 2000, based on the enforcement ordinance concerning revaluation of land. The resulting revaluation surplus of land represents unrealized appreciation of land and is stated, net of income taxes, as a component of accumulated other comprehensive income under net assets; its related deferred tax liabilities are recorded under long-term liabilities. The difference between the carrying amount and its fair value at March 31, 2015 and 2014, was ¥1,408 million ($11,719 thousand) and ¥1,394 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 2015 and 2014) 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 2014 and 2013) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

l. Provision for directors' retirement benefits

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

m. 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.

n. 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.

o. 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.

p. 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, 2014 and 2013.

q. Appropriation of retained earnings

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

r. 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.

s. 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.

t. Changes in accounting policies due to application of revised accounting standards

For Accounting Standards Board of Japan (ASBJ) Statement No. 26 Accounting Standard for Retirement Benefits (revised on May 17, 2012) and ASBJ Guidance No. 25 Guidance on Accounting Standard for Retirement Benefits (revised on March 26, 2015, hereinafter "Guidance on Retirement Benefits"), the Group has additionally applied the provisions set forth in the main clause of paragraph 35 of the Accounting Standard for Retirement Benefits and the main clause of paragraph 67 of the Guidance on Retirement Benefits from the fiscal year ended March 31, 2015 and reviewed the determination of retirement benefit obligations and current service cost. In addition, the Group changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis, and changed the method for calculating the discount rate.

The Accounting Standard for Retirement Benefits and its guidance are applied with transitional treatments stipulated in paragraph 37 of the Accounting Standard for Retirement Benefits. As of April 1, 2014, impact of this change was reflected in retained earnings.

As a result, as of April 1, 2014, "Net defined benefit liability" increased ¥40 million ($333 thousand) and "Retained earnings" decreased ¥26 million ($216 thousand). In addition, at the end of the fiscal year ended March 31, 2015, operating income, income before income taxes and minority interests each increased by ¥15 million ($125 thousand). The impact of these changes on per share data is immaterial, it has been omitted.

u. Unapplied accounting standards

- Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013)
- Revised Accounting Standard for Earnings per Share (ASBJ Statement No. 2, revised on September 13, 2013)

・Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, revised on September 13, 2013)
・Revised Guidance on Accounting Standard for Earnings per Share (ASBJ Guidance No. 4, revised on September 13, 2013)

The accounting standards have been revised mainly on (i) the treatment of a change in the parent company's ownership interest in a subsidiary, in the case where the parent company continues to control the subsidiary upon additionally acquiring the shares of the subsidiary or other cases; (ii) the treatment of acquisition cost; (iii) the presentation of net income and the change in presentation from minority interests to non-controlling interests; and (iv) the transitional accounting treatment.

The Group intends to adopt (i) to (iii) from the fiscal year beginning on April 1, 2015, and (iv) for business combinations after the fiscal year beginning on April 1, 2015.

Effects of adoption of the accounting standard are currently being examined.

3. FINANCIAL INSTRUMENTS

(1) Qualitative information on financial instruments

a. Policies for using financial instruments

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

b. Policies and systems for risk management

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

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

Trade notes and accounts payable, 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, 2015 and 2014, 55.0% and 54.2%, 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, 2015 (FY2014) and 2014 (FY2013), are the following:

Assets	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Carrying value			
Cash and deposits	¥ 5,668	**¥ 5,881**	**$ 48,947**
Notes and accounts receivable–trade	11,723	**12,798**	**106,517**
Investment securities	1,888	**2,337**	**19,451**
Long-term deposits	700	**700**	**5,826**
Total	19,979	**21,716**	**180,741**
Fair value			
Cash and deposits	5,668	**5,881**	**48,947**
Notes and accounts receivable–trade	11,723	**12,798**	**106,517**
Investment securities	1,888	**2,337**	**19,451**
Long-term deposits	622	**711**	**5,917**
Total	19,901	**21,727**	**180,832**
Difference			
Cash and deposits	—	**—**	**—**
Notes and accounts receivable–trade	—	**—**	**—**
Investment securities	—	**—**	**—**
Long-term deposits	(78)	**11**	**91**
Total	¥ (78)	**¥ 11**	**$ 91**
Derivative transactions	—	**1**	**8**

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Carrying value			
Notes and accounts payable–trade	¥ 6,834	**¥ 6,011**	**$ 50,029**
Short-term loans payable	580	**476**	**3,962**
Bonds payable	365	**95**	**791**
Long-term loans payable	11,153	**11,935**	**99,334**
Total	18,932	**18,517**	**154,116**
Fair value			
Notes and accounts payable–trade	6,834	**6,011**	**50,029**
Short-term loans payable	580	**476**	**3,962**
Bonds payable	369	**96**	**799**
Long-term loans payable	11,156	**11,932**	**99,309**
Total	18,939	**18,515**	**154,099**
Difference			
Notes and accounts payable–trade	—	**—**	**—**
Short-term loans payable	—	**—**	**—**
Bonds payable	(4)	**(1)**	**(8)**
Long-term loans payable	(3)	**3**	**25**
Total	¥ (7)	**¥ 2**	**$ 17**
Derivative transactions	—	—	—

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

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

b. Investment securities

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

c. Long-term deposits

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

d. Notes and accounts payable—trade; short-term loans payable

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

e. Bonds payable

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

f. Long-term loans payable

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

Financial instruments for which fair value is not readily determinable

The fair value of unlisted equity securities with a carrying amount of ¥92 million ($766 thousand) and ¥80 million as of March 31, 2015 and 2014, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2015 (FY2014), is as follows:

	Millions of Yen			
	FY2014			
	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	**¥ 5,881**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**12,798**	**—**	**—**	**—**
Long-term deposits	**—**	**200**	**—**	**500**
Total	**¥ 18,679**	**¥ 200**	**¥ —**	**¥ 500**

	Thousands of U.S. Dollars			
	FY2014			
	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	**$ 48,947**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable–trade	**106,517**	**—**	**—**	**—**
Long-term deposits	**—**	**1,665**	**—**	**4,161**
Total	**$ 155,464**	**$ 1,665**	**$ —**	**$ 4,161**

4. INVESTMENT SECURITIES

Investment securities at March 31, 2015 (FY2014) and 2014 (FY2013), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Available-for-sale securities:			
Marketable equity securities	¥1,827	**¥2,275**	**$18,935**
Unlisted equity securities	80	**—**	**—**
Others	61	**62**	**516**
Total	¥1,968	**¥2,337**	**$19,451**

The carrying amounts and aggregate fair values of investment securities at March 31, 2015 and 2014, are as follows:

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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2015				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	**$9,430**	**$9,505**	**$ —**	**$18,935**
Acquisition price exceeds value posted in consolidated balance sheet	**—**	**—**	**—**	**—**
Other	**491**	**25**	**—**	**516**
	$9,921	**$9,530**	**$ —**	**$19,451**

	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2014				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	¥1,028	¥709	¥ —	¥1,737
Acquisition price exceeds value posted in consolidated balance sheet	100	—	10	90
Other	59	2	—	61
	¥1,187	¥711	¥10	¥1,888

5. DERIVATIVE FINANCIAL INSTRUMENTS, HEDGING TRANSACTIONS

Although the Group uses foreign currency forward exchange contracts, since the materiality of such transactions is low, this information has been omitted.

6. LONG-TERM DEBTS

Long-term debts at March 31, 2015 (FY2014) and 2014 (FY2013), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Corporate bonds	¥ 365	**¥ 95**	**$ 791**
Long-term loans	11,153	**11,935**	**99,334**
Total long-term debt	11,518	**12,030**	**100,125**
Less: current portion	(2,919)	**(2,618)**	**(21,790)**
	¥ 8,599	**¥ 9,412**	**$ 78,335**

Corporate bonds at March 31, 2015 (FY2014) and 2014 (FY2013), comprise the following:

Balance at March 31			Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Maturity
Issuer	Type	Issue Date	FY 2013	**FY 2014**	**FY2014**		
Nippon Chemiphar Co., Ltd.	Unsecured 6th issue	Dec. 30, 2009	¥100	**¥—**	**$ —**	0.71	Dec. 30, 2014
	Unsecured 7th issue	Sep. 30, 2010	150	**50**	**416**	0.57	Sep. 30, 2015
Nihon Pharmaceutical Industry Co. Ltd.	Unsecured 3rd issue	Oct. 31, 2007	115	**45**	**375**	1.40	Apr. 30, 2015
Total			¥365	**¥95**	**$791**		

The annual aggregate of matured bonds is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥95	$791
2017	—	—
2018	—	—
2019	—	—
2020	—	—

Long-term loans at March 31, 2015 (FY2014) and 2014 (FY2013), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2013	**FY2014**	**FY2014**		
Current portion of long-term loans	¥ 2,649	**¥ 2,523**	**$20,999**	1.2	—
Long-term loans	8,504	**9,412**	**78,335**	1.3	2016–2023
Total	¥11,153	**¥11,935**	**$99,334**		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥3,244	$27,000
2018	1,756	14,615
2019	1,636	13,616
2020	1,243	10,345
2021 and after	1,533	12,759

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 at March 31, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Aggregate agreed amount	**¥3,000**	**$24,969**
Used	**—**	**—**
Unused balance	**¥3,000**	**$24,969**

7. RETIREMENT BENEFITS

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

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

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

1. Contributory defined benefit pension plan

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Balance at beginning of year	¥4,760	**¥4,771**	**$39,708**
Cumulative effects of changes in accounting policies	**—**	**40**	**331**
Restated balance	4,760	**4,811**	**40,039**
Service cost	213	**203**	**1,689**
Interest cost	76	**77**	**641**
Actuarial gain/loss incurred	34	**6**	**50**
Pension and severance payments	(312)	**(336)**	**(2,797)**
Balance at end of year	¥4,771	**¥4,761**	**$39,625**

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Balance at beginning of year	¥3,539	**¥3,876**	**$32,260**
Expected return on plan assets	89	**97**	**807**
Actuarial gain/loss incurred	259	**320**	**2,663**
Business owner's contribution	299	**322**	**2,680**
Pension and severance payments	(310)	**(329)**	**(2,738)**
Balance at end of year	¥3,876	**¥4,286**	**$35,672**

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Balance at beginning of year	¥57	**¥65**	**$541**
Pension expenses	10	**12**	**100**
Pension and severance payments	(2)	**(7)**	**(58)**
Balance at end of year	¥65	**¥70**	**$583**

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Funded projected benefit obligation	¥4,737	**¥4,730**	**$39,367**
Plan assets	(3,876)	**(4,286)**	**(35,672)**
	861	**444**	**3,695**
Unfunded projected benefit obligation	99	**100**	**832**
Net of liability and assets reported on the consolidated balance sheet	¥ 960	**¥ 544**	**$ 4,527**

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Net defined benefit liability	¥960	**¥544**	**$4,527**
Net defined benefit assets	—	**—**	**—**
Net of liability and assets reported on the consolidated balance sheet	¥960	**¥544**	**$4,527**

(5) Pension expenses

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Service cost	¥213	**¥203**	**$1,689**
Interest cost	76	**77**	**641**
Expected return on plan assets	(88)	**(97)**	**(807)**
Recognized actuarial loss	84	**13**	**108**
Amortization of prior service cost	(17)	**(17)**	**(141)**
Periodic benefit costs calculated under the compendium method	10	**12**	**100**
Retirement benefit expenses	¥278	**¥191**	**$1,590**

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

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Prior service cost	—	**¥(17)**	**$(145)**
Net actuarial gain or loss	—	**328**	**2,731**
Total	—	**¥310**	**$2,356**

(7) Remeasurements of defined benefit plans

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Unrecognized prior service cost	¥(129)	**¥(111)**	**$ (924)**
Unrecognized net actuarial gain or loss	263	**(65)**	**(541)**
Total	¥134	**¥(176)**	**$(1,465)**

(8) Plan assets

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

	FY2013	**FY2014**
Stocks	43%	**34%**
Bonds	27%	**37%**
General account	22%	**20%**
Other	8%	**9%**
Total	100%	**100%**

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

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

(9) Assumptions used for the year ended March 31, 2015 (FY2014), are as follows:

	FY2013	**FY2014**
Discount rate	1.6%	**1.6%**
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 ¥181 million ($1,506 thousand).

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

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Plan assets	¥465,230	**¥512,489**	**$4,265,410**
Pension financing calculation of benefit obligation	497,125	**522,290**	**4,346,983**
Difference	¥ (31,895)	**¥ (9,801)**	**$ (81,573)**

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

(3) Supplemental information
Principal reasons for deductions to (1) above are the total of past service obligations of ¥45,242 million ($376,545 thousand) based on pension financing calculations and a surplus of ¥35,440 million ($294,964 thousand). Also, the proportion indicated in (2) above and the Nippon Chemiphar Group's actual proportion of the burden do not match.

8. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2015 and 2014, are ¥3 million ($25 thousand) and ¥2 million, respectively.

Following are details of the stock options the Company has as of March 31, 2015.

Stock option plans:	August 2008 plan	August 2011 plan	August 2014 plan
Number of grantees	6 directors, 8 employees	6 directors, 5 employees	6 directors, 4 employees, 7 directors of the subsidiary
Number of options	Common stock: 41,000 shares	Common stock: 72,000 shares	Common stock: 112,000 shares
Date of grant	August 4, 2008	August 2, 2011	August 5, 2014
Exercisable period	August 5, 2011– August 4, 2014	August 3, 2014– August 2, 2017	August 6, 2017– August 5, 2020
Exercise price	¥516 ($4.29)	¥332 ($2.76)	¥519 ($4.32)
Fair value at grant date	¥146 ($1.22)	¥85 ($0.71)	¥89 ($0.74)

Changes in stock options outstanding for the years ended March 31, 2015 and 2014 are as follows:

Movement of stock options	August 2008 plan	August 2011 plan	August 2014 plan
Before rights settlement			
Outstanding as of March 31, 2013	—	72,000	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding as of March 31, 2014	—	72,000	—
Exercised	—	72,000	—
Granted	—	—	112,000
Forfeited	—	—	—
Vested	—	72,000	—
Outstanding as of March 31, 2015	—	—	112,000
After rights settlement			
Outstanding as of March 31, 2013	38,000	—	—
Exercised	4,000	—	—
Forfeited	—	—	—
Outstanding as of March 31, 2014	34,000	—	—
Vested	—	72,000	
Exercised	—	24,000	—
Forfeited	34,000	—	—
Outstanding as of March 31, 2015	—	48,000	—

9. NET ASSETS

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

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

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

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

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

10. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total lease payments for the years ended March 31, 2015 and 2014, were ¥1 million ($8 thousand) and ¥3 million, respectively. Pro forma information on leased property, such as acquisition cost, accumulated depreciation, obligation under finance leases, the depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an as-if-capitalized basis for the years ended March 31, 2015 (FY2014) and 2014 (FY2013), is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Acquisition cost:			
Machinery, equipment and vehicles	¥ 7	**¥ —**	**$ —**
Tools, furniture and fixtures	10	**—**	**—**
Total acquisition cost	17	**—**	**—**
Accumulated depreciation	16	**—**	**—**
Net leased property	¥ 1	**¥ —**	**$ —**

The above acquisition cost includes related interest expenses as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Obligations under finance leases:			
Due within one year	¥ 1	**¥ —**	**$ —**
Due after one year	—	**—**	**—**
Total	¥ 1	**¥ —**	**$ —**

Note: The above obligations under financed leases include related interest expenses.

Lease obligations at March 31, 2015 (FY2014) and 2014 (FY2013) comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Lease obligations	¥ 469	**¥ 405**	**$ 3,370**
Less current portion	(143)	**(144)**	**(1,198)**
Less obligations, less current portion	¥ 326	**¥ 261**	**$ 2,172**

The future minimum payments required at March 31, 2015 (FY2014), are as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥109	$907
2018	67	558
2019	51	424
2020	17	141

11. INCOME TAXES

The Group is subjected to several types of taxes: corporate taxes, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 35.6% and 38.0% for the fiscal years ended 31st March, 2015 and 2014, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2015 (FY2014) and 2014 (FY2013), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Deferred tax assets:			
Accrued enterprise tax	¥ 46	**¥ 58**	**$ 483**
Accrued bonuses	238	**230**	**1,914**
Allowance for doubtful accounts	26	**19**	**158**
Provision for sales promotion expenses	121	**146**	**1,215**
Net defined benefit liability	342	**176**	**1,465**
Provision for directors' retirement benefits	122	**121**	**1,007**
Other	700	**667**	**5,551**
Subtotal	1,595	**1,417**	**11,793**
Less valuation allowance	(470)	**(435)**	**(3,620)**
Total	1,125	**982**	**8,173**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	182	**304**	**2,530**
Deferred tax liabilities on revaluation of land	1,360	**1,234**	**10,270**
Other	—	**0**	**0**
Total	1,542	**1,538**	**12,800**
Net deferred tax liabilities	¥ (417)	**¥ (556)**	**$ (4,627)**

The reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2015 (FY2014) is as follows:

	FY2014
Normal effective statutory tax rate	35.6%
Expenses not deductible for income tax purposes	1.7
Per capita inhabitant tax	1.3
Research and development cost tax credit	(2.7)
Effects of changes in taxation rates	4.0
Change in valuation allowance	(1.1)
Other–net	(0.2)
Actual effective tax rate	38.6

Note: The difference between the normal statutory tax rate and the actual effective tax rate was not material for the year ended March 31, 2014

On March 31, 2015, the "Act on Partial Revision of the Income Tax Act and Others" and "Act on Partial Revision of the Local Tax Act and Others" were promulgated. Under these acts, effective from the fiscal year beginning on or after April 1, 2015, a reduction in the corporate tax rate and other measures were implemented. Accompanying these changes, the effective statutory tax rate used to calculate deferred tax assets and liabilities in FY2014 (only those items expected to be reversed on or

after April 1, 2015) was reduced—from the previously used 35.6%—to 33.1% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2015, and to 32.3% for temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2016.

Due to these changes in taxation rates, deferred tax assets (after deduction of deferred tax liabilities) decreased ¥46 million, deferred tax liabilities for land revaluation decreased ¥126 million, income taxes-deferred in FY2014 increased ¥83 million, valuation difference on available-for-sale securities increased ¥31 million, deferred gains or losses on hedges increased ¥0 million, revaluation of surplus land increased ¥126 million, and remeasurements of defined benefit plans increased ¥6 million.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2015 (FY2014) and 2014 (FY2013), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Advertising expenses	¥ 268	**¥ 247**	**$ 2,056**
Sales promotion expenses	4,113	**4,159**	**34,615**
Traveling expenses	510	**528**	**4,395**
Salaries and allowances	3,603	**3,600**	**29,963**
Commissions	931	**993**	**8,265**
Research and development costs	1,668	**1,755**	**14,607**

13. IMPAIRMENT OF FIXED ASSETS

For the year ended March 31, 2015 (FY2014) and 2014 (FY2013), the Group recognized impairment losses for the following assets:

		Millions of Yen		Thousands of U.S. Dollars
Asset	Description	FY2013	**FY2014**	**FY 2014**
Property scheduled to be closed (welfare facilities)	Buildings, tools, furniture and fixtures, and land	¥ 137	—	**$ —**
Clinical diagnostics business	Buildings, machinery, tools, furniture and fixtures, lease assets, lease asset impairment account	—	**90**	**749**
Idle assets (research facilities)	Buildings	8	—	—
Idle assets (welfare facilities)	Buildings	3	—	—
	Total	¥ 148	**¥ 90**	**$749**

The Group classifies its operating assets by business at each member company.

Since the Company recognizes the reduced profitability of certain assets in the asset group used in the clinical diagnostics business, the book value of these assets has been written down to their recoverable value, and this reduction has been recorded as an impairment loss of ¥90 million ($749 thousand). The impairment loss includes ¥2 million ($17 thousand) for buildings, ¥5 million ($41

thousand) for machinery, ¥2 million ($17 thousand) for tools, furniture and fixtures, ¥79 million ($657 thousand) for lease assets, and ¥2 million ($17 thousand) for lease asset impairment account.

The recoverable value of the assets is estimated as their usage value and the future cash flow is calculated using a discount rate of 5.3%.

14. AMOUNTS PER SHARE

Net assets per share at March 31, 2015 (FY2014) and 2014 (FY2013), and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Net assets	¥336.97	**¥390.01**	**$3.2460**
Basic net income	46.20	**47.45**	**0.3949**
Diluted net income	46.17	**47.42**	**0.3946**

The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2015 (FY2014) and 2014 (FY2013), is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Net income per share:			
Net income	¥ 1,887	**¥ 1,900**	**$15,814**
Net income available for distribution to shareholders of common stock	1,887	**1,900**	**15,814**
Weighted average number of shares of common stock outstanding (thousands of shares)	40,852	**40,033**	
Diluted net income per share:			
Increase in common stock (thousands of shares)	24,112	**26,959**	

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
	FY2013	**FY2014**	**FY2014**
Cash and deposits	¥5,668	**¥5,881**	**$48,947**
Time deposits maturing over three months	(105)	**(90)**	**(749)**
Cash and cash equivalents	¥5,563	**¥5,791**	**$48,198**

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2015 (FY2014) and 2014 (FY2013).

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Trade notes discounted	¥652	**¥636**	**$5,293**

17. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2015 (FY2014) and 2014 (FY2013), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2013	**FY2014**	**FY2014**
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥ 312	**¥ 444**	**$ 3,695**
Reclassification adjustments to profit or loss	—	**(0)**	**(0)**
Amount before income tax effect	312	**444**	**3,695**
Income tax effect	(104)	**(122)**	**(1,015)**
Total	208	**322**	**2,680**
Deferred gains or losses on hedges:			
Gains arising during the year	—	**1**	**8**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	—	**1**	**8**
Income tax effect	—	**(0)**	**(0)**
Total	—	**1**	**8**
Revaluation surplus of land:			
Gains arising during the year	—	**—**	**—**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	—	**—**	**—**
Income tax effect	—	**126**	**1,049**
Total	—	**126**	**1,049**
Remeasurements of defined benefit plans:			
Gains arising during the year	—	**314**	**2,613**
Reclassification adjustments to profit or loss	—	**(3)**	**(25)**
Amount before income tax effect	—	**311**	**2,588**
Income tax effect	—	**(105)**	**(874)**
Total	—	**206**	**1,714**
Total other comprehensive income	¥ 208	**¥ 654**	**$ 5,443**

18. 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, 2015 (FY2014) and 2014 (FY2013), is summarized as follows:

Millions of Yen

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

Thousands of U.S. Dollars

	FY2014				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	**$284,386**	**$7,907**	**$292,293**	**$ —**	**$292,293**
Intersegment sales	**83**	**142**	**225**	**(225)**	**—**
Total sales	**284,469**	**8,049**	**292,518**	**(225)**	**292,293**
Segment profit	**27,000**	**349**	**27,349**	**—**	**27,349**
Segment assets	**$283,196**	**$17,761**	**$300,957**	**$ 43,845**	**$344,802**
Other:					
Depreciation and amortization	**9,397**	**599**	**9,996**	**—**	**9,996**
Amortization of goodwill	**1,257**	**—**	**1,257**	**—**	**1,257**
Impairment loss	**749**	**—**	**749**	**—**	**749**
Investment in affiliates	**391**	**—**	**391**	**—**	**391**
Capital expenditure	**14,224**	**17**	**14,241**	**—**	**14,241**

Millions of Yen

	FY2013				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	¥30,773	¥1,120	¥31,893	¥ —	¥31,893
Intersegment sales	31	105	136	(136)	—
Total sales	30,804	1,225	32,029	(136)	31,893
Segment profit	3,290	38	3,328	—	3,328
Segment assets	¥33,440	¥2,072	¥35,512	¥4,594	¥40,106
Other:					
Depreciation and amortization	789	73	862	—	862
Amortization of goodwill	173	—	173	—	173
Impairment loss	148	—	148	—	148
Investment in affiliates	35	—	35	—	35
Capital expenditure	3,366	1	3,367	—	3,367

Additional information

(4) Information about products and services

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

(5) Information about geographical areas

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

(6) Information about major customers

Customer	Related Segment	Millions of Yen FY2013	**FY2014**	Thousands of U.S. Dollars (Note 1) **FY2014**
Mediceo Corporation	Pharmaceutical Products Business	¥6,549	**¥6,857**	**$ 57,070**
Alfresa Corporation	Pharmaceutical Products Business	¥6,294	**¥6,841**	**$ 56,937**

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

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

	Thousands of U.S. Dollars **FY2014**			
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill	**$175**	**—**	**—**	**—**

	Millions of Yen FY2013			
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill	¥173	—	—	—

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

19. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2015 (FY2014) and 2014 (FY2013), 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
		FY2013	**FY2014**	**FY2014**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,727	**¥1,723**	**$14,340**
Purchaser: the Company	Notes, accounts payable	¥ 810	**¥ 725**	**$ 6,034**

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2013	**FY2014**	**FY2014**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,494	**¥2,216**	**$18,444**
Purchaser: Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 748	**¥ 636**	**$ 5,293**

At March 31, 2015, the Company has 5.4% (5.4% at March 31, 2014) of the voting rights in Japan Sopharchim Co., Ltd., which has 17.7% (17.6% at March 31 2014) of the voting rights in the Company.

Nihon Pharmaceutical Industry Co., Ltd. is the consolidated subsidiary of the Company.

In addition, the representative director of the Company has 73.0% (73.0% at March 31 2014) of the voting rights in the Company.

20. RENTAL PROPERTY

The Company owns available-for-lease facilities in Tokyo and other areas. During the years ended March 31, 2015 (FY2014) and 2014 (FY2013), rental income on this real estate amounted to ¥27 million ($225 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
	FY2013	**FY2014**	**FY2014**
Carrying value[1] at beginning of year	¥736	**¥723**	**$6,017**
Decrease in book value during year	(13)	**(9)**	**(75)**
Carrying value[2] at end of year	723	**714**	**5,943**
Fair value at end of year	543	**546**	**4,544**

Notes:

1. The carrying value represents acquisition cost less accumulated depreciation.
2. Fair value as of March 31, 2015 and 2014, 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.

(As of March 31, 2015)

Corporate Data

Company Name: Nippon Chemiphar Co., Ltd.
Established: June 16, 1950
Capitalization: ¥4,304 million
Securities Exchange: Tokyo Stock Exchange (First Section)
Employees: 743 (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.

Affiliated Company:
Japan Sopharchim Co., Ltd.

History

1950	Hitachi Chemical Co., Ltd. (as Chemiphar was formerly known) is set up
1969	Nihon Pharmaceutical Industry Co., Ltd. (NPI) becomes an affiliated company
1970	Company changes name to Nippon Chemiphar Co., Ltd.
1971	Listed on Tokyo Stock Exchange (Second Section)
1976	Listed on Tokyo Stock Exchange (First Section) Starts diagnostics business Establishes Japan Sopharchim Co., Ltd. (currently an affiliated company)
1977	Establishes Ibaraki Factory in Makabe-gun, Ibaraki Prefecture
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

Nippon Chemiphar Co., Ltd.

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