

FY2014 Business Summary

(Year Ended March 31, 2015)

Nippon Chemiphar Co., Ltd.

(TSE 4539)

May 11, 2015



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I. FY2014 Business Results

Sales, Income (Consolidated)

| Sales and Income | | (¥mn) | | | |
|--|------------------|---------------|--------------|-----------------|--------------|
| | FY2013 Amount | FY2014 | | | |
| | | Amount | YOY (%) | Achieved (%) | |
| Net Sales | 31,893 | 35,118 | 10.1 | 35,300 | 99.5 |
| Pharmaceuticals | 30,773 | 34,168 | 11.0 | — | — |
| Others | 1,119 | 949 | (15.2) | — | — |
| Cost of sales | 15,128 | 18,352 | 21.3 | — | — |
| SG&A expenses | 13,437 | 13,480 | 0.3 | — | — |
| R&D expenses | 1,668 | 1,755 | 5.2 | 2,250 | 78.0 |
| Operating income | 3,327 | 3,285 | (1.3) | 2,600 | 126.4 |
| Ordinary income | 3,206 | 3,217 | 0.4 | 2,450 | 131.3 |
| Income before income taxes and minority interests | 3,055 | 3,093 | 1.3 | — | — |
| Net income | 1,887 | 1,899 | 0.7 | 1,500 | 126.6 |

| Ratio to Net Sales | | (%) | | |
|--------------------|--------|--------|-----------|-----|
| | FY2013 | FY2014 | | |
| | | Change | Forecast* | |
| Cost of sales | 47.4 | 52.3 | 4.9 | — |
| SG&A expenses | 42.1 | 38.4 | (3.7) | — |
| Operating income | 10.4 | 9.4 | (1.0) | 7.4 |
| Ordinary income | 10.1 | 9.2 | (0.9) | 6.9 |
| Net income | 5.9 | 5.4 | (0.5) | 4.2 |

* As of October 31, 2014

Despite the NHI price revision, we recorded consolidated sales of ¥35,118 million (up 10.1% YOY), thanks to the stronger government endorsement of generics since the start of the fiscal year.

The NHI price revision pushed the cost of sales ratio to 52.3% (up 4.9 percentage points YOY).

Nevertheless, because of our cost cutting efforts, there were no year-on-year changes in:

* Operating income (¥ 3,285 million, down 1.3% YOY);

* Ordinary income (¥3,217 million, up 0.4% YOY); or

* Net income (¥ 1,899 million, up 0.7% YOY).

Pharmaceutical Sales (Consolidated)

Generics, Proprietary Products

| Products | FY2013 | | FY2014 | | FY2014 | | Achieved (%) |
|------------------------------------|---------------|--------------|---------------|--------------|---------------|-----------------------|--------------|
| | Amount | Distrib. (%) | Amount | Distrib. (%) | YOY (%) | Forecast ¹ | |
| Total | 28,718 | 100.0 | 30,800 | 100.0 | 7.3 | 30,950 | 99.5 |
| Generics | 24,405 | 85.0 | 27,400 | 89.0 | 12.3 | 27,430 | 99.9 |
| Sales to medical institutions | 23,579 | | 25,079 | | 6.4 | 25,100 | 99.9 |
| Sales to other makers ² | 826 | | 2,321 | | 180.9 | 2,330 | 99.6 |
| Amlodipine | 3,333 | | 3,011 | | (9.6) | 3,040 | 99.1 |
| Lansoprazole | 1,988 | | 1,935 | | (2.7) | 1,890 | 102.4 |
| Limaprost Alfadex | 1,417 | | 1,509 | | 6.5 | 1,570 | 96.1 |
| Rabeprazole | 1,533 | | 1,595 | | 4.1 | 1,570 | 101.6 |
| Donepezil | 1,301 | | 1,704 | | 31.0 | 1,660 | 102.7 |
| Pravastatine | 1,317 | | 1,273 | | (3.3) | 1,300 | 97.9 |
| Voglibose | 1,083 | | 1,013 | | (6.4) | 1,030 | 98.4 |
| Others | 12,432 | | 15,357 | | 23.5 | 15,370 | 99.9 |
| Proprietary products | 4,312 | 15.0 | 3,400 | 11.0 | (21.2) | 3,520 | 96.6 |
| Uralyt | 2,414 | | 1,975 | | (18.2) | 1,970 | 100.3 |
| Soleton | 1,547 | | 1,134 | | (26.7) | 1,250 | 90.8 |
| Calvan | 351 | | 290 | | (17.3) | 300 | 96.7 |

Chemiphar, ODM Generics

| | FY2013 | | FY2014 | | FY2014 | | Achieved (%) |
|----------------|---------------|--------------|---------------|--------------|-------------|-----------------------|--------------|
| | Amount | Distrib. (%) | Amount | Distrib. (%) | YOY (%) | Forecast ¹ | |
| Total | 25,079 | 100.0 | 28,918 | 100.0 | 15.3 | 28,840 | 100.3 |
| Generics | 24,405 | 97.3 | 27,400 | 94.8 | 12.3 | 27,430 | 99.9 |
| Generics (ODM) | 674 | 2.7 | 1,518 | 5.2 | 125.1 | 1,410 | 107.7 |

¹ As of October 31, 2014

² Includes export sales.

Reflecting continued government promotion, volume-based sales of generics to medical institutions rose 25% YOY. However, the NHI price revision depressed sales in yen terms, allowing only a 6.4% YOY rise in value.

New transactions and repeat orders caused sales of generics to other makers to experience a 2.8-fold YOY increase. Including ODM generics, our generics sales totaled ¥28,918 million (up 15.3% YOY).

Meanwhile, sales of our proprietary products are down 21.2% YOY, reflecting the NHI price revision and the growing switch to generics.

Consolidated pharmaceutical sales, consequently, came to ¥30,800 million (up 7.3% YOY).

Sales Distribution

1. By Launch Year

(¥mn)

| Year | FY2013 | | FY2014 | | YOY (%) |
|-------------------|---------------|--------------|---------------|--------------|-------------|
| | Amount | Distrib. (%) | Amount | Distrib. (%) | |
| FY2007 and before | 12,651 | 51.8 | 12,573 | 45.9 | (0.6) |
| FY2008 | 3,061 | 12.5 | 2,672 | 9.8 | (12.7) |
| FY2009 | 2,518 | 10.3 | 2,507 | 9.2 | (0.4) |
| FY2010 | 2,344 | 9.6 | 2,462 | 9.0 | 5.0 |
| FY2011 | 1,903 | 7.8 | 2,157 | 7.9 | 13.4 |
| FY2012 | 1,092 | 4.5 | 1,447 | 5.3 | 32.4 |
| FY2013 | 832 | 3.4 | 2,256 | 8.2 | 171.0 |
| FY2014 | — | — | 1,322 | 4.8 | — |
| Total | 24,405 | 100.0 | 27,400 | 100.0 | 12.3 |

2. By Main Therapeutic Categories

(%)

| | FY2013 | FY2014 |
|---|--------|--------|
| Cardiovascular and respiratory agents | 30.4 | 31.6 |
| Digestive organ agents | 18.5 | 17.8 |
| Agents affecting metabolism | 19.3 | 17.3 |
| Agents for nervous system, sensory organs | 12.9 | 11.9 |
| Antibiotics and chemotherapeutic agents | 7.6 | 7.1 |
| Antineoplastics | 2.0 | 1.9 |
| Others | 9.3 | 12.4 |

Balance Sheet, per Share Information

Balance Sheet Data

(¥mm)

| | March 31, 2014 | | March 31, 2015 | |
|----------------------------|----------------|---------------|----------------|--------|
| | Amount | Amount | Amount | Change |
| Total assets | 40,106 | 41,428 | 1,322 | |
| Return on assets (%) | 8.5 | 7.9 | (0.6) | |
| Net assets | 13,501 | 15,626 | 2,125 | |
| Owned capital | 13,490 | 15,620 | 2,129 | |
| Capital-to-asset ratio (%) | 33.6 | 37.7 | 4.1 | |
| Return on equity (%) | 14.6 | 13.1 | (1.5) | |
| Current assets | 23,800 | 24,844 | 1,044 | |
| Current liabilities | 15,008 | 13,939 | (1,069) | |
| Current ratio (x) | 1.59 | 1.78 | 0.19 | |

Per Share Information

(¥)

| | FY2013 | FY2014 | | |
|----------------------|--------|--------|--------|-----------|
| | Amount | Amount | Change | Forecast* |
| Earnings per share | 46.20 | 47.45 | 1.25 | 36.72 |
| Book value per share | 336.97 | 390.01 | 53.04 | — |
| Dividends per share | 10.00 | 10.00 | — | 10.00 |

* As of October 31, 2014

Total assets rose ¥1,322 million YOY to ¥41,428 million mainly due to an increase in notes and accounts receivable—trade from expand sales and machinery purchased for the new NPI factory building.

Increased earnings pushed up the capital-to-asset ratio to 37.7% (up 4.1 percentage points YOY).

Our current liabilities continue to decrease, because of settlement of account payable for inventory.

We are maintaining our dividend forecast of ¥10 per share.

Cash Flow, Expenditure

Cash Flow Statements

(¥mn)

| | FY2013 Amount | FY2014 Amount |
|---------------------------|------------------|------------------|
| Cash flow from: | | |
| Operating activities | 1,892 | 2,438 |
| Investing activities | (2,499) | (2,072) |
| Financing activities | (205) | (137) |
| Cash and cash equivalents | 5,563 | 5,791 |
| Free cash flow | (606) | 365 |

Expenditure

(¥mn)

| Items | FY2013 Amount | FY2014 | | Usage Rate (%) |
|-----------------------|------------------|--------|---------|-------------------|
| | | Amount | YOY (%) | |
| Capital expenditure | 3,366 | 1,710 | (49.2) | Forecast* 90.0 |
| Depreciation expenses | 862 | 1,200 | 39.3 | 1,300 92.4 |

* As of October 31, 2014

Increased income and inventory turnover boosted our cash flow from operating activities.

Meanwhile, the cash flow from investments mainly reflects the acquisition of machinery for the new NPI Tsukuba Factory building.

The cash flow derived from financing activities decreased slightly, the company having used working capital as it prepared for the NHI price revision in April 2014, repaid a loan, and made dividend payments.

II. FY2015 Forecasts

Sales, Income (Consolidated)

| Sales and Income | (¥mn) | | |
|--|------------------|-----------------------------|---------------|
| | FY2014 Amount | FY2015 (Forecast) Amount | YOY(%) |
| Net Sales | 35,118 | 36,600 | 4.2 |
| Pharmaceuticals | 34,168 | — | — |
| Others | 949 | — | — |
| Cost of sales | 18,352 | — | — |
| SG&A expenses | 13,480 | — | — |
| R&D expenses | 1,755 | 2,100 | 19.6 |
| Operating income | 3,285 | 2,800 | (14.8) |
| Ordinary income | 3,217 | 2,700 | (16.1) |
| Income before income taxes and minority interests | 3,093 | — | — |
| Net income | 1,899 | 1,700 | (10.5) |

Despite fierce competition, we expect ¥36,600 million in consolidated sales, (up 4.2% YOY), on the back of expanding generics sales. Operating income should total ¥2,800 million (down 14.8% YOY), mainly due to R&D expenses for generics and new drugs.

| Ratio to Net Sales | (%) | | |
|--------------------|--------|-----------------------------|-------|
| | FY2014 | FY2015 (Forecast) Change | |
| Operating income | 9.4 | 7.7 | (1.7) |
| Ordinary income | 9.2 | 7.4 | (1.8) |
| Net income | 5.4 | 4.6 | (0.8) |

Pharmaceutical Sales (Consolidated)

Generics, Proprietary Products (¥mm)

| | FY2014 Amount | FY2015 (Forecast) Amount | YOY(%) |
|-------------------------------|------------------|-----------------------------|---------------|
| Total | 30,800 | 32,510 | 5.5 |
| Generics | 27,400 | 29,730 | 8.5 |
| Sales to medical institutions | 25,079 | 28,250 | 12.6 |
| Sales to other makers | 2,321 | 1,480 | (36.2) |
| Amlodipine | 3,011 | 3,210 | 6.6 |
| Lansoprazole | 1,935 | 2,230 | 15.2 |
| Limaprost Alfadex | 1,509 | 1,500 | (0.6) |
| Rabeprazole | 1,595 | 1,850 | 15.9 |
| Donepezil | 1,704 | 1,720 | 0.9 |
| Pravastatine | 1,273 | 1,230 | (3.4) |
| Voglibose | 1,013 | 1,030 | 1.6 |
| Others | 15,357 | 16,960 | 10.4 |
| Proprietary products | 3,400 | 2,780 | (18.2) |
| Uralyt | 1,975 | 1,660 | (16.0) |
| Soleton | 1,134 | 870 | (23.3) |
| Calvan | 290 | 250 | (13.9) |

Chemiphar, ODM Generics

| | FY2014 Amount | FY2015 (Forecast) Amount | YOY(%) |
|----------------|------------------|-----------------------------|------------|
| Total | 28,918 | 31,660 | 9.5 |
| Generics | 27,400 | 29,730 | 8.5 |
| Generics (ODM) | 1,518 | 1,930 | 27.1 |

Given the sustained government promotion, we expect FY2015 sales of generics to medical institutions to be up 12.6% YOY.

At the same time, we see generics sales to other makers declining 36.2% YOY, following the rebound in demand in the wake of last year's NHI price revision.

However, sales of ODM generics should be up 27.1% YOY, to reflect expanded joint development initiated by Chemiphar.

Hence, we foresee sales of our generics, including ODM generics, reaching ¥31,660 million (up 9.5% YOY).

At the same time, sales of our proprietary products are expected to be down 18.2% YOY, as the switch to generics and fierce competition continue to grow.

Consolidated pharmaceutical sales should total ¥32,510 million (up 5.5% YOY).

Per Share Information, Expenditure

Per Share Information (¥)

| | FY2014 | FY2015 (Forecast) | |
|--------------------------|--------|-------------------|---------|
| | Amount | Amount | YOY (%) |
| Earnings per share | 47.45 | 42.46 | (10.5) |
| Book value per share | 390.01 | — | — |
| Dividends per share | 10.00 | 10.00 | — |
| Dividend Payout Ratio(%) | 21.1 | 23.6 | — |

Our targeted value is between 20% and 30% of the dividend payout ratio. Despite the fact that we expect our income to decline, we are maintaining our dividend forecast of ¥10 per share. As a result, the dividend payout ratio will increase.

Expenditure (¥mn)

| | FY2014 | FY2015 (Forecast) | |
|-----------------------|--------|-------------------|--------|
| | Amount | Amount | Change |
| Capital expenditure | 1,710 | 1,700 | (10) |
| Depreciation expenses | 1,200 | 1,200 | 0 |

We plan to make additional investments in equipment for the new NPI Tsukuba Factory, as well as to erect a factory in Vietnam. The latter will be carried out through our affiliate, Nippon Chemiphar Vietnam Joint Venture Co., Ltd.

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Note about Forward-looking Statements and Forecasts

Statements made in this Highlights of Business Results with respect to current plans, estimates, strategies and beliefs, and other statements of Nippon Chemiphar that are not historical facts are forward-looking statements about the future performance of Nippon Chemiphar.

These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. Consequently, undue reliance should not be placed on these statements.

Nippon Chemiphar cautions the reader that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.