

Annual Report **FY2012**



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Mission Statement

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

Note about Forward-Looking Statements and Forecasts

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

Financial Highlights (Consolidated)

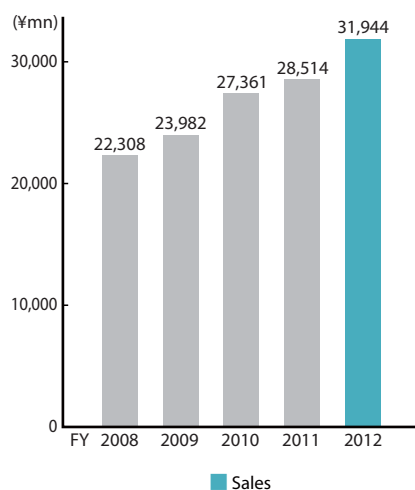
					Millions of yen	Thousand of U.S. dollars ¹
Fiscal Years	2008	2009	2010	2011	2012	2012
Results for the year:						
Net sales	¥22,308	¥23,982	¥27,361	¥28,514	¥31,944	\$339,794
Cost of sales	10,388	11,449	12,990	12,872	14,922	158,728
SG&A expenses	11,339	11,766	12,372	12,719	13,148	139,858
R&D expenses	1,427	1,722	1,879	1,791	1,937	20,604
Operating income	581	767	1,999	2,923	3,874	41,208
Income before income taxes and minority interests	498	557	1,416	2,699	3,602	38,315
Net income	168	271	573	1,440	2,125	22,604
Financial position at year end:						
Total assets	24,697	29,601	30,786	33,791	35,489	377,502
Total net assets	6,848	7,866	8,964	10,231	12,409	131,996
Cash flow from:						
Operating activities	(3,261)	1,890	2,748	1,753	1,913	20,349
Investing activities	(1,742)	(1,451)	(640)	(227)	(1,422)	(15,126)
Financing activities	4,154	1,509	(949)	63	(714)	(7,595)
Other expenses:						
Capital expenditure ²	889	681	584	1,015	1,154	12,275
Depreciation expense	580	695	776	748	840	8,935
Amounts per share:						
Earnings per share (¥ and \$)	4.41	7.10	13.95	34.62	51.77	0.5507
Book value per share (¥ and \$)	179.55	185.22	212.92	248.92	302.28	3.2154
Dividends per share (¥ and \$)	3.0	3.0	3.0	5.0	10.0	0.11
Ratios:						
EBITDA	1,123	1,517	2,824	3,745	4,748	50,504
Operating income to sales (%)	2.6	3.2	7.3	10.3	12.1	12.1
Return on equity (%)	2.4	3.9	7.2	15.0	18.8	18.8
Return on assets ³ (%)	0.7	1.0	1.9	4.5	6.1	6.1
Debt to equity ratio (%)	136.8	166.0	122.4	113.1	90.6	90.6
Equity ratio (%)	27.7	23.9	29.1	30.3	34.9	34.9
Dividend payout ratio (%)	68.0	42.3	21.5	14.4	19.3	19.3
Number of employees	624	714	711	682	679	679

Notes : 1. The U.S. dollar amounts in the consolidated financial statements have been translated from Japanese yen amounts at the rate of ¥94.01 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2013.

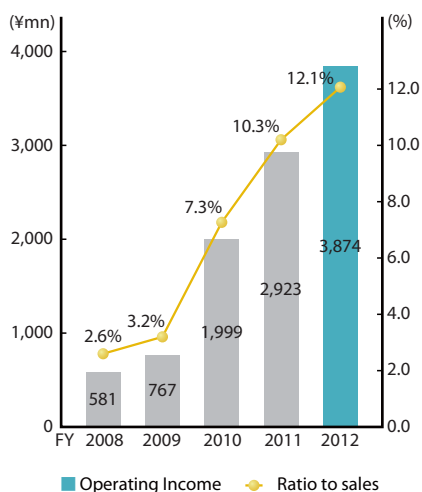
2. In consolidated financial section, we mentioned capital expenditure as increase in intangible assets and property, plant and equipment.

3. Return on assets = Net income / [(Total assets on the previous term + Total assets on this term) / 2]

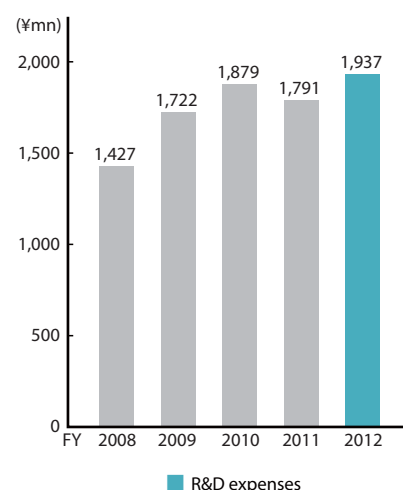
Net Sales



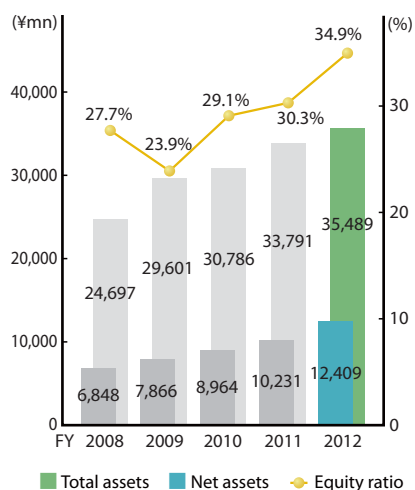
Operating Income



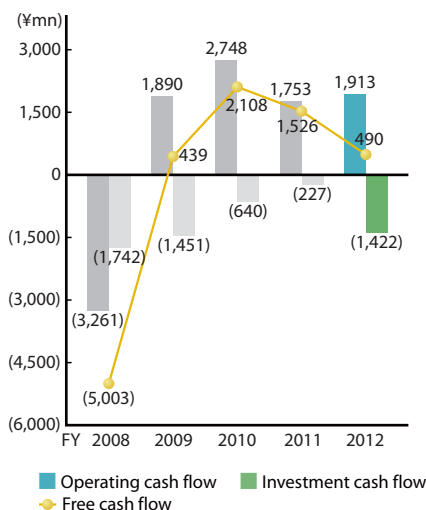
R&D Expenses



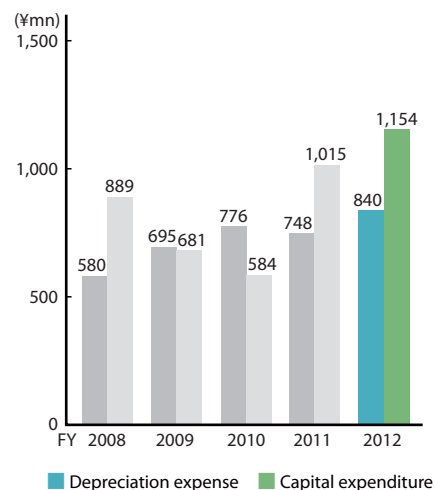
Total Assets, Nets Assets and Equity Ratio



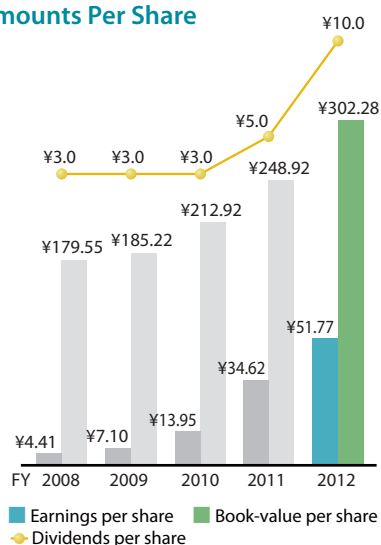
Cash Flows



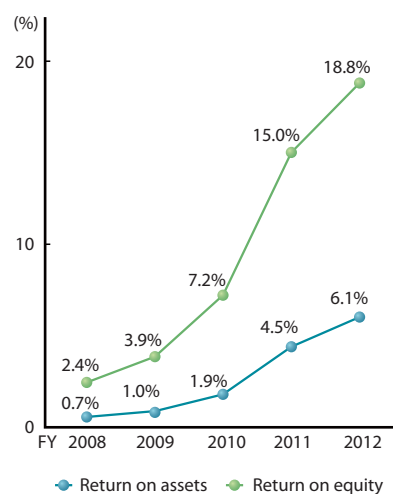
Capital Expenditure, Depreciation Expense



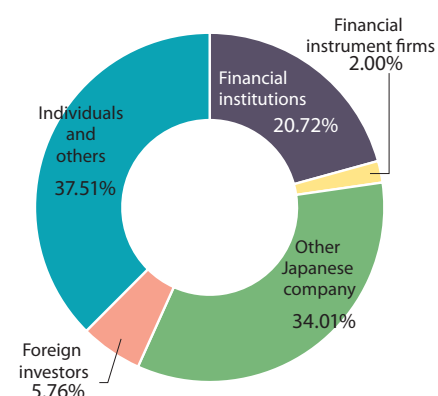
Amounts Per Share



ROA, ROE



Composition of Shareholders



Message from the President

To Our Shareholders and Investors

We commenced full-fledged initiatives targeting the generics business in 2000, anticipating the Japanese government's efforts to begin promoting the use of generics in 2002. It is more than 10 years now that generics have been a main pillar of our business and, as a consequence, we have achieved top-class sales of generics among the pharmaceutical companies which making both generics and new drugs in Japan.

In FY2012 (ended March 31, 2013), the steady growth of our generics business was reflected in our consolidated sales, which increased 12.0% YOY, despite the National Health Insurance (NHI) price revision and increased competition. In addition, as a result of the steps we have been taking over the past several years, we have achieved a substantial growth in profits, which has enabled us to increase our dividend to ¥10 per share, double the FY2011 amount.

On April 5, 2013, the Ministry of Health, Labour and Welfare set a new generics-related target in its roadmap to further promote the use of generic medicines, as a result of which we are certain that Japan's generics market will continue to grow. We are, thus, making the relevant preparations across supply chains in the areas of development, manufacturing and distribution.

During FY2012, we stepped up preparations ahead of the increased demand we have been expecting. We began studying contract manufacturing to overseas and construction of a new

manufacturing building at the Tsukuba factory of our subsidiary, Nihon Pharmaceutical Industries (NPI).

By continuing to concentrate on generics, we believe that we can help reduce both what patients pay for medication and the government's expenditure on healthcare. Despite the changing Japanese economy and business environment surrounding the pharmaceutical industry, the Chemiphar Group will continue to expand its business through the application of its three goals: achieving a greater presence in the generics business; attaining a stronger position in the hyperuricemia market, with a focus on Uralyt; and enhancing our social contribution, by developing new proprietary drugs. I ask that you continue to support our endeavors.

August 2013

山口一城

Kazushiro Yamaguchi
President & CEO





Interview

Q₁

Please briefly outline your company's FY2012 performance.

A

Our generics business performed well, as sales to other manufacturers marked substantive growth.

On a consolidated basis, the generics business continued to surge, with sales up 12.0% YOY. In spite of NHI price revisions during the fiscal year under review, we were able to keep the growth rate of costs low, and at the same time firmly control selling, general and administrative expenses. As a result, our operating profit rose 32.5% YOY.

In the area of pharmaceuticals, which

account for about 90% of our sales, generics sales are continued to grow. Purchases by other manufacturers rose dramatically to a figure approximately eight times that of the previous fiscal year. These purchases contributed significantly to the higher sales.

Meanwhile, sales of our core products—Uralyt, Soleton and Calvin—decreased 16.5% YOY, as a result of the NHI price revisions and increased competition. This was, however, almost in line with our forecast.

Consolidated Sales and Income

(¥mn)

	FY2011		FY2012		Change (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)	
Total sales	28,514	100.0	31,944	100.0	12.0
Pharmaceutical business	27,326	95.8	30,865	96.6	13.0
Others	1,188	4.2	1,079	3.4	(9.2)
Cost of sales	12,872	45.1	14,922	46.7	15.9
				+1.6P	
SG&A expenses	12,719	44.6	13,148	41.2	3.4
				(3.4P)	
Operating income	2,923	10.3	3,874	12.1	32.5
Net income	1,440	5.0	2,125	6.7	47.6

Q₂

Please tell us about shareholder return.

A

This year, we were able to double our dividend, almost achieving our target.

Our target is for a dividend of 20–30% on a consolidated basis and, on a non-consolidated basis, for a dividend of 30%.

As the year's performance was better than we had forecast and our profits greater, we increased the dividend from ¥5 per share to ¥10 per share.

This represents a dividend that is close to our target levels: 19% on a consolidated basis, and 30% on a non-consolidated basis.

Compared with our dividend of ¥3 per share in FY2010 and ¥5 per share in FY2011, the year under review shows a substantial increase. Boosting shareholder returns will remain a key management objective as we strive to increase corporate value.

Q₃

What is your impression of the government's plan to expand the use of generic medicines? How might it affect the company?

A

The Ministry of Health, Labour and Welfare set a new target requiring that generic drugs are to account for more than 60% of drug sales in terms of volume.

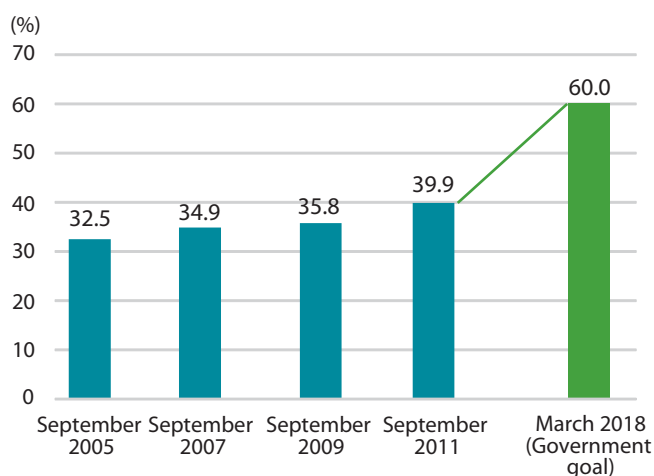
To attain this figure for dispensed off-patent pharmaceuticals by the end of March 2018, there will have to be a 1.5 times increase from the current 40% share within five years. While some may see this target as difficult to

achieve, I believe it should be accomplished, given the state of Japan's medical insurance financing and the reduction of patients' burden.

Since the government has issued a specific numerical target, we are certain that Japan's generics market will continue to expand. At the same time, competition will become increasingly intense, as leading pharmaceutical companies and new drug manufacturers join the generics business. The Chemiphar Group intends to maintain the early-mover advantage it gained as the first new drug manufacturers to enter this market. We also plan to market competitive, major new generics in a timely manner, thereby increasing our market share.

The Ministry of Health, Labour and Welfare's roadmap requires that all involved—including pharmaceutical companies—ensure that the supply of generics is steady, and their quality reliable. This means that all companies will have to reinforce their systems of inspection at sourcing factories, and secure multiple bulk-supply sources for each generic. Despite these requirements, we will be active in helping expand the use of generics.

Generics as % of Off-patent Drug Volume



Source: Report from Central Social Insurance Medical Council



Q₄

What is your position regarding overseas expansion?

A

We are in the process of concluding a contract for manufacturing with a company in Vietnam, as well as expanding exports to ASEAN members.

We are exporting our products to South Korea and Thailand, and plan to expand our sales to other ASEAN states, as well as to China.

Then, in response to the expected increased demand in Japan, we are considering concluding a manufacturing contract with the affiliate of a European pharmaceutical maker in Vietnam that is

compliant with the European Union's Good Manufacturing Practice (EU-GMP) and the World Health Organization Good Manufacturing Practices (WHO GMP), which would ensure product quality.

By the end of FY2014, we expect to be selling products in Japan that have been made in Vietnam. In order to adequately respond to our overseas expansion, we set up an overseas business department in October 2012.

Q₅

What will the Group's output capacity be with NPI's new facility?

A

The NPI Tsukuba factory's new building, construction of which started in April 2013, will be completed around March 2014. The two-story structure, which incorporates a seismic base isolation system, will increase our annual production capacity from the current about 0.9 billion pills up to 1.4 billion pills.

We expect that, once the factory comes on

line, its output together with that of the above-mentioned manufacturer in Vietnam will boost our production capacity and decreasing production costs.

This combination of manufacturers will assist us in achieving an optimal combination of manufacturing processes. We will be able to draw from domestic and overseas producers.

Initiatives Involving Generics

Currently, reflecting its bid to curb social security expenditure, the government is promoting the use of generics in line with the April 2012 revision of the remuneration for medical services.

Against this background, the Group is ever more determined to provide high quality generics, as well as make greater efforts to improve output and efficiency. We thus produce safe, quality medications, which we have nurtured as a new drug manufacturer in order to contribute to the promotion of reliable generics.

In FY2012, our sales of generics increased 19.8%

YOY to ¥23,630 million as a result of both increased sales of recently launched items and, in particular, strong sales to other manufacturers.

The ratio of high-margin proprietary products increased 7.9 basis points year on year to 56.9% in FY2012. This helped check our cost-of-sales ratio.

In order to sufficiently respond to increased demand for generics and associated information, we plan to expand our supply system and strengthen our cooperation with wholesale distributors and health insurance pharmacy chains.

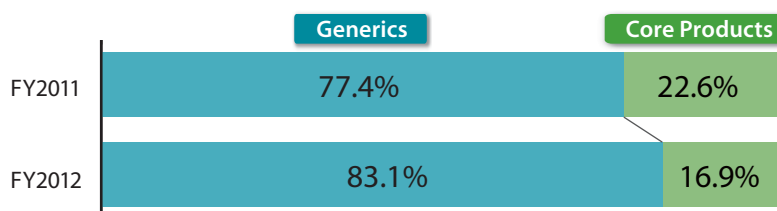
❖ Sales Breakdown

1. Consolidated Pharmaceutical Sales

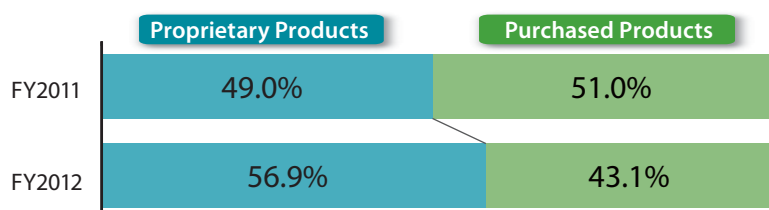
(¥mn)

	FY2011		FY2012		
	Amount	Distrib. (%)	Amount	Distrib. (%)	Change (%)
Total	25,467	100.0	28,425	100.0	11.6
Generics	19,721	77.4	23,630	83.1	19.8
Sales to other makers	220		1,742		x7.9
Amlodipine	2,864		3,128		9.2
Lansoprazole	1,496		1,791		19.7
Pravastatine	1,347		1,319		(2.1)
Rabeprazole	842		1,313		55.9
Limaprost Alfadex	1,034		1,274		23.2
Voglibose	1,086		1,079		(0.6)
Others	11,052		13,723		24.2
Core products	5,746	22.6	4,795	16.9	(16.5)
Uralyt	3,012		2,661		(11.6)
Soleton	2,273		1,745		(23.2)
Calvan	461		389		(15.6)

2. Core Products, Generics as % of Pharmaceutical Sales



3. Proprietary, Purchased Products as % of Generics Sales



❖ New Generics

During FY2012, we launched 19 generics. This pushed up our product total to 190 items at fiscal year end. Our extensive generics lineup has placed us in the number one spot, ahead of all other manufacturers who produce both new drugs and generics.

❖ Sales Breakdown

On a prescription basis, 35.3% of our generics sales were to hospitals and 64.7% to clinics. Sales to hospitals grew 4.8% YOY.

In terms of delivery destination, generics sales to pharmacies were up 24.4% YOY, for a roughly 1.4 times increase since FY2010. As these sales increase and the number of pharmacies handling generics grows each year, our generics are now available at approximately 65% of the about 54,800 dispensing pharmacies throughout Japan.

In the wake of the separation of medical practice and drug dispensing, pharmacists are now able to suggest to patients that they may substitute generic

Products Launched in FY2012

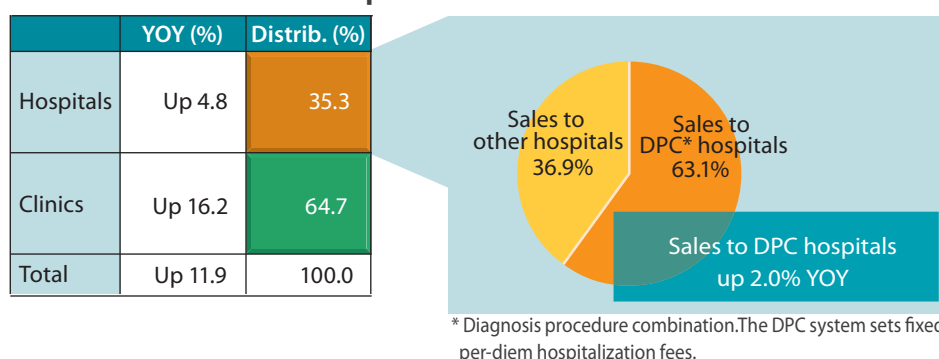
Tablet's Name	Strength
Losartan Potassium	25mg • 50mg • 100mg
Paroxetine	5mg • 10mg • 20mg
Zolpidem	5mg • 10mg
Pioglitazone	15mg • 30mg
Pioglitazone OD*	15mg • 30mg
Anastrozole	1mg
Mosapride Citrate	2.5mg • 5mg
Olopatadine Hydrochloride	2.5mg • 5mg
Amlodipine	10mg
Glimepiride	0.5mg

* Orally disintegrating

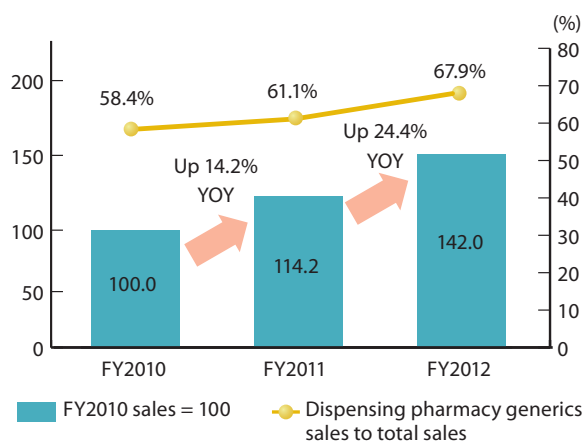
drugs (when available) for new drugs named in their prescriptions. This means that the role of dispensing pharmacies in promoting the use of generics is becoming increasingly influential.

The need to strengthen our efforts in the dispensing pharmacies' market is, thus, apparent, and requires that we provide adequate information about our products, and supply just those deemed convenient by medical personnel and patients alike.

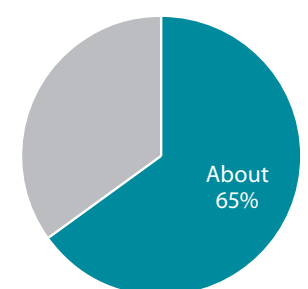
1. Sales of Generics to Hospital and Clinics



2. Generics Sales to Pharmacies



3. Ratio of Dispensing Pharmacies Selling Chemiphar Generics



Total = about 54,800 pharmacies

❖ Government Policy

The use of generics has, for a time, been attracting the interest of the Ministry of Health, Labour and Welfare. It is now tailoring policy to increase the market penetration of generic medications in Japan.

A September 2011 drug price survey shows that the market penetration of generics in Japan was then

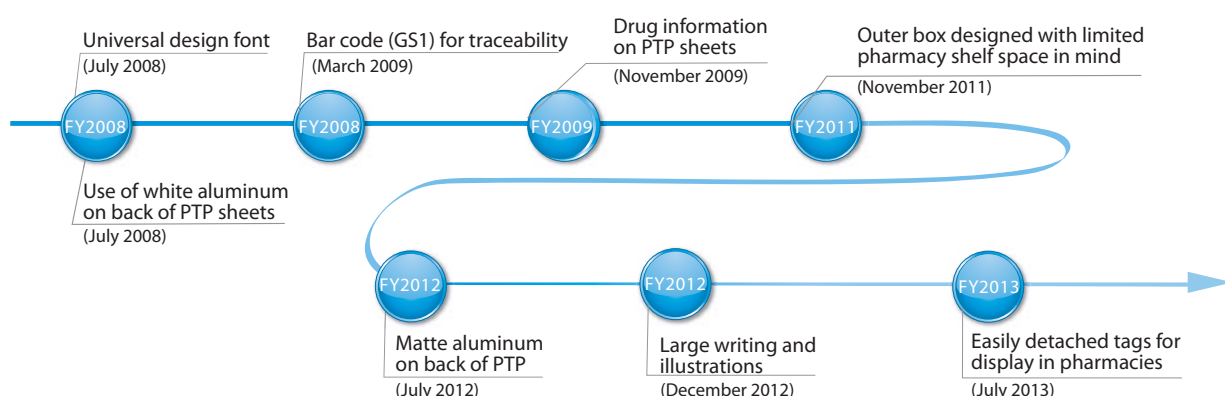
only 39.9% (on a prescription basis).

However, the ministry plans to increase this to 60% by the end of March 2018, to help reduce the government's social security-related outlays. Moreover, there is growing private-sector interest in using generics to reduce patient-borne expenses.

❖ Chemiphar's Activities

1. Packaging Design Initiatives

Development of Packaging Design



(i) Universal design font

For sheets of press-through packaging (PTP) and for outer packaging, we use a font that is highly legible to prevent misreading.

(ii) Matte PTP backing

Reduced shine makes the information and instructions written on the aluminum backing of medication packaging easier to read.

(iii) Outer box design

Because of pharmacies' limited shelf space, all necessary information (product name, expiry date, serial number, medication strength) is printed on both ends of the box.

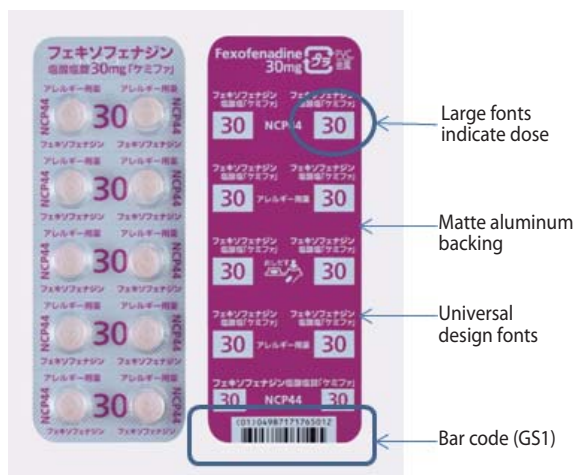
(iv) Large writing, illustrations

To prevent dosage-related errors, medication ingredients are written in large print and, where applicable, large illustrations are used.

(v) Display tags

All boxes containing those of our generic drugs manufactured since the start of June 2013 have a tag bearing the brand name, lot number, expiration date and other details.

The tags can be detached easily for display at the front of pharmacists' shelves to indicate which medications are kept there.



2. Production Capacity

In October 2010, Chemiphar spun off the Ibaraki Factory (currently the Nihon Pharmaceutical Industries [NPI] Tsukuba factory) to its subsidiary, NPI.

Given the expansion of the generics market that we have anticipated for some time, we began construction of a new factory at the NPI site in April 2013. The new building incorporates a seismic base isolation system.

We expect that, once production facilities get underway, our output capacity will increase from approximately 0.9 billion pills per year now up to 1.4 billion pills per year.

We will consider further capital expenditure after assessing the supply and demand situation.

In the meantime, as we



Artist's rendition of the new NPI building

boost production in Japan, we are also getting ready to start manufacturing abroad.

We have signed a manufacturing contract involving our main products with an affiliate of a European pharmaceutical company in Vietnam, where commercial production is to commence in FY2014.

In addition, we continue to study the feasibility of ourselves building a factory overseas. When and if we

do so depends on both the state of the financial environment and how our manufacturing contracts pan out.

We are still looking for the optimum mix of manufacturing methods that will enable us to increase production while restraining the cost of production.

3. Quality Assurance

As always, we will continue to work hard to ensure that our manufacturing processes and quality control systems are appropriately conducted. Our in-house handbook ensures that we are always in compliance with the legally stipulated good quality practices (outlined in a government ordinance on quality standards for drugs, quasi-drugs, cosmetics and medical devices) and good manufacturing practices (in the government ordinance on the control of the manufacture and quality of drugs and quasi-drugs).

We also have verification procedures in place for the raw materials we procure and store, as well as for the products we store and transport. In addition, we continue to focus on ensuring the quality and stable supply of products, by reinforcing manufacturing plant inspections and increasing the number of bulk suppliers we use.

4. Provision of Information

Based on our know-how as a new drug manufacturer, we provide information to medical personnel with the aim of supplying generics that can be used with confidence. Below are some of our related activities.

(i) Information for doctors

We conduct study groups; publish a monthly journal, *Medical Doctor*, for doctors; and provide information tools, such as patient treatment guidelines.

(ii) Information for pharmacists

We publish a monthly magazine, *Pharmacy Digest*, for pharmacies, and provide information through a website for pharmacists.

(iii) Information for others

We work to reinforce cooperation between our customer support team and MRs. This reflects our desire to provide more timely information, as does our incorporation of the scientific information department under wing of the sales department.



Medical Doctor and Pharmacy Digest

The Hyperuricemia Arena

Recent research shows that hyperuricemia is linked to metabolic syndrome and cardiovascular events.

As hyperuricemia increasingly comes under the spotlight, we will continue to help promote a better understanding of the related clinical conditions, diagnosis methods, and treatment.

❖ Acid Urine, Metabolic Syndrome

Frequently, patients with lifestyle-related diseases such as hyperuricemia and metabolic syndrome have acid urine, due to changes in the Japanese diet and the high incidence of obesity.

In addition, acid urine is likely to generate uric acid stones, which invite kidney dysfunction. Such complications can be prevented and cured through the alkalization of urine. The use of drugs such as Uralyt provide the alkalization therapy required.

Epidemiological surveys show that hyperuricemia and aciduria are separate single-risk factors that may lead to metabolic syndrome. The risk of developing the disorder grows if hyperuricemia and aciduria are present. Thus the growing interest in acid urine and the link between chronic kidney disease and aciduria.

❖ Awareness Activities

1. Research Group-based Initiatives

We have been cosponsors of the Hyperuricemia Metabolic Syndrome Research Forum since it was set up in 2004. To date, it has met eight times and, with a view to educating a broader sector of the public, in August 2012 workshop participation was opened to medical personnel who are not forum members.

2. Web-based Initiatives

In April 2010, we launched two Japanese-language websites on hyperuricemia and gout: one for the public, the other for medical personnel.

The site that the public can access allows them to gain a basic understanding of the clinical conditions of hyperuricemia and gout, and how they are treated or prevented through diet. There are also tips for dietary cures, recipes, cooking methods, ingredients and balanced food combinations.

Medical professionals can access Uralyt.jp. The site offers information on medical exams, as well as treatment guidelines and suggested dosages. The data are provided by Dr. Tatsuo Hosoya of Jikei University and president of the Japanese Society of Gout and Nucleic Acid Metabolism.

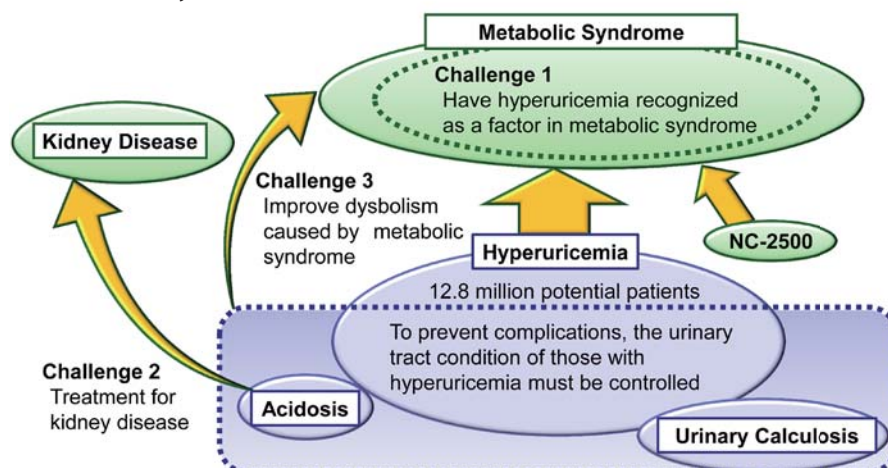
Our homepage carries a list of pharmacies that carry our urine pH test kit.

❖ Expanding the Therapy Market

With the Hyperuricemia Metabolic Syndrome Research Forum focusing on the link between acid urine and lifestyle-related diseases—and the many published reports on acid urine—Chemiphar is concentrating on reports about kidney disease and dysbolism caused by metabolic syndrome.

Our plan is to support ongoing domestic clinical research, and to stress the need for hyperuricemia therapeutic agents. We have finished phase I of clinical trials for NC-2500, a hyperuricemia treatment we developed and are considering licensing out.

Potential Uralyt Market



New Drug Development

Chemiphar's drug research is directed to discovery. In order to bring newly found compounds to market as quickly as possible, we out-license development at an early stage to highly specialized companies at home and abroad. We have out-licensed one item (NC-2400) to an overseas company and, having finished the phase 1 trials of the antihyperuricemic agent NC-2500, we are preparing to out-license this, too.

In FY2012, a therapeutic agent for neuropathic pain that targets P2X4 receptors—on which we are doing research with Kyushu University—was chosen by the Japan Science and Technology Agency for its potential practical application. Thus, the drug design research we are conducting is being supported by public funding of up to ¥1 billion over five years. We aim to develop a therapeutic agent by using a low molecule compound discovered by Chemiphar.

Neuropathic pain is debilitating and there are few remedies. It is known that over expression of P2X4 receptors is involved in this pain, and animal models have shown that the pain is relieved by the use of a P2X4 receptor antagonist. Thus, we expect to find a new therapeutic agent to alleviate this type of pain.

In addition, one of our Angiotensin-converting enzyme 2 (ACE2) drugs has been chosen for a support program by the agency. We are now collaborating in research to find practical applications. One possibility is for the relief of pulmonary arterial hypertension (PAH), a form of pulmonary hypertension. In PAH, the

pulmonary arteries constrict abnormally, forcing the heart to work faster, causing blood pressure within the lungs to rise, and resulting in depleted oxygen supply to the entire body. Although the condition can be caused by, or occur at the same time as, other medical issues, the cause of some cases of PAH is not known and there is no cure. PAH worsens over time and is life-threatening because pressure in the pulmonary arteries rises to dangerously high levels, straining the heart. It has been found that ACE2 may help regulate the condition, and that the level of ACE2 protein may be lower in patients with some forms of PAH.

Japan's National Center for Global Health and Medicine (NCGM), of the Bureau of International Medical Cooperation, is exploring the hypothesis that serum autoantibodies to ACE2 may predispose some people to PAH. Much of the research, based on Chemiphar's chemical library, involves collaboration by the NCGM, a major Japanese natural sciences research institute (RIKEN), and Chemiphar.

We are grateful to be benefiting from the largesse of the Japan Science and Technology Agency program, the Adaptable and Seamless Technology Transfer Program (A-STEP) through Target-driven R&D. It supports collaborative industry-academia research and development in the interests of bridging the gaps between academic research results and industry, to realize effective and efficient innovation.

For information on the program in English please see <http://www.jst.go.jp/tt/EN/univ-ip/a-step.html>.

❖ Pipelines

Undergoing Clinical Trials

	NC-2500	NC-2400
Purpose	Lowering of uric acid	Improving lipid metabolism
Function	Xanthine oxidoreductase inhibitor	PPAR δ Agonist
Discovery	Nippon Chemiphar	Nippon Chemiphar
Development	Nippon Chemiphar	Cerenis (France)
Phase	Phase 1	Phase 1
Country	Japan	USA

With JST Funding

	P2X4 Antagonist (for neuropathic pain)	ACE2 Activating Agent (for pulmonary arterial hypertension)
Adopted program	Working to solve issues (¥1 billion over five years)	Nurturing drug seeds
Chemiphar activity	Selecting compounds that may be administered effectively orally.	Conducting group research with the National Center for Global Health and Medicine and RIKEN.

Medium-term Management Plan

Our three-year, medium-term management plan got underway in FY2012. The plan is designed to strengthen profitability and the company's financial base, by helping expand our generics business, build the hyperuricemia market (with a focus on Uralyt), and develop business overseas. In addition, it is expected that the plan will initiate measures leading to the company's further growth.

❖ Targets

Generics Business

We are vying for top place in terms of sales volume and the number of products manufactured on the back of the early-mover advantage we gained as one of the first new-drug manufacturers to enter this market.

Hyperuricemia Market

With a focus on Uralyt, we are planning to expand this market through clinical research and by licensing out our proprietary compound for hyperuricemia, NC-2500.

Overseas Business

We will build foundations that enable us to develop our business in the Asian market.

❖ FY2012 Initiatives

During FY2012, the first year of our medium-term plan, we achieved our targets in terms of sales and profits. This is the result of increased sales—mainly of generics that had recently come on the market—as well as of significant growth in sales to other manufacturers.

In anticipation of future demand, we began construction of a new manufacturing building at the NPI Tsukuba factory in April 2013. When production there commences, our output capacity will increase from around the current figure of 0.9 billion pills per year to an annual maximum of 1.4 billion pills.

New clinical research has been started concerning hyperuricemia, while phase I trials have been completed in-house of antihyperuricemic agent NC-2500, which we are preparing to license out even as we are still analyzing the data.

In October 2012, we set up an overseas business department to develop business overseas. We are looking to export generics to China and ASEAN member states, and our core products to South Korea and Thailand. At the same time, we are considering manufacturing overseas to expand business.

With overseas production and the new domestic manufacturing facility that will be completed around March 2014, we seek to achieve the best combination of domestic-offshore manufacturing, increase our manufacturing capacity, and cut manufacturing costs.

Each year, the company holds briefings to encourage staff drive and tenacity.



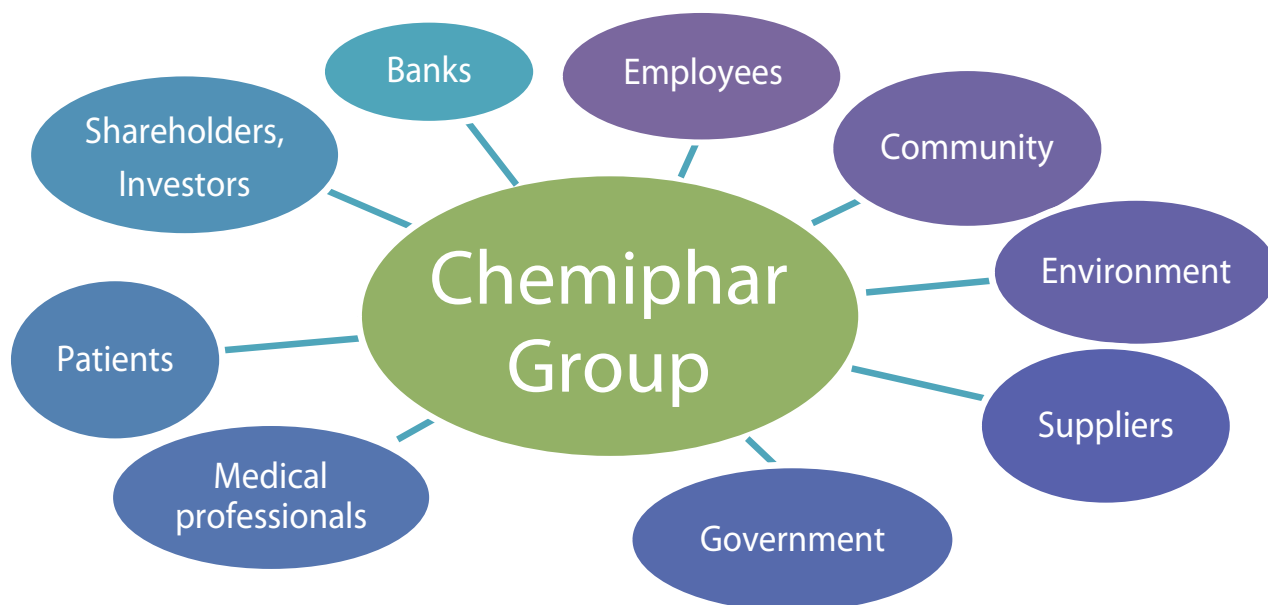
Employees are encouraged to submit comments and suggestions.

Activities Benefiting Stakeholders

Bearing in mind its 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 medical science by increasing the use of generics and hyperuricemia treatment. This it will do based on

the reputation for trustworthiness and reliability that it has cultivated over the years.

Further, knowing it must satisfy its corporate social responsibilities, Chemiphar is contributing to improving the health of society at large by providing high-quality products and services.



❖ Nippon Chemiphar's CSR Policy

1. Compliance

Complying with laws and the tenets of corporate ethics is a top priority. We have in place programs that ensure our adherence to these requirements, and operate under the guidance of committees on risk management, compliance and information security.

In FY2012, we revised our code of conduct, *Nippon Chemiphar Rules: Code of Practice*, in line with revisions in the Japan Pharmaceutical Manufacturers Association Code of Practice. We run a compliance-related workshop in each department.

2. Patients and Medical Personnel

(i) Providing Information

Initiatives to ensure the proper use of drugs

Our approximately 230 MRs are deployed nationwide and provide medical personnel with accurate and prompt information regarding our drugs. We have set up a toll-free customer support service to respond to

inquiries from medical personnel and patients. The data thus accumulated is centrally managed and provides feedback that helps departments develop new and better products.



An MR discusses information with a doctor.

Supporting Research Groups

We support a variety of research groups, including the DPC Management Forum and the Hyperuricemia Metabolic Syndrome Research Forum. Through these, we provide medical personnel with data on diseases and other up-to-date information.



Hyperuricemia Metabolic Syndrome Research Forum



DPC Management Forum



Japanese-language information website

Patient Information

We offer medical institutions patient-oriented guidance, and have set up a Japanese-language information website to help patients gain a basic understanding of hyperuricemia and gout. The site also carries recipes and other useful information.

(ii) Ensuring Stable Supplies

In October 2007, an Action Program for the Promotion of the Safe Use of Generic Medicine was set up by the Ministry of Health, Labour and Welfare. The plan set targets—such as the decrease of time to delivery, and the securing of adequate stocks—for makers of generics, to ensure stable supplies.

In addition, in April 2013, the ministry formulated a plan to further promote the use of generics. This requires that generics makers compile a manual and set up a system to ensure a continuous supply.

With an action program in place, we are working to have more suppliers of the active pharmaceutical ingredients we require, and are making inspections of manufacturing plants more stringent, in order to fulfill the ministry's stable-supply requirement.

(iii) Product Innovation

In connection with our generics, we shall continue to enhance our systems in order to safeguard the quality of our products.

In addition, we will ensure that information concerning our products is always readily available to all consumers.

We realize the importance of optimizing the visibility of our products in the marketplace and the need to make them even more user friendly.

A more detailed outline of what we are doing in the interests of all stakeholders appears in the section on "Chemiphar's Activities" on pages 10 and 11 of this report.

3. Employees

Nurturing Careers

We have introduced an extensive, age-appropriate training program for each job category, and conduct surveys and work-related meetings. These activities enable management to support the career path, aspirations and aptitude of each employee.

Child Care and Nursing Care

To enable employees to balance the requirements of work with child care and nursing care, we have provisions for child care and nursing care leave. Seventeen employees have availed themselves of child care leave over the past three years (from April 2010 to March 2013).

Sexual Harassment

In order to prevent sexual harassment within and outside the organization, we have put together a manual and tutorials. A system for reporting harassment and for providing counseling is in place, and we have developed internal systems to facilitate the prevention of such aggravation.

4. Community Participation

Community Service Leave

In FY2012, we introduced a system of community service leave as one of our CSR initiatives. Employees may take up to three days leave per annum.

During this time, they may perform company-approved volunteer community service (help with relief efforts in areas where major accidents or natural disasters have occurred), or social welfare activities involving nursing care or care for the disabled.

PET Bottle Caps

We have started collecting polyethylene terephthalate (PET) bottle caps on a company-wide basis. Each office has a box for these caps, which are sent to the Eco-Cap Promotion Committee, a Japanese NPO that provides medical support in developing countries.

Between the time we started to collect the caps in November 2011 until the end of March 2013, we had collected some 40,000 PET bottle caps that were used to provide vaccines for children in the developing world. At the same time, collecting rather than disposing of the caps in the trash reduced CO₂ emissions by around 310kg.



New employees discuss HR-generated topics to familiarize themselves with the company and its operations.



A training session designed to prepare members of staff eyeing promotion to the first level of management.



Employees, ever ready with a smile, volunteer in the Tohoku region that was devastated by the Great East Japan Earthquake in 2011.

Regional Beautification Activities

Once a month, Chemiphar's Soka office staff remove trash from the side of the Nakagawa River. Trash collects there due to the heavy traffic in the area. The clean-up activities, which help prevent injuries from empty cans and bottles, cover an area of roughly 300m x 30m.

We also conduct regional beautification activities once a month around our corporate headquarters in Tokyo. Similar activities are conducted three times a year around the Group company factory in Tsukuba.



Cleaning up roadside trash

Blood Donations

We began conducting corporate blood drives at our Soka office in FY2011. During the year in review, one drive was held in September, and another in February. On each of these occasions, our efforts attracted around 46 participants.



A Red Cross van stops by to collect blood donations.

Sports Field at Tsukuba Factory

At the Group company factory in Tsukuba, the community baseball team has use of the factory field free of charge.



The community baseball team enjoys using our field.

5. The Environment

Experiments Using Animals

All animal experiments carried out by our company are conducted with government-prescribed ethical and scientific standards in mind.

We have internal rules for animal experiments that are in accordance with the Basic Policy on Animal Experimentation promulgated by the Ministry of Health, Labour and Welfare.

Hybrid Cars

Reflecting our determination to reduce CO₂ emissions, the company's fleet now boasts 41 hybrid cars. This marks a major increase from the eight such vehicles that the company owned in FY2011.

We will continue our efforts to reduce even further the Group's environmental footprint.



One of our fleet of hybrid cars

As of June 28, 2013



Back row, from left: Naoshige Shindou, Tsuyoshi Takahashi, Haruki Mori, Yoshiyuki Maki, Yasushi Hatakeda, Shingo Kinmei, Toshiki Nakai
Front row from left: Masahide Yasumoto, Tsuyoshi Koyama, Yasuo Kishi, Kazushiro Yamaguchi, Masanori Kutsuwada, Tomio Yamakawa, Masaaki Hatakeyama.

President and CEO

Kazushiro Yamaguchi

Directors and Managing Corporate Officers

Yasuo Kishi
Masanori Kutsuwada
Tsuyoshi Koyama

Directors and Corporate Officers

Tomio Yamakawa
Masahide Yasumoto

Outside Director

Masaaki Hatakeyama

Audit & Supervisory Board Members

Haruki Mori (full-time)
Tsuyoshi Takahashi
Naoshige Shindou

Corporate Officers

Yoshiyuki Maki
Yasushi Hatakeda
Shingo Kinmei
Toshiki Nakai

Consolidated Financial Section

Consolidated financial statements are reformatted version of the Japanese financial data. The information is audited in its original Japanese form.

Business Performance Analysis, Financial Position

❖ Business Overview

As the government proceeded with addressing the major challenges of reconstruction related to the Great East Japan Earthquake of March 2011, the Japanese economy continued to experience uncertainty. This was due, in part, to the rapid appreciation of the yen that was triggered by European sovereign risks, a downturn in the world economic outlook, and measures to counter the macroeconomic environment.

Against this backdrop, the second Cabinet of Prime Minister Shinzo Abe was formed in December 2012. Since then, it has been increasingly expected that the value of the yen would be corrected and deflation would end—all thanks to Abenomics, the three-pronged plan involving increased fiscal stimulus, through government spending; expanded monetary stimulus, through central bank policy; and a reform program, featuring structural improvements to the Japanese economy.

With regard to the pharmaceutical industry, the government continues to promote the use of generics to curb fiscal expenditure on social security.

❖ Sales

Within the pharmaceuticals business, generics sales did very well, thanks to sales of recently released items and to other manufacturers. The latter marked approximately eight-fold growth over the previous year.

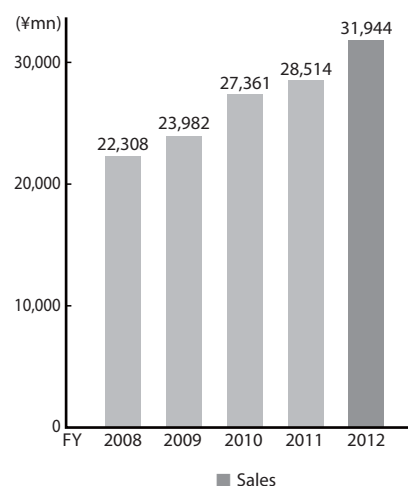
Meanwhile, sales of our core products—Uralyt, Soleton and Calvin—decreased due to drug price revisions and increased competition. Nevertheless, the lower figures are almost in line with our forecasts.

Consolidated sales rose 12.0% YOY, to ¥31,944 million.

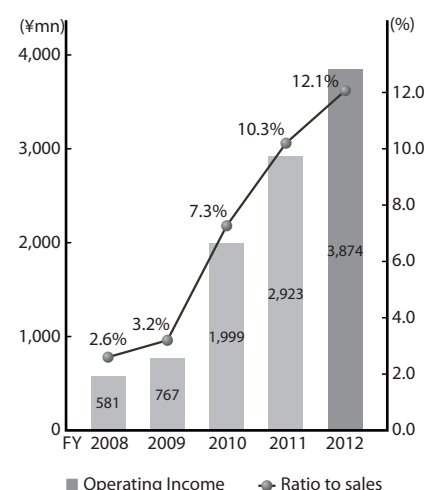
❖ Operating Income

Operating income rose ¥951 million to ¥3,874 million, thanks to a steady increase in the sales ratio of our proprietary products, which have high margins. Strict control of sales and administrative expenses also helped boost the operating income. Thus, the operating margin rose from 10.3% to 12.1%.

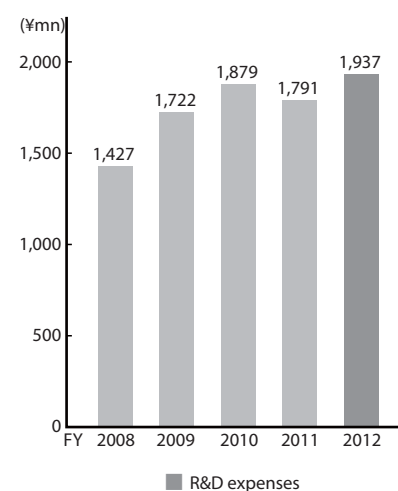
Net Sales



Operating Income



R&D Expenses



❖ Financial Position

Current assets increased 5.3% YOY to ¥21,656 million. This is mainly attributable to an increase of ¥1,223 million in notes and accounts receivable, the result of an increase in sales, and retaining the realization of beneficiary rights on trust.

Property, plant and equipment increased 2.3% YOY to ¥10,374 million, and investment and other assets increased 12.1% YOY to ¥3,459 million. This is principally due to the acquisition of investment securities and an increase in unrealized profit. This pushed up total assets 5.0% YOY to ¥35,489 million.

Current liabilities decreased 0.7% YOY to ¥12,785 million, mainly the result of an increase in sales tax payable and corporate tax payable, as well as an 11.8% decrease in notes and accounts payable to ¥4,393 million.

Long-term liabilities decreased 3.7% YOY to ¥10,295 million, primarily due to debt extinguishment of ¥370 million.

Consequently, net assets grew 21.3% YOY to ¥12,409 million. This can be attributed to the accrual of ¥2,125 million in net income during the fiscal year.

❖ Cash Flow

Cash and cash equivalents provided by operating activities increased ¥1,913 million. Those from investing activities dropped ¥1,422 million, while those from financing activities were down ¥714 million. Cash and cash equivalents (cash flow) at the end of the fiscal year thus decreased 3.4% YOY to ¥6,375 million.

From operations

Cash flow from operating activities for the fiscal year under review was a net cash inflow of ¥1,913 million (an inflow of ¥1,753 million for the previous fiscal year). Though there was an increase in account receivable trade and payment of corporate tax, this increase was due to net income before income taxes.

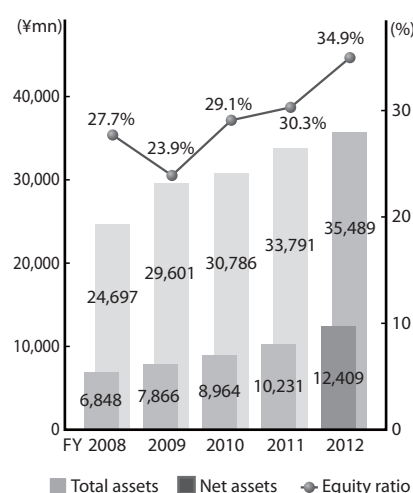
From investments

Cash flow from investments for the fiscal year under review was a net cash outflow of ¥1,422 million (an outflow of ¥227 million for the previous fiscal year). This is mainly due to the acquisition of fixed assets and investment securities.

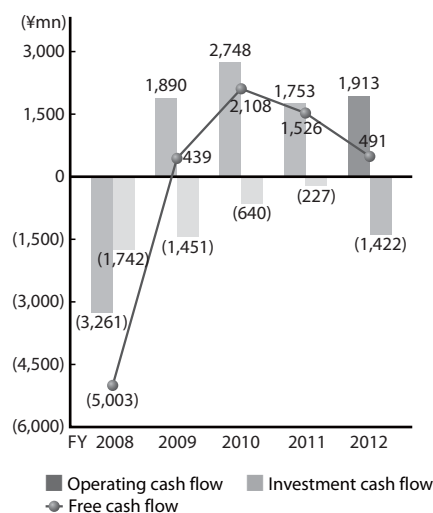
From financing

Cash flow from financing for the fiscal year under review was a net cash outflow of ¥714 million (an inflow of ¥63 million for the previous fiscal year). This was due to the repayment of long-term debt and redemption of corporate bonds that were not cancelled out by long-term debt financing.

Total Assets, Nets Assets and Equity Ratio



Cash Flows



Consolidated Balance Sheet

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 (FY2011) and 2012 (FY2012)

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2011	FY2012	FY2012
Current assets			
Cash and deposits (Notes 3 and 16)	¥ 6,677	¥ 6,484	\$ 68,971
Notes and accounts receivable—trade (Note 3)	9,068	10,291	109,467
Allowance for doubtful accounts	(0)	(1)	(11)
Inventories	4,047	3,995	42,496
Deferred tax assets (Note 11)	657	689	7,329
Other current assets	112	198	2,106
Total current assets	20,561	21,656	230,358
Property, plant and equipment			
Land (Note 14)	5,550	5,550	59,036
Buildings (Note 14)	11,236	11,519	122,530
Machinery, equipment and vehicles (Note 14)	4,073	4,253	45,240
Tools, furniture and fixtures (Note 14)	1,658	1,662	17,679
Lease assets (Note 10)	632	710	7,552
Construction in progress	—	60	638
Total property, plant and equipment	23,149	23,754	252,675
Accumulated depreciation	(13,006)	(13,380)	(142,325)
Net property, plant and equipment	10,143	10,374	110,350
Investments and other assets			
Investment securities (Notes 3 and 4)	938	1,645	17,498
Long-term loans receivable	8	7	75
Long-term prepaid expenses	15	11	117
Goodwill	519	346	3,680
Intangible assets	143	105	1,117
Deferred tax assets (Note 11)	311	275	2,925
Lease and guarantee deposits	105	109	1,159
Long-term deposits (Note 3)	800	700	7,446
Deferred assets	234	252	2,681
Other	14	9	96
Total investments and other assets	3,087	3,459	36,794
Total assets	¥33,791	¥35,489	\$377,502

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND NET ASSETS	FY2011	FY2012	FY2012
Current liabilities			
Short-term loans payable (Note 3)	¥ 540	¥ 580	\$ 6,170
Current portion of bonds (Note 6)	370	370	3,936
Current portion of long-term loans payable (Note 6)	2,880	2,945	31,326
Lease obligations (Note 10)	136	145	1,542
Notes and accounts payable-trade (Note 3)	4,982	4,393	46,729
Notes payable-facilities	225	144	1,532
Accrued expenses	2,174	2,261	24,051
Income taxes payable (Note 11)	833	970	10,318
Provision for sales promotion expenses	316	352	3,744
Other current liabilities	415	625	6,648
Total current liabilities	12,871	12,785	135,996
Long-term liabilities			
Bonds payable (Notes 3 and 6)	735	365	3,883
Long-term loans payable (Notes 3 and 6)	7,042	6,972	74,162
Lease obligations (Note 10)	436	377	4,010
Provision for retirement benefits (Note 7)	784	851	9,052
Provision for directors' retirement benefits	290	328	3,489
Deferred tax liabilities for land revaluation	1,392	1,392	14,807
Other	10	10	107
Total long-term liabilities	10,689	10,295	109,510
Net assets (Note 9)			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 42,614,205 shares in 2013 and 2012	4,305	4,305	45,793
Capital surplus	1,297	1,297	13,796
Retained earnings	2,835	4,526	48,144
Treasury stock	(470)	(486)	(5,170)
Sub total	7,967	9,642	102,563
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	27	299	3,180
Revaluation surplus of land	2,230	2,459	26,157
Total accumulated other comprehensive income	2,257	2,758	29,337
Subscription rights to shares	7	9	96
Minority interests	—	—	—
Total net assets	10,231	12,409	131,996
Total liabilities and net assets	¥33,791	¥35,489	\$377,502

See notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 (FY2012) and 2012 (FY2011)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2011	FY2012	FY2012
Net sales (Note 19)	¥28,514	¥31,944	\$339,794
Cost of sales	12,872	14,922	158,728
Gross profit	15,642	17,022	181,066
Selling, general and administrative expenses (Note 12)	12,719	13,148	139,858
Operating income	2,923	3,874	41,208
Other income (expenses)			
Interest and dividends income	29	25	266
Interest expenses	(220)	(193)	(2,053)
Impairment loss (Note 14)	—	(95)	(1,010)
Loss on disaster (Note 13)	(40)	—	—
Loss on disposal of fixed assets	(71)	(17)	(181)
Insurance receipts	64	—	—
Other, net	14	8	85
	(224)	(272)	(2,893)
Income before income taxes and minority interests	2,699	3,602	38,315
Income taxes (Note 11)			
Current	1,234	1,539	16,371
Deferred	25	(62)	(660)
Total income taxes	1,259	1,477	15,711
Net income before minority interests	1,440	2,125	22,604
Minority interests in net income	(0)	—	—
Net income	¥ 1,440	¥ 2,125	\$ 22,604

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2011	FY2012	FY2012
Net income before minority interest	¥1,440	¥2,125	\$22,604
Valuation difference on available-for-sale securities	61	273	2,904
Revaluation surplus of land	197	—	—
Other comprehensive income	258	273	2,904
Comprehensive income	1,698	2,398	25,508
Total comprehensive income attributable to:			
Owners of the parent	1,698	2,398	25,508
Minority interests	0	—	—

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemipharm Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2013 and 2012

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	Revaluation Surplus of Land	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Minority Interests	Total Net Assets
Balance at March 31, 2011	¥4,305	¥1,297	¥1,523	¥(164)	¥6,961	¥(35)	¥2,033	¥1,998	¥5	¥ 0	¥ 8,964
Net income			1,440		1,440						1,440
Dividends from surplus			(128)		(128)						(128)
Purchase of treasury stock				(306)	(306)						(306)
Disposal of treasury stock		(0)		0	0						0
Net changes of items other than shareholders' equity						62	197	259	2	(0)	261
Net change in the year		(0)	1,312	(306)	1,006	62	197	259	2	(0)	1,267
Balance at March 31, 2012	¥4,305	¥1,297	¥2,835	¥(470)	¥7,967	¥ 27	¥2,230	¥2,257	¥ 7	¥ —	¥10,231

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	Revaluation Surplus of Land	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Minority Interests	Total Net Assets
Balance at March 31, 2012	¥4,305	¥1,297	¥2,835	¥(470)	¥7,967	¥ 27	¥2,230	¥2,257	¥ 7	¥ —	¥10,231
Net income			2,125		2,125						2,125
Dividends from surplus			(207)		(207)						(207)
Purchase of treasury stock				(17)	(17)						(17)
Disposal of treasury stock		0		1	1						1
Net changes of items other than shareholders' equity			(227)		(227)	272	229	501	2	—	276
Net change in the year		0	1,691	(16)	1,675	272	229	501	2	—	2,178
Balance at March 31, 2013	¥4,305	¥1,297	¥4,526	¥(486)	¥9,642	¥ 299	¥2,459	¥2,758	¥ 9	¥ —	¥12,409

Thousands of U.S. Dollars

	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	Revaluation Surplus of Land	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Minority Interests	Total Net Assets
Balance at March 31, 2012	\$45,793	\$13,796	\$30,156	\$(4,999)	\$84,746	\$287	\$23,721	\$24,008	\$75	\$—	\$108,829
Net income			22,604		22,604						22,604
Dividends from surplus			(2,202)		(2,202)						(2,202)
Purchase of treasury stock				(181)	(181)						(181)
Disposal of treasury stock		0		10	10						10
Net changes of items other than shareholders' equity			(2,414)		(2,414)	2,893	2,436	5,329	21	—	2,936
Net change in the year		0	17,988	(171)	17,817	2,893	2,436	5,329	21	—	23,167
Balance at March 31, 2013	\$45,793	\$13,796	\$48,144	\$(5,170)	\$102,563	\$3,180	\$26,157	\$29,337	\$96	\$—	\$131,996

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2013 (FY2012) and 2012 (FY2011)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2011	FY2012	FY2012
Operating activities			
Income before income taxes and minority interests	¥ 2,699	¥ 3,602	\$ 38,315
Depreciation and amortization	754	846	8,999
Impairment losses	—	95	1,010
Amortization of goodwill	173	173	1,840
(Decrease) increase in allowance for doubtful accounts	22	(3)	(32)
Increase (decrease) in provision for sales promotion expenses	(1)	36	383
Increase in provision for retirement benefits	105	68	723
Increase in provision for directors' retirement benefits	12	39	415
Interest and dividend income	(29)	(25)	(266)
Interest expenses	220	193	2,053
Loss on retirement of noncurrent assets	87	22	234
Increase in notes and accounts receivable—trade	(724)	(1,224)	(13,020)
Decrease (increase) in inventories	(1,151)	53	564
Increase in other current assets	(0)	(88)	(936)
(Decrease) increase in notes and accounts payable—trade	746	(588)	(6,255)
Increase in other current liabilities	175	109	1,160
Increase (decrease) in consumption taxes payable	(65)	144	1,532
Decrease (increase) in long-term prepaid expenses	(15)	4	43
Other, net	12	24	255
Subtotal	3,020	3,480	37,017
Interest and dividends income received	31	27	287
Interest expenses paid	(219)	(192)	(2,042)
Income taxes paid	(1,079)	(1,402)	(14,913)
Net cash provided by operating activities	1,753	1,913	20,349
Investing activities			
Payment into time deposits	(80)	(150)	(1,596)
Proceeds from withdrawal of time deposits	60	120	1,277
Purchases of property, plant and equipment	(694)	(1,099)	(11,690)
Purchases of investment securities	(4)	(369)	(3,925)
Proceeds from sales of investment securities	198	—	—
Payment of loans receivable to employees	(4)	(4)	(43)
Proceeds from collection of lease and guarantee deposits	20	5	53
Proceeds from withdrawal of long-term deposits	500	100	1,064
Payment into time deposits	(200)	—	—
Other payments	(18)	(17)	(181)
Other, net	(5)	(8)	(85)
Net cash used in investing activities	(227)	(1,422)	(15,126)
Financing activities			
Net increase (decrease) in short-term loans payable	(452)	40	426
Proceeds from long-term loans payable	4,500	3,150	33,507
Repayment of long-term loans payable	(2,974)	(3,156)	(33,571)
Redemption of bonds	(470)	(370)	(3,936)
Cash dividends paid	(127)	(207)	(2,202)
Other, net	(414)	(171)	(1,819)
Net cash (used in) provided by financing activities	63	(714)	(7,595)
Net (decrease) increase in cash and cash equivalents	1,589	(223)	(2,372)
Cash and cash equivalents, at beginning of year	5,009	6,598	70,184
Cash and cash equivalents, at end of year (Note 16)	¥ 6,598	¥ 6,375	\$ 67,812

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 (FY2012) and 2012 (FY2011)

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 2012 financial statements to conform to the classifications used in 2013.

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 ¥94.01 to US\$1, the approximate rate of exchange at March 31, 2013. 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, 2013, include the accounts of the Company and its three (three in 2012) 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 2012) 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 valuation and translation adjustments 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.

In accordance with the amendment of the Corporation Tax Act, effective from the fiscal year ended March 31, 2013, the Group changed its depreciation method for those tangible fixed assets acquired on or after April 1, 2012. This change has little impact on the consolidated statements of income for the year ended March 31, 2013.

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 Company 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 valuation and translation adjustments 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, 2013 and 2012, was ¥1,436 million (\$15,275 thousand) and ¥1,348 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. Provision for retirement benefits

Pursuant to the Japanese accounting standard for employees' retirement benefits, the Group recorded the liability for retirement benefits as of March 31, 2013 and 2012, based on projected benefit obligations and the fair value of pension plan assets at those dates. The actuarial gains or losses are amortized, from the year following the one in which the gain or loss is incurred, by the straight-line method over the average remaining years of service of the eligible employees (11 years in 2013 and 2012).

l. Provision for directors' retirement benefits

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

Leased assets under finance leases commencing after March 31, 2008 are capitalized except for certain immaterial or short-term finance leases, which are accounted for as operating leases. Finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases.

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, 2013 and 2012.

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 Company 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 Company 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. Unapplied accounting standards

Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan [ASBJ] Statement No. 26, revised on May 17, 2012)

Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 issued on May 17, 2012)

The accounting standards have been revised to reflect changes in financial reporting and the trend toward international convergence. The main changes involve: first, accounting methods for unrecognized net actuarial gains and losses as well as for unrecognized prior service costs; second, enhanced disclosure; and, third, the calculation method for projected benefit obligation and service costs.

The Group intends to adopt the revised accounting standards within the fiscal year ending March 31, 2014, with the exception of the changes in the method of calculating both projected benefit obligation and service costs, which it will apply commencing in the fiscal year beginning April 1, 2014.

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 Company 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, 2013 and 2012, 53.7% and 49.4%, 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, 2013 (FY2012) and 2012 (FY2011), are the following:

Assets	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Carrying value			
Cash and deposits	¥ 6,677	¥6,484	\$ 68,971
Notes and accounts receivable–trade	9,068	10,291	109,467
Investment securities	866	1,571	16,711
Long-term deposits	800	700	7,446
Total	17,411	19,046	202,595
Fair value			
Cash and deposits	6,677	6,484	68,971
Notes and accounts receivable–trade	9,068	10,291	109,467
Investment securities	866	1,571	16,711
Long-term deposits	669	617	6,563
Total	17,280	18,963	201,712
Difference			
Cash and deposits	—	—	—
Notes and accounts receivable–trade	—	—	—
Investment securities	—	—	—
Long-term deposits	(131)	(83)	(883)
Total	¥ (131)	¥ (83)	\$ (883)

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Carrying value			
Notes and accounts payable–trade	¥ 4,982	¥ 4,393	\$ 46,729
Short-term loans payable	540	580	6,170
Bonds payable	1,105	735	7,818
Long-term loans payable	9,923	9,917	105,489
Total	16,550	15,625	166,206
Fair value			
Notes and accounts payable–trade	4,982	4,393	46,729
Short-term loans payable	540	580	6,170
Bonds payable	1,114	744	7,914
Long-term loans payable	9,705	9,981	106,169
Total	16,341	15,698	166,982
Difference			
Notes and accounts payable–trade	—	—	—
Short-term loans payable	—	—	—
Bonds payable	(9)	(9)	(95)
Long-term loans payable	218	(64)	(681)
Total	¥ 209	¥ (73)	\$ (776)

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 ¥75 million (\$798 thousand) and ¥72 million as of March 31, 2013 and 2012, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2013 (FY2012), are summarized as follows:

	Millions of Yen			
	FY2012			
	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	¥ 6,484	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	10,291	—	—	—
Long-term deposits	—	200	—	500
Total	¥ 16,775	¥ 200	¥ —	¥ 500

Thousands of U.S. Dollars				
FY2012				
	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	\$ 68,971	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	109,467	—	—	—
Long-term deposits	—	2,127	—	5,319
Total	\$ 178,438	\$ 2,127	\$ —	\$ 5,319

4. INVESTMENT SECURITIES

Investment securities at March 31, 2013 (FY2012) and 2012 (FY2011), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Available-for-sale securities:			
Marketable equity securities	¥813	¥1,512	\$ 16,083
Unlisted equity securities	72	75	798
Others	53	58	617
Total	¥938	¥1,645	\$17,498

The carrying amounts and aggregate fair values of investment securities at March 31, 2013 and 2012, are as follows:

	Millions of Yen			Fair Value
	Cost	Unrealized Gain	Unrealized Loss	
<u>March 31, 2013</u>				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	¥1,015	¥416	¥ —	¥1,431
Acquisition price exceeds value posted in consolidated balance sheet	108	—	27	81
Other	60	—	1	59
	¥1,183	¥416	¥28	¥1,571

	Thousands of U.S. Dollars			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
<u>March 31, 2013</u>				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	\$10,797	\$4,425	\$ —	\$15,222
Acquisition price exceeds value posted in consolidated balance sheet	1,149	—	287	862
Other	638	—	11	627
	\$12,584	\$4,425	\$298	\$16,711

	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
<u>March 31, 2012</u>				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	¥291	¥94	¥ —	¥385
Acquisition price exceeds value posted in consolidated balance sheet	462	—	34	428
Other	63	—	10	53
	¥816	¥94	¥44	¥866

The sales amounts of investment securities sold and amounts of the related gains or losses for the years ended March 31, 2013 (FY2012) and 2012 (FY2011), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Total sales of investment securities sold	¥198	¥—	\$—
Related gains	—	—	—
Related losses	1	—	—

5. DERIVATIVE FINANCIAL INSTRUMENTS, HEDGING TRANSACTIONS

The Company has applied hedge accounting for interest rate swap contracts to hedge the risk of changes of floating interest rates on long-term debt. The contract amount is ¥1,480 million (\$15,743 thousand) and the amount of the contracts the term of which is more than one year is ¥388 million (\$4,127 thousand). Interest rate swap contracts are used to hedge and meet certain hedging criteria. The net amount to be paid or received under the interest rate swap contract is added to, or deducted from, the interest on the assets or liabilities for which the swap contract was executed. Therefore, the fair value of long-term debt includes the fair value of the interest rate swap contracts.

6. LONG-TERM DEBTS

Long-term debts at March 31, 2013 (FY2012) and 2012 (FY2011), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Corporate bonds	¥ 1,105	¥ 735	\$ 7,818
Long-term loans	9,923	9,917	105,489
Total long-term debt	11,028	10,652	113,307
Less: current portion	(3,250)	(3,315)	(35,262)
	¥ 7,778	¥ 7,337	\$ 78,045

Corporate bonds at March 31, 2013 (FY2012) and 2012 (FY2011), comprise the following.

Balance at March 31			Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Maturity
Issuer	Type	Issue Date	FY2011	FY2012	FY2012		
Nippon Chemiphar Co., Ltd.	Unsecured 5 th issue	Mar. 31, 2009	200	¥100	\$1,064	1.10	Mar. 31, 2014
	Unsecured 6 th issue	Dec. 30, 2009	300	200	2,127	0.71	Dec. 30, 2014
	Unsecured 7 th issue	Sep. 30, 2010	350	250	2,659	0.57	Sep. 30, 2015
Nihon Pharmaceutical Industry Co. Ltd.	Unsecured 3 rd issue	Oct. 31, 2007	255	185	1,968	1.40	Apr. 30, 2015
Total			¥1,105	¥735	\$7,818		

Note: Balance at March 31, 2013, includes current portion amounting to ¥370 million (\$3,936).

The annual aggregate of matured bonds is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥370	\$3,936
2015	270	2,872
2016	95	1,011
2017	—	—
2018	—	—

Long-term loans at March 31, 2013 (FY2012) and 2012 (FY2011), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2011	FY2012	FY2012		
Current portion of long-term loans	¥2,880	¥2,945	\$ 31,326	1.2	—
Long-term loans	7,043	6,972	74,162	1.3	2014–2020
Total	¥9,923	¥9,917	\$105,489		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥2,154	\$22,912
2016	1,605	17,073
2017	2,215	23,561
2018	477	5,074
2019 and after	521	5,542

The long-term loans include syndicate loan agreements amounting to ¥1,200 million (\$12,765 thousand) and ¥2,400 million at March 31, 2013 and 2012, respectively. The agreement includes the following financial restriction provisions:

- Operating income and ordinary income in the statements of income should not be negative for two consecutive years.
- The amount of shareholders' equity in the balance sheet each year end should be more than 75% of the level at March 31, 2008.

If the Company or the Group fails to comply with the provisions, the Company is required to repay the principal and related interest expenses on all the contractual liabilities.

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, 2013, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Aggregate agreed amount	¥3,000	\$31,911
Used	—	—
Unused balance	¥3,000	\$31,911

7. PROVISION FOR RETIREMENT BENEFITS

The Group has defined benefit pension plans, including a welfare pension fund and a defined benefit corporate pension plan and lump-sum payment plans for retirement benefits. In certain cases, additional severance indemnities may be paid to certain employees.

The Company changed its qualified retirement pension system to a defined benefit pension system on October 1, 2009.

The liability for employees' retirement benefits at March 31, 2013 (FY2012) and 2012 (FY2011), comprises the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	FY2012	FY2012
Projected benefit obligation	¥ (4,913)	¥(4,836)	\$(51,441)
Fair value of plan assets	3,291	3,558	37,847
Funded status	(1,622)	(1,278)	(13,594)
Unrecognized actuarial net loss	1,002	573	6,095
Unrecognized prior service cost	(163)	(146)	(1,553)
Reserve for employees' retirement benefits	¥ (783)	¥ (851)	\$ (9,052)

The components of net periodic retirement benefit costs for the years ended March 31, 2013(FY2012) and 2012 (FY2011), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Service cost	¥450	¥405	\$4,308
Interest cost	75	77	819
Expected return on plan assets	(84)	(82)	(872)
Recognized actuarial loss	153	134	1,425
Amortization of prior service cost	(17)	(17)	(181)
Net periodic retirement benefit costs	¥577	¥517	\$5,499

Assumptions used for the years ended March 31, 2013 and 2012, are as follows:

	FY2011	FY2012
Discount rate	1.6%	1.6%
Expected rate of return on plan assets	2.5%	2.5%
Recognition period of actuarial gain/loss	11 years	11 years
Recognition period of prior service cost	11 years	11 years

8. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2013 and 2012, are ¥1 million (\$10 thousand) and ¥2 million, respectively.

Following are details of the stock options the Company has as of March 31, 2013.

Number of grantees	6 directors, 8 employees
Number of options	Common stock—41,000 shares
Date of grant	August 4, 2008
Exercisable period	August 5, 2011–August 4, 2014
Exercise price	¥516 (\$5.49)
Fair value at grant date	¥146 (\$1.55)
Number of grantees	6 directors, 5 employees
Number of options	Common stock: 72,000 shares
Date of grant	August 2, 2011
Exercisable period	August 3, 2014–August 2, 2017
Exercise price	¥332 (\$3.53)
Fair value at grant date	¥85 (\$0.90)

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. 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, 2013 and 2012, were ¥24 million (\$255 thousand) and ¥82 million, respectively. Pro forma information on leased property, such as acquisition cost, accumulated depreciation, obligation under finance leases, 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, 2013 (FY2012) and 2012 (FY2011), is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Acquisition cost:			
Machinery, equipment and vehicles	¥ 46	¥ 46	\$ 489
Tools, furniture and fixtures	78	10	106
Other (software, etc.)	4	—	—
Total acquisition cost	128	56	595
Accumulated depreciation	106	45	478
Net leased property	¥ 22	¥ 11	\$ 117

The above acquisition cost includes related interest expenses as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	FY2012	FY2012
Obligations under finance leases:			
Due within one year	¥18	¥ 9	\$ 96
Due after one year	4	2	21
Total	¥22	¥11	\$117

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

Lease obligations at March 31, 2013 and 2012, comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Lease obligations	¥ 572	¥ 522	\$ 5,552
Less current portion	(136)	(145)	(1,542)
Less obligations, less current portion	¥ 436	¥ 377	\$ 4,010

The future minimum payments required at March 31, 2013 (FY2012), are as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥124	\$1,319
2016	111	1,181
2017	75	798
2018	38	404

11. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2013 (FY2012) and 2012 (FY2011), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Deferred tax assets:			
Accrued enterprise tax	¥ 66	¥ 83	\$ 883
Accrued bonuses	255	253	2,691
Allowance for doubtful accounts	26	28	298
Provision for sales promotion expenses	120	134	1,425
Provision for retirement benefits	279	303	3,223
Provision for directors' retirement benefits	104	118	1,255
Other	494	564	5,999
Subtotal	1,344	1,483	15,774
Less valuation allowance	(365)	(442)	(4,701)
Total	979	1,041	11,073
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	11	78	830
Deferred tax liabilities on revaluation of land	1,392	1,392	14,807
Total	1,403	1,470	15,637
Net deferred tax liabilities	¥ (424)	¥ (429)	\$ (4,564)

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 years ended March 31, 2013 (FY2012) and 2012 (FY2011), are as follows:

	FY2011	FY2012
Normal effective statutory tax rate	40.7%	38.0%
Expenses not deductible for income tax purposes	4.3	2.3
Per capita inhabitant tax	1.4	1.1
Change in valuation allowance	0.9	1.7
Research and development cost tax credit	(4.8)	(4.0)
Reversal of deferred tax assets due to corporate income tax rate changes	2.8	—
Other—net	1.4	1.9
Actual effective tax rate	46.7	41.0

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2013 (FY2012) and 2012 (FY2011), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Advertising expenses	¥ 260	¥ 244	\$ 2,595
Sales promotion expenses	3,546	3,687	39,219
Traveling expenses	483	493	5,244
Salaries and allowances	3,662	3,602	38,315
Commissions	762	875	9,308
Research and development costs	1,791	1,937	20,604

13. LOSS ON DISASTER

The amount of disaster-related loss primarily comprises expenses for repairs to plant and equipment of certain consolidated subsidiaries damaged in the Great East Japan Earthquake and tsunami of 2011.

14. IMPAIRMENT OF FIXED ASSETS

For the year ended March 31, 2013, the Company recognized impairment losses for the following assets:

Asset	Description	Millions of Yen	Thousands of U.S. Dollars
		FY2012	FY2012
Property scheduled for disposal (research facilities)	Buildings, machinery, tools, furniture, fixtures	¥ 73	\$ 777
Idle assets (welfare facilities)	Buildings, tools, furniture, fixtures	21	223
Idle assets	Land	1	10
	Total	¥ 95	\$1,010

The Chemiphar Group classifies its operating assets by business at each member company. Idle assets are not bracketed together, but considered individually.

Of the research facility assets scheduled for disposal, the book value of welfare facilities and idle assets for which no future use is anticipated has been written down to their recoverable value, and this reduction has been recorded as an impairment loss of ¥95 million. The impairment loss includes ¥90

million for buildings, ¥4 million for machinery, ¥0 million for tools, furniture and fixtures, and ¥1 million for land.

The recoverable value of assets scheduled for disposal and idle assets (welfare facilities) is estimated as their value in use, but as they are expected to generate no future cash flow, this value is zero. The recoverable value of idle assets (land) is estimated as their net sales value based on their real estate appraisal value.

15. AMOUNTS PER SHARE

Net assets per share at March 31, 2013 (FY2012) and 2012 (FY2011), and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. Dollars
	FY2011	FY2012	FY2012
Net assets	¥248.92	¥302.28	\$3.2154
Basic net income	34.62	51.77	0.5507
Diluted net income	—	51.75	0.5505

The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2013 and 2012, is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Net income per share:			
Net income	¥ 1,440	¥ 2,125	\$22,604
Net income available for distribution to shareholders of common stock	1,440	2,125	22,604
Weighted average number of shares of common stock outstanding (thousands of shares)	41,585	41,055	
Diluted net income per share:			
Increase in common stock (thousands of shares)	—	18,948	

16. CASH AND CASH EQUIVALENTS

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Cash and time deposits	¥6,677	¥6,484	\$68,971
Time deposits maturing over three months	(79)	(109)	(1,159)
Cash and cash equivalents	¥6,598	¥6,375	\$67,812

17. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2013 (FY2012) and 2012 (FY2011).

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Trade notes discounted	¥907	¥689	\$7,329

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 (FY2012) and 2012 (FY2011), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2011	FY2012	FY2012
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥ 93	¥ 339	\$ 3,606
Reclassification adjustments to profit or loss	1	—	—
Amount before income tax effect	94	339	3,606
Income tax effect	(33)	(66)	(702)
Total	61	273	2,904
Revaluation surplus of land:			
Surplus arising during year	—	—	—
Adjustments arising during year	—	—	—
Amount before income tax effect	—	—	—
Income tax effect	197	—	—
Total	197	—	—
Total other comprehensive income	¥ 258	¥ 273	\$ 2,904

19. SEGMENT INFORMATION

(1) Overview of reporting segments

The Company'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 Company 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 Company 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 by reporting segment

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 ordinary 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 Company as of and for the years ended March 31, 2013 (FY2012) and 2012 (FY2011), is summarized as follows:

	Millions of Yen				
	FY2012				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	¥30,865	¥1,079	¥31,944	¥ —	¥31,944
Intersegment sales	18	101	119	(119)	—
Total sales	30,883	1,180	32,063	(119)	31,944
Segment profit (loss)	3,948	(74)	3,874	—	3,874
Segment asset	¥28,709	¥2,214	¥30,923	¥4,566	¥35,489
Other:					
Depreciation	763	77	840	—	840
Amortization of goodwill	173	—	173	—	173
Impairment loss	94	—	94	1	95
Investments in affiliates	29	—	29	—	29
Increase in intangible assets and property, plant and equipment	1,146	8	1,154	—	1,154

	Thousands of U.S. Dollars				
	FY2012				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	\$328,316	\$11,478	\$339,794	\$ —	\$339,794
Intersegment sales	191	1,074	1,265	(1,265)	—
Total sales	328,507	12,552	341,059	(1,265)	339,794
Segment profit (loss)	41,995	(787)	41,208	—	41,208
Segment assets	\$305,382	\$23,551	\$328,933	\$ 48,569	\$377,502
Other:					
Depreciation	8,116	819	8,935	—	8,935
Amortization of goodwill	1,840	—	1,840	—	1,840
Impairment loss	1,000	—	1,000	10	1,010
Investment in affiliates	308	—	308	—	308
Increase in intangible assets and property, plant and equipment	12,190	85	12,275	—	12,275

	Millions of Yen				
	FY2011				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	¥27,326	¥1,188	¥28,514	¥ —	¥28,514
Intersegment sales	22	137	159	(159)	—
Total sales	27,348	1,325	28,673	(159)	28,514
Segment profit (loss)	2,836	87	2,923	—	2,923
Segment asset	¥26,065	¥2,410	¥28,475	¥5,316	¥33,791
Other:					
Depreciation	685	63	748	—	748
Amortization of goodwill	173	—	173	—	173
Investments in affiliates	26	—	26	—	26
Increase in intangible assets and property, plant and equipment	754	261	1,015	—	1,015

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		Thousands of U.S. Dollars (Note 1)
		FY2011	FY2012	FY2011
Mediceo Corporation	Pharmaceutical Products Business	¥5,765	¥6,330	\$ 67,333
Alfresa Corporation	Pharmaceutical Products Business	¥5,532	¥6,029	\$ 64,131
Toho Pharmaceutical Co., Ltd.	Pharmaceutical Products Business, Other Business	¥3,319	¥3,484	\$ 37,060

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

Millions of Yen				
FY2012				
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill	¥346	—	—	—

Thousands of U.S. Dollars				
FY2012				
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill	\$3,680	—	—	—

Millions of Yen				
FY2011				
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balances of goodwill	¥519	—	—	—

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

20. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2013 (FY2012) and 2012 (FY2011), 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
		FY2011	FY2012	FY2012
<u>Seller:</u> Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,481	¥1,606	\$17,083
<u>Purchaser:</u> the Company	Notes, accounts payable	¥ 624	¥ 617	\$ 6,563

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2011	FY2012	FY2012
<u>Seller:</u> Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,040	¥1,052	\$11,190
<u>Purchaser:</u> Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 525	¥ 360	\$ 3,829

At March 31, 2013, the Company has 5.4% (5.0% at March 31, 2012) of voting rights in Japan Sopharchim Co., Ltd., which has 16.8% (16.0% at March 31 2012) of 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% (67.5% at March 31 2012) of voting rights in the Company.

21. RENTAL PROPERTY

The Company owns available-for-lease facilities in Tokyo and other areas. During the years ended March 31, 2013 (FY2012) and 2012 (FY2011), rental income on this real estate amounted to ¥25 million (\$266 thousand) and ¥22 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
	FY2011	FY2012	FY2012
Carrying value at beginning of year	¥741	¥745	\$7,925
Decrease in book value during year	2	(9)	(96)
Carrying value at end of year	744	736	7,829
Fair value at end of year	552	558	5,936

- (1) The carrying value represents acquisition cost less accumulated depreciation.
- (2) Fair value as of March 31, 2013 and 2012, 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.

22. SUBSEQUENT EVENTS

Significant Capital Expenditure

At a meeting on April 19, 2013, the Board of Directors passed a resolution on a capital expenditure plan related to new drug production facilities for consolidated subsidiary Nihon Pharmaceutical Industry Co., Ltd.

(1) Goal of expenditure

In addition to strengthening the Group's production capacity, the capital expenditure is intended to counter the risk of disaster by ensuring that all structures are seismically isolated, as well as to respond to future obsolescence of existing production facilities.

(2) Expenditure allotment

An investment of ¥2.7 billion will cover the cost of constructing a new manufacturing wing (Building No. 3) at Nihon Pharmaceutical Industry Co., Ltd.'s Tsukuba Factory in the city of Chikusei, Ibaraki Prefecture.

(3) Expenditure period

From start to end of construction (May 2013–March 2014).

(4) Expected result of expenditure

This capital expenditure is expected to increase the Group's production capacity by around 20% over that for the fiscal year under review.

Corporate Data

(As of March 31, 2013)

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Other Offices:

Sapporo, Sendai, Tokyo, Yokohama, Kan-etsu, Nagoya, Osaka, Hiroshima, Fukuoka

Established: June 16, 1950

Capitalization: ¥4,305 million

Employees: 679 (Consolidated)

Subsidiaries:

Nihon Pharmaceutical Industry Co., Ltd.

Safety Research Institute for Chemical Compounds Co., Ltd.

Affiliated Company:

Japan Sopharchim Co., Ltd.

Securities Exchange: Tokyo Stock Exchange (First Section)

Authorized Number of Shares: 154,000,000

Shares of Common Stock Issued: 42,614,205

Number of Shareholders: 6,153



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