Nippon Chemiphar Co., Ltd.

Annual Report FY2013

◆ Annual Report

Fiscal year 2013 (April 1, 2013 to March 31, 2014)

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.

Contents

About the Nippon Chemiphar Group

I. Corporate Philosophy

Mission Statement

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

In order to maintain sound growth and earnings goals, to protect the interests of the company and our stakeholders, we are committed to the following.

1. Society
By providing high-quality and safe pharmaceutical products, we contribute to creating a healthy and secure society.

2. Stakeholders
Our activities are designed to earn the trust and respect, and meet the needs, of all stakeholders.

3. Commitment to integrity
We are committed to engaging with, and inspiring, others as we build and maintain a culture of ethical behavior and responsibility.

4. Internal Innovation
We welcome change, and pursue innovation as we strive for excellence in all we do.

5. Compliance
We always comply with laws and ordinances and strive to be a model for society.

II. History

1950 Hitachi Chemical Co., Ltd. (as Chemiphar was formerly known) is set up
1951 Hatagaya Factory opens in Shibuya-ku, Tokyo
1957 Starts importing pharmaceuticals from Italy
Main office moves to Bunkyo-ku, Tokyo
1960 Soka Factory opens in Misato City, Saitama Prefecture
1969 Nihon Pharmaceutical Industry Co., Ltd. (NPI) becomes a subsidiary
1970 Company changes name to Nippon Chemiphar Co., Ltd.
1971 Listed on Tokyo Stock Exchange (Second Section)
1973 Establishes R&D facility in Misato City, Saitama Prefecture
1975 Head office moved to Chiyoda-ku, Tokyo
1976 Listed on Tokyo Stock Exchange (First Section)
Starts diagnostics business
Establishes Japan Sopharchim Co., Ltd. (currently an affiliated company)
1977 Establishes Ibaraki Factory in Makabe-gun, Ibaraki Prefecture
1983 Establishes Shapro Inc.; enters cosmetics and health-food market
1986 Safety Research Institute for Chemical Compounds Co., Ltd. becomes a subsidiary
1988 Launches Uralyt-U (soluble powder)
1993 Launches Soleton Tab. 80
1995 Launches Calvan Tab.
1998 Launches Calvan Tab. in South Korea
1999 Launches Soleton Tab. 80 in South Korea
2000 Strengthens focus on generics business
2001 Launches DP2000 and IgE NC
2002 Concludes comprehensive business alliance with Ranbaxy Laboratories Limited, India
2004 Concludes business alliance with Nihon Chouzai Co., Ltd.
2005 Licenses out NC-2400 (PPAR delta agonist) to overseas venture companies
Subsidiary NPI becomes 50:50 joint venture of Chemiphar and Ranbaxy
2009 Dissolves comprehensive business alliance with Ranbaxy; NPI again becomes a subsidiary
2010 NPI becomes a wholly owned Chemiphar subsidiary; Chemiphar spins off its Ibaraki Factory to NPI (NPI's current Tsukuba Factory)
Terminates business alliance with Nihon Chouzai Co., Ltd.
2012 Launches DP3000
2014 New plant at NPI's Tsukuba factory comes on line

III. Getting Drugs to Patients

Before reaching patients, drugs go through the lengthy processes of development and manufacture. For new, generic and proprietary drugs, we are involved each step of the way, fully supported by our well-coordinated departments.

Development

Drug discovery research, page 16
Generic drug development, page 12

It takes between nine and 17 years, and can cost from several tens of billions of yen to ¥100 billion to get a new drug from the development stage—that may include the discovery of new chemical substances and their testing—to its approval and sale.

A generic drug, meanwhile, can be developed in as little as three to four years for a few hundred million yen. It then can be sold at a lower price than its brand-name equivalent, thereby reducing medical costs.

Thus, given our expertise in developing both distinctive new drugs and generics, we are able to meet the needs of health care providers and patients.

Manufacturing

Manufacturing, page 12

Drugs are manufactured according to strictly regulated standards. We apply the same quality control criteria to all processes of both new and generic drugs: from selection of the active ingredients through shipping of the finished product. This enables us to ensure a stable supply of high-quality products.

Providing Information

Quality assurance, page 13
Provision of information, page 13

Pharmaceutical companies are obliged to collect information about the proper use and safety of a drug, even after it is on the market. This is because, no matter how helpful a drug might be, the anticipated effects will not result if it is improperly used.

We give identical priority to information about both new and generic drugs collected by our nationwide network of medical representatives (MRs). The information we gather concerning the needs of health care providers and patients, as well as about the quality and side effects of drugs, is useful for developing new drugs and improving existing ones.

We also believe it to be our responsibility, as a drug manufacturer, to provide medical institutions and dispensing pharmacies with summaries of this information as feedback. In addition, we are at all times equipped to provide the amount of any given drug required nationwide, by medical institutions and dispensing pharmacies, through our system for offering our drugs through wholesale distributors.

Medical Professionals → Patients

FY2013 Business Performance

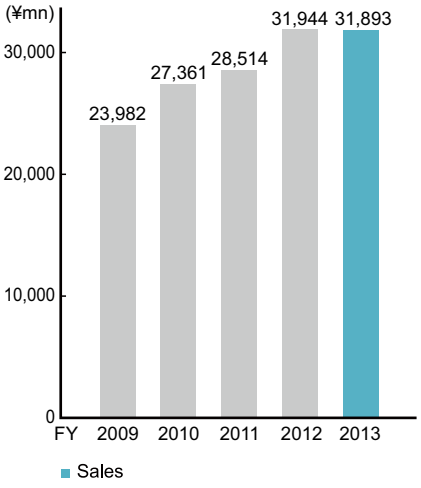
Financial Highlights

					Millions of yen	Thousand of U.S. dollars[1]
Fiscal Years	2009	2010	2011	2012	2013	2013
Net sales	23,982	27,361	28,514	31,944	31,893	310,002
Costs of sales	11,449	12,990	12,872	14,922	15,128	147,045
SG&A expenses	11,766	12,372	12,719	13,148	13,437	130,609
R&D expenses	1,722	1,879	1,791	1,937	1,668	16,213
Operating income	767	1,999	2,923	3,874	3,328	32,348
Income before income taxes and minority interests	557	1,416	2,699	3,602	3,055	29,695
Net income	271	573	1,440	2,125	1,887	18,342
Financial position at year end:						
Total assets	29,601	30,786	33,791	35,489	40,106	389,833
Total net assets	7,866	8,964	10,231	12,409	13,501	131,230
Cash flow from:						
Operating activities	1,890	2,748	1,753	1,913	1,892	18,390
Investing activities	(1,451)	(640)	(227)	(1,422)	(2,499)	(24,290)
Financing activitie	1,509	(949)	63	(714)	(205)	(1,993)
Other expenses:						
Capital expenditure	681	584	1,015	1,154	3,367	32,727
Depreciation expense	695	776	748	840	862	8,379
Amounts per share:						
Earnings per share (¥ and $)	7.10	13.95	34.62	51.77	46.20	0.4490
Book value per share (¥ and $)	185.22	212.92	248.92	302.28	336.97	3.2753
Dividends per share (¥ and $)	3.0	3.0	5.0	10.0	10.0	0.09
EBITDA	1,517	2,824	3,745	4,748	4,253	41,339
Operating income to sales (%)	3.2	7.3	10.3	12.1	10.4	10.4
Return on equity (%)	3.9	7.2	15.0	18.8	14.6	14.6
Return on assets[2] (%)	1.0	1.9	4.5	6.1	5.0	5.0
Debt to equity ratio (%)	166.0	122.4	113.1	90.6	89.7	89.7
Equity ratio (%)	23.9	29.1	30.3	34.9	33.6	33.6
Dividend payout ratio (%)	42.3	21.5	14.4	19.3	21.6	21.6
Number of employees	714	711	682	679	699	699

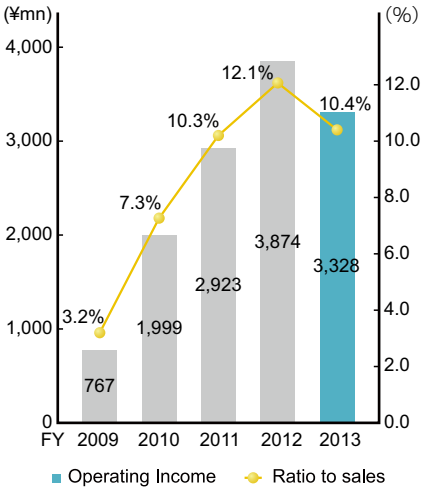
Notes

1. The U.S. dollar amounts in the consolidated financial statements have been translated from Japanese yen amounts at the rate of ¥102.88 to US$1.00, the approximate exchange rate prevailing on March 31, 2014.
2. Return on assets = net income / [(total assets for the previous term + total assets for this term) / 2]

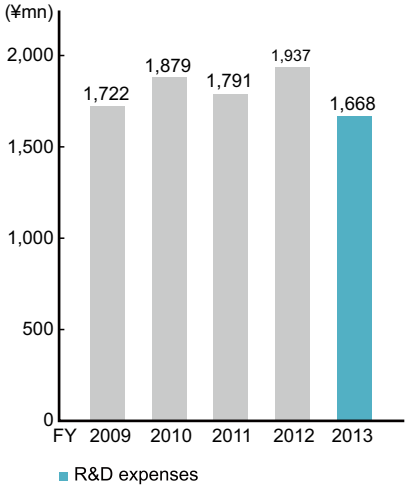
Net Sales



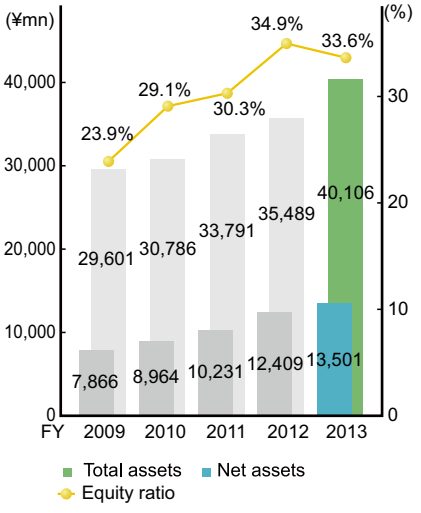
Operating Income



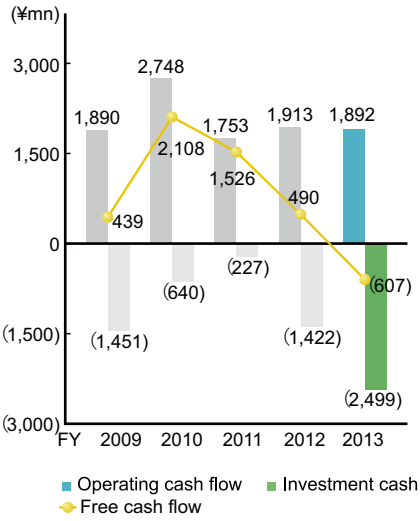
R&D Expenses



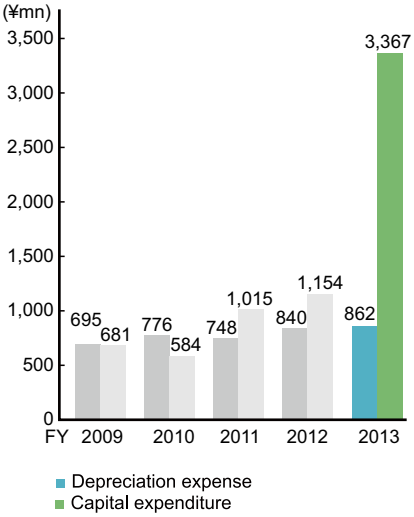
Total Assets, Nets Assets and Equity Ratio



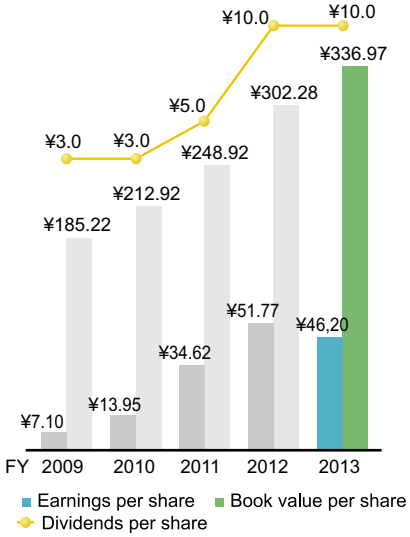
Cash Flows



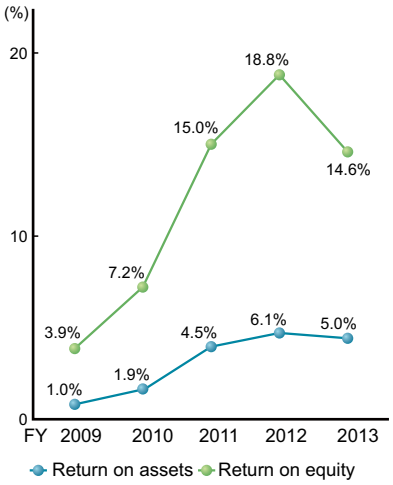
Capital Expenditure, Depreciation Expense



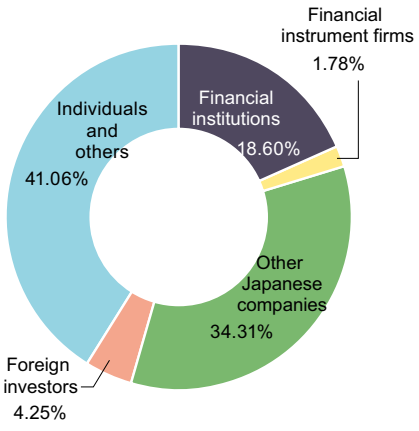
Amounts per Share



ROE, ROA



Composition of Shareholders



Message to Our Stakeholders

It is 20 years since I was appointed President of this company in 1994, but it feels as though it was only yesterday.

Looking back over those years, there are several highlights. In anticipation of the Japanese government's efforts to promote the use of generics commencing in 2002, we started full-fledged initiatives to develop our generics business in 2000. These drugs, having become a pillar of our business, have pushed up our sales and profit.

In addition, we have made tangible progress in the hyperuricemia arena, as well as in drug development with a focus on discovery. I expect to see our long-term initiatives bear fruit over the next few years.

In April 2013, as part of its roadmap for the promoting of generic drugs, the Ministry of Health, Labour and Welfare set a national target, 60% of all off-patent pharmaceuticals are to be generics by March 2018.

However, while the generics market is expected to grow, reforms to date include both price restrictions and price reductions for new generic drugs.

Despite the tough environment, in order to meet the anticipated increase in demand and stay ahead of the competition, we continue to strengthen our salesforce, improve productivity, reduce costs and make strategic investments.

One such investment is a third plant at the Nihon Pharmaceutical Industries (NPI) Tsukuba Factory. The facility began operation in June this year, and is outfitted with state-of-the-art equipment. Moreover, it is the first pharmaceutical manufacturing facility in Japan to have a building incorporating a seismic base isolation system.

Confident that we are well-equipped to provide a stable supply of high-quality products, we plan to produce drugs at the facility that are for sale to other manufacturers, in addition to those for sale on the market, with a focus on newly launched products. We expect that this will help us diversify our sales channels and improve productivity.

Despite constantly changing conditions in Japan's economy and pharmaceutical industry, we will continue to focus on generics and fulfill our strategy for corporate growth. To this end, we shall continue to work toward our three principal goals, namely, achieving a greater presence in the generics business; attaining a stronger position in the hyperuricemia market, with focus on Uralyt; and enhancing our social contribution by developing new proprietary drugs. I ask for your continued support.

August 2014

山口一城

Kazushiro Yamaguchi
President & CEO

Interview with the President & CEO

Q1 How would you characterize FY2013?

A The first quarter was tough, but by the end of the fourth quarter we were well aligned with industry trends.

I would say that the biggest topic of the year was the Ministry of Health, Labour and Welfare's (MHLW's) release of a roadmap to further promote the use of generic medicines. The ministry set a target requiring that 60% of all off-patent pharmaceuticals are to be generics by the end of FY2017 thereby helping to reduce social security expenditure. I'm assured that the Japanese market for generics will continue to expand.

While that is certainly true, market expansion has increased competition among manufacturers, which has made the business environment more difficult for us. The impact was particularly brutal on sales of drugs released in FY2012, but the strong sales of products released in June and December 2013 contributed to a gradual recovery in sales. Increased inquiries from DPC hospitals* and dispensing pharmacies, in response to the April 2014 reform of the payment system for medical services, brought us roughly back in line with market-average growth.

Sales to other manufacturers, which had grown considerably in FY2012, decreased some 50% YOY, but began to pick up in the third quarter, thanks to a recovery in sales to new and repeat customers. Thus, overall sales—direct and to original design manufacturers (ODMs)—of generics rose 3.6% YOY.

Sales of our core products (Uralyt, Calvan and Soleton) decreased 10.1% overall, due to factors such as the substitution of generic equivalents, but the figure was roughly in line with our forecasts.

As a result, sales during the fiscal year under review remained mostly unchanged from FY2012, although operating income decreased 14%. Sales figures were roughly in line with our performance forecasts, while operating income, current income, and fiscal year income were all 10% above projected figures. This will enable us to pay a dividend of ¥10 per share, as we had planned at the start of the fiscal year.

* Hospitals that apply the diagnosis procedure combination system calculate medical expenses based on points related to a fixed amount per day, decided according to the treatment given per the illness/medical condition of the hospitalized patient.

Q2 What do you foresee for FY2014?

A We will continue our strategic investments, so I expect revenue to increase while profits decrease.

After the MHLW released its policy roadmap in FY2013, the payment system for medical services underwent several reforms in April 2014. While the changes—mentioned earlier, to have generics comprise 60% of all off-patent pharmaceuticals—are expected to boost the generics market, it is not all good news for pharmaceutical companies.

This is because the reforms instituted include steps to pare down price points for generics to just three options, and to reduce the prices of recently listed generics to levels lower than ever before. This not only will make it far more difficult for companies to make a profit from the sale of generics, but also will exacerbate competition, as major pharmaceutical makers take their places in the generics market. In addition, the Japanese market is expected to peak out as the population continues to decline.

To insure long-term business expansion, we shall have to adequately adjust to the changing, highly competitive market environment. Since that will require us to make strategic investments, even at the risk of temporarily adverse repercussions on our profits, I predict that FY2014 will be level off, with increased revenues but lower profits.

Consolidated Sales and Income

(¥mn)

	FY2013		FY2014 (Forecasts)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net Sales	31,893	100.0	35,300	100.0	10.7
Pharmaceutical Sales	28,718		30,550		6.4
Generics	24,405		26,930		10.3
Core products	4,312		3,620		(16.1)
Operating income	3,328	10.4	2,600	7.4	(21.9)
Net income	1,887	5.9	1,500	4.2	(20.5)

Q3 What specific strategic investments are you considering?

A Investments related both to the construction of new manufacturing facilities, and the development of generic drugs.

In March we completed a third building at the NPI's Tsukuba Factory, which went online in June. Since the market is expanding, it is essential to build a new facility including advanced equipment and Japan's first seismic base isolation system in order to supply high-quality products stably.

Thanks to investment in this structure, with its state-of-the-art equipment and earthquake-proof system, we have increased our annual production capacity from 900 million pills to 1.1 billion pills. And once the second floor is fully equipped, we will be able to increase output further: to 1.4 billion pills.

Other strategic investments that may be on the horizon include the early development of generics; setting up an oncology promotion section that would serve as a special unit for the cancer market; repeating phase 1 clinical trials of the hyperuricemia drug NC-2500 using an improved pharmaceutical preparation; and conducting clinical trials for Uralyt.

Q4 What stands out as having been important since you became president?

A Over the past 20 years, I have realized the value of determination, gratitude and having connections.

When I was appointed president in 1994, the company was trying very hard to settle the issues incurred as a result of its past expansion. Then, when development of a promising new drug did not pan out, we were forced to undergo major restructuring. For the very first time, the company had to seek people willing to voluntarily resign.

It was in 2000, in order to extricate ourselves completely from the very difficult ongoing situation, that we decided to pare down our business in new drug development and shift our focus to generics.

Never before had the company focused so keenly on generic drug initiatives, so many people had doubts concerning the new strategy. But good fortune was to smile on us.

Two years later, the Japanese government introduced its first strategy that was designed specifically to promote generics. Ultimately, our decision placed us—as a new-drug manufacturer also involved in the manufacture of generic drugs—one step ahead of the industry.

In short, my 20 years' experience as an executive have taught me that three things are important. The first is determination. If we strive to achieve our three primary goals—a greater presence in the generics business, stronger position in the hyperuricemia market, and broader social contribution through new proprietary drugs—people somewhere, somehow will reach out to help us. Invariably, where there's a will, there's a way.

The second item of importance is gratitude. Often, we are helped by no one in particular, but by people around us. For their kindness we always must be grateful, never forgetting that we owe our successes to others.

The third is connections. One must always be sincere and trustworthy, since one never knows when one may meet potential connections, or be so placed as to take advantage of existing ones.

Q5 Lastly, could you describe your long-term vision for the company?

A We are working to drive sustainable value and expand our business overseas.

We will celebrate our 70th anniversary in 2020, the year in which Tokyo will host the Olympic and Paralympic Games. My goal is for Nippon Chemiphar to become a value-creating company in that year.

I would like us to be a group that can create, and provide for society, special value that only we can offer.

To do so, I would like us to develop our characteristics and strengths in the area of generic drug development, as well as manufacturing and sales supply chains. To release new potential for our original drugs and to discover new drugs that patients truly need. Currently, we are laying the foundations to accomplish this.

Another goal is expansion into foreign markets. We are heavily focused on the Japanese market, which will peak as the population grays, so we need to globalize our sales channels.

We acquired one approval and submitted five applications to export products to Asian countries in FY2013. In future, we would like to increase the number of countries we serve, as well as the products we offer.

Strategic Business Drivers

Nippon Chemiphar's Three Goals

- Secure our presence in the generics business
- Achieve a stronger position in the hyperuricemia market, centered on Uralyt
- Contribute to society through proprietary developments toward drug discovery

I. Initiatives Involving Generics

We have provided information- and product-based initiatives to ensure both reliability of our generics and customers' safety. We have promoted to ensure the consistently high quality of our generics, and to work on improving productivity and efficiency.

To ensure stable product supplies, we plan to strengthen the systems and further enhance cooperation with wholesale distributors and health insurance pharmacy chains. This will enable us to meet the increasing demand for generics and the growing need for associated information.

1. Overview

In FY2013, sales of generics rose 3.3% YOY to ¥24,405 million, accounting for 85.0% of overall pharmaceutical sales (up 1.9 points YOY).

Consolidated Generics Sales (¥mn)

	FY2012 Amount	FY2013 Amount	FY2013 YOY(%)
Generics	23,630	24,405	3.3
Amlodipine	3,128	3,333	6.5
Lansoprazole	1,791	1,988	11.0
Pravastatine	1,319	1,317	(0.2)
Rabeprazole	1,313	1,533	16.7
Limaprost Alfadex	1,274	1,417	11.2
Voglibose	1,079	1,083	0.4
Donepezil	1,167	1,301	11.4
Others	12,555	12,432	(1.0)

Ratio of Generics, Core Products to Pharmaceutical Sales

Generics	85.0%
Core products	15.0%

Proprietary Products, Purchased Products as Ratio of Generics Sales

Proprietary products	58.3%
Purchased products	41.7%

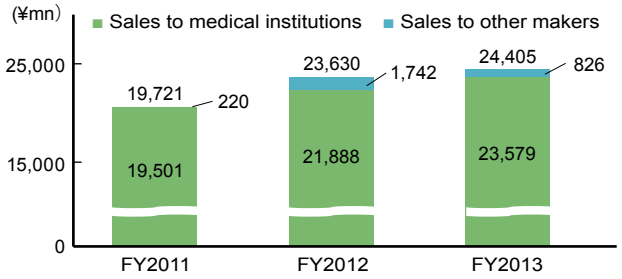
(i) Sales to medical institutions

The first quarter posed challenges for direct sales of generic drugs. But figures improved due to strong sales of new products launched throughout the year. In the fourth quarter, sales growth returned to roughly the market average, due to increased orders from dispensing pharmacies and DPC hospitals, following changes in the payment system for medical services. In FY2013, sales rose 7.7% YOY to ¥23,579 million.

(ii) Sales to other makers

There was a 52.6% YOY decrease in sales to other manufacturers, but the third quarter saw sales begin to recover, thanks to our expanding customer base and a recovery in sales to repeat customers. Thus, the final figure was ¥826 million, 23.3% over the forecast.

Generics Sales Breakdown



In Short

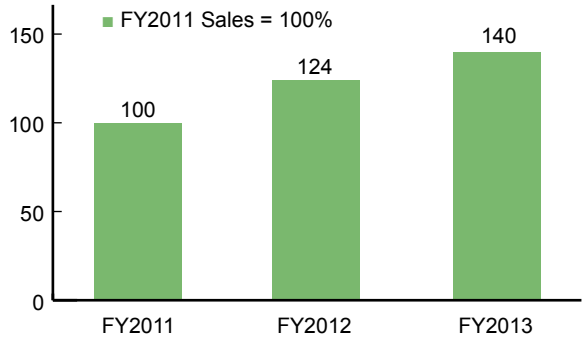
Generics Sales to Dispensing Pharmacies and DPC Hospitals

Dispensing Pharmacies

The groundwork is being laid for the further promotion of generic drugs as the Japanese government continues its efforts to curb spending on social welfare and to strengthen accounting requirements for generic drug-dispensing incentives that represent part of the reform of the payment system introduced for medical services in April 2014. The changes include a new method of evaluation for generics dispensed by pharmacies.

As a result, our sales to dispensing pharmacies were up 12.6% YOY, for a roughly 1.4 times increase since FY2011. Our generics are now available at approximately 65% of the about 56,000 dispensing pharmacies throughout Japan.

Generics Sales to Dispensing Pharmacies (Non-consolidated)



DPC Hospitals

Following the April 2014 reform of the payment system for medical services, a new system to evaluate the ratio of generics was introduced at DPC hospitals.

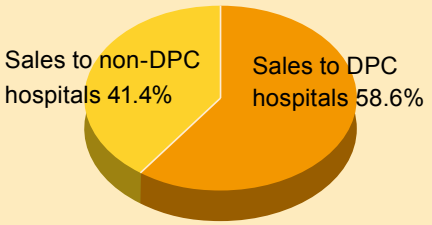
Consequently, the scope of the type of drugs used at these hospitals will expand from only those injectable, to also include oral drugs.

Since the hospitals have a major influence on local medical care system, we expect to see a ripple effect, as use of our generics spreads to nearby hospitals and clinics. For this reason, we will continue to focus our efforts on DPC hospitals.

Generics Sales to Dispensing Pharmacies (Non-consolidated)

Client	Distrib. (%)
Hospitals	33.3
Clinics	66.7
Total	100.0

Generics Sales to DPC Hospitals



2. Development

We have a generic drug development system that will allow us to release about 10 to 15 drugs per year. During the year under review, we brought 14 compounds and 24 products to market. This raises to 210 the total number of products we offer (as of March end, 2014).

As a company that markets both new and generic drugs, we boast a top product lineup. Last year, we accelerated the schedule for the development of generics in order to leave enough time to improve drug preparations; better tailor them to the needs of medical professionals; and ensure that drug sales are not delayed.

Twenty-four Products Launched in FY2013

Month	Product	Item
June	Atorvastatin (tablets)	2
	Azelnidipine (tablets)	2
	Loxoprofen (adhesive tape)	2
	Loxoprofen (hydrogel patch)	1
	Fexofenadine (tablets)	2
	Others	4
December	Docetaxel (intravenous drip)	2
	Valaciclovir (tablets)	1
	Azithromycin (tablets)	1
	Alprostadil (prefilled syringe)	2
	Pitavastatin (tablets)	2
	Others	3

In Short

In-house Development and Manufacture

Since we turned to focus on generics in 2000, ahead of other new-drug manufacturers, we have been developing and manufacturing our own generics. Conditions in the generics market are becoming increasingly less favorable, however, with only the most adaptable of the many market entrants able to survive.

Utilizing the advantages we have gained from direct involvement in the development, manufacture and sale of drugs, we plan to seize the opportunities presented by ongoing changes to expand our sales channels in Japan and overseas.

Thus, in FY2013, we started working on the early development of generics. This allows us not only to improve the reliability of development, but also to develop generics with high added value to meet market needs.

Yasushi Hatakeda,
Department Head,
Generic Pharmaceutical
Development

3. Strengthening Production Capacity

New Facility at Tsukuba Factory

In March 2014, we completed a new plant at the Nihon Pharmaceutical Industries (NPI) Tsukuba Factory, making it the first pharmaceutical manufacturing facility in Japan with a seismic base isolation system. We have increased our annual production capacity from 900 million pills to 1.1 billion pills. And once the second floor is fully equipped, we will be able to increase output further: to 1.4 billion pills.

In addition to increasing production in Japan, we are working on setting up means of production overseas. We have just completed a trial run in Vietnam with a local affiliate of a European pharmaceutical company.

In FY2012, we signed a manufacturing contract with the affiliate, and in FY2014 plan to start commercial production at its plant. This should allow us to shave 10%–20% off production costs.

In addition, feasibility studies are ongoing regarding building a manufacturing hub for ourselves overseas. We are seeking the optimum mix of manufacturing methods to boost production capacity and trim production costs, as we continue to monitor the performance of manufacturing contractors and the state of the financial environment.

New plant at the NPI Tsukuba Factory
Inset: Seismic base isolation system

4. Quality Assurance

As always, we are working hard to ensure that our manufacturing processes and quality control systems are appropriately conducted. Our in-house handbook is designed to ensure that we are always in compliance with 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 a government ordinance on the control of the manufacture and quality of drugs and quasi-drugs).

Further, we have verification procedures in place for raw materials we procure and store, and products we store and transport. Meanwhile, 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.

5. Information

Since information is crucial for the promotion of generics, we provide health care workers with the same quality of information for generics as for new drugs. The following are our main initiatives.

(i) Medical Representatives

Nationwide, we have 230 medical representatives (MRs), whose function it is to provide prompt, accurate information about our drugs. This fiscal year, we introduced the use of Slate PCs to improve the speed and accuracy of information provided by MRs. We will continue to fine tune our academic and business-related training programs for MRs.

Value added: An MR is always available to keep the pharmacist well informed.

(ii) Research Groups

We support a number of research groups, through whom we provide timely medical information, including that on disease, drugs and treatment.

DPC Management Forum: Medical professionals discuss DPC hospital reimbursements.

(iii) Oncology Market

To strengthen our initiatives in the oncology market, we established an oncology promotion section in October 2013. They provides information to specialist departments and organizes seminars for physicians.

Daily Life Support Book for Breast Cancer Patients, a book which we planned and published.

(iv) Commercials

We have aired TV commercials to explain the benefits of generic drugs to members of the public. The move went far in improving our corporate image.

One scene in the commercial

(v) Other Information Tools

We also provide information to our stakeholders through a variety of media.

Chemiphar publications (from left): *Medical Doctor*, for doctors and *Pharmacy Digest*, for pharmacists

Leaflets available for patients at pharmacies and medical institutions.

Website that provides ideas for improving eating habits.

6. Sales Channels

Original Design and Other Manufacturers

Since 2000, the focus of our business has been on generics, and we have jumped ahead of other new-drug manufacturers to expand our production know-how.

This, in turn, has enabled us to reduce costs by establishing systems for developing, and then going on to manufacture, our own generics.

Over the past few years, as we have lead a growing number of joint development projects for generics, our sales to other manufacturers and original design manufacturers have grown. We are ready to apply the know-how gained as a new-drug manufacturer to develop new sales channels.

II. The Hyperuricemia Market

We have developed the drug Uralyt (the soluble powder Uralyt U in 1988, and Uralyt Tab. in 1992), which improves aciduria associated with gout and hyperuricemia. At the same time, we have been working hard to raise public awareness about hyperuricemia.

In recent years, as understanding of hyperuricemia has spread, the focus has begun to shift: from seeing the condition as an early stage of gout, to its involvement in metabolic syndrome and cardiovascular events. This has brought the disease back into the spotlight. We will continue striving to become a leader in the hyperuricemia market, centered on Uralyt.

1. Aciduria and Metabolic Syndrome

Aciduria has been shown to be common among individuals with lifestyle diseases, such as hyperuricemia and metabolic syndrome. It is said to be caused by factors such as obesity and in Japan, for example, by the Westernization of the diet.

Individuals with aciduria appear prone to developing kidney stones, a factor underlying reduced renal function due to the crystallization of uric acid. Urinary alkalization, using alkalizing drugs such as Uralyt, has been shown to be effective in preventing, and for treating, such complications.

Recent epidemiological studies show that hyperuricemia and aciduria are independent risk factors for metabolic syndrome, and that a person's risk of developing the syndrome rises exponentially if they have both conditions. Other studies have indicated that aciduria is associated with chronic kidney disease, which is yet another reason that interest in aciduria is growing.

2. Awareness Activities

(i) Research Group-based Initiatives

We have been cosponsoring the Hyperuricemia and Metabolic Syndrome Research Forum since its founding in 2004. In August 2012, participation in the forum was opened up to health care providers who are not forum members, with the aim of educating a broader sector of the public.

(ii) Web-based Initiatives

In April 2010, we launched two comprehensive information websites on hyperuricemia and gout—one site for patients, and the other for health care providers, to supply the information that each group needs.

Our patient-focused website on hyperuricemia and gout contains basic information about the diseases, as well as how they can be treated and prevented, through diet and other methods.

Diet is a topic of particular interest among many patients so, in April 2013, we began posting diet-related tips in a section of our website under the heading "Helpful Healthy Recipes." Here are posted suggestions for food ingredients, meal preparation and balanced food combinations, together with recipes.

The website Uralyt.jp, designed for health care providers, offers information on medical examinations, treatment guidelines and suggested dosages. The data are provided by Dr. Tatsuo Hosoya, a professor at Jikei University and president of the Japanese Society of Gout and Nucleic Acid Metabolism.

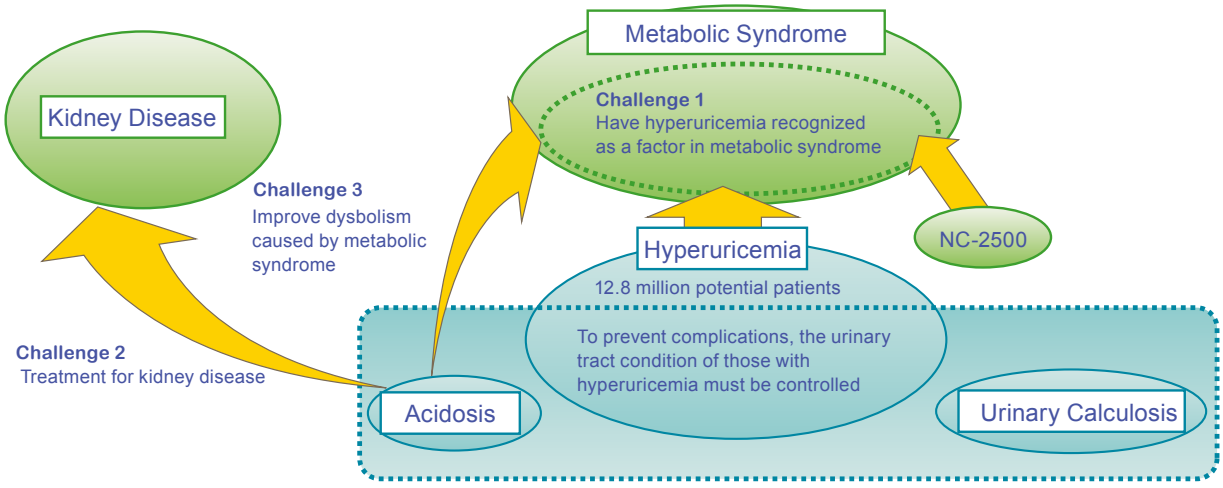
2. Hyperuricemia Remedies

The work of the earlier-mentioned Hyperuricemia and Metabolic Syndrome Research Forum has sharpened the focus on the link between aciduria and lifestyle diseases, and has led to the publishing of many aciduria-related papers. We are particularly interested in papers about metabolic syndrome and metabolic syndrome disorders in kidney disease.

Clinical research is underway in Japan, and we will continue to support associated research.

In the meantime, we are working to develop new drugs to treat hyperuricemia. Based on our analysis of data from trials of NC-2500, an antihyperuricemic agent we developed, we have determined that improving the preparation would improve the drug's overall efficacy. Thus, we have decided to conduct another phase 1 study using an improved preparation.

Potential Uralyt Market



III. Drug Development, Discovery

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

We see it as part of our corporate social responsibility to tackle drug discovery challenges, and are focusing on our specialty fields of anti-inflammatory, analgesic and urological drug development.

Undergoing Clinical Trials

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

1. NC-2500

We have completed in-house phase 1 trials of NC-2500, an antihyperuricemic agent candidate.

However, analysis of trial data reveals that better results could be obtained were the preparation to be improved. So we have decided to conduct a new phase 1 trial, using an enhanced preparation.

2. JST Programs

(i) Agents that target P2X4 receptors

In collaboration with Kyushu University, we are studying P2X4 receptor antagonists for their possible use in the treatment of neuropathic pain.

Neuropathic pain is debilitating to the point where it interferes with sufferers' everyday life. There are few remedies for this incompletely understood condition. Since past research has shown that the overexpression of P2X4 receptors contributes to the onset of neuropathic pain, we are doing research on P2X4 receptor antagonists.

In FY2012, we applied to the Japan Science and Technology Agency (JST) for Adaptable and Seamless Technology Transfer Program (A-STEP) funding for our study. Our research was chosen to receive financial backing due to its potential for practical application.

Up to ¥1 billion in public funds will support our research on this compound over the next five years.

In 2013, we conducted a preliminary safety study, to narrow down candidate compounds, and plan to begin preclinical studies in FY2014.

(ii) Delta opioid receptor agonists

As a result of our research, assisted by the universities of Kitasato and Tsukuba, and the National Center of Neurology and Psychiatry, it was decided to shift the target of the compound we were studying from pain to the regulation of emotion.

In 2013, we again applied to the JST's A-STEP program, this time in the high-risk challenge category. We were accepted into the program, and will continue to conduct joint research to optimize and refine candidate compounds.

In Short

About A-STEP

The A-STEP system determines the optimal funding to match challenges and characteristics of research and development.

The goal is to enable the comprehensive and seamless pursuit of related projects, while aiming for practical application.

URL: http://www.jst.go.jp/tt/EN/univ-ip/a-step.html

IV. Medium-term Management Plan

Our current three-year, medium-term management plan commenced in FY2012. Designed to strengthen profitability and the company's financial base, it is helping expand our generics business, build the hyperuricemia market (with a focus on Uralyt), and develop business overseas.

Targets

Generics Business

We are vying for the 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, NC-2500, for hyperuricemia.

Overseas Business

We are building foundations to enable us to expand in the Asian market.

FY2013 Initiatives

During the current fiscal year—the second of our medium-term management plan—our growth strategies made sound progress.

Generics Business

● Strengthened access to medical institutions
We set up an oncology promotion section to help better access the growing cancer market and increase the flow of information to hospitals.

● Expanded product line, customer base
Laying the foundation for future growth, we added to our product line, acquired new customers and, thus, boosted sales to other manufacturers, which are making a solid contribution to our overall growth.

● Completed new NPI Tsukuba Factory building
A seismic base isolation system was incorporated, allowing us to increase our generics production capacity and ensuring a stable supply of high-quality products.

Hyperuricemia Market

● Clinical studies conducted to evaluate Uralyt
Solid progress has been reported in clinical studies launched FY2012 at Tohoku University.

● Started new NC-2500 trials
Based on the results of previous phase 1 trials of the potential antihyperuricemic agent NC-2500, we started another set of phase 1 trials. They involve a new preparation of the drug and should provide better results.

Overseas Business

● Expanded overseas business
We exported our core products to South Korea and Thailand, while working on exporting generics to China and ASEAN member states. Applications were filed for five products in the target countries.

● Developed Vietnam initiatives
With a view to contracting out manufacturing, a trial run was completed and arrangements commenced for the import of the products.

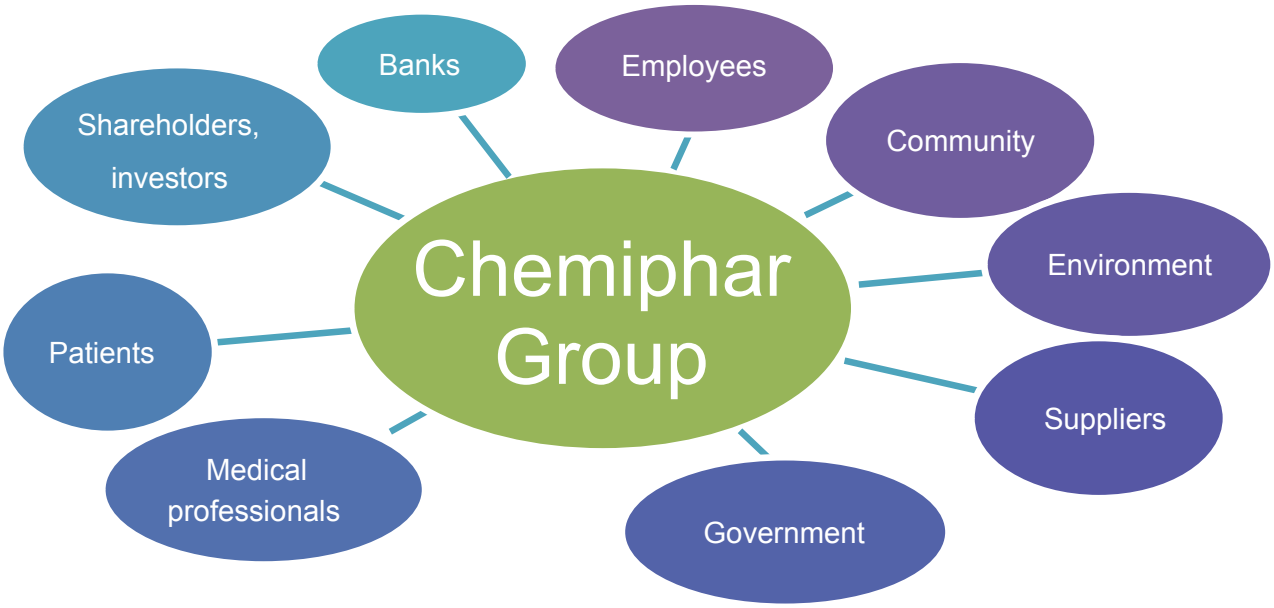
● Began to consider setting up a production hub
Together with our new NPI Tsukuba Factory building, this would give the optimum mix of domestic–overseas manufacturing, reinforce our stable supply system, and help keep down production costs.

CSR: Maintaining Society's Trust

Fully aware of our mission—to make a difference in society by providing pharmaceutical drugs and health care-related services to help people become and remain healthy—the company aims to contribute to medical science by increasing the use of generics and treatment for hyperuricemia.

We aim to maintain the high level of integrity that has long characterized our relationships, reflecting our sense of responsibility to, and interaction with, stakeholders, based on the reputation for trustworthiness and reliability that we have cultivated over the years.

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

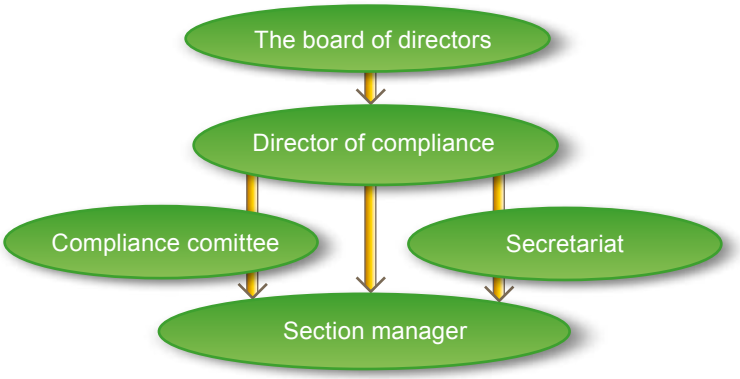


I. Compliance

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

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

Control Environment for Legal Compliance



Source: *Nippon Chemiphar Rules: Code of Practice*

II. For Medical Professionals and Patients

It is said that drugs cannot fulfill their proper roles unless they are used together with the appropriate information. Bearing this in mind, we are quick to provide medical institutions with accurate information about the proper use of our drugs.

We do this through our MRs, who are located nationwide. At the same time, we collect and centrally manage information about drug quality and the safety aspects of drugs, in order always to be able to provide the latest information.

1. Initiatives to Ensure Proper Use of Drugs

(i) MR Education

We provide education and training for our MRs, since it is they who are responsible for disseminating information about our products. We train them so that they are better able to provide balanced information regarding both the benefits, and the proper use, of our products. Our goal is to ensure that they always have the patient in mind, and support medical teams as partners in pharmacotherapy.

(ii) Information for Patients

We offer patients a wide selection of information in the form of pamphlets, which cover our proprietary drugs and generics. These we also provide, in appropriate versions, to medical institutions.

(iii) Websites

Patient-oriented content on one of our websites includes information about health and generic drugs, as well as on other topics, such as recipes for healthy meals.

Web content for health care providers covers matters related to our products and information on such topics as system changes to pay for medical services.

Over the past three years, we have been maintaining two comprehensive websites containing information about hyperuricemia and gout: one site for healthcare providers called Uralyt.jp, and another site for members of the public.

Leaflets available for patients at pharmacies and medical institutions

2. Strengthening Our Stable Supply System

In April 2013, the Ministry of Health, Labour and Welfare released a roadmap outlining the further promotion of generic drugs. It urges all pharmaceutical makers to compile supply-related manuals, and devise systems to ensure that generic drugs are always available.

To help achieve the stable supplies demanded by the roadmap, we are raising inspection standards at our local manufacturing facilities, and buying our active ingredients from multiple suppliers.

We have nearly finished making the relevant arrangements for our major products' ingredient purchases, and have prioritized our schedule for the purchase of other products.

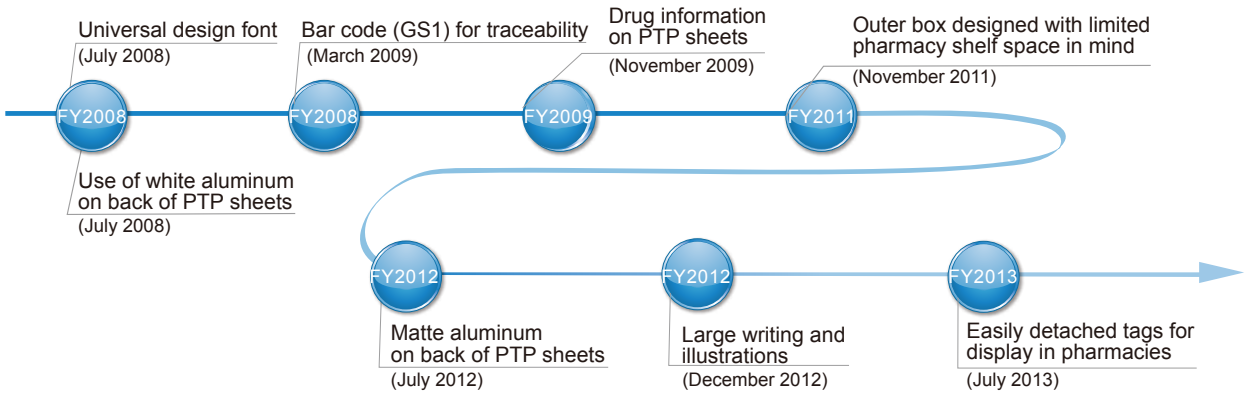
The inspection standards required at local manufacturing facilities, including those producing active ingredients, are being improved at all levels. This is being done by increasing the number of staff in relevant departments, and provide education to advance their ability to meet—or even exceed—the standards of good manufacturing practice.

3. Safer, More User-friendly Products

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

We have put a great deal of effort into our safety initiatives, to ensure peace of mind for health care providers and patients alike. Thus, for example, we have worked hard on the press-through packaging of our oral medications and, this fiscal year, started to use packaging that prevents radiation from permeating the outer packaging of anticancer drugs.

Development of Packaging Design



1. 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.

2. 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.

3. Display tags

All boxes containing our generic drugs manufactured since the start of June 2013 have a tag.

On the tag are written 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.

4. Matte PTP backing

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

5. Large writing, illustrations

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

6. Special packing for anticancer agents

Each vial is placed on a molded plastic base before being pressure sealed into a shrink-film pack. The process prevents contact with agent residue either remaining on the outside of the vial after filling, or spilled in the event that the vial is broken.

III. Employees

Since the sustainable growth of the company depends on the development of all our employees, we have created an inviting work environment.

We offer equal-opportunity employment, cultivate our human assets through training programs, and have adopted a corporate culture that supports respect for human rights. In addition, we ensure that there is a good work–life balance company wide.

1. Hiring

We hire employees through a fair and unbiased process, candidates having multiple interviews with members of the HR team and relevant departments.

We do not discriminate on the basis of age, sex, sexual orientation or nationality, and make every effort to hire people with disabilities.

As of March 2014, those with disabilities accounted for 2.0% of our workforce, and were spread across a number of departments.

Every effort is made to ensure that each of these members of staff is given duties and responsibilities best suited to their skills and interests.

2. Career Development

We offer extensive, age-appropriate training programs for each job category. At least twice a year we conduct surveys and hold meetings with management, designed to help each employee build a career that best suits their aspirations and aptitudes.

In addition, we regularly hold cross-sectional meetings with members selected from each department, to better bring out our employees' abilities and cultivate the next generation of managers.

Brainstorming: Mid-career management-level staff meet.

3. Protection from Harassment

We recognize that, as a company, we must protect all our employees from harassment, both inside and outside their work areas.

To this end, we have created a manual and provide training to ensure that employees neither take part in, nor fall victim to, sexual or power harassment in or outside the company.

We are training managers to better understand the concept of power harassment, and have put in place internal and third-party external systems to facilitate the reporting of harassment, and to provide counseling.

4. Work–Life Balance

As one of our initiatives to promote a good work–life balance, we have introduced flextime. This enables employees to adjust the time they start and end their working day, so as to best suit their respective family and work requirements.

We also have provisions that enable employees to balance work needs with life events. They include childcare and nursing care leave, and a system of MR work location assignment that allows married MRs to live at home.

Thirteen employees—just over one-tenth of the female staff with children—have made use of our childcare leave system over the past three years (April 2011 to March 2014).

IV. Environment-related Initiatives

1. Underlying Philosophy

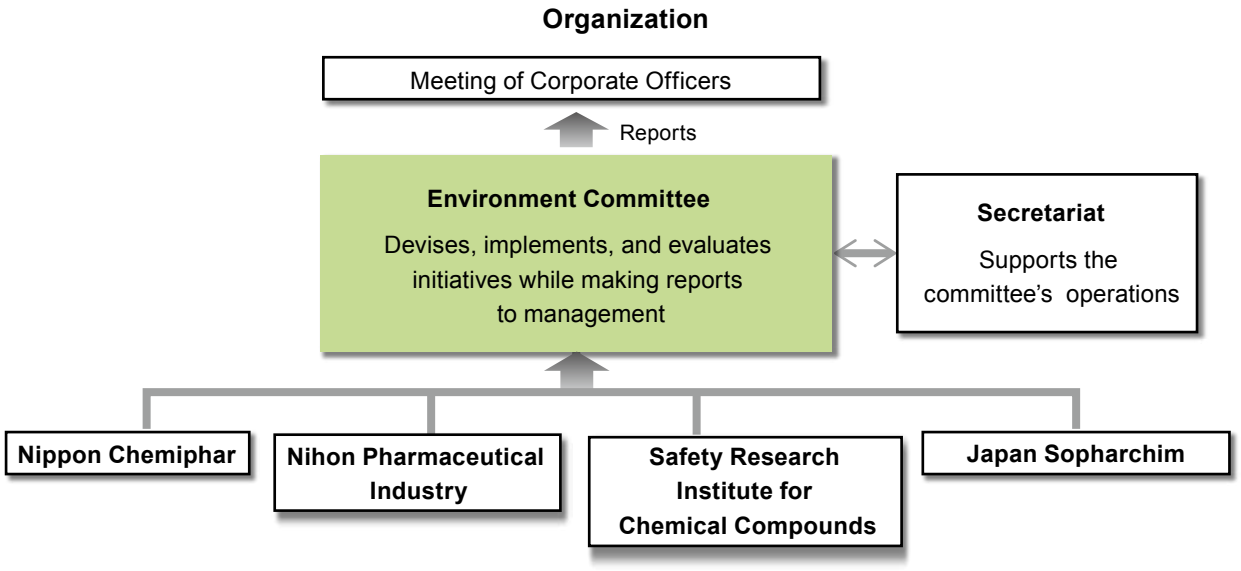
In order to help make our society more sustainable, we believe that companies must consider the environmental impact of their business activities. Thus, we have established environment-related principles and policies, and are working to reduce our environmental footprint.

2. Basic Policies

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

3. Environment Conservation

We have an Environment Committee to devise, implement and assess environment-related conservation initiatives for the entire company.



4. CO_2 Emissions

In the interests of helping reduce global warming, we have set ourselves a goal to be achieved between FY2012 and FY2017. Over that time, we plan to achieve an average CO_2 emission intensity reduction rate (that we measure as the ratio of emissions to sales) of at least 1% relative to FY2012 emissions.

5. Impact of Group Operations

Material Balance in Our Business Activities

INPUT

Energy

Electricity	8,071,000 kwh
Gasoline	599 kl
Heavy oil	481 kl
Kerosene	456 kl
LPG	4 t
Total	136,912 GJ

Water Consumption (for production and research)

Tap water	26,124 ㎥
Well water	56,231 ㎥
Total	82,355 ㎥

Materials

Raw materials	307 t
Packaging materials	157 t
Total	464 t

OUTPUT

Into Atmosphere

CO_2 emissions	4,663 t
PRTR-related substances	0.0000 t

As Industrial Waste Water (from factories, laboratory)

Used water	58,426 ㎥
PRTR-related substances	7.0500 t

As Waste

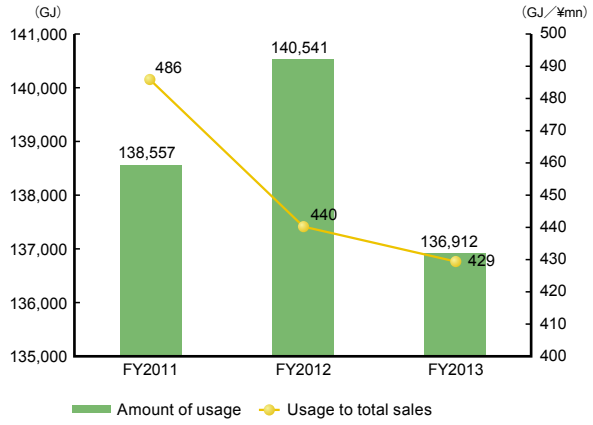
Non-industrial waste	40 t
Industrial waste	143 t
PRTR-related substances	0.0000 t
Container and package recycling	35 t

Calculation method

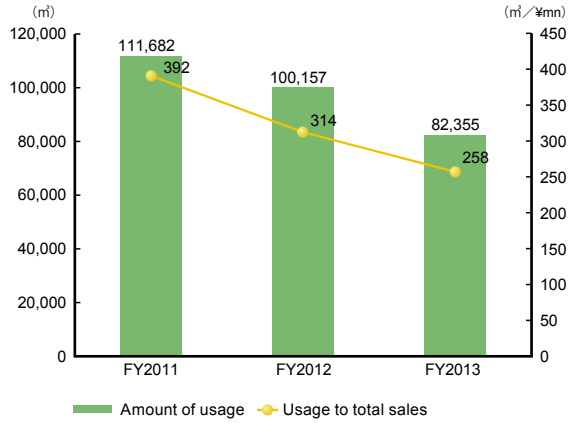
- Period: From April 1, 2013 to March 31,2014
- Target: Chemiphar's headquarters, 13 branches, Discovery Research Laboratory, and two NPI factories

INPUT

Energy Used

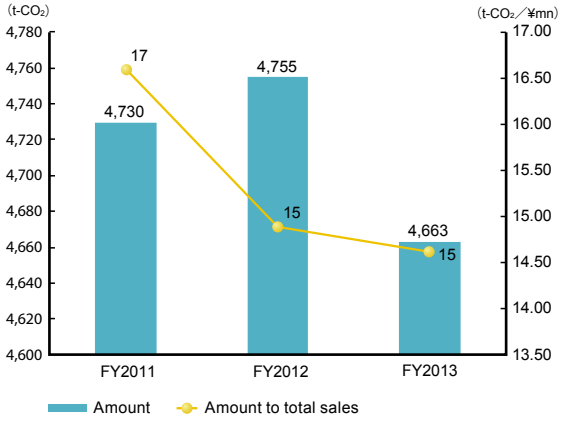


Water Consumption

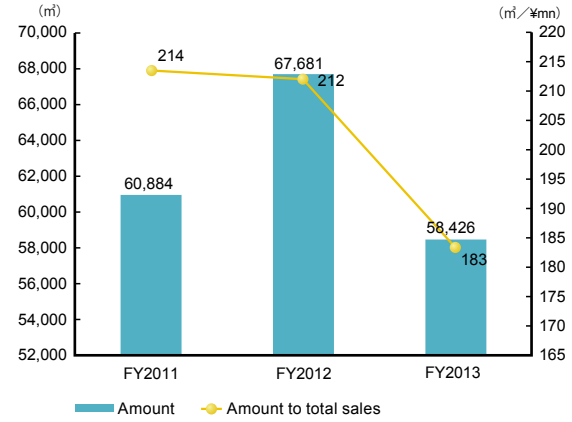


OUTPUT

CO_2 Emissions



Waste Water



V. Community Participation

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

(i) Regional Beautification Activities

We conduct regional beautification activities once a month around our corporate headquarters in Tokyo. Similar activities are conducted three times a year around the Group's factory in Tsukuba and Soka office.

Cleaning up roadside trash.

(ii) 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 April 2013, we had collected some 80,000 PET bottle caps that were used to provide vaccines for children in the developing world. At the same time, collecting the caps reduce CO_2 emissions by around 0.6 tonnes.

(iii) Community Service Leave

We have introduced a system of community service leave, whereby 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.

Employees, ever ready with a smile, work as volunteers in the Tohoku region.

(iv) Blood Donations

We conducting corporate blood drives at our Soka office the Group company factory in Tsukuba twice a year.

A Red Cross van stops by to collect blood donations.

(V) Tsukuba Factory Baseball Field

The field at Nihon Pharmaceutical Industry's Tsukuba Factory is available for use, free of charge, by the local boys' baseball team, the Chikusei Tamiya Boys.

Below are the words addressed to us by a team representative, on behalf of the team staff and players.

The message
"Thank you so much for supporting the Chikusei Tamiya Boys. The team currently has a total of 29 middle school-aged players, who include 14 third-year, 10 second-year, and 5 first-year students. Our home base is the Tsukuba factory field, and we belong to the Ibaraki division of the Japan Boys League.
We are always grateful for encouragement from every-one, especially our local supporters and our fan club and, as we do our best to win, we will always bear in mind our motto: Everyone plays together as one.
We appreciate your continued support."

Sadao Sugiyama
Representative
Chikusei Tamiya Boys
August 2013

VI. Management Systems

1. Corporate Governance

Underlying Philosophy

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

2. Designed to ensure the maximum efficiency of management, and to strengthen corporate governance, our corporate structure includes directors and corporate officers. Directors are appointed at shareholders' meetings and whose selection represents the general will of all shareholders.

The directors are responsible for managerial decision-making and supervision, while the corporate officers are responsible for the management of corporate affairs.

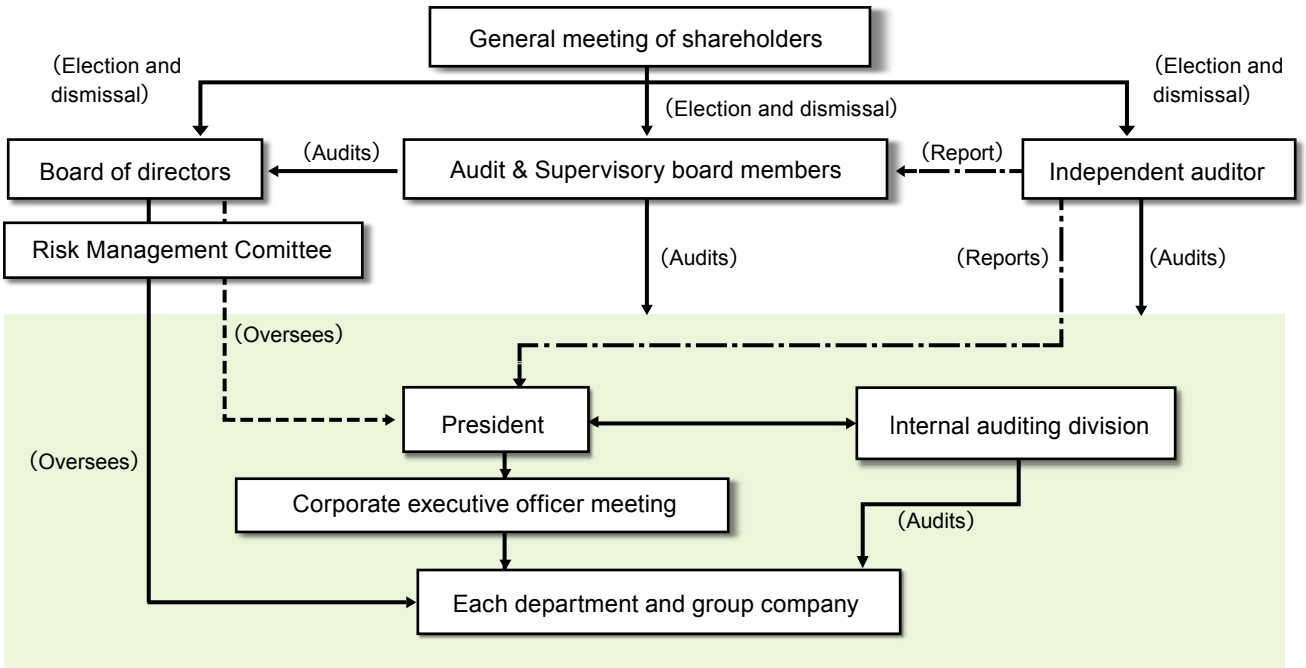
3. We have an auditor system, and conduct strictly neutral and comprehensive performance audits of the directors and corporate officers, based on knowledge gained by having the auditors participate in important meetings in addition to those of the board of directors.

4. However, we are considering the adoption of a committee governance structure to replace our current audit and supervisory board governance structure.

5. In the interests of consistently releasing accurate financial information, our internal auditors collaborate with government accounting auditors to conduct audits as are mandated by the Companies Act and the Financial Instruments and Exchange Act.

6. We will continue to build internal control systems to ensure that all business conducted by the company is always carried out appropriately and with maximum efficiency.

Organization



2. Directors, Corporate Auditors and Executive officers

As of June 27, 2014

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

Financial Section

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

Business Performance Analysis, Financial Position

1. Business Overview

Abenomics, the name given the economic policies instituted by the second cabinet of Prime Minister Abe some 18 months ago, has led to a gradual recovery of the Japanese economy. The government's bold financial policies working to end deflation, correct the value of the yen, and apply fiscal stimulus initiatives have begun to improve corporate profits.

A major development recently undertaken by the pharmaceutical industry is the April 2013 Ministry of Health, Labour and Welfare's (MHLW's) roadmap designed to further promote the use of generic medicines. Since the plan's goal, to be attained by March 2018, is to increase to at least 60% the production ratio of off-patent generics to all pharmaceutical products, the market for generics is expected to continue expanding.

Nonetheless, it has not all been good news. The April 2014 revision of the National Health Insurance drug price list stipulates reduced prices for generics that are new on the market, as well as price limitations. These reforms are putting more pressure on pharmaceutical manufacturers than any previous reforms, and demand ever greater efficiency and better management strategies.

2. Sales and Income

(i) Sales

Within the generics division of our pharmaceuticals business, the first quarter was tough for direct sales. However, since the second quarter, factors such as strong sales of products released during the fiscal year tipped the balance favorably and, ultimately, helped sales rise 7.7% YOY.

Similarly, sales to other manufacturers exceeded forecasts for the fiscal year, thanks to factors such as new customers gained since the third quarter, and a recovery in sales to repeat customers, which had been in a slump until the second quarter. Thus, overall, generics sales increased 3.3% YOY to ¥24,405 million.

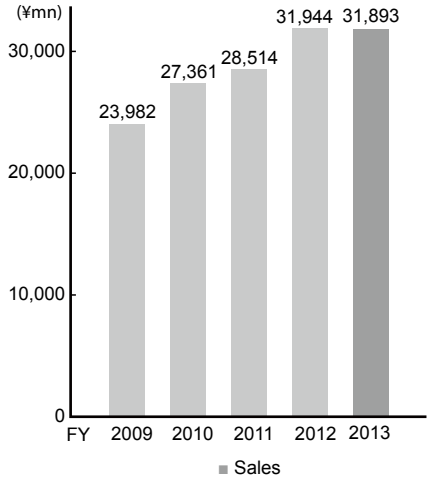
Sales of our core products were influenced by factors including increased competition and the substitution of generics, and thus decreased 10.1% YOY. Consequently, the overall sales of pharmaceuticals rose 1.0% YOY to ¥28,718 million.

Consolidated net sales, which comprise the numbers above and numbers from other segments, decreased 0.2% YOY to ¥31,893 million, which is almost the same as last year's figure.

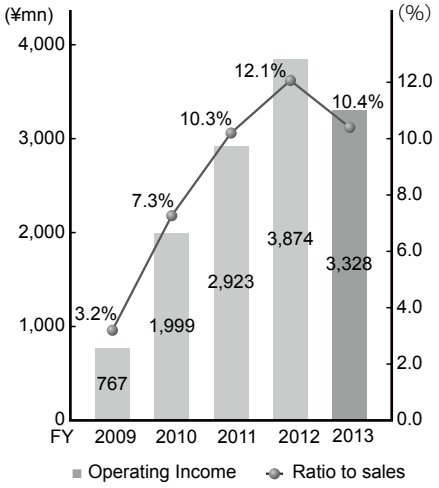
(ii) Operating income

Due to the influence of such factors as strategic investments for future growth, as well as changes made to reflect MHLW reforms of the payment system for medical services, the cost of sales

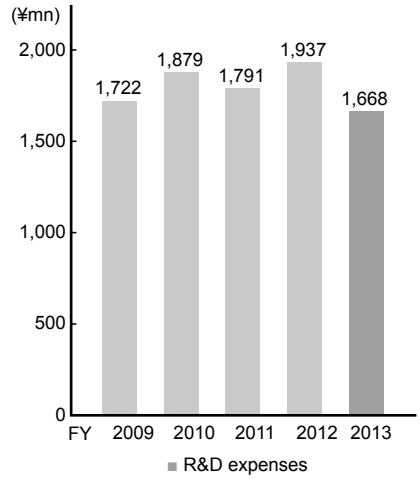
Net Sales



Operating Income



R&D Expenses



ratio increased 0.7 points YOY and the SG&A-to-sales ratio increased 0.9 points YOY. As a result, operating income decreased 14.1% YOY to ¥3,328 million.

3. Balance Sheet Overview

Current assets rose 9.9% YOY to ¥23,801 million. This increase is mainly attributable to a ¥1,432 million increase in notes and accounts receivable from retaining the realization of beneficiary rights on trust. Property, plant and equipment increased 22.7% YOY to ¥12,729 million. A ¥2,305 million increase associated with the acquisition of property and machinery mainly for the new NPI building contributed to this increase, which led total assets to climb 13.0% YOY to ¥40,106 million.

Current liabilities jumped 17.4% YOY to ¥15,008 million. One factor behind the hike is the fact that notes and accounts payable rose 55.6% to ¥6,834 million.

Long-term liabilities were up 12.6% YOY to ¥11,597 million. This is primarily due to an increase in long-term debt from capital investment.

Total net assets rose 8.8% YOY to ¥13,501 million. This can be attributed to the ¥1,887 million in net income posted for the fiscal year.

4. Cash Flow

Consolidated cash and cash equivalents provided by operating activities over the fiscal year increased to ¥1,892 million. Those provided by investing activities decreased to ¥2,499 million, while those provided by financing activities decreased to ¥205 million. Consequently, cash and cash equivalents at the end of the fiscal year had decreased 12.7% YOY to ¥5,563 million.

(i) From operations

Cash flow from operating activities for the fiscal year under review was a net cash inflow of ¥1,892 million (net inflow of ¥1,913 million for the previous fiscal year) reflecting net income before income taxes, and an increase in accounts payable, despite increases in corporate tax payments, accounts receivable trade and inventory.

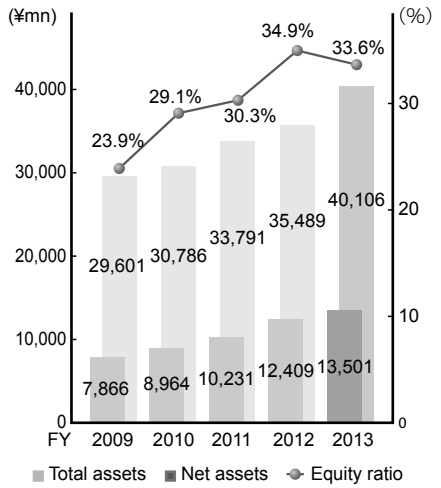
(ii) From investments

Cash flow from investments for the fiscal year under review shows a net outflow of ¥2,499 million (net outflow of ¥1,422 million for the previous fiscal year). This was mainly due to the acquisition of fixed assets.

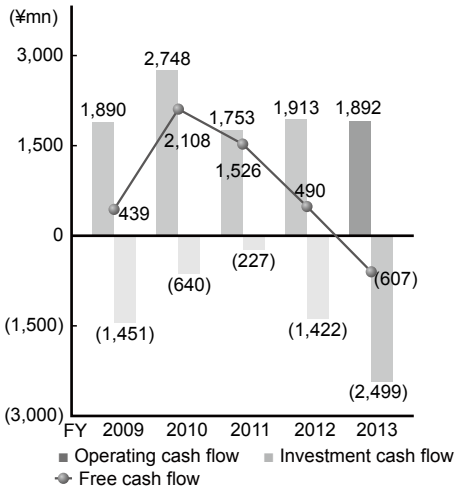
(iii) From financing

Cash flow from financing for the fiscal year under review was a net cash outflow of ¥205 million (net outflow of ¥713 million for the previous fiscal year). Although there was an increase in long-term debt associated with capital investment, it was exceeded by repayment of long-term debt and the acquisition of treasury stock.

Total Assets, Nets Assets and Equity Ratio



Cash Flows



Consolidated Balance Sheet

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2014 (FY2013) and 2013 (FY2012)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	FY2012	**FY2013**	**FY2013**
Current assets			
Cash and deposits (Notes 3 and 15)	¥ 6,484	**¥ 5,668**	**$ 55,093**
Notes and accounts receivable–trade (Note 3)	10,291	**11,723**	**113,948**
Allowance for doubtful accounts	(1)	**(1)**	**(10)**
Inventories	3,995	**5,408**	**52,566**
Deferred tax assets (Note 11)	689	**713**	**6,931**
Other current assets	198	**290**	**2,819**
Total current assets	21,656	**23,801**	**231,347**
Property, plant and equipment			
Land (Note 13)	5,550	**5,460**	**53,072**
Buildings (Note 13)	11,519	**13,625**	**132,436**
Machinery, equipment and vehicles (Note 13)	4,253	**4,985**	**48,454**
Tools, furniture and fixtures (Note 13)	1,662	**1,660**	**16,135**
Lease assets (Note 10)	710	**716**	**6,960**
Construction in progress	60	**221**	**2,148**
Total property, plant and equipment	23,754	**26,667**	**259,205**
Accumulated depreciation	(13,380)	**(13,938)**	**(135,478)**
Net property, plant and equipment	10,374	**12,729**	**123,727**
Investments and other assets			
Investment securities (Notes 3 and 4)	1,645	**1,968**	**19,129**
Long-term loans receivable	7	**6**	**58**
Long-term prepaid expenses	11	**34**	**330**
Goodwill	346	**173**	**1,682**
Intangible assets	105	**97**	**943**
Deferred tax assets (Note 11)	275	**230**	**2,236**
Lease and guarantee deposits	109	**97**	**943**
Long-term deposits (Note 3)	700	**700**	**6,804**
Deferred assets	252	**267**	**2,595**
Other	9	**4**	**39**
Total investments and other assets	3,459	**3,576**	**34,759**
Total assets	¥35,489	**¥40,106**	**$389,833**

LIABILITIES AND NET ASSETS	Millions of Yen FY2012	Millions of Yen **FY2013**	Thousands of U.S. Dollars (Note 1) **FY2013**
Current liabilities			
Short-term loans payable (Note 3)	¥ 580	**¥ 580**	**$ 5,638**
Current portion of bonds (Note 6)	370	**270**	**2,624**
Current portion of long-term loans payable (Note 6)	2,945	**2,649**	**25,748**
Lease obligations (Note 10)	145	**143**	**1,390**
Notes and accounts payable–trade (Note 3)	4,393	**6,834**	**66,427**
Notes payable–facilities	144	**659**	**6,406**
Accrued expenses	2,261	**2,358**	**22,920**
Income taxes payable (Note 11)	970	**617**	**5,997**
Provision for sales promotion expenses	352	**340**	**3,305**
Other current liabilities	625	**558**	**5,424**
Total current liabilities	12,785	**15,008**	**145,879**
Long-term liabilities			
Bonds payable (Notes 3 and 6)	365	**95**	**924**
Long-term loans payable (Notes 3 and 6)	6,972	**8,504**	**82,660**
Lease obligations (Note 10)	377	**326**	**3,169**
Provision for retirement benefits (Note 7)	851	**—**	**—**
Net defined benefit liability (Note 7)	—	**960**	**9,331**
Provision for directors' retirement benefits	328	**342**	**3,324**
Deferred tax liabilities for land revaluation	1,392	**1,360**	**13,219**
Other	10	**10**	**97**
Total long-term liabilities	10,295	**11,597**	**112,724**
Net assets (Note 9)			
Capital stock:			
Authorized: 154,000,000 shares			
Issued: 42,614,205 shares in 2014 and 2013	4,305	**4,305**	**41,845**
Capital surplus	1,297	**1,299**	**12,626**
Retained earnings	4,526	**6,056**	**58,865**
Treasury stock	(486)	**(991)**	**(9,633)**
Sub total	9,642	**10,669**	**103,703**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	299	**508**	**4,938**
Revaluation surplus of land	2,459	**2,401**	**23,338**
Remeasurements of defined benefit plans	—	**(87)**	**(846)**
Total accumulated other comprehensive income	2,758	**2,822**	**27,430**
Subscription rights to shares	9	**10**	**97**
Minority interests	—	**—**	**—**
Total net assets	12,409	**13,501**	**131,230**
Total liabilities and net assets	¥35,489	**¥40,106**	**$389,833**

See notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 (FY2013) and 2013 (FY2012)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2012	**FY2013**	**FY2013**
Net sales (Note 18)	¥31,944	**¥31,893**	**$310,002**
Cost of sales	14,922	**15,128**	**147,045**
Gross profit	17,022	**16,765**	**162,957**
Selling, general and administrative expenses (Note 12)	13,148	**13,437**	**130,609**
Operating income	3,874	**3,328**	**32,348**
Other income (expenses)			
Interest and dividends income	25	**39**	**379**
Interest expenses	(193)	**(184)**	**(1,788)**
Impairment loss (Note 13)	(95)	**(148)**	**(1,438)**
Loss on disposal of fixed assets	(17)	**(4)**	**(39)**
Other, net	8	**24**	**233**
	(272)	**(273)**	**(2,653)**
Income before income taxes and minority interests	3,602	**3,055**	**29,695**
Income taxes (Note 11)			
Current	1,539	**1,236**	**12,014**
Deferred	(62)	**(68)**	**(661)**
Total income taxes	1,477	**1,168**	**11,353**
Net income before minority interests	2,125	**1,887**	**18,342**
Minority interests in net income	—	—	—
Net income	¥ 2,125	**¥ 1,887**	**$ 18,342**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 (FY2013) and 2013 (FY2012)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2012	**FY2013**	**FY2013**
Net income before minority interest	¥2,125	**¥1,887**	**$18,342**
Valuation difference on available-for-sale securities	273	**208**	**2,022**
Revaluation surplus of land	—	—	—
Other comprehensive income	273	**208**	**2,022**
Comprehensive income	2,398	**2,095**	**20,364**
Total comprehensive income attributable to:			
Owners of the parent	2,398	**2,095**	**20,364**
Minority interests	—	—	—

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2014 (FY2013) and 2013 (FY2012)

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	Remea-surements of defined benefit plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	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
Net income			**1,887**		**1,887**						**1,887**
Dividends from surplus			**(414)**		**(414)**						**(414)**
Purchase of treasury stock				**(507)**	**(507)**						**(507)**
Disposal of treasury stock		**1**		**2**	**3**						**3**
Net changes of items other than shareholders' equity			**57**		**57**	**209**	**(57)**	**(87)**	**65**	**1**	**123**
Net change in the year		**1**	**1,531**	**(505)**	**1,027**	**209**	**(57)**	**(87)**	**65**	**1**	**1,093**
Balance at March 31, 2014	**¥4,305**	**¥1,299**	**¥6,056**	**¥(991)**	**¥10,669**	**¥508**	**¥2,401**	**¥(87)**	**¥2,822**	**10**	**¥13,501**

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	Remea-surements of defined benefit plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2013	$41,845	$12,607	$43,993	$(4,724)	$93,721	$2,906	$23,902	-	$26,808	$87	$120,616
Net income			**18,342**		**18,342**						**18,342**
Dividends from surplus			**(4,024)**		**(4,024)**						**(4,024)**
Purchase of treasury stock				**(4,928)**	**(4,928)**						**(4,928)**
Disposal of treasury stock		**10**		**19**	**29**						**29**
Net changes of items other than shareholders' equity			**554**		**554**	**2,031**	**(554)**	**(846)**	**632**	**10**	**1,196**
Net change in the year		**10**	**14,881**	**(4,909)**	**9,983**	**2,031**	**(554)**	**(846)**	**632**	**10**	**10,624**
Balance at March 31, 2014	**$41,845**	**$12,626**	**$58,865**	**$(9,633)**	**$103,703**	**$4,938**	**$23,338**	**$(846)**	**$27,430**	**$97**	**$131,230**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 (FY2013) and 2013 (FY2012)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2012	**FY2013**	**FY2013**
Operating activities			
Income before income taxes and minority interests	¥ 3,602	**¥ 3,055**	**$ 29,695**
Depreciation and amortization	846	**867**	**8,427**
Impairment losses	95	**148**	**1,439**
Amortization of goodwill	173	**173**	**1,682**
(Decrease) increase in allowance for doubtful accounts	(3)	**0**	**0**
Increase (decrease) in provision for sales promotion expenses	36	**(11)**	**(107)**
Increase in provision for retirement benefits	68	**—**	**—**
Decrease in net defined benefit liability	**—**	**(26)**	**(253)**
Increase in provision for directors' retirement benefits	39	**14**	**136**
Interest and dividend income	(25)	**(39)**	**(379)**
Interest expenses	193	**184**	**1,788**
Loss on retirement of noncurrent assets	22	**11**	**107**
Increase in notes and accounts receivable-trade	(1,224)	**(1,432)**	**(13,919)**
Decrease (increase) in inventories	53	**(1,413)**	**(13,735)**
Increase in other current assets	(88)	**(95)**	**(923)**
(Decrease) increase in notes and accounts payable-trade	(588)	**2,441**	**23,727**
Increase (decrease) in other current liabilities	109	**(41)**	**(399)**
Increase (decrease) in consumption taxes payable	144	**(202)**	**(1,963)**
Decrease (increase) in long-term prepaid expenses	4	**(23)**	**(224)**
Other, net	24	**7**	**68**
Subtotal	3,480	**3,618**	**35,167**
Interest and dividends income received	27	**41**	**399**
Interest expenses paid	(192)	**(184)**	**(1,789)**
Income taxes paid	(1,402)	**(1,583)**	**(15,387)**
Net cash provided by operating activities	1,913	**1,892**	**18,390**
Investing activities			
Payment into time deposits	(150)	**(152)**	**(1,477)**
Proceeds from withdrawal of time deposits	120	**156**	**1,516**
Purchases of property, plant and equipment	(1,099)	**(2,487)**	**(24,174)**
Purchases of investment securities	(369)	**(5)**	**(48)**
Payment of loans receivable to employees	(4)	**(2)**	**(19)**
Proceeds from collection of lease and guarantee deposits	5	**18**	**175**
Proceeds from withdrawal of long-term deposits	100	**—**	**—**
Other payments	(17)	**(15)**	**(146)**
Other, net	(8)	**(12)**	**(117)**
Net cash used in investing activities	(1,422)	**(2,499)**	**(24,290)**
Financing activities			
Net increase in short-term loans payable	40	**—**	**—**
Proceeds from long-term loans payable	3,150	**4,600**	**44,712**
Repayment of long-term loans payable	(3,156)	**(3,364)**	**(32,698)**
Redemption of bonds	(370)	**(370)**	**(3,597)**
Cash dividends paid	(207)	**(412)**	**(4,005)**
Purchase of treasury stock	(5)	**(503)**	**(4,889)**
Other, net	(166)	**(156)**	**(1,516)**
Net cash used in financing activities	(714)	**(205)**	**(1,993)**
Net decrease in cash and cash equivalents	(223)	**(812)**	**(7,893)**
Cash and cash equivalents, at beginning of year	6,598	**6,375**	**61,966**
Cash and cash equivalents, at end of year (Note 15)	¥ 6,375	**¥ 5,563**	**$ 54,073**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 (FY2013) and 2013 (FY2012)

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 2013 financial statements to conform to the classifications used in 2014.

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 ¥102.88 to US$1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its three (three in 2013) 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 2013) 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.

g. Intangible assets

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

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

h. Deferred charges

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

i. Land revaluation

Under the Law of Land Revaluation, the Group revalued the land owned for its business use on March 31, 2000, based on the enforcement ordinance concerning revaluation of land. The resulting revaluation surplus of land represents unrealized appreciation of land and is stated, net of income taxes, as a component of 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, 2014 and 2013, was ¥1,394 million ($13,550 thousand) and ¥1,436 million, respectively.

j. Losses on impairment of fixed assets

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

k. Retirement benefits

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

Unrecognized prior service cost is amortized on a straight-line basis over a period (11 years in 2014 and 2013) within the employees' average remaining service period at incurrence.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a period (11 years in 2014 and 2013) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

l. Provision for directors' retirement benefits

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

m. Provision for sales promotion expenses

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

n. Leases

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, 2014 and 2013.

q. Appropriation of retained earnings

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

r. Derivatives and hedging activities

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

s. Per-share information

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

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

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

The Group has adopted the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, revised on May 17, 2012, the "Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, revised on May 17, 2012, the "Guidance") applicable from the fiscal year ended March 31, 2014 (excluding the provisions set out in the main text of Paragraph 35 and Paragraph 67 of the Accounting Standard and the Guidance, respectively). Accordingly, projected benefit obligation, unrecognized actuarial gains (losses) and unrecognized prior service cost are reported as "Net defined benefit liability" from the fiscal year ended March 31, 2014.

In accordance with the transitional treatment stipulated in Paragraph 37 of the Accounting Standard, the effect of the changes is reported as "Remeasurements of defined benefit plans" in "Accumulated other comprehensive income" from the fiscal year ended March 31, 2014.

As a result, ¥960 million ($9,331 thousand) was recorded as "Net defined benefit liability." Accumulated other comprehensive income decreased by ¥87 million ($846 thousand). Net assets per share decreased by ¥2.16 ($0.021).

u. Unapplied accounting standards

・Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013)

・Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013)

・Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013)

・Revised Accounting Standard for Earnings per Share (ASBJ Statement No. 2, revised on September 13, 2013)

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

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

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

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

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

・Accounting Standard for Retirement Benefits (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.

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

3. FINANCIAL INSTRUMENTS

(1) Qualitative information on financial instruments

a. Policies for using financial instruments

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

b. Policies and systems for risk management

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

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

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

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

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

c. Supplemental information on fair values

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

d. Concentration of credit risk

At March 31, 2014 and 2013, 54.2% and 53.7%, respectively, of operating receivables were due from specific major customers.

(2) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2014 (FY2013) and 2013 (FY2012), are the following:

Assets	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Carrying value			
Cash and deposits	¥ 6,484	**¥ 5,668**	**$ 55,093**
Notes and accounts receivable–trade	10,291	**11,723**	**113,948**
Investment securities	1,571	**1,888**	**18,351**
Long-term deposits	700	**700**	**6,804**
Total	19,046	**19,979**	**194,197**
Fair value			
Cash and deposits	6,484	**5,668**	**55,093**
Notes and accounts receivable–trade	10,291	**11,723**	**113,948**
Investment securities	1,571	**1,888**	**18,351**
Long-term deposits	617	**622**	**6,046**
Total	18,963	**19,901**	**193,439**
Difference			
Cash and deposits	—	—	—
Notes and accounts receivable–trade	—	—	—
Investment securities	—	—	—
Long-term deposits	(83)	**(78)**	**(758)**
Total	¥ (83)	**¥ (78)**	**$ (758)**

Liabilities	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Carrying value			
Notes and accounts payable–trade	¥ 4,393	**¥ 6,834**	**$ 66,427**
Short-term loans payable	580	**580**	**5,638**
Bonds payable	735	**365**	**3,548**
Long-term loans payable	9,917	**11,153**	**108,408**
Total	15,625	**18,932**	**184,020**
Fair value			
Notes and accounts payable–trade	4,393	**6,834**	**66,427**
Short-term loans payable	580	**580**	**5,638**
Bonds payable	744	**369**	**3,587**
Long-term loans payable	9,981	**11,156**	**108,437**
Total	15,698	**18,939**	**184,088**
Difference			
Notes and accounts payable–trade	—	—	—
Short-term loans payable	—	—	—
Bonds payable	(9)	**(4)**	**(39)**
Long-term loans payable	(64)	**(3)**	**(29)**
Total	¥ (73)	**¥ (7)**	**$ (68)**

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 ¥80 million ($778 thousand) and ¥75 million as of March 31, 2014 and 2013, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2014 (FY2013), are summarized as follows:

	Millions of Yen			
	FY2013			
	1 Year or Less	More Than 1 Year, Less Than 5 Years	More Than 5 Years, Less Than 10 Years	More Than 10 Years
Cash and deposits	**¥ 5,668**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable–trade	**11,723**	**—**	**—**	**—**
Long-term deposits	**—**	**200**	**—**	**500**
Total	**¥ 17,391**	**¥ 200**	**¥ —**	**¥ 500**

	Thousands of U.S. Dollars			
	FY2013			
	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	**$ 55,093**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable–trade	**113,948**	**—**	**—**	**—**
Long-term deposits	**—**	**1,944**	**—**	**4,860**
Total	**$ 169,041**	**$ 1,944**	**$ —**	**$ 4,860**

4. INVESTMENT SECURITIES

Investment securities at March 31, 2014 (FY2013) and 2013 (FY2012), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Available-for-sale securities:			
Marketable equity securities	¥1,512	**¥1,827**	**$17,758**
Unlisted equity securities	75	**80**	**778**
Others	58	**61**	**593**
Total	¥1,645	**¥1,968**	**$19,129**

The carrying amounts and aggregate fair values of investment securities at March 31, 2014 and 2013, are as follows:

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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2014				
Available-for-sale:				
Value posted in consolidated balance sheet exceeds acquisition price	**$9,992**	**$6,892**	**$ —**	**$16,884**
Acquisition price exceeds value posted in consolidated balance sheet	**972**	**—**	**97**	**875**
Other	**573**	**18**	**—**	**593**
	$11,538	**$6,910**	**$ 97**	**$18,351**

	Millions of Yen			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value
March 31, 2013				
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

5. DERIVATIVE FINANCIAL INSTRUMENTS, HEDGING TRANSACTIONS

The Group 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 ¥388 million ($3,771 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, 2014 (FY2013) and 2013 (FY2012), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Corporate bonds	¥ 735	**¥ 365**	**$ 3,548**
Long-term loans	9,917	**11,153**	**108,408**
Total long-term debt	10,652	**11,518**	**111,956**
Less: current portion	(3,315)	**(2,919)**	**(28,372)**
	¥ 7,337	**¥ 8,599**	**$ 83,584**

Corporate bonds at March 31, 2014 (FY2013) and 2013 (FY2012), comprise the following.

Balance at March 31			Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Maturity
Issuer	Type	Issue Date	FY 2012	**FY 2013**	**FY2013**		
Nippon Chemiphar Co., Ltd.	Unsecured 5th issue	Mar. 31, 2009	¥100	**¥—**	**$—**	1.10	Mar. 31, 2014
	Unsecured 6th issue	Dec. 30, 2009	200	**100**	**972**	0.71	Dec. 30, 2014
	Unsecured 7th issue	Sep. 30, 2010	250	**150**	**1,458**	0.57	Sep. 30, 2015
Nihon Pharmaceutical Industry Co. Ltd.	Unsecured 3rd issue	Oct. 31, 2007	185	**115**	**1,118**	1.40	Apr. 30, 2015
Total			¥735	**¥365**	**$3,548**		

Note: Balance at March 31, 2014 (FY2013), includes current portion amounting to ¥270 million ($2,624 thousand).

The annual aggregate of matured bonds is as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥270	$2,624
2016	95	923
2017	—	—
2018	—	—
2019	—	—

Long-term loans at March 31, 2014 (FY2013) and 2013 (FY2012), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2012	**FY2013**	**FY2013**		
Current portion of long-term loans	¥2,945	**¥ 2,649**	**$ 25,748**	1.2	—
Long-term loans	6,972	**8,504**	**82,660**	1.3	2015–2023
Total	¥9,917	**¥11,153**	**$108,408**		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥2,100	$20,412
2017	2,771	26,934
2018	1,032	10,031
2019	1,112	10,809
2020 and after	1,490	14,483

The long-term loans include syndicate loan agreements amounting to ¥300 million ($2,916 thousand) and ¥1,200 million at March 31, 2014 and 2013, respectively. The agreement includes the following financial restriction provisions:

a. Operating income and ordinary income in the statements of income should not be negative for two consecutive years.
b. 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, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Aggregate agreed amount	**¥3,000**	**$29,160**
Used	**—**	**—**
Unused balance	**¥3,000**	**$29,160**

7. RETIREMENT BENEFITS

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

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

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

1. The liability for employees' retirement benefits at March 31, 2013 (FY2012) comprises the following:

	Millions of Yen
	FY2012
Projected benefit obligation	¥(4,836)
Fair value of plan assets	3,558
Funded status	(1,278)
Unrecognized actuarial net loss	573
Unrecognized prior service cost	(146)
Reserve for employees' retirement benefits	¥ (851)

2. The components of net periodic retirement benefit costs for the year ended March 31, 2013 (FY2012) are as follows:

	Millions of Yen
	FY2012
Service cost	¥405
Interest cost	77
Expected return on plan assets	(82)
Recognized actuarial loss	134
Amortization of prior service cost	(17)
Net periodic retirement benefit costs	¥517

3. Assumptions used for the year ended March 31, 2013 (FY2012), are as follows:

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

4. Contributory defined benefit pension plan

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

	Millions of Yen	Thousands of U.S. Dollars
Balance as of March 31, 2013	**¥4,760**	**$46,267**
Service cost	**213**	**2,070**
Interest cost	**76**	**739**
Actuarial gain/loss incurred	**34**	**331**
Pension and severance payments	**(312)**	**(3,033)**
Balance as of March 31, 2014	**¥4,771**	**$46,374**

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

	Millions of Yen	Thousands of U.S. Dollars
Balance as of March 31, 2013	**¥3,539**	**$34,399**
Expected return on plan assets	**89**	**865**
Actuarial gain/loss incurred	**259**	**2,518**
Business owner's contribution	**299**	**2,906**
Pension and severance payments	**(310)**	**(3,013)**
Balance as of March 31, 2014	**¥3,876**	**$37,675**

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

	Millions of Yen	Thousands of U.S. Dollars
Balance as of March 31, 2013	**¥57**	**$554**
Pension expenses	**10**	**97**
Pension and severance payments	**(2)**	**(19)**
Balance as of March 31, 2014	**¥65**	**$632**

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

	Millions of Yen	Thousands of U.S. Dollars
	FY2013	**FY2013**
Funded projected benefit obligation	**¥(4,737)**	**$(46,044)**
Plan assets	**3,876**	**37,675**
	(861)	**(8,369)**
Unfunded projected benefit obligation	**(99)**	**(962)**
Net of liability and assets reported on the consolidated balance sheet	**¥ (960)**	**$ (9,331)**

	Millions of Yen	Thousands of U.S. Dollars
	FY2013	**FY2013**
Net defined benefit liability	**¥(960)**	**$(9,331)**
Net defined benefit assets	**—**	**—**
Net of liability and assets reported on the consolidated balance sheet	**¥(960)**	**$(9,331)**

(5) Pension expenses

	Millions of Yen	Thousands of U.S. Dollars
	FY2013	**FY2013**
Service cost	**¥213**	**$2,070**
Interest cost	**76**	**739**
Expected return on plan assets	**(88)**	**(855)**
Recognized actuarial loss	**84**	**816**
Amortization of prior service cost	**(17)**	**(165)**
Periodic benefit costs calculated under the compendium method	10	**97**
Pension expenses	**¥278**	**$2,702**

(6) Remeasurements of defined benefit plans

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

	Millions of Yen	Thousands of U.S. Dollars
	FY2013	**FY2013**
Unrecognized prior service cost	**¥(129)**	**$(1,254)**
Unrecognized net actuarial gain or loss	**263**	**2,556**
Total	**¥134**	**$1,302**

(7) Plan assets

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

	FY2013
Stocks	**43%**
Bonds	**27%**
General account	**22%**
Other	**8%**
Total	**100%**

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

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

(8) Assumptions used for the years ended March 31, 2014 (FY2013), is as follows:

	FY2013
Discount rate	**1.6%**
Expected rate of return on plan assets	**2.5%**

2. Multi-employer pension fund

As the amount of plan assets corresponding to the Company's contribution cannot be rationally calculated under this system, the same accounting treatment is applied as for defined contribution plans. The amount contributed to employee pension schemes that are multi-employer pension funds for which the same accounting treatment is applied as for defined contribution plans is ¥171 million.

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

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

	Millions of Yen	Thousands of U.S. Dollars
	FY2013	**FY2013**
Plan assets	**¥465,230**	**$4,522,065**
Pension financing calculation of benefit obligation	**497,125**	**4,832,086**
Difference	**¥(31,895)**	**$(310,021)**

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

0.9%

(3) Supplemental information

Principal reasons for deductions to (1) above are the total of past service obligations of ¥49,513 million based on pension financing calculations and a shortage of ¥17,618 million. Also, the proportion indicated in (2) above and the Nippon Chemiphar Group's actual proportion of the burden do not match.

8. STOCK OPTIONS

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2014 and 2013, are ¥2 million ($19 thousand) and ¥1 million, respectively.

Following are details of the stock options the Company has as of March 31, 2014.

Stock option plans:	August 2008 plan	August 2011 plan
Number of grantees	6 directors, 8 employees	6 directors, 5 employees
Number of options	Common stock: 41,000 shares	Common stock: 72,000 shares
Date of grant	August 4, 2008	August 2, 2011
Exercisable period	August 5, 2011–August 4, 2014	August 3, 2014–August 2, 2017
Exercise price	¥516 ($5.02)	¥332 ($3.23)
Fair value at grant date	¥146 ($1.42)	¥85 ($0.83)

Changes in stock options outstanding for the years ended March 31, 2014 and 2013 are as follows:

Movement of stock options	August 2008 plan	August 2011 plan
Before rights settlement		
Outstanding as of March 31, 2012	—	72,000
Exercised	—	—
Forfeited	—	—
Outstanding as of March 31, 2013	—	72,000
Exercised	—	—
Forfeited	—	—
Outstanding as of March 31, 2014	—	72,000
After rights settlement		
Outstanding as of March 31, 2012	38,000	—
Exercised	—	—
Forfeited	—	—
Outstanding as of March 31, 2013	38,000	—
Exercised	4,000	—
Forfeited	—	—
Outstanding as of March 31, 2014	34,000	—

9. NET ASSETS

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

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

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

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

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

10. LEASE TRANSACTIONS

The Group leases certain equipment and other assets. Total lease payments for the years ended March 31, 2014 and 2013, were ¥3 million ($29 thousand) and ¥24 million, respectively. Pro forma information on leased property, such as acquisition cost, accumulated depreciation, obligation under finance leases, the depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an as-if-capitalized basis for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Acquisition cost:			
Machinery, equipment and vehicles	¥ 46	**¥ 7**	**$ 68**
Tools, furniture and fixtures	10	**10**	**97**
Total acquisition cost	56	**17**	**165**
Accumulated depreciation	45	**16**	**155**
Net leased property	¥ 11	**¥ 1**	**$ 10**

The above acquisition cost includes related interest expenses as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Obligations under finance leases:			
Due within one year	¥ 9	**¥ 1**	**$ 10**
Due after one year	2	—	—
Total	¥ 11	**¥ 1**	**$ 10**

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

Lease obligations at March 31, 2014 (FY2013) and 2013 (FY2012) comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Lease obligations	¥ 522	**¥ 469**	**$ 4,559**
Less current portion	(145)	**(143)**	**(1,390)**
Less obligations, less current portion	¥ 377	**¥ 326**	**$ 3,169**

The future minimum payments required at March 31, 2014 (FY2013), are as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥130	$1,264
2017	95	923
2018	52	505
2019	37	360

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% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2014 (FY2013) and 2013 (FY2012), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Deferred tax assets:			
Accrued enterprise tax	¥ 83	**¥ 46**	**$ 447**
Accrued bonuses	253	**238**	**2,313**
Allowance for doubtful accounts	28	**26**	**253**
Provision for sales promotion expenses	134	**121**	**1,176**
Provision for retirement benefits	303	**342**	**3,324**
Provision for directors' retirement benefits	118	**122**	**1,186**
Other	564	**700**	**6,804**
Subtotal	1,483	**1,595**	**15,503**
Less valuation allowance	(442)	**(470)**	**(4,568)**
Total	1,041	**1,125**	**10,935**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	78	**182**	**1,769**
Deferred tax liabilities on revaluation of land	1,392	**1,360**	**13,219**
Total	1,470	**1,542**	**14,988**
Net deferred tax liabilities	¥ (429)	**¥ (417)**	**$ (4,053)**

The reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2013 (FY2012) is as follows:

	FY2012
Normal effective statutory tax rate	38.0%
Expenses not deductible for income tax purposes	2.3
Per capita inhabitant tax	1.1
Change in valuation allowance	1.7
Research and development cost tax credit	(4.0)
Other–net	1.9
Actual effective tax rate	41.0

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

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

The "Act on Partial Revision of the Income Tax Act" was promulgated on March 31, 2014, repealing the special reconstruction surtax from fiscal years beginning on or after April 1, 2014. Accordingly, the statutory effective tax rate used for calculating deferred income tax assets and deferred income tax liabilities was reduced from 38.0% to 35.6%, resulting in a temporary difference in assets or liabilities extinguished in the fiscal year beginning April 1, 2014.

This change in the tax rate had the effect of reducing deferred income tax assets (net of deferred income tax liabilities) by ¥37 million, with deferred income taxes increasing by that same amount.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Advertising expenses	¥ 244	**¥ 268**	**$ 2,605**
Sales promotion expenses	3,687	**4,113**	**39,979**
Traveling expenses	493	**510**	**4,957**
Salaries and allowances	3,602	**3,603**	**35,021**
Commissions	875	**931**	**9,049**
Research and development costs	1,937	**1,668**	**16,213**

13. IMPAIRMENT OF FIXED ASSETS

For the year ended March 31, 2014 (FY2013) and 2013 (FY2012), the Group recognized impairment losses for the following assets:

		Millions of Yen		Thousands of U.S. Dollars
Asset	Description	FY2012	**FY2013**	**FY 2013**
Property scheduled to be closed (welfare facilities)	Buildings, tools, furniture and fixtures, and land	¥ —	**¥ 137**	**$ 1,331**
Property scheduled for disposal (research facilities)	Buildings, machinery, tools, furniture and fixtures	73	—	—
Idle assets (research facilities)	Buildings	—	**8**	**78**
Idle assets (research facilities)	Buildings, tools, furniture and fixtures	21	—	—
Idle assets (welfare facilities)	Buildings	—	**3**	**29**
Idle assets (welfare facilities)	Land	1	—	—
	Total	¥ 95	**¥ 148**	**$1,438**

The 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 to be closed, 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 ¥148 million ($1,438 thousand). The impairment loss includes ¥59 million ($573 thousand) for buildings, ¥0 million ($0 thousand) for tools, furniture and fixtures, and ¥89 million ($865 thousand) for land.

The recoverable value of the assets are estimated as their net sales value and land is estimated as their value based on Japanese inheritance tax law. The recoverable value of other fixed assets is estimated as their memorandum value.

14. AMOUNTS PER SHARE

Net assets per share at March 31, 2014 (FY2013) and 2013 (FY2012), and basic and diluted net income per share for the years then ended are as follows:

	Yen		U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Net assets	¥302.28	**¥336.97**	**$3.2754**
Basic net income	51.77	**46.20**	**0.4491**
Diluted net income	51.75	**46.17**	**0.4488**

The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Net income per share:			
Net income	¥ 2,125	**¥ 1,887**	**$18,342**
Net income available for distribution to shareholders of common stock	2,125	**1,887**	**18,342**
Weighted average number of shares of common stock outstanding (thousands of shares)	41,055	**40,852**	
Diluted net income per share:			
Increase in common stock (thousands of shares)	18,948	**24,112**	

15. CASH AND CASH EQUIVALENTS

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Cash and deposits	¥6,484	**¥5,668**	**$55,093**
Time deposits maturing over three months	(109)	**(105)**	**(1,020)**
Cash and cash equivalents	¥6,375	**¥5,563**	**$54,073**

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at March 31, 2014 (FY2013) and 2013 (FY2012).

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Trade notes discounted	¥689	**¥652**	**$6,337**

17. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2012	**FY2013**	**FY2013**
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥ 339	**¥ 312**	**$ 3,033**
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	339	**312**	**3,033**
Income tax effect	(66)	**(104)**	**(1,011)**
Total other comprehensive income	¥ 273	**¥ 208**	**$ 2,022**

18. SEGMENT INFORMATION

(1) Overview of reporting segments

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

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

(2) Methods of calculating sales, income or loss, assets, liabilities and other items 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 Companies as of and for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), is summarized as follows:

Millions of Yen

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

Thousands of U.S. Dollars

	FY2013				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
Sales to customers	**$299,116**	**$10,886**	**$310,002**	**$ —**	**$310,002**
Intersegment sales	**301**	**1,021**	**1,322**	**(1,322)**	**—**
Total sales	**299,417**	**11,907**	**311,324**	**(1,322)**	**310,002**
Segment profit	**31,979**	**369**	**32,348**	**—**	**32,348**
Segment assets	**$325,039**	**$20,140**	**$345,179**	**$ 44,654**	**$389,833**
Other:					
Depreciation	**7,669**	**710**	**8,379**	**—**	**8,379**
Amortization of goodwill	**1,682**	**—**	**1,682**	**—**	**1,682**
Impairment loss	**1,438**	**—**	**1,438**	**—**	**1,438**
Investment in affiliates	**340**	**—**	**340**	**—**	**340**
Capital expenditure	**32,717**	**10**	**32,727**	**—**	**32,727**

	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
Capital expenditure	1,146	8	1,154	—	1,154

Additional information

(4) Information about products and services

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

(5) Information about geographical areas

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

(6) Information about major customers

		Millions of Yen		Thousands of U.S. Dollars (Note 1)
Customer	Related Segment	FY2012	**FY2013**	**FY2013**
Mediceo Corporation	Pharmaceutical Products Business	¥6,330	**¥6,549**	**$ 63,657**
Alfresa Corporation	Pharmaceutical Products Business	¥6,029	**¥6,294**	**$ 61,178**
Toho Pharmaceutical Co., Ltd.	Pharmaceutical Products Business, Other Business	¥3,484	**¥3,498**	**$ 34,001**

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

Millions of Yen

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

Thousands of U.S. Dollars

	FY2013			
	Pharmaceutical Products Business	Other Business	Adjustment	Total
Unamortized balance of goodwill	**$1,682**	—	—	—

Millions of Yen

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

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

19. RELATED PARTY TRANSACTIONS

The related party transactions for the years ended March 31, 2014 (FY2013) and 2013 (FY2012), 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
		FY2012	**FY2013**	**FY2013**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,606	**¥1,727**	**$16,787**
Purchaser: the Company	Notes, accounts payable	¥ 617	**¥ 810**	**$ 7,873**

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2012	**FY2013**	**FY2013**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥1,052	**¥1,494**	**$14,522**
Purchaser: Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 360	**¥ 748**	**$ 7,271**

At March 31, 2014, the Company has 5.4% (5.4% at March 31, 2013) of the voting rights in Japan Sopharchim Co., Ltd., which has 17.6% (16.8% at March 31 2013) of the voting rights in the Company.

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

In addition, the representative director of the Company has 73.0% (73.0% at March 31 2013) of the voting rights in the Company.

20. RENTAL PROPERTY

The Company owns available-for-lease facilities in Tokyo and other areas. During the years ended March 31, 2014 (FY2013) and 2013 (FY2012), rental income on this real estate amounted to ¥26 million ($253 thousand) and ¥25 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
	FY2012	**FY2013**	**FY2013**
Carrying value[1] at beginning of year	¥745	**¥736**	**$7,154**
Decrease in book value during year	(9)	**(13)**	**(126)**
Carrying value[2] at end of year	736	**723**	**7,028**
Fair value at end of year	558	**543**	**5,278**

Notes: 1. The carrying value represents acquisition cost less accumulated depreciation.

2. Fair value as of March 31, 2014 and 2013, for principal properties is primarily the real estate appraisal value as determined by an outside real estate appraiser. For other properties, fair value is determined by the Company based on appraisal amounts and indices that are judged to reflect market value.

Corporate Data

（As of March 31, 2014）

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Other Offices:

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Established: June 16, 1950

Capitalization: ¥4,305 million

Employees: 699 (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: 6,302

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