Nippon Chemiphar Co., Ltd.

CORPORATE REPORT **2018**

Paralym Art

NIPPON CHEMIPHAR CORPORATE REPORT 2018

Contents

◆ Editorial Policy

This report contains information recognized as being of high importance to stakeholders, such as the Nippon Chemiphar Group's business strategy, financial information, and corporate social responsibility-related information.

◆ Scope of This Report

- Reporting period: April 1, 2017–March 31, 2018
- Reporting companies: Nippon Chemiphar Co., Ltd. and its Group companies

Note Regarding Forward-looking Statements

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

Cover painting
It was provided by Paralym Art, an association that assists people with disabilities to achieve economic independence.

Paralym Art®

Title: **Hello, My Friends**
About the artist: **Jci**
Born in 1978 in Fujisawa, Kanagawa Prefecture, artist Jci works in a studio as an artist. This mentally disabled young lady is known for the bright colors she uses and the cheering effect they have on viewers. The painting we have chosen depicts friends having fun playing together.

Business Philosophy

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

Nippon Chemiphar—established in 1950—has concentrated its resources on generics business since 2000, in addition to the manufacture and marketing of original formulations with distinctive characteristics. As a manufacturer of both new and generic drugs, we are one of the few pharmaceutical companies in Japan to cover the full generic drug value chain, from development through to manufacturing and marketing.

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

Fulfilling our goals will contribute to society

Nippon Chemiphar's Three Plus 1 Principal Goals

We believe that by accomplishing the three principal goals we have set, the contribution we make to society will lead to further growth for the Company. To make that growth sustainable, we are expanding our business internationally.

Generic Drugs

Secure our presence in the generics business

Goal 1

Hyperuricemia (Urine alkalization)

Achieve a stronger position in the hyperuricemia market, centered on Uralyt

Goal 2

Pharmaceutical products

Generic drugs

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

Generic drugs sales: ¥30,115mn

- To medical institutions:* ¥29,174mn
- To other makers: ¥941mn

☞ Please refer to pages 11–13 for details.

*Sales to other manufacturers of products for which the Nippon Chemiphar Group has manufacturing and sales approval.

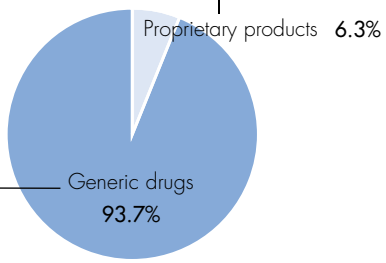
Pharmaceutical products

Proprietary products

We are collaborating with outside institutions to search for new areas of utilization for proprietary products.

Proprietary products sales: ¥2,038mn

☞ Please refer to pages 14 and 16 for details.



FY2017 Breakdown of Pharmaceutical Product Sales

In-house Drug Discovery and development

Contribute to society through proprietary developments leading to drug discovery

Overseas Development

Apply our three goals to overseas markets centered on Asia.

Goal 3

Plus 1

Pharmaceutical products

Drug discovery

We are aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs focused on our specialties of hyperuricemia and pain.

☞ Please refer to pages 15 and 16 for details.

Diagnostics

We develop and market clinical laboratory equipment and reagents that meet the needs of patients and medical professionals, indicating our support for medical care.

☞ Please refer to page 4.

Overseas business

A factory was built in Vietnam in order to strengthen production capacity and reduce costs. This is essential, since we are also expanding sales in China and the ASEAN region.

☞ Please refer to page 17.

Others

Contracted Testing

We support the creation of safe, high-quality products through clinical and non-clinical testing as part of drug development.

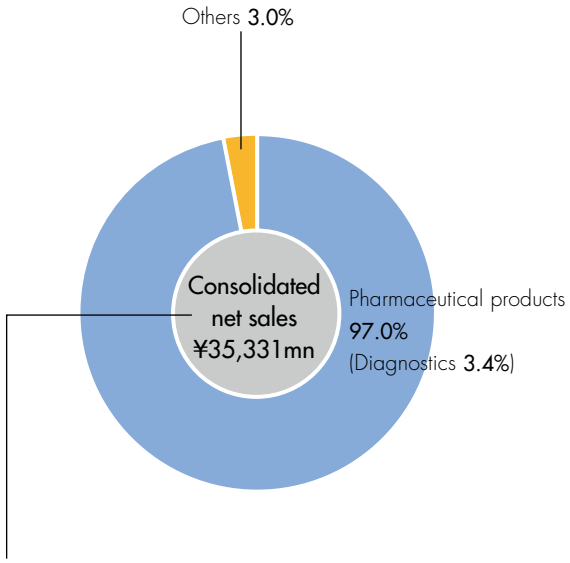
☞ Please refer to page 5.

Healthcare-related products

As a pharmaceutical product manufacturer, we make a difference in people's lives and provide a high level of value added.

☞ Please refer to page 5.

FY2017 Breakdown of Consolidated Net Sales



I Pharmaceutical Products

1. Pharmaceuticals

Pharmaceutical Sales Progression

Research and Development

Launching a new drug on the market takes between nine and 16 years from the commencement of R&D. Expenses for new drug R&D may range from several tens of billions of yen to ¥100 billion or more. In contrast, a generic drug may take as little as three to four years to reach approval, while development expenses may be as low as several hundred million yen.

Hence, it is possible to sell generics for prices that are lower than those of new drugs, which contributes to a reduction in national medical subsidies and burdens on patients. The Group's in-house generics therefore can be said to reflect the needs of medical professionals and patients alike.

Manufacturing

Pharmaceuticals are manufactured according to extremely strict regulations and standards. The Nippon Chemiphar Group takes great care in overseeing all stages of processing, from the selection of active pharmaceutical ingredients to the transportation of finished products. Further, in response to growing demand, we are instituting initiatives to ensure stable supplies of the medicines we produce and to reduce costs.

Thus, for example, we are augmenting the output of Tsukuba Factory Building No. 3. Owned by Group company Nihon Pharmaceutical Industry Co., Ltd., the cutting-edge facility is the first seismic-isolated pharmaceutical factory in Japan.

In addition, preparations are proceeding smoothly in Vietnam for the start, in the second half of fiscal year 2018, of full-scale operations at our first overseas factory, in Binh Duong Province.

Marketing and Provision of Information

Pharmaceutical companies are mandated by law to conduct post-marketing surveillance. Through its team of medical representatives assigned nationwide, the Group collects and provides information. The information relating to the needs of healthcare professionals and patients, as well as that on product quality and side effects, is useful for developing new products and improving existing ones. The Group believes that it is our duty, to provide a summary of the information gathered as feedback to medical institutions and dispensing pharmacies.

(1) Generic Products

To lessen the burden on patients and improve the financial administration of the nation's health insurance system, the Japanese government is promoting the use of generic drugs. To this end, a new utilization objective has been set that would raise the share of prescriptions for generic drugs to 80% or above no later than the end of September 2020. The Nippon Chemiphar Group thus is applying its integrated capabilities to the development, manufacture and marketing of new drugs and generics. Ultimately, we are pursuing the development of those generics that reflect the needs of patients and healthcare professionals.

☞ Please refer to page 11 for details.

(2) Proprietary Products and Drug Discovery

As a manufacturer of new drugs, Nippon Chemiphar strives to develop products with distinctive features. At present, we have three proprietary products: alkalization therapeutic drug Uralyt-U, analgesic and anti-inflammatory drug Soleton, as well as hypertension therapeutic drug Calvan. Although all three have been on the market for a long time, we are pursuing clinical research aimed at opening up potential in new therapeutic fields.We are also aggressively pursuing drug discovery themes that have the potential to lead to groundbreaking new drugs focused on our specialties of hyperuricemia and pain.

☞ Please refer to page 15 for details.

2. Diagnostics

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

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

Further, we are conducting marketing in Japan and overseas, and now business is being developed in China with a technological tie-up.

● IgE NC: Reagent to measure allergen-specific IgE

The reagent is used to test for antibodies to substances that cause patient allergies (extracorporeal diagnostic).

● DP3000: Device for allergen-specific IgE measurements

The first result is produced in 12 minutes, and 39 tests can be carried out in 90 minutes.

● ISO 13485

Nippon Chemiphar[1] received certification under the ISO 13485 quality management system for medical devices in April 2012. We provide high-quality products through both this quality assurance system based on an international standard, and the quality management system stipulated under Ministry of Health, Labour and Welfare regulations.[2]

● CE Declaration of Conformity Marking

In FY2013, Nippon Chemiphar issued CE Declaration of Conformity markings for DP3000 and IgE NC.

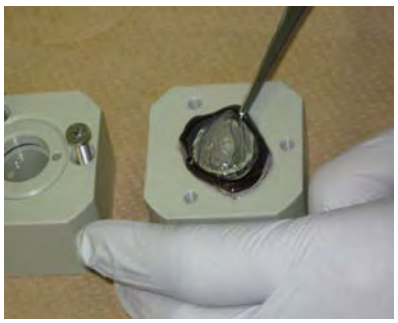
1. This includes divisions of Nippon Chemiphar involved in the design and development of extracorporeal diagnostics, purchasing, and quality assurance. Divisions at the Tsukuba Factory of Nihon Pharmaceutical Industry involved in the manufacture of extracorporeal diagnostics are also included.
2. Regulations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

II Others

1. Contracted Testing

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

The Safety Research Institute for Chemical Compounds Co., Ltd., our Group company, keeps challenging various forward businesses. These include the development of alternative methods to animal experiments, using the Bovine Corneal Opacity and Permeability test, as well as test systems for regenerative medicine. Moreover, since the end of 2017, the company has been using Good Laboratory Practice-approved safety testing of medical equipment with pigs. It is the first company to do so in Japan.



Testing at Group company Safety Research Institute for Chemical Compounds, the first Japanese company to commercialize an alternative to animal testing with the Bovine Corneal Opacity and Permeability test method.

A good laboratory practice compliance certificate for a regenerative medication

2. Healthcare-related Products

The Nippon Chemiphar Group handles a diverse array of healthcare products, including nutrients, health foods, cosmetics and various types of creams, classified as quasi-drugs because they contain a certain concentration of particular ingredients.

Amid the rising needs surrounding consumer self-medication, we are leveraging trustworthiness and the development expertise we have gained as a pharmaceutical product manufacturer to make a difference in people's lives and provide a high level of added value. In 2017, we began selling Green Juice Moringa Blend, a health food containing the superfood Moringa, which these days is attracting attention.

● Quasi drug

Moisporia White (Hand cream)

● Cosmetics

SKINDIET (Skin moisturizer with natural ingredients)

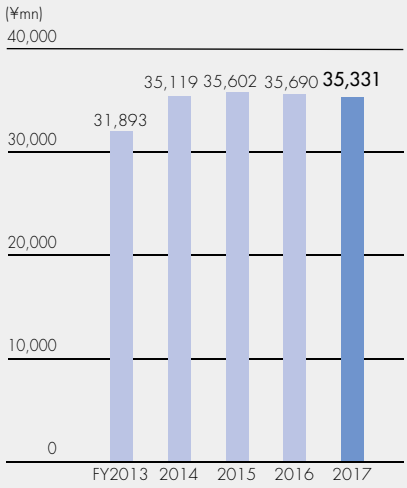
● Health products

Coenzyme Q10 (For those concerned about beauty and maintaining health)
Hime-matsutake (Agaricus blazei Murrill)
Green Juice Moringa Blend (For people who desire beautiful skin, weight loss, or heightened immunity)

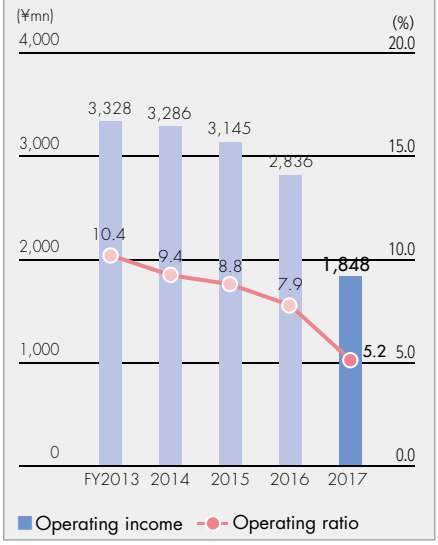
Green Juice: Launched in February 2018

Financial Highlights

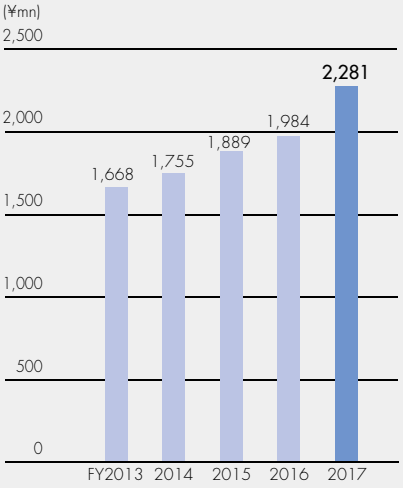
Net Sales



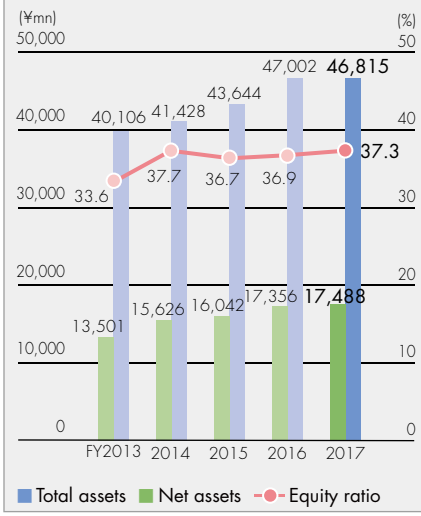
Operating Income



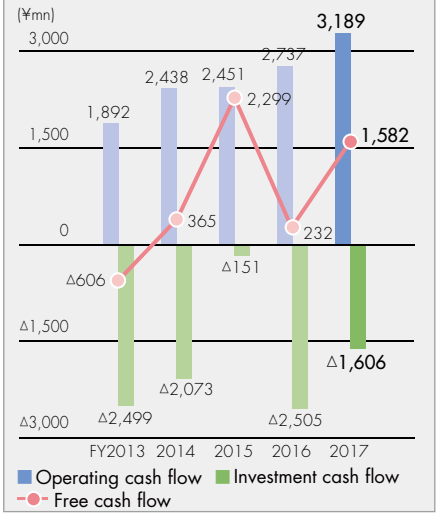
R&D Expenses



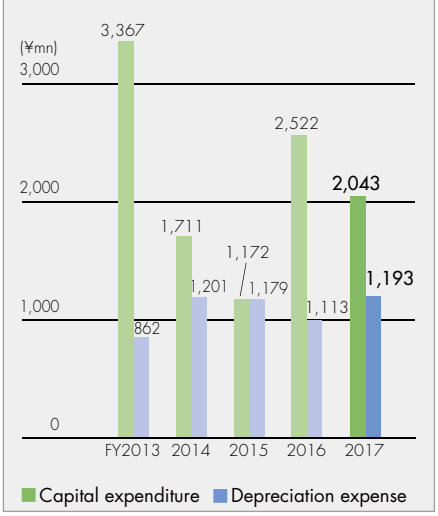
Total Assets, Net Assets, Equity Ratio



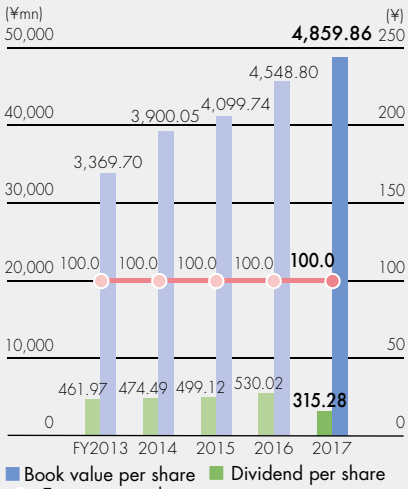
Cash Flows



Capital Expenditure, Depreciation Expense

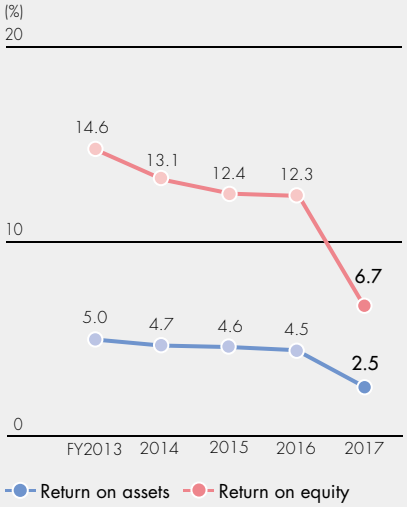


Amounts per Share*

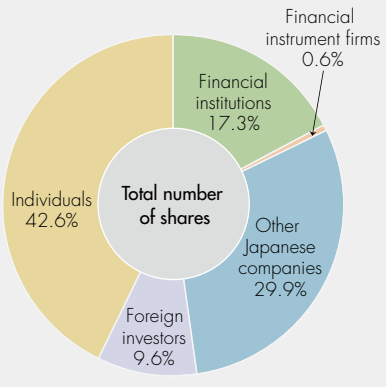


*Following a 10:1 reverse stock split on October 1, 2016, per share data have been adjusted as if the split had been conducted at the start of FY2013.

ROE, ROA



Composition of Shareholders (As of March 31, 2018)



Message to Our Stakeholders

Under Japan's Basic Policy on Economic and Fiscal Management and Reform, 2017, the NHI drug pricing system will undergo drastic reform. The April 2018 NHI drug price revisions call for new mechanisms that have a significant effect on the whole pharmaceutical industry.

A premium has been introduced to promote new-drug creation and resolution of off-label use, evaluate new-drug innovation methods, and devise a new framework for calculating prices on long-listed drugs (original drugs with generic equivalents) and generics. While I believe the direction of the reforms is unavoidable, some worry that only National Health Insurance drug prices will bear the brunt of the reforms, making the industry future uncertain.

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

Given the dizzying changes in the environment surrounding our industry in Japan, we augmented this strategy in 2015 with an additional goal: Plus 1, representing our expansion into overseas markets.

In addition to generic drugs, which are currently driving our earnings, in recent years we have begun to see results in the hyperuricemia market and in-house drug discovery. This should enable us to accomplish our three goals and further accelerate the Plus 1 initiatives.

To lower patient costs and reduce government healthcare expenditure—despite Japan's ever-changing economic and pharmaceutical industry environments—the Nippon Chemiphar Group will follow this growth strategy, to ensure that our contribution to society and business expansion are maintained.

We look forward to the continued support of all our stakeholders in these endeavors.

山口一城

Kazushiro Yamaguchi
President & CEO
June 2018

Interview with the President & CEO

Q What is the outlook for FY2018?

A **Although market growth has slowed, newly launched drugs are expected to result in higher net sales. However, we expect a lower operating profit as a result of R&D, and other strategic investment expenses such as the initial cost of our factory in Vietnam.**

According to external data, in FY2017 the generic drug market grew about 15%, based on NHI drug prices, but aspects of this growth have changed over the past year. Until recently, the generic drug market had expanded with new product launches and growth in the quantity of existing products.

However, in terms of existing product quantities, there has been a slow-down because replacement to generics has advanced mainly on large sized products in the growth in the quantity of generics on the market.

In terms of new product launches, authorized generics—generic drugs manufactured using the same ingredients and processes as their brand counterparts—now account for a much larger share of the market.

This has left several manufacturers of generic drugs other than authorized generics struggling for a piece of what remains of the market pie.

The Group forecasts that, despite the impact of NHI drug prices, generic drug sales will be approximately the same in FY2018 (ending March 31, 2019) as they were last fiscal year. This is due to the focus on drugs launched this year, initiatives in the field of oncology, and the expansion of sales channels.

At the same time, we expect sales of proprietary products to decline 19.0% year on year, as a result of their increased substitution in Japan by generic drugs; and overall pharmaceutical sales to fall 1.1% year on year to ¥31.8 billion. Consolidated net sales, meanwhile, are expected to increase 0.5% year on year to ¥35.5 billion.

In terms of income, the new drug pipeline we are developing will push up development expenses, and we expect to incur testing expenses associated with Nippon Chemiphar Vietnam Co. Ltd. starting commercial production.

As a result, we foresee a 40.5% year-on-year decrease in operating income to ¥1.1billion, due to our proactive investment. This is necessary to ensure we remain competitive in the generics drug market, and to develop a future driving force for earnings. We ask all of our stakeholders for their kind understanding in this regard.

Consolidated Sales and Income

(¥mn)

	FY2017		FY2018 (Forecasts)		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Net Sales	35,331	100.0%	35,500	100.0%	+0.5%
Pharmaceuticals	32,153	—	31,800	—	(1.1%)
Generics	30,115	—	30,150	—	+0.1%
Proprietary products	2,038	—	1,650	—	(19.0%)
Operating income	1,848	5.2%	1,100	3.1%	(40.5%)
Profit attributable to owners of parent	1,160	3.3%	500	1.4%	(56.9%)

What progress is being made at the Vietnam factory?

We are currently testing pharmaceutical manufacturing, as well as import and export procedures. We expect to commence with supplies for the Japan market in 2018.

We had been preparing manufacturing lines since receiving delivery of the building in March 2017. Then, in September of that year, we invited Vietnamese government officials and related parties in Japan to our factory for a completion ceremony. The Company received many congratulatory messages from people in Japan's government. We sensed that this was not seen as a case simply of one company having an overseas factory but, rather, as something that can be expected to be a positive example of Japanese corporate investment in Vietnam. Such investments are expected to increase.

We are testing pharmaceutical manufacturing, as well as import and export procedures. If everything goes smoothly, we expect to be able to begin delivering products manufactured in Vietnam to medical institutions in Japan within this year.

The number of products being developed has increased. How are things progressing in this regard?

Japan's Agency for Medical Research and Development selected NC-2800 for public funding, while support for, and development of, our other drugs is proceeding smoothly.

In terms of new drug development, NC-2500 (xanthine oxidoreductase inhibitor), NC-2600 (P2X4 receptor antagonist), and NC-2700 (URAT1 inhibitor) are all progressing through stages of development according to plan, and we are preparing to license them out to both domestic and international companies.

In addition, in January 2018, NC-2800 (a delta opioid receptor agonist) was selected for public funding by a Japan Agency for Medical Research and Development (AMED) project for Cyclic Innovation for Clinical Empowerment (CiCLE). This year, the drug is progressing through development stages, supported by AMED.

The drug has garnered praise for its potential as a mood regulating agent with a new functional mechanism, and our expectations are high.

In addition, we are collaborating with domestic and international companies to research new possibilities for proprietary products.

Development Pipeline

Item	Function (Target)	Stage		
		Preclinical	Phase 1	Phase 2
NC-2400	PPAR-delta agonist delta agonist			Finished Phase 1. licensed.
NC-2500	XOR inhibition (Hyperuricemia)			Finished Phase 1. Conducting licensing activities.
NC-2600	P2X4 receptor antagonist (Neuropathic pain)			Finished Phase 1. Conducting licensing activities.
NC-2700	URAT1 inhibition (Hyperuricemia)		Finished preclinical trial. Conducting licensing activities	
NC-2800	Delta opioid receptor agonist (Depression/Anxiety)		Finished preclinical trial. Preparing for Phase 1.	
Soleton	NSAID (Diffuse-type tenosynovial giant cell tumor and others)			
Calvan	α1β1 blocker (Huntington's disease)			

What influence do the 2018 NHI drug price revisions have?

These revisions represent a bigger change in the rules than we have ever seen before and they will require countermeasures on all fronts, including in the areas of manufacturing costs and marketing activities.

My Chinese Zodiac animal is the dog and, for some reason, a major milestone—either for me personally or for the Company—seems to occur every 12 years in the year of the dog. I became president of the Company when I was 36, and we set our three new Group strategy missions and resumed of dividends when I was 48. This year, when I turn 60, NHI drug price revisions came into effect that include unprecedentedly large rule changes.

I believe this year's revisions will change the paradigm for the entire pharmaceutical business, including new drugs, long-listed drugs (with expired patents) and generic drugs.

Although these revisions preserved the three price ranges for generic drugs, it was also decided that, starting in 2020, generic drugs that had been launched 12 or more years earlier would basically fall into one price range. Moreover, due to the increase in consumption tax planned for next year, NHI drug price revisions could occur each year.

To date, the Company has introduced measures to reduce manufacturing costs such as reduction of the cost of active pharmaceutical ingredients and products purchased as well as to the construction of our factory in Vietnam, in response to intensified competition in the generic drug market.

In future, we shall need to intensify these initiatives. In marketing, we will also need to open and diversify sales channels and utilize comprehensive sales activities that are in compliance with the new rules.

Nippon Chemiphar Co., Ltd. will soon celebrate its 70th anniversary. What is your vision for the Company's future?

I want to make Nippon Chemiphar into a company that can continue to innovate.

By 2030, I want to have made Nippon Chemiphar into a company that can continue to innovate. Achieving this goal requires fundamental principles that encourage innovation.

Ray Kroc, who built the McDonald's chain, left behind these famous words: "Be daring, be first and be different." Surely, this is precisely the kind of fundamental principle that will produce innovation.

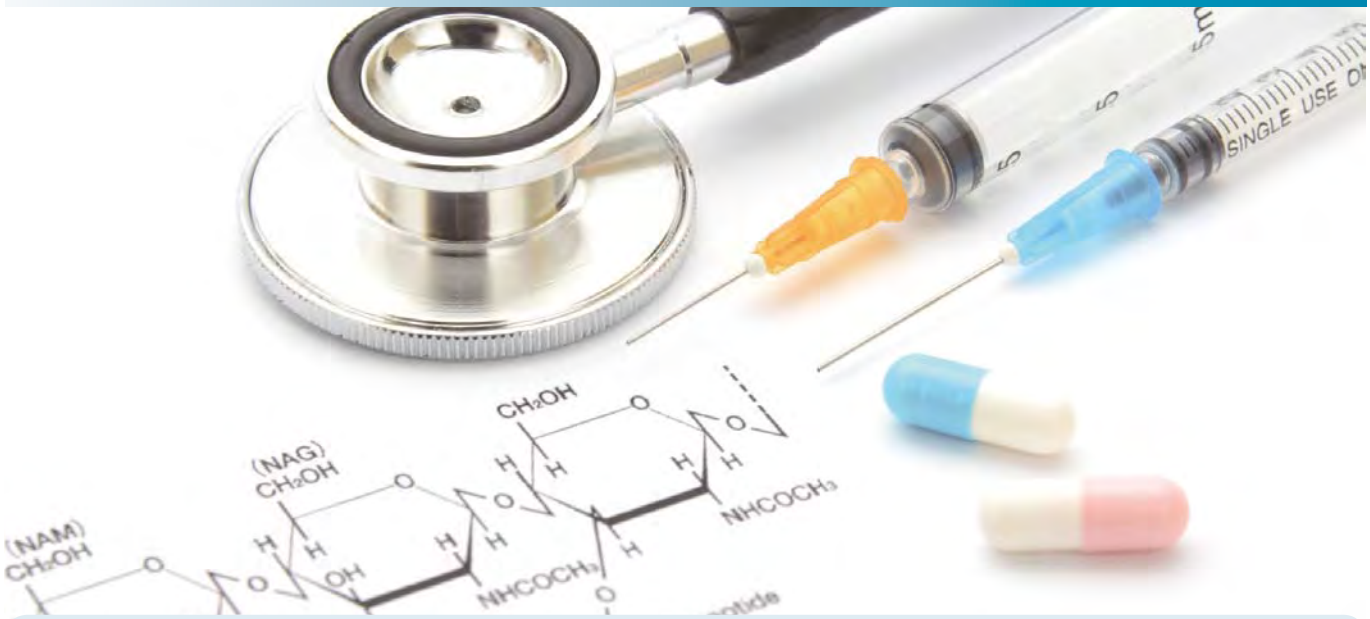
When the Company set out its three goals in 2000, some individuals around us were skeptical, considering them difficult to accomplish. However, when I looked at the circumstances surrounding the financial administration of the nation's health insurance system, I was sure that generic drugs would eventually assume greater importance.

Further, as hyperuricemia's mechanisms and effect on the human body became clear, I was convinced that the market for its treatment would expand and even if we switched to a specialized form of exploratory research, it would be necessary to for our Company's future to develop new drugs. I believed that, under these circumstances, even if our road differed from that of others, we needed to be both daring and first.

Up until now, I have always pushed employees to pursue new challenges, saying, "Never fear a wound on your forehead" (Meaning: On the road to innovation, we may face failures—namely, the wounds on the forehead. But, without these wounds, innovation is not possible).

While recognizing the importance of this fundamental principle, I want to cultivate a corporate character that allows us to innovate by boldly taking up challenges. And in the future, we aim to become a corporate Group realizing earnings from global markets with NC-2600, NC-2800, and other innovative drugs that are truly first-in-class.

Initiatives to Realize Our Goals



Since 2000, Nippon Chemiphar has promoted a basic management strategy based on three goals: establishing a strong presence in the generics business; becoming a leader in the treatment of hyperuricemia, with a focus on Uralyt; and pursuing in-house drug discovery and development.

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

By simultaneously pursuing the above initiatives, with different timelines, we believe the Company can achieve sustainable growth.

To this end, we intend to strengthen our overseas initiatives with a focus on Asia, so that we improve results in those areas where achievements have already been attained.

Goal 1

Secure our presence in the generics business

As a Group that possesses integrated capabilities in the development, manufacture and marketing of not only new drugs but also generics, Nippon Chemiphar strives to provide high-quality, economical generic drugs, which meet the needs of patients and healthcare professionals.

Goal 2

Achieve a stronger position in the hyperuricemia market, centered on Uralyt

In recent years, advances in research have suggested that hyperuricemia therapies are very important. Through such activities as support for clinical research related to alkalization therapies and drug discovery research for new hyperuricemia therapeutic drugs, we aim to make future contributions to enhancing patient quality of life.

Goal 3

Contribute to society through proprietary developments leading to drug discovery

We adopt a system of venture-type drug-discovery research, according to which we out-license—typically at an early stage—the development of newly found compounds to highly specialized companies in Japan and abroad.

Plus 1

Apply our three goals to overseas markets centered on Asia.

Centered on the high-growth Asia region, demand is growing in such areas as therapeutic drugs for lifestyle-related diseases—including hyperuricemia—and value-added generic drugs. And due to the decreasing population associated with a falling birthrate and aging society, as well as concerns about public finance, we see a shrinking Japanese market as unavoidable. We intend to utilize the accomplishments of our above three goals to strengthen our presence in overseas markets.

Goal 1

Initiatives Involving Generics

As one of its ongoing initiatives to hold down rising healthcare expenses, the Japanese government is promoting the use of generics. Accordingly, demand for generics has increased sharply in recent years. In 2000, the Nippon Chemiphar Group positioned generics as a strategic business taking the lead among companies focused on new drug development. By leveraging our expertise in new drug business and knowhow cultivated for many years in the generics business, we will work to maintain high quality and stable supplies. At the same time, we will concentrate on providing accurate information and manufacturing products catering to the needs of medical professionals and patients. By providing unique added value, we aim to increase our presence in this market.

1. Overview of FY2017 Operations

In FY2017, the Nippon Chemiphar Group's consolidated sales of generics amounted to ¥30,115 million, up 3.1% year on year. This was due to a rise in sales to medical institutions, as new drugs landed on the market and sales channels—primarily those of Group companies—expanded.

The rise offset lower-than-expected growth in sales to other manufactures,[1] because orders from existing business partners did not grow as expected. Overall generics sales, including those involving original design manufacturing (ODM) products,[2] amounted to ¥31,100 million, up 2.2% year on year.

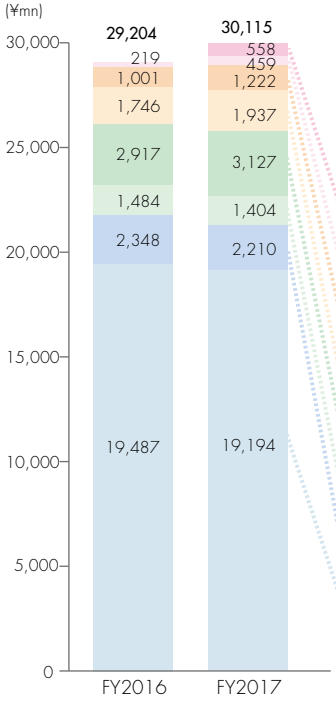
Pharmaceutical Sales (Consolidated) (¥mn)

	FY2016		FY2017		
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)
Total (a+b)	31,513	100%	32,153	100%	+2.0%
a. Generics	29,204	92.7%	30,115	93.7%	+3.1%
To medical institutions	27,808		29,174		+4.9%
To other makers	1,395		941		(32.6%)
Amlodipine	2,865		2,940		+2.6%
Lansoprazole	2,279		2,163		(5.1%)
Donepezil	1,642		1,557		(5.2%)
Rabeprazole	1,586		1,558		(1.8%)
Limaprost Alfadex	1,469		1,427		(2.8%)
Pravastatine	1,173		1,147		(2.2%)
Voglibose	957		870		(9.1%)
Others	17,229		18,449		+7.1%
b. Proprietary products	2,308	7.3%	2,038	6.3%	(11.7%)
Uralyt	1,409		1,225		(13.1%)
Soleton	679		598		(12.0%)
Calvan	219		214		(2.1%)
Total (a+c)	30,445	–	31,100	–	+2.2%
c. ODM generics	1,240	–	985	–	(20.6%)

(1) Sales to Medical Institutions

Sales of generic drugs to medical institutions were up 4.9% year on year, owing to favorable sales of superior pharmaceuticals and oncology products, as well as the addition of new sales channels by Nihon Pharmaceutical Industry Co., Ltd.

Sales of Generics by Launch Year (Consolidated)



Year-on-year Change by Fiscal Year Launched

Launch Year	Total	Sales to Medical Institutions (%)
2017	–	
2016	+109.1%	+149.6%
2015	+22.1%	+19.6%
2014	+11.0%	+13.0%
2013	+7.2%	+7.6%
2012	(5.4%)	+5.8%
2011	(5.9%)	+0.6%
2010 and before	(1.5%)	(0.4%)

Sales to medical institutions, mainly of recently launched products, have been expanding year on year.

1. Sales to other manufacturers of products for which the Nippon Chemiphar Group has manufacturing and sales approval.
2. Sales of products manufactured on an outsourcing basis for other companies that have manufacturing and sales approval.

(2) Sales to Other Makers

Sales of generics to other manufacturers dropped 32.6% year on year, as increasingly severe competition led to lower-than-expected orders from existing business partners. Sales of ODM generics also fell, down 20.6% year on year, to ¥985 million.

2. Future Initiatives

(1) Development

Since making generics a pillar of our business in 2000, we have created our own system for the development of generics. In FY2017, we launched sixteen drugs from five agents, centered on items developed in-house. That brought the number of products we handled to a total of 225 (as of March 31, 2018).

Furthermore, in recent years we have worked to increase the degree of certainty in development, improve drug formulations, and introduce creative packaging. For these efforts to meet needs on the medical front, and to develop highly competitive products, we made early development inroads and strengthened our intellectual property and development systems. The market for generics is expected to expand as patents expire on branded drugs that have maintained a certain market scale. Meanwhile, competition between companies is intensifying, due to the rise of authorized generics in the market.

To maintain our strong standing under these circumstances, we must improve the quality of developed products by leveraging our comprehensive development capabilities, namely, our ability to be the first to bring products to market, and to reflect medical needs in our formulations. By concentrating and efficiently managing our development resources, we aim to create products that will earn a solid reputation in the market.

☞ Please refer to page 21 for information on drug formulations and packaging.

(2) Manufacturing

We recognize that ensuring production capacity and lowering costs are of particular importance as demand for generic drugs expands. We are responding with initiatives in Japan and overseas. After Nippon Chemiphar Vietnam's factory begins full-scale operation, the Group's annual production capacity will increase to 2.0 billion pills, up from 900 million, which was the production capacity before Building No. 3 at the Nihon Pharmaceutical Industry's Tsukuba Factory was completed in June 2014. With the Vietnam factory in operation, we aim to reduce production costs by about 20–30%, and are preparing to begin commercial production this year, after which we shall start hiring and training local individuals, as well as exporting the products to Japan.

☞ Please refer to page 17 for overseas manufacturing.

The Vietnam factory

Sales by Medical Institutions

Looking at Chemiphar's nonconsolidated sales of generics— based on the type of medical institution buying our generics— hospitals account for 15%, clinics 11%, and pharmacies 74%.

Composition of Generics Sales by Destination (Non-consolidated)

(%)

	FY2015	FY2016		FY2017*	
	Distribution	Distribution	YOY	Distribution	YOY
Total	100	100	(0.6)	100	(0.1)
Hospitals (100 beds or more)	14	15	+3.2	15	+0.9
Clinics (less than 100 beds)	12	12	(5.2)	11	(2.0)
Of which, DPC hospitals	–	–	+5.3	–	+0.4
Pharmacies	74	73	(0.6)	74	+0.1

* Our nationwide share of the generics market for fiscal 2017—on a non-consolidated basis—is 80% for the 1,700 or so DPC hospitals, and 70% for the some 58,000 dispensing pharmacies.

(3) Quality Assurance

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

(4) Ensuring a Stable Supply Structure

a. Distribution System Using Pharmaceutical Wholesalers

As generics become more prevalent, individual manufacturers are taking on growing responsibilities with regard to supply stability, requiring carefully crafted logistics systems. As with new drugs, we deliver our generics via nationwide pharmaceutical wholesalers, which have a robust logistics network to supply medical institutions throughout Japan.

b. Double-sourcing Active Pharmaceutical Ingredients (APIs)

Providing a steady supply of drugs requires efforts to both reinforce manufacturing capacity and ensure the stable procurement of APIs. The Ministry of Health, Labour and Welfare's roadmap designed to further promote the use of generic drugs addresses the stable procurement of APIs and calls for doublesourcing (having multiple suppliers). To meet the requirement, we are strengthening our inspections to secure optimal API suppliers in Japan and overseas.

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

Providing more patients with safe, convenient products

Nippon Chemiphar products provide healthcare professionals and patients with innovations related to safety and convenience. Thus, doctors and pharmacists commend us for our initiatives aimed at ensuring their safety and that of patients. One of our safety measures is our Chemiphar Guard external packaging, designed to protect those handling our anti-cancer agents from exposure to them. We will see that our medical representatives ensure that our pharmaceutical ingenuity continues to contribute to medical treatment.

Miki Kanetake
Tokyo Branch Sales Office1

Goal 2

Hyperuricemia (Urine alkalization)

Nippon Chemiphar has developed Uralyt, an alkalization treatment, and we have worked for many years to raise awareness of hyperuricemia. Since the condition recently has been recognized as a pre-gout stage, attention has focused on events related to metabolic syndrome and the cardiovascular system. Through ongoing activities such as these, we are contributing to improvements in the quality of life of patients as a frontrunner in the hyperuricemia market.

1. Awareness Activities

(1) Research Group-based Initiatives

We have been cosponsoring the Hyperuricemia and Metabolic Syndrome Research Forum since its founding in 2004.

(2) Web-based Initiatives

We provide general information websites about hyperuricemia and gout, offering information tailored to the different needs of medical professionals and patients. Our patient-oriented website concerning gout includes such content as healthy recipes and offers tips on selecting foodstuffs and cooking methods, as well as well-balanced nutrition therapies and other information.

Our website features a section on recipes and information pertaining to the treatment of gout.

2. Market Expansion Initiatives

Besides efforts to raise awareness regarding the need to improve acid equilibrium in connection with gout and hyperuricemia, recently hyperuricemia and metabolic acidosis have been leading to a greater incidence of chronic kidney disease. We thus have been stressing the importance of alkalization therapies, based on increasing reports of the suppression or showed progression of chronic kidney disease that has resulted from alkalization therapy used to treat acidosis.

In the meantime, we are working to develop new drugs to treat hyperuricemia and are pursuing the development of antihyperuricemic agents NC-2500 and NC-2700.

About Uralyt

It is not uncommon for hyperuricemia and gout to lead to high levels of acid in urine. Left untreated, acid urine will lead to stones forming in the urinary tract. Chemiphar launched Uralyt in 1988 as an alkalization treatment to improve acid urine. For some 30 years, we have been working to raise awareness about ways in which the urine pH level can be improved, and about alkalization treatment. We plan to continue these initiatives, making use of successful clinical research related to alkalization treatment and expanding our scope of activity.

Goal 3

In-house Drug Discovery and development

We are working to develop new breakthrough drugs against diseases for which there are no appropriate therapeutic drugs. We are focusing our drug research on discovery and typically, at an early stage, out-licensing development to highly specialized companies at home and abroad. This drug research venture system should allow new compounds to be brought to market as quickly as possible.

1. Development Pipeline

(As of April 30, 2018)

Item	Function (Target)	Stage			Notes
		Preclinical	Phase 1	Phase 2	
NC-2400	PPAR-delta agonist delta agonist			Finished Phase 1. Licensed.	•Licensed to Cerenis Therapeutics (France).
NC-2500	XOR inhibition (hyperuricemia)			Finished Phase 1. Conducting licensing activities.	•Phase 1 was completed in September 2017.
NC-2600	P2X4 receptor antagonist (neuropathic pain)			Finished Phase 1. Conducting licensing activities.	•Joint research with Kyushu University. •Phase 1 was completed in September 2017.
NC-2700	URAT1 inhibition (hyperuricemia)		Finished preclinical trial. Conducting licensing activities		•Completed preclinical trial.
NC-2800	Delta opioid receptor agonist (depression/anxiety)		Finished preclinical trial. Preparing for Phase 1.		•Selected in January 2018 by the Japan Agency for Medical Research and Development (AMED) for its fiscal 2017 Cyclic Innovation for Clinical Empowerment (CiCLE) funding program.
Soleton	NSAID (diffuse-type tenosynovial giant cell tumor and others)				•Physician-initiated clinical trial started.
Calvan	α1β1 blocker (huntington's disease)				•Phase 2 is scheduled for new application by an overseas venture.

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

Neuropathic pain is a debilitating condition that interferes with sufferers' everyday lives. However, since there are few viable treatment options in terms if remedies, a new treatment needs to be developed.

In joint research with Kyushu University, we have developed a new formulation to treat neuropathic pain. Since FY2012, the Company has been carrying out research with the support of AMED and, during FY2014, discovered NC-2600. This is a development candidate, which appears to be potentially effective through oral administration. In fiscal 2017, we completed phase 1 testing. We are currently conducting licensing out activities of aimed at domestic and international companies.

(2) NC-2800/Delta opioid receptor agonist (for depression/anxiety)

NC-2800 is a chemical compound with strong potential as an anti-depression and anti-anxiety treatment that the Company discovered through collaborative study with the University of Tsukuba, Kitasato University, and the National Center of Neurology and Psychiatry.

NC-2800 was selected by AMED's industry–academia collaboration program (ACT-M) in 2015 and, while receiving AMED's support, we conducted preclinical trials.

As a result, this compound received high acclaim for its potential as a therapeutic drug candidate and, in January 2018, AMED's CiCLE project selected it for public funding. AMED has given its support for this for the period March 30, 2018 until March 31, 2027. While receiving AMED's continued support, we have been conducting development of a groundbreaking emotion-regulating agent with a mechanism for activating δ opioid receptors.

(3) NC-2500/XOR inhibitor, NC-2700/URAT-1 inhibitor (therapeutic medications for gout, hyperuricemia)

• NC-2500

It is thought that NC-2500 controls uric acidproduction by inhibiting the effect of XOR, an enzyme involved in the production of uric acid, and decreasing serum uric acid levels.

It should be noted that current drug therapies for lowering uric acid pose a risk of an acute gout attack due to the sharp decrease in uric acid levels.

In NC-2500 phase1trials, we confirmed that it functions uniquely to gradually lower serum uric acid levels, suggesting that it may rectify this issue. At present, we are engaged in activities aimed at licensing out this formulation to companies in Japan and overseas.

• NC-2700

This is a chemical compound formulation that, unlike NC-2500, promotes the excretion of uric acid from the body by inhibiting the transporter URAT 1, which is responsible for the re-absorption of uric acid in the kidneys.

We have completed preclinical trials on this drug and are preparing for phase1 testing. We are also exploring the formulation's licensing potential.

2. Repositioning of Existing Drugs

Pharmaceuticals are generally classified as generic drugs or new drugs, while some new drugs are also classified as long-listed drugs. These latter drugs are new drugs with expired patents but, because they have been used over many years in clinical practice, much expertise exists regarding their safety and usage.

Further, according to healthcare professionals, experience and research have indicated that some of these medicines may have indications other than those for which they were originally intended.

Like new medicines, these drugs await development for use against diseases for which no particularly effective medicines are available.

To discover similar new uses for our long-listed drugs, the Company is supporting research through collaboration with external agencies.

■ Primary initiatives

• Soleton (Zaltoprofen)

Research on this drug's effects on patients of diffuse-type tenosynovial giant cell tumors (pigmented villonodular synovitis) and of localized-type tenosynovial giant cell tumors (giant cell tumors of tendon sheath) is progressing, mainly at Kanazawa University Hospital.

• Calvan (Bevantolol)

Research on this drug as a therapeutic medicine for Huntington's disease is underway at the Spanish company SOM Innovation Biotech, S.L.

Providing patients with new drugs

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

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

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

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

Plus 1

Overseas Development

Securing production capacity, as demand for generic drugs expands, is critical for a company that manufactures such drugs. Further, we must respond to periodic NHI drug price revisions and the severe competitive environment through cost reductions.

Japan's falling birthrate, decreasing population, aging society, and public finance-related considerations all point to a shrinking domestic market. In order to help ensure that our growth remains sustainable, in March 2015 we established a subsidiary in Vietnam, Nippon Chemiphar Vietnam Co., Ltd., to establish an overseas foothold for our Group in Asia, which is experiencing considerable growth. The factory will simultaneously strengthen production capacity and reduce costs.

Having completed construction of Nippon Chemiphar Vietnam's factory in Binh Duong Province in September 2017, we are working toward the start of commercial production in 2018.

1. Sales

We are working with local distributors to sell our proprietary products in Thailand, China, and South Korea. As of April 2018, we had gained approval for the sale of six products (core products and generic drugs) in these countries.

At present, we have applications pending for two more products, and are preparing to increase the number of products and the countries in which they are available.

In the diagnostics business, we are working with local distributors overseas to market our products, primarily in Asia. Our efforts are mainly focused on our allergy testing equipment (DP 3000), which is the world's fastest, as well as on our allergy testing reagent (IgE NC).

2. Manufacturing

We are moving forward with preparations at Nippon Chemiphar Vietnam Co., Ltd., an overseas manufacturing base designed to boost capacity, lower the cost of sales, and serve as a foothold for future sales overseas. Having completed construction on Nippon Chemiphar Vietnam's factory in September, we are currently installing equipment, hiring and training local human resources, and fulfilling various application-related procedures ahead of the start of commercial production by the end of 2018.

Overview of Vietnam's factory

Address	No. 76, Dac Lap Avenue, Vietnam Singapore Industria Park, An Phu Ward, Thuan An Town, Binh Duong Province,Vietnam
Property	Approx. 10,000 m² (1 ha)
Factory	Two stories, approx. 11,000 m²
Operation start date	2018
Investment amount	Approx. US$39 million (including capital of US$10.5 million)
Manufacturing capacity	600 million pills per year
Main products	Generic drugs and proprietary products
Employees	180 local hires (forecast)

The Vietnam factory

CSR: Maintaining Society's Trust

Fundamental CSR Policy

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

I Management Systems

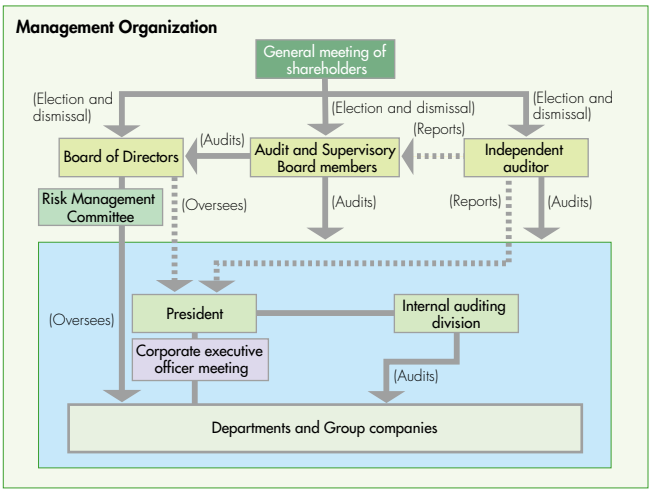
1. Corporate Governance

(1) Underlying Philosophy

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

(2) Organization

We are reinforcing corporate governance with the aim of boosting management transparency and efficiency. We have divided the management functions into two main areas: decision-making and supervisory functions; and executive functions. The former functions are handled by directors (Board of Directors) and the latter by corporate officers (at Corporate Executive Officer meetings). Nippon Chemiphar has a board of company auditors, the Audit & Supervisory Board. Members participate in Board of Directors' and other important meetings, thereby determining the overall activities of the directors and executive officers, while conducting audits from a strictly neutral perspective.



Structural Overview

Organizational Composition	Board of Directors, Audit and Supervisory Board
Number of directors (of whom are outside directors)	8 (2)
Number of auditors (of whom are outside directors)	3 (2)
Director's term of office	Two years
Adoption of an executive officer system	Yes

(3) Auditing

Our auditors ensure the legality of our operations by inspecting them and ensuring they meet our auditing standards and auditing plan. They attend Board of Directors and other important management meetings, as well as inspect and verify reports they receive from directors, corporate officers, and employees. Should the need arise, they also verify operations and assets.

This has allowed the Company to established a system with auditing functions sufficient for the establishment of fundamental policies and priorities, as well as the appropriate execution of business. In addition, in the executive department we have set up the President's Office Internal Audit Division, a body directly controlled by the president and designed to strengthen the Company's internal controls.

(4) Selection of Independent Outside Directors, Auditors

When designating outside directors or auditors, the company selects candidates who satisfy both the independence requirements of the Tokyo Stock Exchange, as well as the Company's standards for determining independence for outside directors.

The candidates must also be specialists with experience in their areas of expertise and have sophisticated knowledge, experience and ability based on work experience related to the Company's fields of business. Finally, all candidates must possess a sense of responsibility.

Main Committee Meetings, Attendance

Board of Directors meetings	13 times
Outside director attendance	100%
Outside auditor attendance	100%
Audit and Supervisory Board meetings	17 times
Outside auditor attendance	100%

2. Directors, Corporate Auditors and Executive officers (As of June 30, 2018)

(Back row, from left)
Outside Director Masaaki Hatakeyama; Directors and Corporate Officers, Masahide Yasumoto and Yasushi Hatakeda; Outside Director Yuji Harada

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

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

(From left)
Corporate officers Toshiki Nakai and Shingo Kinmei; Senior Corporate officer Shinji Nakajima

II Medical Professionals and Patients

It is said that drugs cannot fulfill their proper roles unless they are used together with the appropriate information. Bearing this in mind, we are quick to provide medical institutions with accurate information about the proper use of our drugs. We do this through our medical representatives (MRs), who are located nationwide. At the same time, we work to collect information on quality and safety, consolidate collected safety particulars, and provide this to assist in creating new pharmaceutical preparations.

Study groups forum

1. Initiatives to Ensure Proper Use of Drugs

We train our MRs to provide information and we teach them about the proper use and efficacy of our products. With the patient always in mind, we strive to cultivate human resources who can serve as members of team-based healthcare for pharmacotherapy partners.

A variety of information is available on our website. Information targeting medical professionals includes news about National Health Insurance price revisions, and guidance on administering drugs. We also supply information about generics, and provide recipes for therapeutic food and other information for patients. We make available various leaflets about new drugs and generics, providing information to meet medical institutions' needs. Further, we provide separate websites for medical professionals and patients concerning hyperuricemia and gout. The data is tailored to groups' different needs and levels of knowledge.

(1) Role of MRs

Nationwide, we have approximately 250 MRs, whose function is to provide information on the use of drugs, instructions for patients, and to meet other needs of medical institutions.

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

(2) Platform for Learning

The Company conducts seminars and has study groups for various medical conditions, including dementia and lifestyle-related illnesses, providing medical professionals with the most up-to-date information and serving as a venue for exchanges of opinion related to treatment.

Since 2005, we have supported the operation of the DPC Management Forum to discuss the combined diagnosis procedures the Japanese government is promoting.

(3) Oncology Market

With the number of oncology patients growing as the population ages, demand is increasing for generic anti-cancer agents. In 2013, we set up an oncology promotion section to enable MRs to provide cancer-related information. We also started to conduct seminars for healthcare professionals on oncology drug therapies.

(4) Support Materials

For physicians and pharmacists we publish a periodical by means of which we share our latest information. We also produce pamphlets that provide guidance on various types of nutrition-related and exercise therapies, as well as on health management.

Through these supporting materials, we are doing our best to help improve the quality of healthcare.

(5) Response to Inquiries Swift

To ensure accurate and speedy responses to telephone inquiries from medical professionals and patients, we have established a customer support office to help provide information on the appropriate use of our pharmaceuticals.

2. Strengthening Supply System

To provide a stable supply of medications—as called for in the "Roadmap for further promotion of the use of generic medicines," formulated by the Ministry of Health, Labour and Welfare—we are diversifying our active pharmaceutical ingredient procurement partners, and stepping up inspections of local manufacturing facilities.

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

3. Quality, Information Paramount

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

When packaging our products, we take ample care to ensure the safety and security of medical professionals and patients alike. Examples of such activities include using press-through packaging sheets for oral medications and employing external packaging to prevent exposure to anticancer medications.

Product Initiatives Aimed at Safety and Convenience

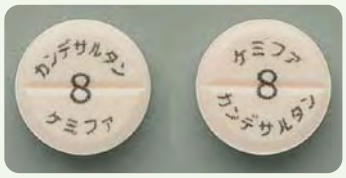
Improving Visibility and Convenience

Visibility

1. Matte press-through packaging
   Reduced shine makes it easier to read the information and instructions written on the aluminum backing of medication packaging.
2. Universal design font
   For sheets of press-through packaging and outer packaging, we use a font that is highly legible, to prevent misreading.

Convenience

3. Tablet imprint
   All tablets have the name of the drug and the maker printed, on the top and bottom half, respectively, on one side, and the bottom and top half on the other side. Tablets are scored on both sides.



Enhancing Safety—Special Packing for Anticancer Drugs

Designed to reduce exposure

After filling a vial with medication, any remaining anti-cancer agent is cleaned away from the outer surface of the vial, which is then wrapped in film.

Prevents bottles breaking, contents scattering

Cushioning material is placed at the bottom of the vial before it is covered in shrink-wrap film.

Ⅲ Community Participation

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

1. Cooperation with Local Communities

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

2. Volunteer Activities

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

We support people with disabilities through donations to NPO Hands On Tokyo and an association that supports those with disabilities among other activities.

3. Recycling, Support for Developing Countries

We help developing countries through such activities as collecting pet bottle caps, books and miswritten postcards. In Japan, caps can be collected and sold to recycling companies, while cards can be exchanged through the postal service for money. Group companies have been generating donations in this way since 2011.

Books donated by employees for developing countries.

Ⅳ Environment-related Initiatives

In order to help make our society more sustainable, we believe that companies must consider the environmental impact of their business activities.

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

1. Basic Policies

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

2. Environment Conservation

We have an Environment Committee to devise, implement, and evaluate environment-related conservation initiatives for the entire Company. We are continuing to carry out initiatives to protect the global environment a companywide theme. We have launched a campaign to conserve electricity, and in-house training to enhance awareness of environment-related activities.

3. CO_2 Emissions

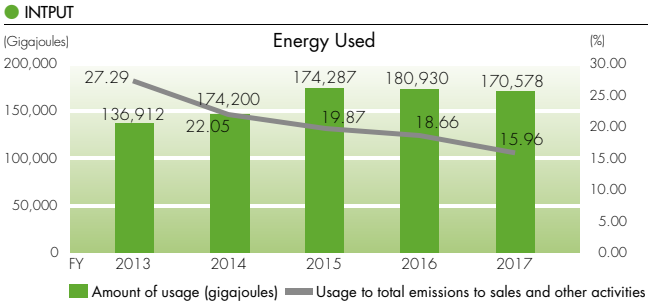
In FY2013, we started a five-year project to help ameliorate the adverse effects of global warming by reducing our CO_2 emissions by an average of 1% or more relative to our FY2012 figure. During that time, we realized an average annual reduction of 9.6%. We plan to continue these efforts.

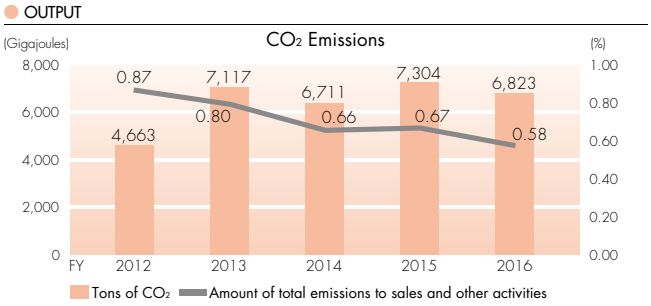
4. Impact of Group Operations

Materials Used in Our Business Activities

INTPUT		
Energy		
	Electricity	11,723kwh
	Gasoline	548kl
	Heavy oil	291kl
	Kerosene	633kl
	LPG	3t
	Town gas	0t
	Total	170,578GJ
Water Consumption (by factories, laboratory)		
	Tap water	19,426m³
	Well water	73,955m³
	Total	87,003m³
Materials		
	Raw materials	271t
	Packaging materials	116t
	Total	387t

OUTPUT		
Into Atmosphere		
	CO_2 emissions	6,823t-CO_2
	PRTR-related substances	0.00t
As Industrial Waste Water (from factories, laboratory)		
	Used water	73,641m³
	PRTR-related substances	0.30t
As Waste		
	Non-industrial waste	110t
	Industrial waste	155t
	PRTR-related substances	4.00t
Recycling		
	Container and package recycling	21t





Notes
Period: From April 1, 2017 to March 31, 2018
Scope: All Nippon Chemiphar Group offices

V Employees

The Nippon Chemiphar Group believes employee diversity in terms of gender, gender orientation, nationality, workstyle and values to be the cornerstone of corporate vitality and growth that leads to the enhancement of corporate value. The Group is striving to create a corporate culture that enlivens the individuality and talents of each employee.

1. Diversity Initiatives

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

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

Men who have taken childcare leave take part in roundtable discussions.

(As of March 31, 2018)

Action Plan (April 1, 2016–March 31, 2018)	**Result**
1) Women account for more than 50% of newly hired recent graduates, to improve the ratio of women in sales jobs.	68.9%
2) Women account for more than 10% of ratios of managers.	10.4%

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

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

2. Career Development

We provide employees with training and support systems, tailored to different ages and types of work, in order to expand their capabilities and develop next-generation managers.

Aiming to develop human resources to play an active role on the global stage, we send researchers to university overseas, support employees studying to earn an MBA, and subsidize the TOEIC test.

Support to Increase Human Resources Capabilities

Rank-based Training		
• Leadership training • Management training • Training for newly appointed managers	• Level-appropriate training for team, section and general managers	• Training for newly appointed executives • Evaluator training
Support for Elective Education		
• Support for acquiring an MBA • Researcher education	• Dispatch to management team seminars	
Personal Development		
• Correspondence education • IT training	• Support for obtaining public certifications	• External public lectures • TOEIC IP test

3. Harassment Prevention and Mental Health

In order to prevent our employees from being perpetrators or victims either within or outside of the Company, all employees learn about sexual, power, and maternity harassment.

Company regulations prohibit sexual harassment and we have a sexual harassment prevention manual.

In addition, we have in place internal and third-party hotlines for preventing and improving responses to various types of harassment.

Finally, we strive to maintain and improve employee mental health by conducting yearly stress checks on all employees, and offering interviews and guidance conducted by physicians to interested parties.

4. Supporting Work–Life Balance

In FY2016, we introduced a system whereby employees can leave work on time, to ensure they have sufficient private time. Then, in FY2017, we started to encourage employees to take the paid time off to which they are entitled. We are continuing to search for ways of reducing and managing overtime, as we raise awareness regarding work styles.

We have a variety of systems that enable all employees to demonstrate their skills and, at the same time, continue working in a comfortable environment. Under a discretionary work system, flextime allows employees to decide for themselves when to start and end their workday.

Our Come Back system enables employees to return to work after a temporary hiatus, due to circumstances such as childcare, nursing care, or a spouse's company transfer. Moreover, our re-employment system allows senior employees to continue working after retirement.

We have adopted various systems that take into consideration each employee's personal circumstances and preferences. When we select a work environment for our employees, we ensure that they can make full use of their experience and expertise.

In this connection, in April 2017 we revised our regulations related to childcare and made a portion of childcare leave paid leave, which resulted in an increase in the number of male employees taking childcare leave.

Try Working at a Japanese Company

I decided to work in Japan because I like the culture and environment, working conditions are good, and companies are promoting global hiring right now. I struggled when I entered Discovery Research Laboratories because I was doing research that was different from when I was a student. However, given the kindness of my coworkers and a working environment that allows questions to be asked, I am able to work to the best of my ability.

The scope of the work carried out at Discovery Research Laboratories is broad, allowing me to benefit from wide-ranging experience. In terms of research, some of it is left up to my own personal discretion, so I really get a rewarding sense of satisfaction from my work.

Megan Elizabeth Reid
Discovery Research Laboratories
Discovery Laboratory 2

Financial Section

Ten-year Consolidated Performance Overview[1]

	FY2008 (Ended March 31, 2009)	FY2009 (Ended March 31, 2010)	FY2010 (Ended March 31, 2011)	FY2011 (Ended March 31, 2012)	FY2012 (Ended March 31, 2013)	FY2013 (Ended March 31, 2014)
Income Statement:						
Net sales	22,308	23,982	27,361	28,514	31,944	31,893
Pharmaceutical products segment	21,490	22,907	26,205	27,326	30,865	30,774
Generics	11,787	14,528	17,990	19,721	23,630	24,405
Proprietary products	7,479	7,056	6,148	5,746	4,795	4,312
Others segment	817	1,075	1,156	1,188	1,079	1,120
Cost of sales	10,388	11,448	12,990	12,872	14,923	15,128
Selling, general and administrative expenses	11,339	11,767	12,371	12,719	13,148	13,437
R&D expenses	1,427	1,722	1,879	1,791	1,937	1,668
Operating income	581	767	1,999	2,923	3,874	3,328
Income before income taxes and minority interests	498	557	1,416	2,699	3,602	3,055
Profit attributable to owners of parent	168	271	573	1,440	2,125	1,887
Financial position at year end:						
Total assets	24,697	29,601	30,787	33,791	35,489	40,106
Total net assets	6,848	7,866	8,965	10,231	12,409	13,501
Cash flow from:						
Operating activities	(3,261)	1,890	2,748	1,753	1,913	1,892
Investing activities	(1,742)	(1,451)	(640)	(227)	(1,422)	(2,499)
Financing activities	4,154	1,509	(949)	63	(714)	(205)
Capital expenditure and other:						
Capital expenditure	889	681	584	1,015	1,154	3,367
Depreciation and amortization	580	694	776	748	840	862
Amounts per share:[2]						
Earnings per share	44.08	70.99	139.46	346.21	517.70	461.97
Book value per share	1,795.45	1,852.20	2,129.16	2,489.19	3,022.76	3,369.70
Dividends per share	30.0	30.0	30.0	50.0	100.0	100.0
Indexes:						
EBITDA (millions of yen)	1,123	1,517	2,824	3,745	4,748	4,253
Operating income to sales (%)	2.6	3.2	7.3	10.3	12.1	10.4
Return on equity (%)	2.4	3.9	7.2	15.0	18.8	14.6
Return on assets[3] (%)	0.7	1.0	1.9	4.5	6.1	5.0
Debt-to-equity ratio (%)	136.8	166.0	122.4	113.1	90.6	89.7
Equity ratio (%)	27.7	23.9	29.1	30.3	34.9	33.6
Dividend payout ratio (%)	68.0	42.3	21.5	14.4	19.3	21.6
Number of employees	624	714	711	682	679	699

Notes:
1. The figures in these materials are all publicly disclosed figures according to Japanese GAAP as of the disclosure date. Please understand that these materials may be updated or revised without prior notice.
2. As we conducted a 10:1 reverse stock split on October 1, 2016, per share data have been adjusted as if the split had been conducted at the start of FY2008.
3. Return on assets = net income / [(total assets for the previous term + total assets for this term) / 2].
4. Announced on May 11, 2018.

Analyses of Operating Results and Financial Position for FY2017, Forcast for FY2018

I. Summary of FY2017 Business Results

1. Sales

For generic drugs, the overall speed of replacement has slowed as substitution rates centered on products with large markets neared government targets. In addition, due to the rise of authorized generics and increasingly fierce price competition, profits in this market are being squeezed. For Nippon Chemiphar, sales to other makers did not grow as expected because orders from our existing business partners were not as large as anticipated. Meanwhile, sales to medical institutions increased 4.9% YOY due to newly launched products and the expansion of sales channels mainly by our subsidiary. As a result, our generic sales increased 3.1% YOY.

Although sales of proprietary products declined 11.7%, the results were in line with our forecasts, which included factors such as the impact of substitutions for generic drugs.

For the above reasons, our sales of ethical pharmaceuticals were ¥32,153 million (up 2.0% YOY), and total sales of pharmaceutical products, including of businesses such as diagnostics, were ¥34,279 million (down 0.8% YOY).

As a result, consolidated sales including other segments were ¥35,331 million (down 1.0% YOY).

FY2014 (Ended March 31, 2015)	FY2015 (Ended March 31, 2016)	FY2016 (Ended March 31, 2017)	FY2017 (Ended March 31, 2018)	Forecast for FY2018[4]
				(Millions of yen)
35,119	35,602	35,690	35,331	35,500
34,169	34,510	34,552	34,279	–
27,400	29,016	29,204	30,115	30,150
3,400	2,920	2,308	2,038	1,650
950	1,092	1,138	1,051	–
18,353	18,804	19,450	19,536	–
13,480	13,653	13,404	13,947	–
1,755	1,889	1,984	2,281	2,700
3,286	3,145	2,836	1,848	1,100
3,094	2,946	2,849	1,777	1,000
1,900	1,962	2,054	1,160	500
				(Millions of yen)
41,428	43,644	47,002	46,815	–
15,626	16,042	17,356	17,488	–
				(Millions of yen)
2,438	2,451	2,737	3,189	–
(2,073)	(151)	(2,505)	(1,606)	–
(137)	(935)	787	(1,741)	–
				(Millions of yen)
1,711	1,173	2,522	2,043	–
1,201	1,179	1,113	1,193	1,350
				(¥)
474.49	499.12	530.02	315.28	135.84
3,900.05	4,099.74	4,548.80	4,859.86	–
100.0	100.0	100.0	100.0	75.0
4,589	4,280	4,104	3,025	–
9.4	8.8	7.9	5.2	3.1
13.1	12.4	12.3	6.7	–
4.7	4.6	4.5	2.5	–
80.1	81.1	85.3	84.0	–
37.7	36.7	36.9	37.3	–
21.1	20.0	18.9	31.7	55.2
743	756	769	816	–

2. Operating Income

During FY2017, the cost of sales ratio rose 0.8 percentage points YOY due to factors including adjusted production volumes of products manufactured within the Nippon Chemiphar Group. In addition, the SG&A expenses ratio rose 1.9 percentage points YOY to 39.5%. This was due mainly to an increase in upfront strategic expenses, such as trial costs ahead of the commencement of commercial production at the Vietnam factory (scheduled for the second half of FY2018), as well as increased research and development expenses for new and generic drugs. As a result, operating income was ¥1,848 million (down 34.8% YOY).

II. Forecast for FY2018

Sales and profit in FY2018 will be impacted by NHI drug price revisions. However, due to our focus on newly launched products and the expansion of new sales channels, sales of generic drugs are expected to be nearly flat compared with the previous fiscal year. As a result, consolidated net sales, including those of other businesses such as contracted testing business, are projected to be ¥35,500 million (up 0.5% YOY).

Meanwhile, due to increased development costs associated with progress in new drug development, and continued strategic—expenses such as trial costs prior to the commencement of commercial production at the Vietnam factory—operating income is forecast at ¥1,100 million (down 40.5% YOY), and net income attributable to owners of the parent is expected to be ¥500 million (down 56.9% YOY).

III. Per Share Information

As mentioned above, we are forecasting a decline in profit in FY2018 due to the influence of NHI drug price revisions, ongoing strategic spending including new drug development expenses and start-up expenses at the Vietnam factory. Thus, we expect to pay a dividend per share of ¥75 (down ¥25 per share YOY) with a payout ratio of 55.2%.

Consolidated Balance Sheets

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
March 31, 2018 (FY2017) and 2017 (FY2016)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Assets	FY2016	**FY2017**	**FY2017**
Current assets			
Cash and deposits (Notes 3 and 14)	¥ 8,170	**¥ 7,969**	**$ 75,002**
Notes and accounts receivable–trade (Note 3)	9,886	**8,439**	**79,426**
Electronically recorded monetary claims (Note 3)	4,354	**5,101**	**48,009**
Inventories	5,701	**6,146**	**57,845**
Deferred tax assets (Note 11)	567	**563**	**5,299**
Other current assets	331	**116**	**1,092**
Total current assets	29,009	**28,334**	**266,673**
Property, plant and equipment			
Land (Note 2)	5,449	**5,064**	**47,661**
Buildings	14,262	**15,885**	**149,506**
Machinery, equipment and vehicles	7,155	**8,019**	**75,473**
Tools, furniture and fixtures	1,948	**2,193**	**20,640**
Lease assets (Note 10)	576	**601**	**5,656**
Construction in progress	1,774	**105**	**988**
Total property, plant and equipment	31,164	**31,867**	**299,925**
Accumulated depreciation	(16,457)	**(17,318)**	**(162,993)**
Net property, plant and equipment	14,707	**14,549**	**136,932**
Investments and other assets			
Investment securities (Notes 3 and 4)	2,413	**2,902**	**27,313**
Long-term loans receivable	3	**3**	**28**
Long-term prepaid expenses	293	**337**	**3,172**
Intangible assets	67	**252**	**2,372**
Deferred tax asset (Note 11)	96	**11**	**104**
Lease and guarantee deposits	95	**95**	**894**
Deferred assets	2	**2**	**19**
Other	317	**330**	**3,105**
Total investments and other assets	3,286	**3,930**	**37,007**
Total assets	¥ 47,002	**¥ 46,815**	**$ 440,612**

Liabilities and Net Assets	Millions of Yen FY2016	FY2017	Thousands of U.S. Dollars (Note 1) FY2017
Current liabilities			
Short-term loans payable (Note 3)	¥ 496	**¥ 476**	**$ 4,480**
Current portion of long-term loans payable (Note 6)	2,371	**2,456**	**23,115**
Lease obligations (Note 10)	110	**113**	**1,064**
Notes and accounts payable-trade (Note 3)	1,761	**1,765**	**16,612**
Electronically recorded obligation (Note 3)	5,548	**5,709**	**53,732**
Notes payable-facilities	296	**183**	**1,722**
Accrued expenses	2,618	**2,756**	**25,939**
Income taxes payable (Note 11)	422	**277**	**2,607**
Provision for sales promotion expenses	448	**401**	**3,774**
Other	870	**778**	**7,322**
Total current liabilities	14,940	**14,914**	**140,367**
Long-term liabilities:			
Bonds payable (Notes 3 and 6)	200	**200**	**1,882**
Long-term loans payable (Notes 3 and 6)	11,737	**11,547**	**108,678**
Lease obligations (Note 10)	235	**222**	**2,089**
Net defined benefit liability (Note 7)	948	**759**	**7,144**
Provision for directors' retirement benefits	407	**444**	**4,179**
Deferred tax liabilities-non current		**116**	**1,092**
Deferred tax liabilities for land revaluation (Note 11)	1,169	**1,116**	**10,504**
Other	10	**9**	**84**
Total long-term liabilities	14,706	**14,413**	**135,652**
Net assets (Notes 8 and 9)			
Capital stock:			
Authorized: 15,400,000 shares			
Issued: 4,261,420 shares in FY2017 and FY2016	4,305	**4,305**	**40,518**
Capital surplus	1,304	**1,304**	**12,273**
Retained earnings	10,702	**11,596**	**109,139**
Treasury stock	(2,067)	**(3,186)**	**(29,986)**
Total shareholders' equity	14,244	**14,019**	**131,944**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	822	**1,151**	**10,833**
Revaluation surplus of land	2,633	**2,513**	**23,652**
Foreign currency translation adjustments	(6)	**45**	**424**
Remeasurements of defined benefit plans	(346)	**(254)**	**(2,391)**
Total accumulated other comprehensive income	3,103	**3,455**	**32,518**
Subscription rights to shares	9	**14**	**131**
Total net assets	17,356	**17,488**	**164,593**
Total liabilities and net assets	¥ 47,002	**¥ 46,815**	**$ 440,612**

See notes to consolidated financial statements.

Consolidated Statements of Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 (FY2017) and 2017 (FY2016)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2016	**FY2017**	**FY2017**
Net sales (Note 16)	¥ 35,690	**¥ 35,331**	**$ 332,527**
Cost of sales	19,450	**19,536**	**183,868**
Gross profit	16,240	**15,795**	**148,659**
Selling, general and administrative expenses (Note 12)	13,404	**13,947**	**131,266**
Operating income	2,836	**1,848**	**17,393**
Other income (expenses)			
Interest and dividends income	45	**50**	**471**
Interest expenses	(139)	**(133)**	**(1,252)**
Foreign exchange gains (losses)	19	**(114)**	**(1,073)**
Gain on sales of property, plant and equipment		**81**	**762**
Other, net	88	**45**	**424**
	13	**(71)**	**(668)**
Income before income taxes and minority interests	2,849	**1,777**	**16,725**
Income taxes (Note 11)			
Current	758	**649**	**6,108**
Deferred	37	**(32)**	**(301)**
	795	**617**	**5,807**
Net income before minority interests	2,054	**1,160**	**10,918**
Minority interests in net income	—	**—**	**—**
Net income	¥ 2,054	**¥ 1,160**	**$ 10,918**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 (FY2017) and 2017 (FY2016)

	Millions of Yen		U.S. Dollars (Note 1)
	FY2016	**FY2017**	**FY2017**
Net income before minority interests	¥ 2,054	**¥ 1,160**	**$ 10,918**
Valuation difference on available-for-sale securities	73	**329**	**3,097**
Deferred gains or losses on hedges	–	**–**	**–**
Revaluation surplus of land	–	**–**	**–**
Foreign currency translation adjustments	2	**51**	**480**
Remeasurements of defined benefit plans	67	**92**	**866**
Other comprehensive income	142	**472**	**4,443**
Comprehensive income	2,196	**1,632**	**15,361**
Total comprehensive income attributable to:			
Owners of the parent	¥ 2,196	**¥ 1,632**	**$ 15,361**
Minority interests	—	**—**	**—**

See notes to consolidated financial statements.

Millions of Yen

	Shareholders' Equity					Accumulated Other Comprehensive Income							
	Capital stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Revaluation Surplus of Land	Foreign currency translation adjustment	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2016	¥4,305	¥1,306	¥9,042	¥(1,580)	¥13,073	¥749		¥2,633	¥(8)	¥(413)	¥2,961	¥8	¥16,042
Dividends from surplus			(394)		(394)								(394)
Net income			2,054		2,054								2,054
Purchase of treasury stock				(501)	(501)								(501)
Disposal of treasury stock		(2)		14	12								12
Change in treasury shares of parent arising from transactions with non-controlling shareholders						73			2	67	142	1	143
Reversal of land revaluation excess													
Net changes of items other than shareholders' equity		(2)	1,660	(487)	1,171	73	—	—	2	67	142	1	143
Net change in the year		(2)	1,660	(487)	1,171	73	–	–	2	67	142	1	1,314
Balance at March 31, 2017	¥4,305	¥1,304	¥10,702	¥(2,067)	¥14,244	¥822	—	¥2,633	¥(6)	¥(346)	¥3,103	¥9	¥17,356
Dividends from surplus			**(386)**		**(386)**								**(386)**
Net income			**1,160**		**1,160**								**1,160**
Purchase of treasury stock				**(1,120)**	**(1,120)**								**(1,120)**
Disposal of treasury stock		**(0)**		**1**	**1**								**1**
Reversal of land revaluation excess			**120**		**120**								**120**
Net changes of items other than shareholders' equity						**329**		**(120)**	**51**	**92**	**352**	**5**	**357**
Net change in the year		**(0)**	**894**	**(1,120)**	**(225)**	**329**		**(120)**	**51**	**92**	**352**	**5**	**132**
Balance at March 31, 2018	**¥4,305**	**¥1,304**	**¥11,596**	**¥(3,186)**	**¥14,019**	**¥1,151**	**—**	**¥2,513**	**¥45**	**(254)**	**¥3,455**	**¥14**	**¥17,488**

	Thousands of U.S. Dollars												
	Shareholders' Equity					Accumulated Other Comprehensive Income							
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Revaluation Surplus of Land	Foreign currency translation adjustment	Remea-surements of Defined Benefit Plans	Total Accumulated Other Comprehensive Income	Subscription Rights to Shares	Total Net Assets
Balance at March 31, 2017	$40,518	$12,273	$100,725	$(19,454)	$134,062	$7,736	—	$24,781	$(56)	$(3,257)	$29,204	$84	$163,350
Dividends from surplus			**(3,633)**		**(3,633)**								**(3,633)**
Net income			**10,918**		**10,918**								**10,918**
Purchase of treasury stock				**(10,541)**	**(10,541)**								**(10,541)**
Disposal of treasury stock		**(0)**		**9**	**9**								**9**
Reversal of land revaluation excess			**1,129**		**1,129**								**1,129**
Net changes of items other than shareholders' equity						**3,097**		**(1,129)**	**480**	**866**	**3,314**	**47**	**3,361**
Net change in the year		**(0)**	**8,414**	**(10,532)**	**(2,118)**	**3,097**		**(1,129)**	**480**	**866**	**3,314**	**47**	**1,243**
Balance at March 31, 2018	**$40,518**	**$12,273**	**$109,139**	**$(29,986)**	**$131,944**	**$10,833**		**$23,652**	**$424**	**(2,391)**	**$32,518**	**$131**	**$164,593**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 (FY2017) and 2017 (FY2016)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2016	**FY2017**	**FY2017**
Operating activities:			
Income before income taxes and minority interests	¥ 2,850	**¥ 1,777**	**$ 16,725**
Depreciation and amortization	1,113	**1,193**	**11,228**
(Increase) decrease in provision for sales promotion expenses	29	**(47)**	**(442)**
Decrease in net defined benefit liabilities	(117)	**(57)**	**(536)**
Increase in provision for directors' retirement benefits	33	**36**	**339**
Interest and dividends income	(45)	**(50)**	**(471)**
Interest expenses	136	**133**	**1,252**
Foreign exchange gains (losses)	(19)	**114**	**1,073**
Loss on sales of noncurrent assets		**(81)**	**(762)**
Decrease in notes and accounts receivable-trade	1	**700**	**6,588**
Increase in inventories	(526)	**(444)**	**(4,179)**
(Increase) decrease in other current assets	(164)	**213**	**2,005**
Increase in notes and accounts payable-trade	99	**166**	**1,562**
Increase in other current liabilities	214	**276**	**2,597**
(Decrease) increase in consumption taxes payable	(142)	**144**	**1,355**
Decrease (increase) in long-term prepaid expenses	11	**(52)**	**(489)**
Other, net	23	**12**	**113**
Sub total	3,496	**4,033**	**37,958**
Interest and dividends income received	49	**55**	**517**
Interest expenses paid	(139)	**(136)**	**(1,280)**
Income taxes paid	(669)	**(763)**	**(7,181)**
Net cash provided by operating activities	2,737	**3,189**	**30,014**
Investing activities:			
Payment into time deposits	(124)	**(90)**	**(847)**
Proceeds from withdrawal of time deposits	126	**96**	**904**
Purchase of property, plant and equipment	(2,435)	**(2,042)**	**(19,219)**
Proceeds from sales of property, plant and equipment		**471**	**4,433**
Purchase of investment securities	(5)	**(5)**	**(47)**
Payment of loans receivable to employees		**(2)**	**(19)**
Proceeds from collection of lease and guarantee deposits	3	**6**	**56**
Payments from the settlement of foreign exchange reserve	(99)	**(8)**	**(75)**
Other payments	(18)	**(17)**	**(160)**
Other proceeds	46	**(15)**	**(141)**
Other, net	1		
Net cash used in investing activities	(2,505)	**(1,606)**	**(15,115)**
Financing activities			
Net (decrease) in short-term loans payable	(4)	**(20)**	**(188)**
Proceeds from long-term loans payable	5,500	**2,350**	**22,118**
Repayment of long-term loans payable	(3,691)	**(2,456)**	**(23,115)**
Purchase of treasury shares	(501)	**(1,119)**	**(10,532)**
Cash dividends paid	(395)	**(386)**	**(3,633)**
Other, net	(122)	**(111)**	**(1,045)**
Net cash (used in) provided by financing activates	787	**(1,741)**	**(16,386)**
Effect of exchange rate change on cash and cash equivalents	(70)	**(36)**	**(339)**
Net increase (decrease) in cash and cash equivalents	949	**(195)**	**(1,835)**
Cash and cash equivalents , at beginning of year	7,136	**8,085**	**76,094**
Cash and cash equivalents , at end of year	¥ 8,085	**¥ 7,890**	**$ 74,259**

See notes to consolidated financial statements.

Nippon Chemiphar Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 (FY2017) and 2017 (FY2016)

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 2017 financial statements to conform to the classifications used in 2018.

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 amount into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.25 to US$1, the approximate rate of exchange at March 30, 2018. 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, 2018, include the accounts of the Company and its four subsidiaries (together, "the Group").

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

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

Of the Company's four consolidated subsidiaries, only Nippon Chemiphar Vietnam Co., Ltd., has a closing date of December 31.

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

b. Cash equivalents

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

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

c. Inventories

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

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

d. Investment securities

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

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

e. Allowance for doubtful accounts

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

f. Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building fixtures and structures acquired on or after April 1, 2016. Overseas subsidiaries adopt the straight-line method.

g. Intangible assets

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

h. Deferred charges

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

i. Land revaluation

Under the Law of Land Revaluation, the Group revalued the land owned for its business use on March 31, 2000, based on the enforcement ordinance concerning revaluation of land. The resulting revaluation surplus of land represents unrealized appreciation of land and is stated, net of income taxes, as a component of accumulated other comprehensive income under net assets; its related deferred tax liabilities are recorded under long-term liabilities. The difference between the carrying amount and its fair value at March 31, 2018 and 2017, was ¥1,334 million ($12,555 thousand) and ¥1,353 million, respectively.

j. Losses on impairment of fixed assets

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

k. Retirement benefits

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

Unrecognized prior service cost is amortized on a straight-line basis over a period (11 years in 2018 and 2017) 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 2017 and 2016) within the average of the estimated remaining service period, commencing from the year after the year in which they are incurred.

l. Conversion of a foreign currency to Japanese currency

Foreign currency transactions are translated into the functional currency using exchange rates at the dates of transactions or approximations of rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rates at the consolidated fiscal year-end date. Exchange differences arising from translation or settlement are recognized in profit or loss.

m. Provision for directors' retirement benefits

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

n. Provision for sales promotion expenses

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

o. Leases

Lease assets related to finance lease transactions, excluding those that include the transfer of ownership. The expected asset life is assumed to be the lease period, and these assets are amortized using the straight-line method with a terminal value of zero.

p. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. Consumption tax

Consumption tax imposed on the Group's sales to customers is withheld by the Group at the time of sale and subsequently paid to the government. This consumption tax is not included in net sales in the accompanying statements of income, but is recorded as a liability, consumption tax payable.

Consumption tax that is paid by the Group on the purchases of goods and services from outside the Group is also not included in costs or expenses in the accompanying statements of income, but is offset against consumption tax payable. The net balance is reflected as consumption tax payable under other current liabilities in the accompanying consolidated balance sheet at March 31, 2018 and 2017.

r. Appropriation of retained earnings

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

s. Derivatives and hedging activities

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

t. Per-share information

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

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

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 and electronically recorded obligations, which are trade liabilities, generally arise in the course of operating activities, and the majority of these are payable within one year.

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

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

c. Supplemental information on fair values

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

d. Concentration of credit risk

At March 31, 2018 and 2017, 53.2% and 55.8%, 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, 2018 (FY2017) and 2017 (FY2016), are the following:

	Millions of Yen		Thousands of U.S. Dollars
Assets	FY2016	**FY2017**	**FY2017**
Carrying value			
Cash and deposits	¥ 8,170	**¥ 7,969**	**$ 75,002**
Notes and accounts receivable–trade	9,886	**8,439**	**79,426**
Electronically recorded monetary claims	4,354	**5,101**	**48,009**
Investment securities	2,311	**2,790**	**26,259**
Total	¥24,721	**¥24,299**	**$228,696**
Fair value			
Cash and deposits	¥ 8,170	**¥ 7,969**	**$ 75,002**
Notes and accounts receivable–trade	9,886	**8,439**	**79,426**
Electronically recorded monetary claims	4,354	**5,101**	**48,009**
Investment securities	2,311	**2,790**	**26,259**
Total	¥24,721	**¥24,299**	**$228,696**
Difference	—	—	—
Cash and deposits	—	—	—
Notes and accounts receivable–trade	—	—	—
Electronically recorded monetary claims	—	—	—
Investment securities	—	—	—
Total	—	—	—
Derivative transactions	—	—	—

Liabilities	Millions of Yen FY2016	Millions of Yen **FY2017**	Thousands of U.S. Dollars **FY2017**
Carrying value			
Notes and accounts payable–trade	¥ 1,761	**¥ 1,765**	**$ 16,612**
Electronically recorded obligation	5,548	**5,709**	**53,732**
Short-term loans payable	496	**476**	**4,480**
Bonds payable	200	**200**	**1,882**
Long-term loans payable	14,108	**14,003**	**131,793**
Total	¥22,113	**¥22,153**	**$208,499**
Fair value			
Notes and accounts payable–trade	¥ 1,761	**¥ 1,765**	**$ 16,612**
Electronically recorded obligation	5,548	**5,709**	**53,732**
Short-term loans payable	496	**476**	**4,480**
Bonds payable	191	**195**	**1,835**
Long-term loans payable	14,096	**13,944**	**131,238**
Total	¥22,092	**¥22,089**	**$207,897**
Difference	—	—	**—**
Notes and accounts payable–trade	—	—	**—**
Electronically recorded obligation	—		**—**
Short-term loans payable	—	—	
Bonds payable	¥ 9	**¥ 5**	**$ 47**
Long-term loans payable	12	**59**	**555**
Total	¥ 21	**¥ 64**	**$ 602**
Derivative transactions	—	—	—

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

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

Regarding the accounting treatment of matured notes at the end of the fiscal year, as well as electronically recorded monetary claims and electronically record obligations, these are treated as if settlement occurred on the maturity date.

As the end of the consolidated fiscal year was a holiday for financial institutions, the following matured notes at the end of the fiscal year, as well as electronically recorded monetary claims and electronically record obligations, are treated as if settlement occurred on the maturity date. Details are as follows:

	Millions of Yen FY2016	Millions of Yen **FY2017**	Thousands of U.S. Dollars **FY2017**
Notes and accounts receivable–trade	—	**¥ 7**	**$ 65**
Electronically recorded monetary claims	—	**107**	**1,007**
Notes and accounts payable-trade	—	**34**	**320**
Electronically recorded obligations	—	**1,628**	**15,322**
Notes payable-facilities	—	**32**	**301**

b. Investment securities

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

c. Notes and accounts payable—trade, electronically recorded obligations, and short-term loans payable

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

d. Bonds payable

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

e. Long-term loans payable

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

(3) Financial instruments for which fair value is not readily determinable

The fair value of unlisted equity securities with a carrying amount of ¥112 million ($1,054 thousand) and ¥101 million as of March 31, 2018 and 2017, respectively, are not readily determinable.

Redemption schedule for receivables with maturity at March 31, 2018 (FY2017), is as follows:

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

	Millions of Yen			
	FY2017			
	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	**¥ 7,969**	—	—	—
Notes and accounts receivable–trade	**8,439**	—	—	—
Electronically recorded monetary claims	**5,101**	—	—	—
Total	**¥21,509**	—	—	—

	Thousands of U.S. Dollars			
	FY2017			
	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	**$ 75,002**	—	—	—
Notes and accounts receivable–trade	**79,426**	—	—	—
Electronically recorded monetary claims	**48,009**	—	—	—
Total	**$202,437**	—	—	—

4. INVESTMENT SECURITIES

(1) The following tables summarize acquisition costs and fair market values of available-for-sale securities with available fair values as of March 31, 2018 and 2017.

a. Securities with fair market values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. Dollars		
	FY2017			**FY2017**		
	Acquisition Cost	Unrealized Gain	Book Value	Acquisition Cost	Unrealized Gain	Book Value
Equity securities	**¥1,124**	**¥1,592**	**¥2,716**	**$10,579**	**$14,983**	**$25,562**

	Millions of yen		
	FY2016		
	Acquisition Cost	Unrealized Gain	Book Value
Equity securities	¥1,143	¥1,115	¥2,258

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

	Millions of yen			Thousands of U.S. Dollars		
	FY2017			**FY2017**		
	Acquisition Cost	Unrealized Loss	Book Value	Acquisition Cost	Unrealized Loss	Book Value
Equity securities	**¥24**	**¥(3)**	**¥21**	**$226**	**$(28)**	**$198**
Others	**¥57**	**¥(4)**	**¥53**	**$536**	**$(37)**	**$499**

	Millions of yen		
	FY2016		
	Acquisition Cost	Unrealized Loss	Book Value
Others	¥57	¥(4)	¥53

(2) Acquisition costs of securities with no available fair values as of March 31, 2018 were as follows:
Unlisted equity securities: ¥112million ($1,054 thousand).
Acquisition costs of securities with no available fair values as of March 31, 2017 were as follows:
Unlisted equity securities: ¥101million ($1,073 thousand).

5. DERIVATIVE TRANSACTIONS

Derivative transactions to which hedge accounting at March 31, 2018 (FY2017) is applied are as follows:

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

			Thousands of U.S. Dollars		
Method of Hedge Accounting	Description of Transaction	Hedged Items	Contracts value (Notional Principal Amount)	Contracts value (Notional Principal Amount Over 1 Year)	Estimated Fair Value
Interest rate swaps under exceptional accounting treatment	Interest rate swaps contracts Pay fixed/Receive floating	Long-term loans payable	**$23,529**	**$23,529**	**Note**

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

6. LONG-TERM DEBTS AND BONDS PAYABLE

(1) Long-term debts and bonds payable at March 31, 2018 (FY2017) and 2017 (FY2016), comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Corporate bonds	¥ 200	**¥ 200**	**$ 1,882**
Long-term loans	14,108	**14,003**	**131,793**
Total	14,308	**14,203**	**133,675**
Less: current portion	(2,371)	**(2,456)**	**(23,115)**
Total	¥11,937	**¥11,747**	**$110,560**

(2) Corporate bonds at March 31, 2018 (FY2017) and 2017 (FY2016), comprise the following:

Issuer	Type	Issue Date	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Maturity
			FY 2016	**FY 2017**	**FY2017**		
Safety Research Institute for Chemical Compounds Co., Ltd.	Unsecured 1st issue	March 31, 2016	¥200	**¥200**	**$1,882**	0.39	March 31, 2023
Total			¥200	**¥200**	**$1,882**		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	—	—
2020	—	—
2021	—	—
2022	—	—
2023	¥200	**$1,882**

(4) Long-term loans at March 31, 2018 (FY2017) and 2017 (FY2016), comprise the following:

Balance at March 31	Millions of Yen		Thousands of U.S. Dollars	Interest Rate (%)	Repayment Term
	FY2016	**FY2017**	**FY2017**		
Current portion of long-term loans	¥ 2,371	**¥ 2,456**	**$ 23,115**	1.0	
Long-term loans	11,137	**11,547**	**108,678**	0.9	2019–2028
Total	¥14,108	**¥14,003**	**$131,793**		

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥2,242	$21,101
2020	2,197	20,678
2021	1,587	14,936
2022	1,527	14,372
2023 and after	3,994	37,591

In addition, the Company has entered agreements with five financial institutions to facilitate supplying the Company's working capital. The status of the commitments based on the agreements is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Aggregate agreed amount	¥3,000	**¥3,000**	**$28,235**
Used	—	**—**	**—**
Unused balance	¥3,000	**¥3,000**	**$28,235**

7. RETIREMENT BENEFITS

The Company and its consolidated subsidiaries have in place as defined-benefit pension plans both defined benefit corporate pension plans and lump-sum retirement plans, as well as being enrolled in an employees' pension fund operating as a corporate pension fund related to a multi-employer pension fund. The employees' pension fund received authorization to convert to a corporate pension fund on April 1, 2018. Employees may also be entitled to certain additional payments upon retirement.

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

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

(1) Contributory defined benefit pension plan

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Balance at beginning of year	¥5,188	**¥4,830**	**$45,459**
Service cost	245	**249**	**2,344**
Interest cost	9	**8**	**75**
Actuarial gain/loss incurred	71	**53**	**499**
Pension and severance payments	(683)	**(543)**	**(5,111)**
Balance at end of year	¥4,830	**¥4,597**	**$43,266**

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Balance at beginning of year	¥4,102	**¥3,952**	**$37,195**
Expected return on plan assets	103	**99**	**932**
Actuarial gain/loss incurred	88	**62**	**584**
Business owner's contribution	336	**341**	**3,209**
Pension and severance payments	(677)	**(543)**	**(5,111)**
Balance at end of year	¥3,952	**¥3,911**	**$36,809**

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Balance at beginning of year	¥77	**¥71**	**$668**
Pension expenses	13	**11**	**104**
Pension and severance payments	(19)	**(9)**	**(85)**
Balance at end of year	¥71	**¥73**	**$687**

d. Reconciliation of the projected benefit obligation and plan assets to net defined benefit liability, and net defined benefit assets reported on the consolidated balance sheet

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Funded projected benefit obligation	¥ 4,792	**¥ 4,557**	**$ 42,889**
Plan assets	(3,952)	**(3,911)**	**(36,809)**
Subtotal	840	**646**	**6,080**
Unfunded projected benefit obligation	108	**113**	**1,064**
Net of liability and assets reported on the consolidated balance sheet	948	**759**	**7,144**
Net defined benefit liability	948	**759**	**7,144**
Net defined benefit assets	—	**—**	**—**
Net of liability and assets reported on the consolidated balance sheet	¥ 948	**¥ 759**	**$ 7,144**

e. Pension expenses

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Service cost	¥ 246	**¥249**	**$ 2,344**
Interest cost	9	**8**	**75**
Expected return on plan assets	(103)	**(99)**	**(932)**
Recognized actuarial loss	96	**141**	**1,327**
Amortization of prior service cost	(17)	**(17)**	**(160)**
Periodic benefit costs calculated under the compendium method	13	**11**	**104**
Retirement benefit expenses	¥ 244	**¥293**	**$2,758**

f. Remeasurements of defined benefits plans in other comprehensive income

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Prior service cost	¥(17)	**¥(17)**	**$ (160)**
Net actuarial gain or loss	113	**150**	**1,412**
Total	¥(96)	**¥133**	**$1,252**

g. Remeasurements of defined benefit plans

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Unrecognized prior service cost	¥ (76)	**¥ (59)**	**$ (555)**
Unrecognized net actuarial gain or loss	575	**426**	**4,009**
Total	¥499	**¥367**	**$3,454**

h. Plan assets

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

	FY2016	**FY2017**
Stocks	31%	**34%**
Bonds	38%	**31%**
General account	20%	**19%**
Other	11%	**16%**
Total	100%	**100%**

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

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

i. Assumptions used for the year ended March 31, 2018 (FY2017), are as follows:

	FY2016	**FY2017**
Discount rate	0.2%	**0.2%**
Expected rate of return on plan assets	2.5%	**2.5%**

(2) Multi-employer pension fund

As the amount of plan assets corresponding to the Company's contribution cannot be rationally calculated under this system, the same accounting treatment is applied as for defined contribution plans. The amount contributed to employee pension schemes that are multi-employer pension funds for which the same accounting treatment is applied as for defined contribution plans is ¥87million ($819 thousand).

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

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

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Plan assets	¥531,916	**¥549,913**	**$5,175,652**
Pension financing calculation of benefit obligation	538,160	**547,838**	**5,156,122**
Difference	¥ (6,244)	**¥ 2,075**	**$ 19,530**

b. Percentage of total fund membership

Nippon Chemiphar Group membership as a percentage of total fund membership are 1.0% and 0.9% as of March 31, 2018 and 2017.

c. Supplemental information

Principal reasons for deductions to (1) above are the total of past service obligations of ¥28,872 million ($271,736 thousand) based on pension financing calculations and a surplus of ¥30,947 million ($291,266 thousand). Also, the proportion indicated in (2) above and the Nippon Chemiphar Group's actual proportion of the burden do not match.

8. STOCK OPTIONS

(1) Details

The stock option-related expense recognized and included in selling, general and administrative expenses for the year ended March 31, 2018 and 2017, are ¥5 million ($47 thousand) and ¥3 million, respectively.

Following are details of the stock options the Company has as of March 31, 2018.

Stock option plans:	August 2014 Plan	August 2017 Plan
Number of grantees	6 directors, 4 corporate officers, 7 directors of the subsidiaries	6 directors, 3 corporate officers, 34 employees, 10directors of the subsidiaries 4 employees of the subsidiaries
Number of options	Common stock: 11,200 shares	Common stock: 20,000 shares
Date of grant	August 5, 2014	August 1, 2017
Exercisable period	August 6, 2017–August 5, 2020	August 2, 2020–August 1, 2023
Exercise price	¥5,190 ($48.85)	¥5,414 ($50.96)
Fair value at grant date	¥890 ($8.38)	¥914 ($8.60)

(2) Scale and movement

Changes in stock options outstanding for the years ended March 31, 2018 and 2017 are as follows:

Movement of stock options	August 2011 plan	August 2014 plan	August 2017 plan
Before rights settlement			
Outstanding as of March 31, 2016		11,200	
Granted			
Vested			
Outstanding as of March 31, 2017		11,200	
Granted			20,000
Forfeited			
Vested		11,200	
Outstanding as of March 31, 2018			20,000
After rights settlement			
Outstanding as of March 31, 2016	2,800		
Vested			
Exercised	2,800		
Forfeited			
Outstanding as of March 31, 2017			
Vested		11,200	
Exercised			
Forfeited			
Outstanding as of March 31, 2018		11,200	

(3) Estimation method for evaluate unit price

The fair value as of the grant date for stock options which were issued during the year ended March 31,2018 was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	Note	August 2017 Plan
Expected volatility (%)	1	28.8
Expected remaining period	2	4.5 years
Estimated dividend per share	3	¥100
Risk-free rate (%)	4	(0.08)

Note: 1. Expected volatility was computed by the actual prices of the Company during the period from the week of January 21,2013 to the week of July 24 ,2017.

2. Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.

3. The estimated dividend per share was calculated at the actual amount for the year ended March 31, 2017.

4. The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have actually forfeited is reflected.

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

Lease obligations at March 31, 2018 (FY2017) and 2017 (FY2016) comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Lease obligations	¥345	**¥335**	**$3,153**
Less current portion	(110)	**(113)**	**(1,064)**
Less obligations, less current portion	¥235	**¥222**	**$2,089**

11. INCOME TAXES

The Group is subjected to several types of taxes: corporate taxes, local inhabitant taxes and enterprise taxes, which in aggregate resulted in a statutory tax rate of approximately 30.9% for the fiscal years ended March 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in deferred tax assets and liabilities at March 31, 2018 (FY2017) and 2017 (FY2016), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Deferred tax assets:			
Accrued enterprise tax	¥ 37	**¥ 29**	**$ 273**
Accrued bonuses	218	**194**	**1,826**
Loss on valuation of inventory	38	**62**	**583**
Allowance for doubtful accounts	18	**19**	**179**
Provision for sales promotion expenses	138	**123**	**1,158**
Internal margin elimination	87	**108**	**1,016**
Net defined benefit liability	293	**235**	**2,212**
Provision for directors' retirement benefits	125	**136**	**1,280**
Loss on valuation of investment securities	60	**60**	**565**
Other	378	**425**	**4,000**
Subtotal	1,391	**1,391**	**13,092**
Less valuation allowance	(450)	**(510)**	**(4,800)**
Total	941	**881**	**8,292**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	278	**423**	**3,981**
Deferred tax liabilities on revaluation of land	1,169	**1,116**	**10,504**
Total	1,447	**1,539**	**14,485**
Net deferred tax liabilities	¥ (506)	**¥ (658)**	**$ (6,193)**

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, 2018 is as follows:

	FY2017
Normal effective statutory tax rate	**30.9%**
Expenses not deductible for income tax purposes	**3.7**
Per capita inhabitant tax	**1.8**
Research and development cost tax credit	**(7.8)**
Change in valuation allowance	**3.4**
Tax rate difference by foreign company	**2.0**
Other–net	**0.7**
Actual effective tax rate	**34.7%**

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

12. Selling General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2018 (FY2017) and 2017 (FY2016), are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Advertising expenses	¥ 146	**¥ 87**	**$ 819**
Sales promotion expenses	4,015	**4,047**	**38,089**
Traveling expenses	512	**507**	**4,772**
Salaries and allowances	3,468	**3,410**	**32,094**
Retirement benefit expenses	197	**232**	**2,184**
Commissions	892	**964**	**9,073**
Research and development costs	1,984	**2,281**	**21,468**

13. Amounts per Share

Net assets per share at March 31, 2018 (FY2017) and 2017 (FY2016), and basic and diluted net income per share for the years then ended are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Net assets	¥4,548.80	**¥4,859.86**	**$45.74**
Basic net income	530.02	**315.28**	**2.97**
Diluted net income	529.91	**—**	**—**

Note: 1. Fully diluted net income per share for this fiscal year is omitted because there are no residual shares having the possibility of diluting stock value.
2. As the company conducted a 10:1 reverse stock split on October 1, 2016, data in the above table are adjusted as if the reverse stock split was conducted at the beginning of the fiscal year ended March 31, 2016.

3. The underlying data for the calculation of net income per share and diluted net income per share for the years ended March 31, 2018 (FY2017) and 2017 (FY2016), is summarized as follows:

	FY2016	**FY2017**	**FY2017**
	Millions of Yen		Thousands of U.S. Dollars
Net income per share:			
Net income	¥2,054	**¥1,160**	**$10,918**
Net income available for distribution to shareholders of common stock	2,054	**1,160**	**10,918**
	Thousands of shares		
Weighted average number of shares of common stock outstanding	3,876	**3,681**	
Diluted net income per share:			
Increase in common stock	1	—	

14. 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
	FY2016	**FY2017**	**FY2017**
Cash and deposits	¥8,170	**¥7,969**	**$75,002**
Time deposits maturing over three months	(85)	**(79)**	**(743)**
Cash and cash equivalents	¥8,085	**¥7,890**	**$74,259**

15. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 (FY2017) and 2017 (FY2016), are the following:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥ 105	**¥ 474**	**$4,461**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	105	**474**	**4,461**
Income tax effect	(32)	**(145)**	**(1,364)**
Total	73	**329**	**3,097**
Foreign currency translation adjustments:			
Gains arising during the year	2	**51**	**480**
Reclassification adjustments to profit or loss	—	**—**	**—**
Amount before income tax effect	2	**51**	**480**
Income tax effect	—	**—**	**—**
Total	2	**51**	**480**
Remeasurements of defined benefit plans:			
Gains arising during the year	17	**8**	**75**
Reclassification adjustments to profit or loss	79	**124**	**1,167**
Amount before income tax effect	96	**132**	**1,242**
Income tax effect	(29)	**(40)**	**(376)**
Total	67	**92**	**866**
Total other comprehensive income	¥142	**¥472**	**$4,443**

16. SEGMENT INFORMATION

(1) Overview of reporting segments

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

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

(2) Methods of calculating sales, income or loss, assets, liabilities and other items.

Methods of accounting for reported business segments are in principal the same as those indicated in Note 2 "Summary of Significant Accounting Policies." Income or losses of reporting statements are based on operating income. Income or losses between segments and transfer

amounts are based on market prices.

(3) Reporting segment information on sales, profit (loss), assets, liabilities and other items for the Companies as of and for the years ended March 31, 2018 (FY2017) and 2017 (FY2016), is summarized as follows:

Millions of Yen

	FY2017				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**¥34,280**	**¥1,051**	**¥35,331**		**¥35,331**
Intersegment	**9**	**117**	**126**	**¥ (126)**	**—**
Total sales	**34,289**	**1,168**	**35,457**	**(126)**	**35,331**
Segment profit	**1,818**	**30**	**1,848**	**—**	**1,848**
Segment asset	**36,627**	**2,660**	**39,287**	**7,528**	**46,815**
Other:					
Depreciation and amortization	**1,133**	**60**	**1,193**	**—**	**1,193**
Investments in affiliates	**66**	**—**	**66**	**—**	**66**
Capital expenditure	**1,986**	**57**	**2,043**	**—**	**2,043**

Thousands of U.S. Dollars

	FY2017				
	Pharmaceutical Products Business	Other Business	Total	Adjustment	Consolidated
Sales:					
To customers	**$322,635**	**$9,892**	**$332,527**	**—**	**$332,527**
Intersegment	**85**	**1,101**	**1,186**	**$ (1,186)**	
Total sales	**322,720**	**10,993**	**333,713**	**(1,186)**	**332,527**
Segment profit	**17,111**	**282**	**17,393**	**—**	**17,393**
Segment assets	**344,725**	**25,035**	**369,760**	**70,852**	**440,612**
Other:					
Depreciation and amortization	**10,663**	**565**	**11,228**	**—**	**11,228**
Investment in affiliates	**621**		**621**	**—**	**621**
Capital expenditure	**18,692**	**536**	**19,228**	**—**	**19,228**

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

(4) Information about products and services

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

(5) Information about geographical areas

Information on sales by geographical area is omitted, since sales to customers outside Japan account for more than 90% of net sales in the consolidated statements of income. Information of property, plant and equipment outside Japan is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2016	**FY2017**	**FY2017**
Japan	¥12,921	**¥11,993**	**$112,875**
Vietnam	1,786	**2,556**	**24,057**
Total	¥14,707	**¥14,549**	**$136,932**

(6) Information about major customers

		Millions of Yen		Thousands of U.S. Dollars
Customer	Related Segment	FY2016	**FY2017**	**FY2017**
Alfresa Corporation	Pharmaceutical Products Business	¥7,822	**¥8,067**	**$75,925**
Mediceo Corporation	Pharmaceutical Products Business	¥7,427	**¥7,374**	**$69,402**

17. Related Party Transactions

The related party transactions for the years ended March 31, 2018 (FY2017) and 2017 (FY2016), 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
		FY2016	**FY2017**	**FY2017**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥2,204	**¥2,300**	**$21,647**
Purchaser: the Company	Notes, accounts payable	¥ 891	**¥1,004**	**$ 9,449**

Transactions between Consolidated Subsidiary and Affiliate		Millions of Yen		Thousands of U.S. Dollars
		FY2016	**FY2017**	**FY2017**
Seller: Japan Sopharchim Co., Ltd.	Purchase of merchandise, raw materials	¥2,029	**¥1,968**	**$18,522**
Purchaser: Nihon Pharmaceutical Industry Co., Ltd.	Notes, accounts payable	¥ 910	**¥1,012**	**$ 9,525**

At March 31, 2018, the Company has 6.1% (6.1% at March 31, 2017) of the voting rights in Japan Sopharchim Co., Ltd., which has 19.8% (18.7% at March 31, 2017) of the voting rights in the Company. In addition, the representative director of the Company has 81.8% (81.8% at March 31, 2017) of the voting rights in Japan Sopharchim Co., Ltd.

18. Rental Property

The Company owns available-for-lease facilities in Tokyo and other areas. During the years ended March 31, 2018 (FY2017) and 2017 (FY2016), rental income on this real estate amounted to ¥29 million ($273 thousand) and ¥31 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
	FY2016	**FY2017**	**FY2017**
Carrying value[1] at beginning of year	¥916	**¥908**	**$8,546**
Increase (decrease) in book value during year	(8)	**5**	**47**
Carrying value at end of year	908	**913**	**8,593**
Fair value[2] at end of year	¥796	**¥800**	**$7,529**

Notes: 1. The carrying value represents acquisition cost less accumulated depreciation.
2. Fair value as of March 31, 2018 and 2017 are determined by the Company based on appraisal amounts and indices that are judged to reflect market value.

Corporate Data

Company Name: Nippon Chemiphar Co., Ltd.
Founded: June 16, 1950
Capitalization: ¥4,304 million
Securities Exchange: Tokyo Stock Exchange (First Section)
Employees: 816 (Consolidated, as of March 31, 2018)
Website: http: //www.chemiphar.co.jp/english/

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Discovery Research Laboratories:
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Group Companies

Subsidiaries:
Nihon Pharmaceutical Industry Co., Ltd.
Safety Research Institute for Chemical Compounds Co., Ltd.
Nippon Chemiphar Vietnam Co., Ltd.

Affiliated Company:
Japan Sopharchim Co., Ltd.

History

1950	Hitachi Chemical Co., Ltd. (as Chemiphar was formerly known) is set up
1969	Nihon Pharmaceutical Industry Co., Ltd. (NPI) becomes an affiliated company
1970	Company changes name to Nippon Chemiphar Co., Ltd.
1971	Listed on Tokyo Stock Exchange (Second Section)
1976	Listed on Tokyo Stock Exchange (First Section) and starts diagnostics business Establishes Japan Sopharchim Co., Ltd. (currently an affiliated company)
1986	Safety Research Institute for Chemical Compounds Co., Ltd. becomes a subsidiary
1988	Launches Uralyt-U (soluble powder)
1993	Launches Soleton Tab. 80
1995	Launches Calvan Tab.
2001	Launches DP2000 and IgE NC
2002	Concludes comprehensive business alliance with Ranbaxy Laboratories Limited, India
2009	Dissolves alliance with Ranbaxy
2010	NPI becomes a wholly owned Chemiphar subsidiary; Chemiphar spins off its Ibaraki Factory to NPI (NPI's current Tsukuba Factory)
2012	Launches DP3000
2014	New plant at NPI's Tsukuba Factory comes on line
2015	Establishes Nippon Chemiphar Vietnam Co., Ltd. (NC-VN)
2017	NC-VN completes construction of a new plant in Bình Duang Province, Vietnam
2017	Establishes West Japan Distribution Center, creating one base each for in East and West Japan

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