Business Report

(From January 1, 2014 to December 31, 2014)

1. Status of Nobelpharma

1.1. Progress and Results of Operations

Since its foundation in 2003, Nobelpharma has developed, manufactured and sold drugs satisfying unmet medical needs with its mission to “Contribute to medical care by developing, manufacturing and delivering necessary medicines that other company do not pursue”.

In January 2015, the Company revised its company mission, management policy and action criteria.

For this revision, the Company focused on four points: (1) internationalization, (2) work-life balance, (3) prevention of “Large Corporation Disease” that is easy to spread if we are not careful and (4) sending a message to outside the Company, not only within the Company. The Company’s new mission is to “Contribute to society by providing necessary but neglected pharmaceuticals and medical devices” while maintaining the basic principles of the Company. The Company is committed to continue its business activities based on this corporate mission. Sales and profits are important management indicators we should pursue but they may be realized as a result of execution of the corporate mission and thus, they are positioned as means for achieving the corporate mission. The revised management policy and action criteria are detailed as follows:

Policy

1. General
    1) Share Mission, Policy and Action Criteria among all concerned (employees, shareholders, officers)
        * Unable to share without routine review
    2) Pursue evolution, yet upsizing is not our goal
    3) Comply with regulations and ethical codes
    4) Ensure transparency and disclosure
    5) Launch out into overseas
2. Personnel
    1) Value employees and families, respecting self-development
    2) Value "Selected Few" and create environment for "Selected Few" to enjoy working
        * "Selected Few" = experienced experts passionately devoted to working, irrespective of gender, age, nationality, religion or preference
    3) Value suggestions and opinions from employees
3. Products
    1) Pursue high quality in products and data
    2) Ensure post-marketing safety
    3) Search seeds externally

4. Capital
    1) Profits as a result/means of achieving Mission
    2) Focus on higher return on sales/profits per employee
    3) Investment decision by observing damage of failure, not unreliable counts of success
    4) Profits distribution to shareholders (dividends)/employees/internal reserve
        * dividends: 1/3 of profits after tax
        * employees: up to dividends
    5) Asset management only with principal guarantee

Action Criteria

1. Principle: Give priority to patient benefit if inconclusive:
2. Challenge:
    1) YMWS: "Yatte Minakucha Wakaranai, shikashi Songiri wo tamerauna"
        = You never know unless you try, but do not hesitate to cut loss
    2) ZY: "Zenrei ga nainara Yattemiru"
        = If no precedence, try first
3. Speed:
    1) Never forget patients are waiting
    2) Never fear to buy time with money
    3) Set a deadline first (specific date) regardless of possible delay
        * Off Limits = "about - ," "early/late - ," etc.
    4) Start from whatever feasible
    5) If failed/troubled, prevent expansion first, then recurrence
        * Pursuit of responsibilities unnecessary
    6) Fast decision for < X mil yen by responsible person
        * X＝3 for Div Mngr; 1 for Dept Mngr/Branch Mngr/PM/PL
4. Cost/Efficiency:
    1) Never carry/purchase deadwood, never take/cause wasteful actions
    2) No overtime work considered good
    3) Consider patient needs, scientific rationality and nature of laws/regulations when pursuing higher quality in products/data
    4) Pursue cost reduction with the principle of multiple sourcing, while regarding providers as partners
5. Communication/Relationship:
    1) Never prioritize loyalty to company over morals
    2) Superiors to confidingly entrust tasks to subordinates, but never leave unmanaged
    3) Hear anyone out, never interrupt in the middle
    4) Start with conclusion when explaining/responding
    5) Merely greetings, yet surely significant

As of March 2015, the Company is selling the following 13 new pharmaceutical products.

	Brand Name	Launch	Indications	Route of administration	Licensor	Sales in FY2014 (NHI price basis) Yen in millions	Distributor	Remarks
1	Nobelzin® capsules Nobelzin® tablets	Apr 2008 Feb 2015	Wilson's disease	Oral Administration	Teva	201	Own	
2	Lunabell® LD Lunabell® ULD	Jul 2008 Sep 2013	dysmenorrhea	Oral Administration	Janssen	11,800	Nippon Shinyaku Fuji Pharma	Distributed parallelly by two companies.
3	Nobelbar®	Dec 2008	neonatal seizures, status epilepticus	Intravenous injection	In-house	138	Own	
4	Fostoin®	Jan 2012	status epilepticus, prevention of postoperative seizures, etc.	Intravenous injection	Pfizer	1,296	Eisai	Co-promotion
5	Gliadel®	Jan 2013	malignant glioma	Interstitial chemotherapy	Eisai	1,270	MSA transferred to Eisai	Co-promotion
6	Alabel®	Sep 2013	diagnosis of malignant glioma	Oral Administration	SBI Pharmaceuticals (medac)	233	Own	
7	Foscavir®	Feb 2012	cytomegalovirus retinopathy, viremia and infection	Intravenous injection	Clinigen	415	Own	MSA* transferred from AstraZeneca
8	Indacin®	Jan 2013	patent ductus arteriosus of prematurity	Intravenous injection	Lundbeck	85	Own	MSA* transferred from MSD
9	Cosmegen®	Jan 2013	Wilms'tumor, choriocarcinoma, pediatric solid malignant tumor, etc	Intravenous injection	Lundbeck	15	Own	MSA* transferred from MSD
10	Unitalc®	Dec 2013	prevention of recurrent malignant pleural effusion	Suspension agent for intrapleural administration	Novatech	48	Own	
11	Respia®	Dec 2014	apnea of prematurity	Intravenous injection/oral liquid	Nippon Boehringer	7	Own	
12	Rapalimus®	Dec 2014	lymphangioleiomyomatosis	Oral Administration	Pfizer	5	Own	
13	Zanosar®	Feb 2015	gastroenteropancreatic neuroendocrine tumor	Intravenous injection	Keocyt		Own	
	Total					15,507		

* MSA: Manufacture and Sales Approval

As shown in the above table, total sales of 12 products in FY2014, excluding Zanosar® from a total of 13 products available for sale, were 15,507 million yen on the NHI price basis for delivery to medical institutions and 5,902 million yen on the Company's shipping sales basis. Sales of Lunabell® family were 4,683 million yen in the Company's shipping sales basis and accounted for 79.3% of the total shipping sales. By adding loyalty revenue of 726 million yen, total sales in FY2014 were 6,628 million yen, up 1.3% Y-on-Y.

Cost of goods sold was 1,212 million yen, down 40.2% Y-on-Y and accounted for 18.3% (2013: 31.0%) of total sales. Selling, general and administrative expenses were 5,153 million yen, up 25.8% Y-on-Y, and accounted for 77.7% (2013: 62.6%) of total sales, mainly including personnel costs of 1,508 million yen, up 27.6% Y-on-Y, with a ratio to total sales of 22.8% (2013: 18.1%), R&D expenses of 1,398 million yen, a rise of 52.1% Y-on-Y, with a ratio to total sales of 21.1% (2013:

14.1%), a commission fee of 553 million yen and loyalty expenses of 819 million yen. The commission fee mainly included 37 million yen of a business management service outsourcing fee to Hisanaga & Company, 43 million yen of temporary staffing expenses to Recruit Staffing, 41 million yen and 30 million yen of system development outsourcing expenses to Application Software Development Co., Ltd. and Perspective Co., Ltd., respectively, and 58 million yen, 29 million yen and 14 million yen of PMS-related outsourcing expenses to CAC Excia, CMIC PMS and Alfresa Pharma, respectively. Royalty expenses were running royalties of 689 million yen, 111 million yen and 16 million yen to Jansen Pharma, Pfizer and Teva, respectively.

As a result, operating income decreased by 37.5% Y-on-Y to 262 million yen, with a ratio to total sales of 4.0% (2013: 6.4%).

Ordinary income was 577 million yen, an increase of 24.9% Y-on-Y, and accounted for 8.7% (2013: 7.1%) of total sales. This increase was due to non-operating income of 401 million yen including subsidy revenue of 399 million yen, partly offset by non-operating expenses of 87 million yen, consisting of interest paid of 59 million yen, bond issue cost of 20 million yen and exchange loss of 7 million yen (loss arising from changes in the foreign exchange rate between the record date and payment/receipt date of a foreign transaction such as importing raw materials and loyalty payment).

Settlement money associated with termination of the marketing alliance with Alfresa Pharma of 185 million yen was recognized as an extraordinary loss.

Net income after income taxes of 151 million yen was 240 million yen, down 29.0% Y-on-Y, with a ratio to total sales of 3.6% (2013: 5.2%) and net income per employee was 1,021,000 yen (2013: 1,550,000 yen).

Retained earnings brought forward as of December 31, 2014 were 667 million yen, by adding a net profit to the beginning balance of retained earnings brought forward of 513 million yen, including a prior period adjustment of 97 million, minus a dividend payment of 89 million yen.

Item	Yen in millions		Y-on-Y	% to total sales	
	2013	2014		2013	2014
Sales	6,542	6,628	101.3%	100.0%	100.0%
Product sales	5,990	5,902	98.5%	91.6%	89.0%
Other	552	726	131.5%	8.4%	11.0%
Cost of goods sold	2,026	1,212	59.8%	31.0%	18.3%
Gross profit	4,516	5,415	119.9%	69.0%	81.7%
SG&A expense	4,095	5,153	125.8%	62.6%	77.7%
* Personnel cost	1,182	1,508	127.6%	18.1%	22.8%
* R&D expenses	921	1,401	152.1%	14.1%	21.1%
* Commission fee	386	553	143.3%	5.9%	8.3%
* Loyalty expenses	700	819	117.0%	10.7%	12.4%
Operating income	419	262	62.5%	6.4%	4.0%
Non-operating income	163	401	246.0%	2.5%	6.1%
Non-operating expenses	119	87	73.1%	1.8%	1.3%
Ordinary income	462	577	124.9%	7.1%	8.7%
Extraordinary loss	-	185	-	0.0%	2.8%
Net income before tax	462	391	84.6%	7.1%	5.9%
Income taxes	124	151	121.8%	1.9%	2.3%

Item	Yen in millions		Y-on-Y	% to total sales	
	2013	2014		2013	2014
Net income	338	240	71.0%	5.2%	3.6%
Ordinary income per employee (‘000 yen)	2,119	2,455	115.9%	-	-
Net income per employee (‘000 yen)	1,550	1,022	65.9%	-	-
Retained earnings brought forward					
Beginning balance	205	416	-	-	-
Dividend payment	83	89	-	-	-
Prior period adjustment	∆44	97	-	-	-
Ending balance	416	665	-	-	-

* Major items included in SG&A expense.

1.2. Status of Sales

The status of sales of 12 products available for sale in December 2014 is summarized as follows:

Brand Name	Delivery amount to medical institutions (NHI price basis, yen in millions)		Y-on-Y ([2]/[1])
	Year 2013 [1]	Year 2014 [2]	
Nobelzin®	181	201	111%
Lunabell® (LD), ULD	9,691	11,800	122%
Nobelbar®	144	138	95%
Fostoin®	946	1,296	137%
Foscavir®	429	415	97%
Gliadel®	1,338	1,270	95%
Alabel®	45	233	519%
Indacin®	69	85	124%
Cosmegen®	10	15	142%
Unitalc®	1	48	4,926%
Respia®	-	2	-
Rapalimus®	-	5	-
Total	12,855	15,507	121%

In 2014, the Company pursued sales activities with two objectives. One was to achieve the sales program of Lunabell® through complete consignment sales and the other was that Marketing & Sales started to move into the black by achieving the sales program of direct sales and co-promotion products. The Company has sold Lunabell® on commission to Nippon Shinyaku and Fuji Pharma, and sales showed steady growth in the first half of 2014, but after September when Lunabell® ULD was released for a longer-term prescription, sales slowed down and fell short of the forecasts by 4% (up 19% Y-on-Y). For direct sales and co-promotion products, Marketing & Sales made a concerted effort to sell mainly Fostoin®, a core product; however, due to the impact of unstable supply, sales fell short of the forecasts by 6% though it showed double-digit growth of 19% Y-on-Y. Total sales of direct sales and co-promotion products were 3.38 billion yen against the sales program of 3.89 billion yen (up 15% Y-on-Y and fell short of the forecast by 13%).

As for the sales structure, as of March 1, 2015, the Company has 85 MRs with 13 sales offices nationwide. 33 of 85 MRs are seconded from the Medipal Holdings Group.

As for a sales alliance with Alfresa Pharma, the Company determined to terminate consignment sales of Noberzin® and Nobelbar® to Alfresa on March 31, 2015 and directly sell them from April 1.

As for wholesalors, in principle, the Medipal Group has wholesaled the Company's own distributing products exclusively.

1.3. Status of Manufacturing and Capital Expenditure

The Company outsources manufacturing of both drug substances and drug products and aims at ensuring multiple supply sources and outsourcing channels in order to strengthen cooperation with outsourcees and avoid risk as well as holds excess inventories of drug products, drug substances and main auxiliary materials.

As for Rapalimus®, the first lot imported from Pfizer could not be shipped because of defects and the Company decided to delay the release until December 2014 though the initial schedule of launching was November. As a result, we were very sorry to have caused trouble to all of our customers. This is the second manufacturing problem of Pfizer following the problem of Fostoin® in 2013, and we made a serious protest against Pfizer and have strengthened our inspections, but supply has not become stable yet.

From the viewpoint of the BCP (business continuity plan), the Company has promoted having more than one place of stock and arranged to secure certain space in the distribution warehouse of Mediceo Corporation as the West Japan Distribution Center in Kato City, Hyogo, in addition to the East Japan Distribution Center in Kazo City, Saitama, and as a result, it can also stock a certain volume of products in the West Japan Distribution Center.

The result of preservation stability of the initial lot of Lunabell® ULD indicated that the quantitative value of ethinylestradiol, its active ingredient, might be below the approval value of the standard by the expiration date. Therefore, the Company recalled nine lots that had shipped so far. This was because the amount of moisture contained in paper used for packing mat board of Lunabell® ULD tablet was higher than the design, which accelerated decomposition of ethinylestradiol faster than the estimation when it was developed. The Company implemented adequate measures for this problem and believes there is no recurrence.

For the current period, there is no material capital expenditure.

1.4. Status of Research and Development

As for the development pipeline as of March 1, 2015, the table below summarizes the development stage and expected NDA for new drugs and life cycle management (LCM) products. All development products under Phase II were approved, except for NPC-04 (under review).

Currently, Phase III development has gained momentum. Many development products have entirely new concepts. The Company brings overseas development of NPC-12 (external application), 17, 18 and NPC-x4 in view, and NPC-x6 has been developed in foreign countries ahead of Japan. The Company has utilized public funds for development to mitigate relevant risk.

NPC-16 and NPC-02 (LCM, additional efficacy) are considered to have a significant impact on the present business conditions.

All development products, except for NPC-04, 15 and 16, are joint developments with academia and were developed through open innovation. The Company's strategy is to seek product seeds outside the company without having our own laboratory and thus Business Development & IP Management is responsible for playing the role of laboratory for the Company.

Development products are classified into the following six categories:

I: Product for primary sources of revenue following Lunabell® (sales of more than 3 billion yen)

II: Product that will be approved in the short term and that is expected to produce marginal profit though it may not become a primary source of revenue

III: Product with a theme from academia such as a university and will be approved in the short term. Development cost is low as the Company expects to get public subsidies. Product has an innovative concept and it is difficult to estimate sales.

IV: Product with the same characteristics as III but it takes some time to be approved.

V: LCM of the existing commercialized products. Product with a low development cost and that is expected to increase marginal profit.

VI: Theme that is under research (No applicable item in the table below)

(New pharmaceutical products)

	Compound	Indication	Partner	Development stage	Estimated approval	Classification
1	NPC-11 Caffeine citrate	Apnea of prematurity	Nippon Boehringer Ingerheim	Approved	March 1, 2014	II
2	NPC-12 Sirolimus	Lymphangioleiomyomatosis (LAM)	Pfizer	Approved	July 1, 2014	II
3	NPC-10 Streptozocin	Gastro entero pancreatic neuro endocrine tumor	Keocyt	Approved	September 1, 2014	II
4	NPC-04 Oxcarbazepine	Partial epilepsy	Novartis	Under review	June 1, 2015	II
5	NPC-09 N-acetylneuraminic acid	Distal myopathy	In-house	P I	December 1, 2017	IV
6	NPC-14 Arbekacin	Duchenne muscular dystrophy	Undisclosed	PII	September 1, 2019	IV
7	NPC-18 bF, GF	Myringa regeneration	Foundation of Biomedical Research and Innovation (Kobe)	PIII	December 1, 2017	III
8	NPC-17 Titanium bridge	Spasmodic dysphonia	Foundation of Biomedical Research and Innovation (Kobe)	P III in preparation	October 1, 2017	III
9	NPC-x3 Pyruvic acid	Hyperuricemia due to mitochondrial disorders	Kurume University	P I	TBD	IV
10	NPC-16	Gynecological diseases	In-house	PIII	June 1, 2018	I
11	NPC-15 Melatonin	Sleep disorders in children with neurodevelopmental disabilities	In-house	PII	September 1, 2018	I
12	NPC-x4 P092	Prion disease	Gifu University	Non-clinical	TBD	IV
13	NPC-x5 Transdermal scopolamine	Salivation	Tokuhon	Non-clinical	TBD	IV

(LCM products)

	Compound	Description of LCM	Development stage	Estimated approval	Classification
1	NPC-02 Nobelzin®	Add dosage form (tablet)	Approved	September 1, 2014	V
2	NPC-07 Alabel®	Diagnosis of bladder cancer	PIII (addition)	TBD	V
3	NPC-12 Sirolimus® external preparation	External preparation, new indication	PI/II	March 1, 2018	V
4	NPC-12 Rapalimus®	Prevention of GVHD after hematopoietic stem cell transplantation	PII in preparation	TBD	V
5	NPC-05 Unitalc®	New indication (intractable pneumothorax), changes in dosage and administration (spray)	Prior to start of the clinical trial	TBD	V
6	NPC-02 Nobelzin®	New indication	PIII	December 1, 2016	V

1.5. Status of Business Development/Strategic Planning

Business development and strategic planning are responsible for playing core roles for the Company's open innovation and specifically these are largely classified into five categories: (1) planning and research for new themes, (2) negotiation of in-licensing with a potential business partner for a new development theme, (3) negotiation of follow-up with the existing business partners, (4) negotiation of transfer of approval for pharmaceutical products of other companies and (5) intellectual property management such as patents.

With regard to (2), in 2013, the Company entered into a license agreement with Osaka University for Sirolimus® external preparation, an mTOR inhibitor, as cooperation with academia. In 2014, the Company entered into an agreement for development cooperation for myringa regeneration with the Foundation for Biomedical Research and Innovation and began to work on obtaining manufacturing approval for a treatment for myringa regeneration. For the in-licensing project from other companies, the Company negotiated with Novartis AG to in-license oxcarbazepine and entered into a license agreement in January 2014 and in addition, in June 2014, it entered into a license agreement for SR16234 with US-based SRI International.

Meanwhile, transfer of Manufacture and Sales Approval for an additional item that was expected in April 2015 was postponed for certain reasons.

1.6. Status of Safety Assurance of Pharmaceutical Products

Safety assurance of pharmaceutical products is largely classified into three categories: (1) quality assurance of manufacturing, (2) safety control for side effects and adverse event vigilance and (3) Post-marketing Surveillance (PMS) for postmarketing safety research.

Although the Company believed that it had recognized and taken adequate care of the importance of safety assurance of pharmaceutical products, it was pointed out by the authority that reliability of application for re-examination of Lunabell® Combination Tablet LD filed in July 2012 was insufficient so that it ceased a paper survey at the end of March 2014 and resubmitted application materials for re-examination in August 2014 after reviewing various data. However, materials resubmitted were also pointed out as having insufficient reliability by the authority and thus, under the authority's instruction, the Company is working on resubmitting it again in March 2015. In addition, Nobelbar® intravenous injection that was applied for re-examination in January 2015 was also found to contain a problem

related to reliability like Lunabell® and the Company has consulted on how to address it with the authority.

In the regular camp meeting by Executive Officers and Executive Directors in November 2014, these problems were deliberated on again with the cooperation of an external consultant to identify the facts and investigate the cause, and a corrective strategy to be taken was thoroughly discussed. Accordingly, a project team was established for these two products to implement adequate measures.

1.7. Status of Funding and Major Lenders

In October 2014, the Bank of Japan announced it was launching "a new phase of monetary easing both in terms of quantity and quality" by increasing the JGB purchase to 80 trillion yen annually. As a result, the yen has rapidly weakened and long-term interest rates hit a historical record low. Some said that it might bring economic growth but others said it might give rise to large instability in the financial market. The Company has started the 3rd round development that is expected to be approved between 2016 and 2018, and sometime in the near future the possibility of beginning overseas development is being considered. Therefore, funding needs are expected to rise toward 2020, and using the current economic situation with a low interest rate and sufficient funds in the market, the Company is financed through long-term (five to ten years) fixed rate borrowing from financial institutions and business companies. As a result, the balance of loans payable and bonds as of February 28, 2015 was 6,002 million yen. The Company has cash and deposits corresponding to these borrowings and thus, it has no debt in fact.

In 2014, the Company obtained new borrowing of 2,806 million yen including bonds from financial institutions and repaid 2,314 million yen to financial institutions. In 2015, repayment is expected to be 994 million yen.

As of March 1, 2015, major lenders are as follows:

Short-term loans payable		
Current portion of long-term loans payable		843 million yen
Long-term loans payable		
Inabata & Co., Ltd.		387 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Odenmacho Branch		221 million yen
Mizuho Bank, Ltd., Yokoyamacho Branch		280 million yen
The Shoko Chukin Bank, Ltd., Kanda Branch		318 million yen
The Tokyo Shinkin Bank, Nihonbashi Branch		252 million yen
Japan Finance Corporation		265 million yen
Resona Bank, Akihabara Branch		173 million yen
Sumitomo Mitsui Banking Corporation, Kandaekimae Branch		760 million yen
Total		2,652 million yen
Balance of bonds		
Current portion of bonds		
1st straight bond	Medipal Holdings Corporation*	1,000 million yen

Straight bond

2nd straight bond	Daiso Industries Co., Ltd.	500 million yen
3rd straight bond	Medipal Holdings Corporation*	1,500 million yen
4th straight bond	Mizuho Bank, Ltd.	500 million yen

* On February 2, 2015, the Company redeemed the 1st straight bond before maturity and completed the issue and underwrite of the 3rd straight bond on the same day.

1.8. Financial Results, Financial Position and 2015 Forecast

The Company's financial results, financial position and 2015 forecasts are as follows:

Yen in millions, except for*	2011 9th period	2012 10th period	2013 11th period	2014 (Forecasts) 12th period	2014 (Actual results) 12th period	2015 (Forecasts) 13th period
Sales	4,170	5,056	6,542	6,954	6,628	7,630
Ordinary income	67	660	463	387	577	309
Net income	32	279	339	232	240	185
* Net income per share	24,000 yen	212,000 yen	258,000 yen	177,000 yen	182,000 yen	141,000 yen
Total assets	3,910	5,598	6,098	5,376	9,367	9,395
Net assets	277	517	728	872	1,238	1,212
* Equity ratio	5.4%	9.2%	11.9%	16.2%	13.2%	12.1%
* Net asset per share	212,000 yen	393,000 yen	554,000 yen	663,000 yen	941,000 yen	921,000 yen

1.9. Status of Employees

As of March 1, 2015, the number of employees is 235 (including 37 seconded employees, 8 temp staffs, 30 contract employees, and an advisor (total 76) but excluding directors) with an average age of 52.5. The number of employees increased by 17 compared with 218 (including seconded employees) as of March 1, 2014.

In 2014, the Company issued informal job offers to a postdoc and two graduates of career colleges, and they will join in April 2015. The Company has recruited two postdocs and four graduates of career colleges (excluding the above prospective employees), and the postdocs have displayed their high abilities to become useful additions to their departments. Of the graduates of the career colleges, three are MRs and they all passed the MR certification exam.

In terms of overwork, chronic prolonged work is seen in a part of Pharmacovigilance & Quality Assurance in particular.

1.10. Issues to Be Addressed

For pharmaceutical companies, sales, research (business development), development, safety assurance of pharmaceutical products, manufacturing, regulatory compliance and business management are the seven pillars of business and each of them are equally important.

Sales & Marketing's mission is to "Deliver the Company's products to patient as soon as possible" and its corresponding motto is "Stick to sales figures". Sales & Marketing aims at achieving a sales target of 16.8 billion yen (12.3 billion of Lunabell® and 4.5 billion yen of direct sales and co-promotion products) in the NHI price basis for delivery to medical institutions. All measures for Lunabell® focus on generic products. Using Lunabell® ULD as a weapon, the Company plans to cooperate with the distributor to work on raising the share of Lunabell® ULD to 70% of the total Lunabell® family for minimizing the impact of generics, which has been reflected in the 2015 business plan. Next, the Company has established four sales policies to achieve the plan of direct sales and co-promotion products. First is promotion of changes in the consciousness for increasing productivity

of MRs. Aiming at average sales of MRs of 47 million yen, the Company sets bottom line targets (30 million yen per MR for direct sales and co-promotion products and 12 million yen per MR for Fostoin®). Secondly, product managers in the Head Office will cooperate with product promoters in branches to implement the PDCA cycle on a quarterly basis. Thirdly, branch managers try to display their leadership to suggest the branch policy to MRs on a quarterly basis so as to face in the same direction for increasing their motivation. Fourth, the Company endeavors to foster three products of Respia®, Rapalimus® and Zanosar® and asks hospitals to adopt them early.

As for the issue of research (business development & strategic planning), the Company continues to search seeds through open innovation. The Company has a project under negotiation with the existing business partner and expects to resolve the problem to gain profit. It will also keep applying public development funds.

As for the development issue, as described in "1.4 Status of Development", the Company seems to have a sufficient pipeline, considering its scale. Phase III clinical trials are expected to start on a full scale for many themes and the Company will proceed steadily according to the development schedule established and in particular, aims at applying NPC-02 (additional indication) in 2015.

For NPC-12 (external application), 17, 18 and NPC-x4, the Company plans to gain a foothold for overseas development.

As for issues of safety assurance of pharmaceutical products, under the conditions described in 1.6, the Company intends to significantly review and reinforce a structure of Pharmacovigilance & Quality Assurance.

In March 2015, as a new organizational structure, the department engaged in Post-marketing Surveillance became independent from Pharmacovigilance & Quality Assurance as Peri-Approval Science & Operations for completely enhancing PMS. The new department is completely responsible for applying re-examination of Lunabell®, Nobelbar® and Nobelzin® approved in 2008. In addition, the Company will take all possible measures to ensure safety assurance of pharmaceutical products available for sale. The Pharmaceutical Affairs Act revised in 2013 requires companies to accept larger liability for safety assurance of pharmaceutical products. As the Company obtained an NDA for three products in 2013 and three products in 2014, it expects to increase operations related to post-marketing safety assurance further and considers it necessary to seek a different method than before.

As for production issues, Quality Assurance and Good Supplying Practice are important responsibilities that the Company has to fulfill as a pharmaceutical company. In 2014, the Company faced the supply problem of Fostoin® and Rapamulis® supplied by Pfizer. Pfizer's supply problem has been repeated so that the Company plans to inspect Pfizer's manufacturing site more frequently than before. The Company has tried to secure more than one supplier, not only Pfizer, and plans to start specific regulatory procedures for certain products this year.

As an issue of ensuring regulatory compliance and regulatory negotiation, the Company plans steadily to negotiate an NHI price for NPC-04 and renew the first-class license for manufacturer of drugs. In addition, through activities of Samurai Biotech Association of which the Company is a board member, we intend to continue working on the Government concerning various issues.

As an issue of corporate planning and management, the Company's first care is to obtain real-time accounting information to achieve the budgets, especially ordinary income. Secondly, for financial affairs, the Company currently has sufficient funds in hand and does not consider the necessity of additional finance in principle, but it intends to maintain good relationships with financial institutions. Financing from Medipal Holdings Corporation, a business partner, using the project finance results in

diversifying development risk and the Company will examine using it for each development theme. Thirdly, the Company determined to purchase Class A preferred stocks held by Development Bank of Japan by initial terms and conditions of the contract as these stocks were deemed to fulfill the role after a period of time. Fourth, as for accounting standards, the Company's policy is not to be listed on the stock market but it believes that it is important to adopt accounting standards similar to listed companies, and thus, the Company used Deloitte Touche Tohmatsu LLC to provide audit services in 2011 and it intends to continue accounting audits.

As for an issue of HR & General Affair, the Company has hired experienced workers midway in principle but it has many aged employees and needs to refresh personnel organization. Therefore, the Company started to recruit postdocs and graduates of career colleges in 2013 and plans to continue to hire some young employees. The Company sets a time limit to resolve chronic prolonged work in Pharmacovigilance & Quality Assurance at July 2015.

Comparing its ideal image of sales and profit for the mid- and long-term to the North Star as an immovable high goal, the Company sets the following numerical targets:

North Star	2020
Sales	20 billion yen
Ordinary income	5 billion yen
Net income	3 billion yen

1.11. Other Important Matters

As for the accounting standards, as described in 1.10, the Company hired Deloitte Touche Tohmatsu LLC from 2011 for arranging the accounting standards. Considering Tohmatsu's opinions, the Company slightly changed the accounting standards for the term ending December 31, 2013. These changes are summarized as follows: The license fee related to in-licensed development products is amortized over (1) 10 years from the release of the products that have a low risk of commercialization (those that have been approved in Europe and the US), (2) the period of development (from the contract date to application) of the products that have a high risk of commercialization (those that are not approved in Europe and the US) and that POC (proof of concept) is produced, or (3) the estimated period of the development stage (from the contract date to the next scheduled date to determine whether development is continued) of the products for which POC is not produced.

2. Current Status of the Company

2.1. Status of Shares

(1)	Number of shares authorized	As of December 31, 2014		5,000 shares
(2)	Number of shares issued	As of December 31, 2014	Ordinary share	1,165 shares
			Class A preferred share	150 shares
(3)	Number of shareholders	As of December 31, 2014		3

(4) Status of Major Shareholders (as of December 31, 2014)

Hisanaga & Company (ordinary share)	1,000 shares (76.0%)

Inabata & Co., Ltd. (ordinary share) 165 shares (12.5%)
Development Bank of Japan Inc. (Class A preferred share) 150 shares (11.4%)

For Class A preferred shares described in (2), all shares are planned to be purchased as treasury stock.

2.2. Status of Share Warrant

2.2.1. Status of share warrant that is issued to and held by the Company's executive officers as consideration for execution of their duties

Not applicable

2.2.2. Status of share warrant that is issued to and held by the Company's employees as consideration for execution of their duties

Not applicable

2.2.3. Share warrant in issue

Share warrant in issue is as follows: Inabata & Co., Ltd. can, by its discretion, execute the right and when executed, Inabata would have 499 ordinary shares.

Resolution date for issuance	March 29, 2012
Maturity date	August 23, 2016
Number of share warrant	334
Class of share subject to share warrant	Ordinary share
Number of shares subject to share warrant	334 shares
Issuance price of share warrant	1,160,000 yen
Balance of share warrant	387,440,000 yen

2.3. Status of Corporate Executives

2.3.1 Management Reshuffle

(1) Scheduled directors (scheduled on March 26, 2015)

Nobukazu Kuboi (General Manager, Financial Management Office and General Manager, Accounting Dept., Inabata & Co., Ltd.)

(2) Director to resign (scheduled on March 26, 2015)

Yoshiyuki Moriyama (Senior Manager, Affiliate Management Dept., Financial Management Office, Inabata & Co., Ltd.)

(3) Scheduled company auditor (scheduled on March 26, 2015)

Yasurou Kumanaka (Accounting Dept., Financial Management Office, Inabata & Co., Ltd.)

(4) Company auditor to resign (scheduled on March 26, 2015)

Nobukazu Kuboi (General Manager, Financial Management Office and General Manager, Accounting Dept., Inabata & Co., Ltd.)

(5) Status of Directors and Company Auditors

As of March 31, 2015, the status of full-time and part-time directors is as follows:

CEO and President: Jin Shiomura

Directors (part-time):	Eiji Suzuki (corporate advisor)
Directors (part-time):	Isamu Sojyo (former Executive Managing Director of Japan Intellectual Property Association, former General Manager of Intellectual Property Department at Mitsubishi Chemical Corporation)
Directors (part-time):	Yasuyuki Fujimoto (General Manager, Life Industry Division, Inabata & Co., Ltd.)
Directors (part-time):	Nobukazu Kuboi (General Manager, Financial Management Office and General Manager, Accounting Dept., Inabata & Co., Ltd.)
Company Auditor (part-time):	Yasurou Kumanaka (Accounting Dept., Financial Management Office, Inabata & Co., Ltd.)

(6) Status of Executive Officers

As of March 26, 2015, the status of executive officers and directors is as follows:

Senior Executive Officer:	Shigeki Shimasaki (Head of Peri-Approval Science & Operations)
Senior Executive Officer:	Tsutomu Sugaya (Head of Corporate Planning & Administration)
Executive Officer:	Hiroomi Kudo (Head of Marketing & Sales)
Executive Officer:	Tetsuo Hayase (Head of Supply Chain & Manufacturing)
Executive Officer:	Soichi Ikegaya (Head of Pharmacovigilance & Quality Assurance, Regulatory Affairs & Compliance and General Marketing Compliance Officer)
Executive Director:	Masanobu Murakami (General Manager of R&D Department 1)
Executive Director:	Kenji Shimizu (General Manager of R&D Department 2)
Executive Director:	Akira Ikeda (Head of HR & General Affairs)
Executive Director:	Masato Iwamoto (General Manager of Supply Chain Management)
Executive Director:	Yoshinobu Takahashi (General Manager of Sales Strategic Planning)
Executive Director:	Osamu Kato (General Manager of Regulatory Affairs)
Executive Director:	Masafumi Mimura (Head of R&D Planning)
Executive Director:	Arata Tabata (Head of Business Development & IP Management)

Executive Director: Yoshihide Yamamoto
(Deputy Head of Corporate Planning & Administration)

Hidenobu Ikoma resigned (Executive Officer, Head of Pharmacovigilance & Quality Assurance) and Shun Aruga resigned (Executive Director, General Manager of R&D Department 4), but they continue to work in the Company.

2.3.2 Remuneration paid to directors and company auditors

Classification	Head-count	Amount paid
Directors	5	8,880,000 yen
Company auditor	1	0 yen
Total	6	8,880,000 yen

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