Business Report

(From January 1, 2015 to December 31, 2015)

1. Nobelpharma

1.1. Progress and Results of Operations

The Company continues its business activities with its mission of "Contribute to society by providing necessary but neglected pharmaceuticals and medical devices." Sales and profits are important management indicators that should be pursued; however we regard these as results of carrying out the mission as well as a means to accomplish the mission. The management policy and action criteria are as cited below:

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 2016, the Company is marketing the 13 new ethical drugs as listed below. As the agreement with Clinigen expires at the end of 2016, Foscavir® will be transferred to the licensor, Clinigen, and the Company will discontinue the marketing of the product.

	Brand Name	Launch	Indication	Route of Administration	Licensor	2015 Sales (NHI price basis) Yen in millions	Sales Channel	Remarks
1	Nobelzin® capsules Nobelzin® tablets	Apr 2008 Feb 2015	Wilson's disease	Oral Administration	Teva	207	Direct	
2	Lunabell® LD Lunabell® ULD	Jul 2008 Sep 2013	dysmenorrhea	Oral Administration	Janssen	13,149	Nippon Shinyaku Fuji Pharma	Both products distributed by two companies
3	Nobelbar®	Dec 2008	Neonatal seizures, status epilepticus	Intravenous injection	In-house	133	Direct	
4	Fostoin®	Jan 2012	status epilepticus prevention of postoperative seizures, etc.	Intravenous injection	Pfizer	1,617	Eisai	Co-promotion
5	Gliadel®	Jan 2013	malignant glioma	Interstitial chemotherapy	Eisai	1,179	Marketing Approval (MA) transferred to Eisai	Co-promotion (Contracted product)
6	Alabel®	Sep 2013	diagnosis of malignant glioma	Oral Administration	SBI Pharmaceuticals (medac)	243	Direct	
7	Foscavir®	Feb 2012	cytomegalovirus retinopathy, viremia and infection	Intravenous injection	Clinigen	449	Direct	MA transferred from MSD
8	Indacin®	Jan 2013	patent ductus arteriosus of prematurity	Intravenous injection	Lundbeck	78	Direct	MA transferred from MSD
9	Cosmegen®	Jan 2013	Wilms'tumor choriocarcinoma pediatric solid malignant tumor, etc	Intravenous injection	Lundbeck	17	Direct	MA transferred from MSD
10	Unitalc®	Dec 2013	prevention of recurrent malignant pleural effusion	Intrapleural	Novatech	63	Direct	
11	Respia®	Dec 2014	apnea of prematurity	Intravenous injection/oral liquid	Nippon Boehringer	124	Direct	
12	Rapalimus®	Dec 2014	lymphangioleiomyomatosis	Oral Administration	Pfizer	138	Direct	
13	Zanosar®	Feb 2015	gastroenteropancreatic neuroendocrine tumor	Intravenous injection	Keocyt	165	Direct	
	Total					17,563		

While most of the drugs under development request such as unapproved drugs including Unitalc® have a high probability of success, severe appraisal of the NHI prices hindered the Company to produce profits as expected when we started the development.

As shown in the above table, the total sales from the 13 products in 2015 were 17,563 million yen on the wholesale price (NHI price) basis and 6,854 million yen on the Company price basis. Sales of the Company from Lunabell® family were 4,804 million yen, accounting for 70.1% of the total sales. Adding royalty revenue of 580 million yen, the total sales in 2015 were 7,435 million yen, up 12.2% Y-on-Y.

The cost of goods sold was 1,709 million yen, up 41.0% Y-on-Y and accounting for 23.0% of the total sales (18.3% in 2014). The selling, general and administrative expenses totaled 6,201 million yen, up 20.3% and 83.4% (77.7% in 2014), mainly including personnel expenses of 2,085 million yen, up 13.4% and 28.0% (27.7% in 2014), R&D expenses of 1,635 million yen, up 16.7% and 22.0% (21.1% in 2014),

outsourcing expenses of 794 million yen and royalty expenses of 923 million yen. The outsourcing expenses mainly included 34 million yen for the business management service by Hisanaga & Company, 36 million yen for temporary staffing by Recruit Staffing, 39 million yen for call center operation by EP-PharmaLine, 40 million yen and 30 million yen respectively for system development by Application Software Development Co., Ltd. and Perspective Co., Ltd., 94 million yen for PMS-related services by CMIC PMS, and 39 million yen for safety database construction and operation by CMIC. Royalty expenses were running royalties of 749 million yen, 154 million yen and 20 million yen respectively to Jansen Pharma, Pfizer and Teva.

The resulting operating income was (476) million yen (262 million yen in 2014), accounting for (6.4)% of total sales (4.0% in 2014).

Ordinary income was (270) million yen (577 million yen in 2014) accounting for (3.6)% (8.7% in 2014) of total sales, after recording non-operating income of 282 million yen including subsidy revenue of 276 million yen partly offset by non-operating expenses of 76 million yen including interest expenses of 51 million yen and bond interest expenses of 22 million yen.

The Company posted an extraordinary income of 448 million yen including gains on sales of securities as well as an extraordinary loss of 22 million yen.

With the income taxes of 109 million yen and income taxes-deferred of (111) million yen, the net income was 157 million yen, down 34.6% Y-on-Y and accounting for 2.1% of total sales (3.6% in 2014), and net income per employee was 649,000 yen (1,021,000 yen in 2014).

Retained earnings brought forward as of December 31, 2015 were 637 million yen, with the beginning balance of retained earnings brought forward of 665 million yen, retrospective prior period adjustment of (18) million yen, a dividend payment of 77 million yen and reversal of retirement of treasury stocks of 90 million yen.

Item	mil yen		Y-on-Y	% to total sales	
	2014	2015		2014	2015
Sales	6,628	7,435	112.2%	100.0%	100.0%
Product sales	5,902	6,855	116.1%	89.0%	92.2%
Other	726	580	79.9%	11.0%	7.8%
Cost of goods sold	1,212	1,710	141.1%	18.3%	23.0%
Gross profit	5,415	5,725	105.7%	81.7%	77.0%
SG&A expense	5,153	6,202	120.4%	77.7%	83.4%
* Personnel cost	1,838	2,085	113.4%	27.7%	28.0%
* R&D expenses	1,401	1,635	116.7%	21.1%	22.0%
* Commission fee	553	794	143.2%	8.3%	10.7%
* Loyalty expenses	819	923	112.7%	12.4%	12.4%
Operating income	262	-476	-	4.0%	-6.4%
Non-operating income	401	282	70.3%	6.1%	3.8%
Non-operating expenses	87	76	87.4%	1.3%	1.0%
Ordinary income	577	-270	-	8.7%	-3.6%
Extraordinary income	-	448	-	0.0%	6.0%
Extraordinary loss	185	22	11.9%	2.8%	0.3%
Net income before tax	391	155	39.9%	5.9%	2.1%
Income taxes	151	-2	-	2.3%	-0.0%
Net income	240	157	65.4%	3.6%	2.1%
Ordinary income per employee (‘000 yen)	2,455	-1,116	-	-	-
Net income per employee (‘000 yen)	1,021	649	63.6%	-	-
Retained earnings brought forward					
Beginning balance	416	665	-	-	-
Prior period adjustment	97	-18	-	-	-
Retirement of treasury stock		-90	-	-	-
Dividend	89	77	-	-	-
Net income	240	157	-	-	-
Ending balance	665	638	-	-	-

* Major items included in SG&A expenses

1.2. Sales

The sales from the 13 products on market as of December 2015 are summarized as follows:

Brand Name	Wholesale sales (NHI price basis, mil yen)		Y-on-Y
	2014 [1]	2015 [2]	([2]/[1])
Nobelzin®	201	207	103%
Lunabell® (LD),ULD	11,800	13,149	111%
Nobelbar®	138	133	96%
Fostoin®	1,296	1,617	125%
Foscavir®	415	449	108%
Gliadel®	1,270	1,179	93%
Alabel®	233	243	105%
Indacin®	85	78	92%
Cosmegen®	15	17	113%
Unitalc®	48	63	132%
Respia®	2	124	6414%
Rapalimus®	5	138	2891%
Zanosar®	-	165	-
Total	15,507	17,563	113%

Lunabell®, our core product, is marketed on complete consignment basis by Nippon Shinyaku and Fuji Pharma. In 2015, we promoted prescriptions of ULD giving the highest priority to shifting from LD to ULD. As a result, the percentage of ULD to total sales of Lunabell® in December increased to 52%, but fell short of our target of 70%. Sales of Lunabell® (total of LD and ULD) were 13.15 billion yen, an increase of 760 million yen over the sales plan (up 7% over sales plan and up 11% Y-on-Y). Sales of co-promotion products by direct sales fell slightly short of the plan to be 4.41 billion yen (down 1% from the plan and up 19% Y-on-Y). As Marketing & Sales made a concerted effort to sell Fostoin®, a major product, sales of Fostoin® increased to 1.62 billion yen, up 13% over the plan and up 25% Y-on-Y.

As of March 1, 2016, the Company has 85 MRs with 13 sales offices nationwide. 37 of 85 MRs are seconded from the Medipal Holdings Group.

As for the sales of Noberzin® and Nobelbar®, to the consignment sales by Alfresa was terminated on March 31, 2015 and the direct sales by the Company started from April 1.

For the logistics of the direct-sales products, the Medipal Group has, in principle, exclusively taken over the distribution.

1.3. Manufacturing and Capital Expenditure

The Company, having no manufacturing facilities of its own, outsources manufacturing of both APIs and products to domestic and overseas manufacturers, and the stabilization of the drug supply from overseas manufacturers has been a big challenge.

Of the products imported from overseas, Foscavir® and Alabel® as well as Fostoin® have been steadily imported despite the past experiences of certain troubles. However, Rapalimus®, primarily packaged overseas, is facing some concerns over defects including spots on tablets caused by packaging. As for Zanosar®, two lots imported in November and December 2015 were rejected in the quality inspections, leading the Company to take urgent actions to secure replacements.

For Lunabell®, Indacin®, and Cosmegen®, the partial change applications filed to the authority for the changes in the API manufacturing methods or of the manufacturing sites were all approved after the

communication with reviewing authority continued over a year.

Considering the past troubles of Fostoin®, the Company has intensified the inspections on the manufacturing facilities of Pfizer. Consequently, some partial deviations in the manufacturing methods from the MA were found resulting in two meetings with reviewing authority where the Company explains the detailed backgrounds. While received strict instructions from the reviewing authority, the application for changes in MA was accepted and under review as of March 2016.

For this period, there is no material capital investment.

1.4. Research and Development

The Company, in the past, mainly developed drugs already approved in Europe and US but not approved in Japan ("unapproved drugs") and smoothly obtained the approvals. Recently, as the long-lasting social issue of unapproved drugs has been largely solved and the Company is shifting its target seeds to more difficult drugs originated in Japan.

The table below summarizes the development stage, expected NDA and market size classification in three categories of New Drugs, Life Cycle Management (LCM) and Overseas Development. Many are drugs with new concepts originated in Japan. Of these products, those under development with our own funds without any public subsidies are NPC-16 and NPC-04 under New Drugs, and NPC-02 (new indication of hypozincemia) and NPC-12 (new indication of hematopoietic stem cell transplantation) under LCM. While the ways of financing Overseas Development have not been determined, public funds have been utilized in some form for other categories.

Development items are classified into the following six classifications:

I: Potential primary sources of revenue following Lunabell® (sales of over 3 billion yen)

II: Short term approval and marginal profit expected while not likely to be a primary source of revenue

III: Short term approval expected with a theme from academia such as a university. Lower development cost with promising public subsidies. Difficult to estimate sales due to innovative concepts.

IV: Similar to III but relatively long time required for approval.

V: LCM of the existing commercialized products. Lower development cost and increased marginal profit expected.

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

It is notable that: (1) NPC-12G (angiofibroma) and NPC-17 received designation under the "sakigake" fast-track review system, important measures of the Ministry of Health, Labor and Welfare, for prioritized review and NHI price listing; (2) NPC-12G received orphan drug designation for prioritized review during the approval process, government subsidy for R&D expenses and an extended re-examination period as well as tax benefits; and (3) NPC-14, NPC-09 and BK-SE36 were elected as Practical Research Project for Rare/Intractable Diseases of 2015 Project Promoting Support for Drug Discovery by Japan Agency for Medical Research and Development ("AMED") to be granted a government subsidy for R&D expenses up to 200 million yen for each over three years. The Company is the only company with several items designated and elected for both (1) and (3).

(New Drugs)

	Compound	Indication	Licensor	Development stage	Estimated approval	Classification
1	NPC-18 S-bFGF, etc.	Myringa regeneration	Foundation of Biomedical Research and Innovation (Kobe) Kaken Pharmaceutical	PIII	Dec 2017	III
2	NPC-17 Titanium bridge	Spasmodic dysphonia	Foundation of Biomedical Research and Innovation (Kobe) Wakayoshi Seisakusho	PIII	Oct 2017	III
3	NPC-16	Gynecological diseases	In-house	PIII	Jun 2018	I
4	NPC-09 N-acetylneuraminic acid	Distal myopathy	In-house	PIII	Jun 2018	IV
5	NPC-15 Melatonin	Sleep disorders in children with neurodevelopmental disabilities	In-house	PIII	Dec 2018	I
6	NPC-14 Arbekacin	Duchenne muscular dystrophy	Undisclosed	PII	TBD	IV
7	NPC-04 Oxcarbazepine	Partial epilepsy	Novartis	Under review	Jun 2016	II
8	NPC-x3 Pyruvic acid	Hyperuricemia due to mitochondrial disorders	Kurume University	PI	TBD	IV
9	NPC-x4 P092	Prion disease	Gifu University	Non-clinical	TBD	IV

(LCM)

1	NPC-02 Nobelzin®	Hypozincemia (new indication)	PIII	Mar 2017	I
2	NPC-12G Sirolimus® external preparation	External preparation (new drug form), angiofibroma (new indication)	PIII	Mar 2018	III
3	NPC-02 Nobelzin®	For use in children	PIII in preparation	TBD	III
4	NPC-05 Unitalc®	Refractory pneumothorax (new indication)	PIII in preparation	TBD	III
5	NPC-12 Rapalimus®	Fbrodysplasia ossificans progressiva (new indication)	PII in preparation	TBD	III
6	NPC-12G Sirolimus® external preparation	Severe hyperhidrosis, neurofibroma (new indication)	PI/II	TBD	IV
7	NPC-12 Rapalimus®	Prevention of GVHD after hematopoietic stem cell transplantation (new indication)	PII in preparation	TBD	IV
8	NPC-07 Alabel®	Diagnosis of bladder cancer	PIII(Addition)	TBD	V

(Overseas Development)

1	BK-SE36 Malaria vaccine	Prevention of falciparum malaria	Osaka University	PIb	TBD	I

2	NPC-18 S-bFGF, etc.	Myringa regeneration	Foundation of Biomedical Research and Innovation (Kobe) Kaken Pharmaceutical	Clinical trial in preparation	TBD	III
3	NPC-17 Titanium bridge	Spasmodic dysphonia	Foundation of Biomedical Research and Innovation (Kobe) Wakayoshi Seisakusho	Clinical trial in preparation	TBD	III
4	NPC-12G Sirolimus® external preparation	Hemangiofibroma	Osaka University	Clinical trial in preparation	TBD	III

1.5. Business Development & Strategy

Business Development & Strategy is responsible for playing core roles for the Company's open innovation and contacts for business negotiations, specifically (1) Planning and research for new themes, (2) In-licensing negotiations with a potential business partner for a new development theme, (3) Follow-up negotiations with the existing business partners, (4) Negotiations for MA transfer from other companies, (5) Intellectual property management such as patents, and (6) procurement negotiations.

With regard to (2), the Company entered into an option agreement in August 2015 for a license granted for BK-SE36 (malaria vaccine) with Professor Toshihiro Horii of Osaka University, Osaka University and The Research Foundation for Microbial Diseases of Osaka University as a cooperative project with academia. In December 2015, the Company signed an agreement for an exclusive license with Professor Nobuhiko Isshiki, professor emeritus at Kyoto University, as well as a memorandum for manufacturing with Wakayoshi Seisakusho for NPC-17 (titanium bridge for spasmodic dysphonia). For in-licensing from other companies, the Company has been negotiating for a respiratory system drug under clinical trial in Europe by a European company since the conclusion of a term sheet in December 2015.

For (3), in February and March 2015, the Company entered into a memorandum with our business partners to receive financial backings for supporting sales.

For (5), the intellectual property management software was implemented in September 2015 to establish infrastructure for information management of intellectual property, with which a system to effectively manage the recently increasing number of intellectual properties including in-house licenses. The Company plans to establish regulations on handling of inventions in 2016.

(6) is a new role in line with strengthening the company-wide procurement system started in November 2015.

1.6. Pharmacovigilance & Quality Assurance

Pharmacovigilance & Quality Assurance is responsible for largely three areas: (1) Quality assurance of manufacturing, (2) safety control for the vigilance of side effects and adverse events and (3) Post-marketing Surveillance (PMS) for pharmacovigilance. The objectives of (2) and (3) are not to cause drug-induced diseases and to pass re-examinations, and it is important to achieve these objectives efficiently within laws and regulations.

For Lunabell® Tablet LD and Nobelbar® for intravenous injection filed for re-examination respectively in July 2012 and January 2015, reliability related issues were repeatedly pointed out by the authority. The executive officers and directors thrashed these matters out again in the regular camp meeting in

November 2014 with the assistance of external consultants, from thorough fact-finding, cause investigation and in-depth discussions on future improvements. Consequently, the Company established a project team for these two products to implement the measures and further separated the section engaged in Post-marketing Surveillance from Pharmacovigilance & Quality Assurance in March 2015 as Peri-Approval Science & Operations for the complete enhancement of PMS, all of which led to the certain resolution. Accordingly, the project team was dissolved in November 2015, and the organization was returned to normal by unifying Pharmacovigilance & Quality Assurance into one, harmonizing with the three important persons under the PMD Act (General Marketing Compliance Officer, Safety Management Supervisor and Quality Assurance Supervisor). The IT system related to (2) and (3) was concurrently put into place.

1.7. Regulatory Affairs

Regulatory Affairs is responsible for administrative procedures related to the PMD Act and for NHI price negotiations. A noteworthy event for this year was the renewal of the first-class drug marketing authorization holder license.

1.8. Funding and Major Lenders

In February 2016, the Bank of Japan introduced negative interest policy for the first time in its history. Considering its symbolized era of low-interest rate where capital demand is expected to rise until 2020, the Company received financing through long-term (five to ten years) fixed-rate borrowing from financial institutions and business companies in late 2014 and early 2015, in view of potential sales decrease due to the expected launch of generics of Lunabell® LD, our core product, in the end of 2015, approvals of the 3rd round development item expected after 2017, and the possibility of overseas development in near future.

The new borrowing including bonds from financial institutions for the year of 2015 was 2,600 million yen. Repayment to financial institutions was 1,573 million yen.

The resulting balance of loans payable and bonds as of December 31, 2015 was 5,684 million yen. As the Company has cash and deposits of 5,097 million yen, the actual amount of borrowing is 587 million yen.

In 2016, the Company has no plan for new borrowing and will repay 1,165 million yen, including borrowing of 387 million yen from Inabata & Co., Ltd.

As of December 31, 2015, the status of borrowing is as follows:

Short-term loans payable	
Current portion of long-term loans payable	1,165 million yen
Long-term loans payable	
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Odenmacho Branch	460 million yen
Mizuho Bank, Ltd., Yokoyamacho Branch	180 million yen
Sumitomo Mitsui Banking Corporation, Kandaekimae Branch	650 million yen
Japan Finance Corporation	193 million yen
The Shoko Chukin Bank, Ltd., Kanda Branch	184 million yen
Resona Bank, Akihabara Branch	100 million yen
The Tokyo Shinkin Bank, Nihonbashi Branch	152 million yen
Total	1,919 million yen
Balance of bonds	
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
5th straight bond -> The Shoko Chukin Bank, Ltd.	100 million yen
Total	2,600 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 as of the same day.

1.9. Financial Results, Assets and 2016 Forecast

The Company's financial results, assets and 2016 forecasts are as follows:

mil yen except for *	2012 10th year	2013 11th year	2014 12th year	2015 (Forecasts) 13th year	2015 (Actual results) 13th year	2016 (Forecasts) 14th year
Sales	5,056	6,542	6,628	7,630	7,435	7,456
Ordinary income	660	463	577	309	△270	160
Net income	279	339	240	185	157	103
* Net income per share	212,000 yen	258,000 yen	182,000 yen	141,000 yen	55,000 yen	89,000 yen
Total assets	5,598	6,098	9,291	9,395	9,671	7,830
Net assets	517	728	1,238	1,212	984	993
* Equity ratio	9.2%	11.9%	13.3%	12.1%	10.2%	12.7%
* Net asset per share	393,000 yen	554,000 yen	941,000 yen	921,000 yen	845,000 yen	852,000 yen

1.10. Employees

As of March 1, 2016, the number of employees is 242 (including total 90 of 39 seconded employees, 10 temp staffs, and 46 contract employees but excluding directors) with an average age of 52.7. The number of employees increased by 7 compared with 235 (including seconded employees) as of March 1, 2015.

In recent years, the Company has recruited five postdoctorals and those with equivalent status, who have become a key driving force leading young employees in their departments. The Company has been actively promoting excellent temp staffs to full-time positions.

In terms of overwork, chronic prolonged work seen with some members in Pharmacovigilance & Quality Assurance in particular has already been substantially improved.

Since November 2015, the Company has adopted personnel exchanges between and within departments.

1.11. Changes in Organization and Issues

In November 2015 reorganization, the Company consolidated the existing 10 divisions to 7.

To accomplish the Sales & Marketing mission to "Deliver the Company's products to patients as soon as possible," and its corresponding motto is "Change activities" to achieve the mission. Sales & Marketing aims at achieving a sales target of 17 billion yen (11.9 billion with Lunabell® and 5.1 billion yen with direct sales and co-promotion products) on the NHI price (wholesale price) basis under its motto of "Change the Action." The Company cooperates with the distributors to accelerate the expansion

of the Lunabell® ULD share in order to minimize the impact of generics on Lunabell® LD, as committed to enhance the QOL of patients who suffer from dysmenorrhea. The Company has also established four sales policies to achieve the plan of direct sales and co-promotion products: First is to concentrate the sales force to our core products of Fostoin® and Gliadel® to achieve the plan, second is to enhance the productivity of MRs by setting the bottom line target (42 million yen per MR) to aim at average sales of MRs of 60 million yen, third is to promote fostering of the recently launched new products (market penetration), Zanosar®, Respia® and Rapalimus®, and fourth is the New Product department started with the intentions for (1) early commercialization of and maximizing sales of Nobelzin® with a new indication of hypozincemia expected to be approved in 2017, (2) maximizing profits from NPC-16 and Lunabell® LEP series, and (3) maximizing sales of new products including NPC-17 and 18 beyond 2018.

The tasks of Business Development & Strategy to find new themes continue to include searching seeds through open innovation. The Company has certain matters under negotiation with existing business partners and will advance negotiations by resolving the said matters to gain profit. The efforts will continue to acquire public development funds. As for procurement, competitive quotes will be a normal procedure and thorough and careful cost reductions will be pursued for negotiations on expensive items.

In Research & Development, the pipeline is sufficient considering the size of the Company as described in "1.4 Status of Development." Phase III clinical trials are well underway for many themes which will be steadily progressed according to the development schedule established, targeting, in particular, the earliest possible approval for NPC-02 (hypozincemia).

For BK-SE36, NPC-12G, 17 and 18, the Company plans to start a contact to the FDA one by one.

Concerning the safety assurance of pharmaceutical products, under the emergency procedures described in 1.6, the organizations related to (2) safety control for the vigilance of side effects and adverse events and (3) Post-marketing Surveillance (PMS) for pharmacovigilance have become bloated. The organizations and the structure will be streamlined and the costs will be reduced while achieving the two points to cause no drug-induced diseases and to pass re-examinations all within laws and regulations as the operation has returned back to normal were returned to usual operations in 2016 and also, an IT system has been put into place. The Company endeavors to streamline organizations and systems within laws and regulations to reduce costs, while achieving the two points to cause no drug-induced diseases and to pass re-examinations.

As for production, the most serious concern is to ensure stable supply of drug products from overseas manufacturers. As a fundamental resolution, the Company is promoting to shift the manufacturing of imported drug products to Japan.

Regarding Fostoin®, the Company applied for adding domestic manufacturing site in 2015 which is currently under review by the authority. Shifting the manufacturing site for Zanosar® to Japan is now in consideration. The Company is also considering to shift the primary packaging site for Rapalimus® to Japan.

Regulatory Affairs is now required to actively support not only Research & Development as in the past but also Pharmacovigilance & Quality Assurance. the human resources have been enhanced to gather and succeed the know-how for NHI price negotiations. Through the activities of Samurai Biotech Association of which the Company is a board member, lobbying the authorities for various issues will be

continued.

Administrative Affairs & Corporate Planning (corporate planning and accounting) will primarily increase the accuracy in obtaining real-time accounting information in order to achieve budgets. Secondly for financial affairs, the Company intends to maintain good relationships with financial institutions while no additional finance is considered necessary with sufficient funds currently in hand. Financing from Medipal Holdings Corporation, a business partner, using the project finance that leads to diversification of development risks is considered for each development theme. Thirdly, as for accounting standards, the Company believes that it is important to adopt accounting standards equivalent to listed companies despite its policy to remain unlisted, and thus, the accounting audits by Deloitte Touche Tohmatsu LLC since 2011 was changed from quasi-Financial Instruments and Exchange Act audits to quasi-Companies Act audits which the Company intends to continue using.
As for the issue of HR & General Affairs (HR & general affairs), the Company has been hiring experienced mid-carrier workers in principle but refreshing personnel is inevitable considering the currently aging workforce. Therefore, the Company started the recruitment of postdoctorals in 2013 and plans to continue such recruitments. Following the promulgation of the Act of Promotion of Women's Participation and Advancement in the Workplace in August 2015, companies are required to take approaches such as establishment of an action plan to promote women's participation and advancement. While medium- and small-sized companies with 300 employees or less are only obliged to make efforts, the Company plans to make responses equivalent to large-sized companies. Having “Regardless of gender, age, nationality, religion or preference” in our policy, the Company is committed to maintaining and improving a non-discriminatory and friendly working environment, supporting women's participation and advancement.
The Company has implemented an internal audit system in November 2015, and regular audits have been conducted for all departments since January 2016.

Overall, in 2016, due to the impacts of the generic on Lunabell®, the Company expects to enter a phase of challenging financial results for the first time since its foundation. However, the Company has strengthened its financial grounds and taken measures from early on in preparation for such situation. As development products are expected to be released from the beginning of 2017 one after another, the Company believes that financial results will achieve a v-shaped turnaround with a new evolution.

The following shows the numerical targets for the mid-long term future vision of sales and profit as an immovable high goal named North Star:

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

1.12. Other Important Matters
No matters requiring special attention

2. Current Status of the Company
2.1. Shares
① Number of shares authorized As of December 31, 2015 5,000 shares

② Number of shares issued As of December 31, 2015 Ordinary share 1,165 shares
③ Number of shareholders As of December 31, 2015 2
④ Status of Major Shareholders (as of December 31, 2015)
Hisanaga & Company (ordinary share) 1,000 shares (85.8%)
Inabata & Co., Ltd. (ordinary share) 165 shares (14.2%)

As for class A preferred shares owned by Development Bank of Japan Inc., the Company purchased all 150 shares as treasury stock on March 27, 2015 under the agreement and as of November 1, 2015, it retired treasury stock and reduced capital, accordingly.

2.2. Share Warrant

2.2.1. 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. 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 (33.3%).

Resolution date for issuance	March 29, 2012
Maturity date	August 23, 2016
Number of share warrant	1
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. Corporate Executives

2.3.1. Management Reshuffle

(1) Scheduled directors (scheduled on March 30, 2016)

None

(2) Director to resign (scheduled on March 30, 2016)

None

(3) Scheduled company auditor (scheduled on March 30, 2016)

None

(4) Company auditor to resign (scheduled on March 30, 2016)

None

(5) Directors and Company Auditors

As of March 30, 2016, 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): Takashi Akiyama
(Section Head, Accounting Dept., Accounting, Financial Management Office, Inabata & Co., Ltd.)

(6) Executive Officers

As of March 30, 2016, the status of executive officers and directors is as follows:

Senior Executive Officer: Shigeki Shimasaki (Head of Research & Development)

Senior Executive Officer: Tsutomu Sugaya
(Head of Administrative Affairs & Corporate Planning)

Executive Officer: Hiroomi Kudo (Head of Marketing & Sales)

Executive Officer: Tetsuo Hayase (Head of Supply Chain & Manufacturing)

Executive Officer: Soichi Ikegaya
(General Marketing Compliance Officer, Head of Pharmacovigilance & Quality Assurance)

Executive Officer: Arata Tabata (Head of Business Development & Strategy)

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
(Deputy Head of Administrative Affairs & Corporate Planning)

Executive Director: Masato Iwamoto
(General Manager of Supply Chain Management, Supply Chain & Manufacturing)

Executive Director: Yoshinobu Takahashi
(Branch Manager of Tokyo Branch 1, Sales & Marketing)

Executive Director: Osamu Kato (Head of Regulatory Affairs)

Executive Director: Masafumi Mimura
(Deputy Head of Business Development & Strategy)

Executive Director: Yoshihide Yamamoto
(Deputy Head of Sales & Marketing, General Manager of Sales Strategic Planning)

Executive Director: Masanori Osakabe
(Deputy Head of Research & Development, General Manager of Overseas Development)

Executive Director: Hitoshi Hasegawa
(Safety Management Supervisor, Deputy Head of Pharmacovigilance & Quality Assurance)

2.3.2. Remuneration paid to directors and company auditors

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

End of document