

# To Our Stakeholders

**We will continue to provide medicines that meet the needs of patients and professionals working on the front lines of medicine.**

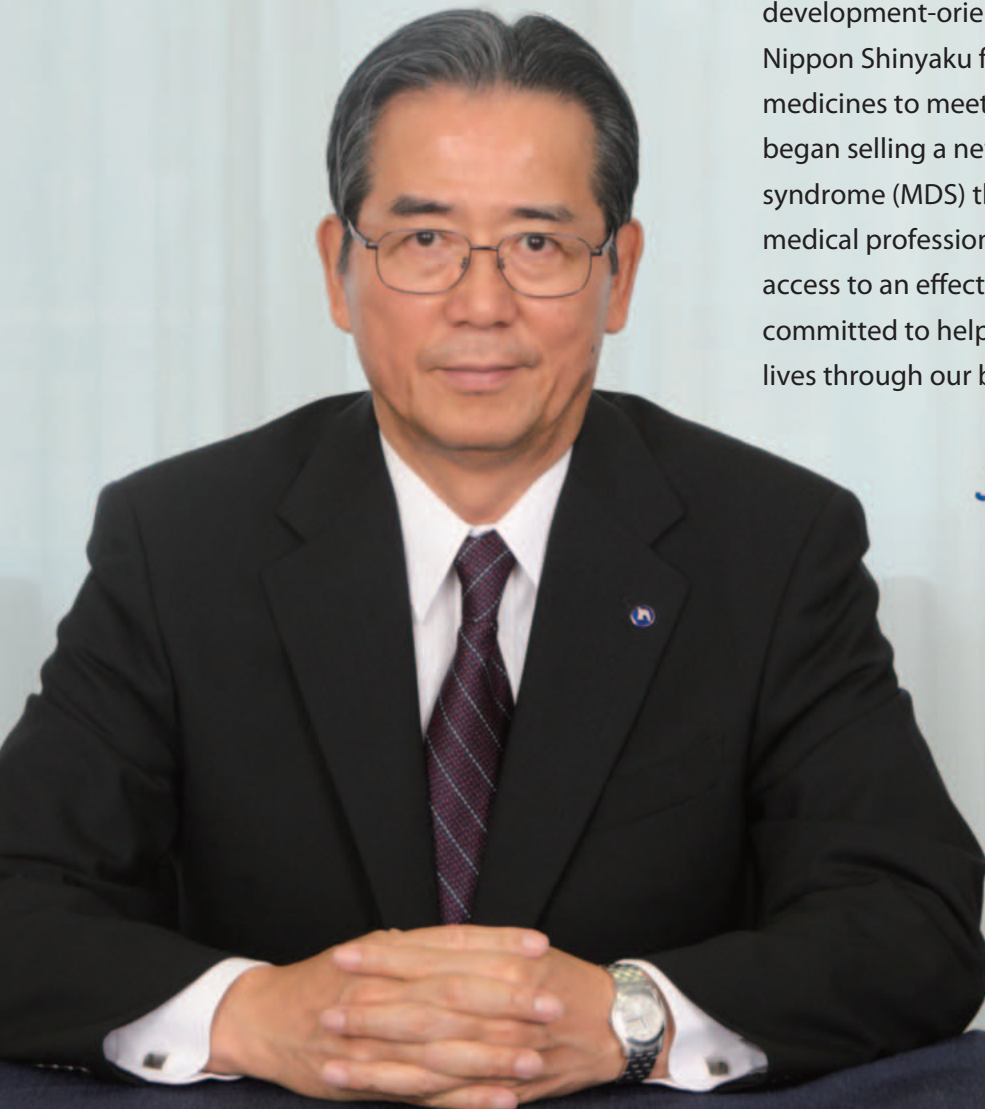
Medicines are essential to allowing people to lead healthy everyday lives. Along with progress in medical science, medicines have come to play an extremely important role in Japan, the land of longevity. Amidst the tragic losses caused by the recent Great East Japan Earthquake, we were also reminded that medical treatment and medicines can be as important as food and water.

Meanwhile, there is still strong demand for medicines to treat a variety of rare or difficult diseases. As a research and development-oriented pharmaceutical manufacturer, Nippon Shinyaku focuses on researching and developing medicines to meet a variety of needs. In March 2011, we began selling a new treatment for myelodysplastic syndrome (MDS) that was long awaited by patients and medical professionals in Japan who did not previously have access to an effective treatment. Nippon Shinyaku is committed to helping people lead healthier and happier lives through our business activities.



*S. maekawa*

**Shigenobu Maekawa**  
President



## Q1

## Please sum up Nippon Shinyaku's business performance for the fiscal term ended March 2011.

In the fiscal term ended March 2011, Japanese corporate profits gradually recovered despite continued harsh economic conditions including a tight job market and strong yen. The fiscal year ended shortly after the Great East Japan Earthquake struck on March 11, 2011, leaving no way to predict what the future would hold. Business conditions remain harsh for the pharmaceuticals and functional food industries, as the government has continued to introduce measures to curtail medical care costs, including decreases averaging 6.5% in National Health Insurance (NHI) Drug Price Standards (effective April 2010) and a measure to promote greater use of generic drugs. In the functional food industry, a strong preference for lower-priced products remains prevalent.

Despite these challenging conditions — especially the lowering of drug prices — and the fact that Nippon Shinyaku's revenues from industrial property rights licensing, etc. declined by ¥1,873 million from the previous year, sales of new pharmaceuticals and our mainstay functional foods both increased, resulting in a 0.9% year-on-year increase in net sales, to ¥63,525 million. In addition to the decline in revenues from licensing of industrial property rights, increased research and development costs also affected profits. Operating income amounted to ¥5,181 million, down 19.8% from the previous fiscal year, while net income totaled ¥3,958 million, down 3.4%.

Looking at our pharmaceuticals segment, the NHI drug price cuts caused year-on-year shrinkage in sales of some products, including Eviprostat<sup>®</sup>, a treatment for benign prostatic hypertrophy and Hypen<sup>®</sup>, a non-steroidal analgesic and anti-inflammatory agent. There was also a big drop relative to the previous fiscal term in revenues from the licensing of industrial property rights, but sales of other products increased, including Cialis<sup>®</sup>, an erectile dysfunction remedy and Lunabell<sup>®</sup> combination tablets for dysmenorrhea. Sales of new products, such as Adcirca<sup>®</sup>, a treatment for pulmonary arterial hypertension, also contributed to performance. Consequently, pharmaceuticals sales rose 0.7% from the previous fiscal year to ¥52,554 million.

In an environment where both the processed foods and health foods industries face tough conditions, our functional foods business saw net sales increase by 1.9% to ¥10,970 million. Sales of seasonings and spices declined, and sales of nutritional ingredients declined slightly, but protein preparations continued their solid trend while sales of health food ingredients and preservatives increased.

## Please explain Nippon Shinyaku's medium- and long-term management strategies.

Nippon Shinyaku aims to be a "company with a meaningful existence in healthcare." We designated the five-year period from April 2009 through March 2014 as the time for implementing our fourth five-year management plan, which we call "Innovation and Growth." Based on our business philosophy of "contributing to people's health and prosperous lifestyles," we want to press ahead with the implementation of innovative reforms and expand Nippon Shinyaku's business.

Our pharmaceuticals business will focus on our areas of specialty, such as urology and hematology, as it creates and supplies high-quality pharmaceuticals that outperform competing products. Since we began implementing our current medium-term management plan, we introduced a steady stream of new products: Cialis®, Erizas®, Adcirca®, Tramal®, and Vidaza®. Going forward, we intend to further enhance our development pipeline and continue to steadily launch new products. In addition to providing stable supplies of high-quality products, we intend to further reduce costs in order to boost cost competitiveness and profitability. As part of our marketing efforts, we will continue to manage our product lineup efficiently and scientifically, increase productivity per medical representative, and maintain a good balance between new products and existing ones to make Nippon Shinyaku grow.

In our functional food business, we will continue supplying high-quality products that make the most of the sophisticated technological capabilities that we have cultivated as a pharmaceutical company. By developing products that match customers' needs and by conducting our business efficiently and systematically, we will achieve growth based on expansion of our business activities and build a framework for earning stable profits.

### Company with a Meaningful Existence in Healthcare

#### Pharmaceuticals Business

We target our fields of strength and supply high-quality pharmaceutical products with distinctive benefits welcomed by patients suffering from diseases.

#### Functional Food Business

We aim to supply high-quality products utilizing our advanced technological capabilities as a pharmaceutical company.



## Q3

## Where will your focus be in the next fiscal year, and what kind of business results do you expect?

Business conditions will remain harsh in both the pharmaceuticals and functional food industries. In pharmaceuticals, we will engage in efficient marketing activities centered on new products, and sharing of scientific information with medical professionals. Among our new products, we plan to achieve even greater market penetration for two that we launched last fiscal year, Vidaza® and Tramal®, as well as to increase sales of Lunabell®, Cialis®, Erizas® and Adcirca®. In our functional foods segment, we will work even harder at developing new products and expanding sales channels by strengthening our focus on key products. Our aim will be to establish a stable profit-generating base that is relatively unaffected by fluctuations in raw material prices and exchange rates.

In consideration of these factors, we are forecasting consolidated net sales of ¥66,500 million (up 4.7% from the previous fiscal term), operating income of ¥5,500 million (up 6.2%) and net income of ¥3,600 million (down 9.1%).

We do not expect to launch new products in the fiscal term through March 2012, but we will make every effort to make it a year of growth for the stream of new products that we introduced to the market in the past, and to expand overall net sales.

### Numerical Targets for Fiscal Year Ending March 31, 2012

Net Sales	¥ <b>66.5</b> billion
Operating Income	¥ <b>5.5</b> billion
Net Income	¥ <b>3.6</b> billion

## Q4

## What are your thoughts on returns to shareholders, including your dividend policy?

We want to further enhance our product development pipeline and continuously introduce new products in order to maximize corporate value. At the same time, Nippon Shinyaku strives to fortify its business foundation by bolstering retained earnings.

Our policy regarding returns to shareholders is to maintain a consolidated payout ratio of about 30% for performance-linked dividends. However, in some cases we exclude extraordinary gains and/or losses when calculating the dividend payout ratio.

For the fiscal term ended March 2011, we paid ¥19 per share, consisting of an interim dividend of ¥9 per share and a year-end dividend of ¥10 per share. For the fiscal term through March 2012, we plan to maintain our interim dividend at ¥9 per share and our year-end dividend at ¥10 per share, for a total payout of ¥19 per share.