

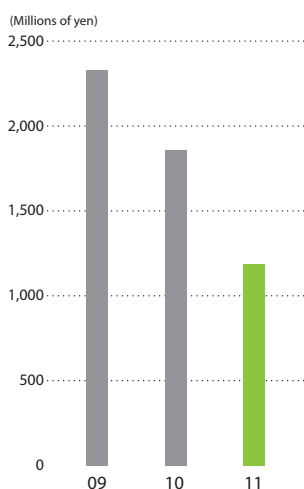
# Business Update

Nippon Shinyaku is pressing forward with implementation of its fourth five-year medium-term management plan, "Innovation and Growth (2009-2013)," with the aim of being a "company with a meaningful existence in healthcare." Our goals are to earn the trust of society, boost competitiveness and earning power, and maximize corporate value.

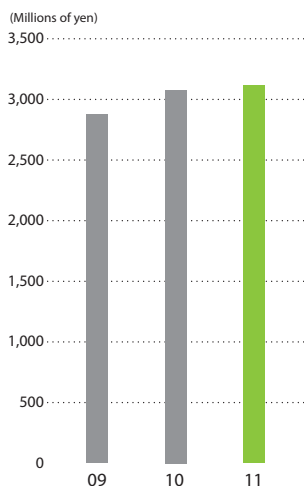
## Manufacturing

### Stable Supplies of High-Quality Bulk Substances and Products

#### Capital Investments



#### Depreciation



#### Guaranteeing Credibility and Providing Stable Supplies of High-Quality Bulk Substances and Products

In order to ensure the reliability of our pharmaceutical manufacturing operations, we avoid the risk of running out of ingredients or supplies by contracting with two suppliers for each material used in our main products, and we continuously implement preventative maintenance of our facilities, including systematic replacement of aging production equipment. In addition, at our Odawara Central Factory we adopted a manufacturing execution system (MES) as well as a laboratory information management system (LIMS) for quality control, while at our Chitose Synthesis Plant we introduced a distributed control system (DCS).

#### Nippon Shinyaku's Business Continuity Plan (BCP)

Our Odawara Central Factory is located in western Kanagawa Prefecture, where a major earthquake (with a maximum seismic intensity of 6+ on the Japanese scale) is forecast to occur. Our Business Continuity Plan is designed to minimize damage and enable us to resume plant operations within two months after a major earthquake. Under this plan, we systematically implement preventive measures related to facilities, IT, logistics, and storage of raw materials. In addition, we are studying possibilities for creating backup systems, whether in Japan or abroad, to prepare for the possibility of an earthquake on the scale of the Great East Japan Earthquake that caused such great devastation in March 2011.

#### Cost Management

Our Procurement Division has reduced procurement costs by obtaining competitive bids while our Manufacturing Division has introduced measures, including staggered work schedules, that have greatly reduced overtime hours. Our Logistics Division has cut costs by outsourcing the operation of logistics bases.

In order to optimize the inventory levels of raw materials and finished products, we looked at the lead time required between raw material procurement and finished product supply. We have been trimming our inventories by establishing standards for appropriate inventory levels and revising production methods.



## Marketing

# Efficient and Scientific Product Management

### Domestic Strategy

In recent years, Nippon Shinyaku has launched a steady stream of new products, bringing the Company to the start of a growth period. In September 2010, we introduced Tramal® capsules for the treatment of cancer pain, and in March 2011, we began selling Vidaza®, a treatment for myelodysplastic syndrome (MDS). Sales of these new products have been growing nicely. In the fiscal year through March 2012, we will focus on maximizing sales of new products, including these two latest additions to our lineup. Among our more established products, we will focus especially on those with the highest profit margins.

In order to meet our goals for these products, we will deploy a larger number of medical representatives (MRs) in the fiscal year through March 2012. The MRs will use sales force effectiveness (SFE) or a similar system to carefully focus their efforts on priority facilities and physicians. By having our MRs function efficiently, we want to grow to be a “company with a meaningful existence in healthcare.”

### Global Development

As we exchange information with other companies and participate in various types of partnering conferences, we look at new products under development all over the world, and seek out and evaluate those that are compatible with Nippon Shinyaku’s R&D capabilities and sales strategies.

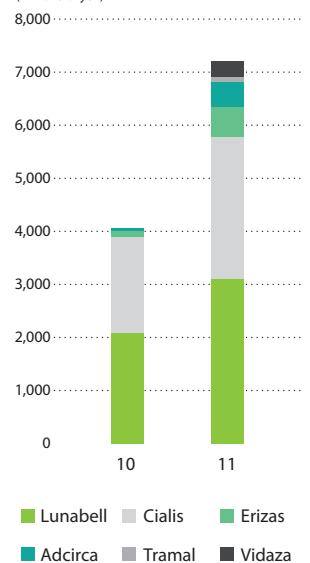
At our Düsseldorf Office and at NS Pharma, Inc. in the US, we work hard to gather the latest local information about new drugs under development and new technologies for drug development from major Western pharmaceutical and venture companies.

The Düsseldorf office and US subsidiary are also important as bases for clinical development in Europe and North America.

Nippon Shinyaku’s original drug Prulifloxacin, a synthetic antibacterial agent, is marketed in Thailand as well as in many countries in Europe and South America, and Gaslon N®, a remedy for gastric ulcers and gastritis, is marketed in South Korea and China. We help expand the sales through business alliances including academic support. We have partners in the US, China, and the Middle East developing Prulifloxacin, and we expect to steadily increase the number of countries where it is sold. In addition, we have a partner that is developing Selexipag, a treatment for pulmonary arterial hypertension, for the global market.

Sales of New Products

(Millions of yen)



## Functional Food Company

# Expand Sales of Priority Products and Build a Basis for Stable Earnings

### Market Environment

In response to consumers' growing tendency to curtail spending and choose lower-priced products, food-related companies have intensified their cost competition, resulting in deflation in the Japanese food industry.

The domestic market is shrinking due to Japan's falling birth rate, which is causing the nation's population to decline. The resulting situation — fewer people, each spending less — presents a very challenging business environment. The food industry is also feeling the effects of the Great East Japan Earthquake that rocked much of the northeastern part of the country in March 2011. As a manufacturer of functional foods, we value the strong reputation for credibility and reliability that we have earned in the processed foods and health foods industries through our many years of continuous business operation. We want to be the most reliable and best-known company in Japan, in order to expand our business and boost profitability.

### Expanding Sales of Priority Products

The processed foods industry uses soy proteins, milk proteins and other protein preparations to improve the quality of food products. Although the processed food market is shrinking, it is still a very large market and we aim to increase sales by developing new, high added-value products that meet the market's needs.

We will also work hard to increase sales of preservatives that extend the shelf life of processed food products, especially those supplied to convenience stores.

The health food industry is facing tighter regulation by government authorities, but sales are sound amid increasing demand for products that help maintain health and beauty and fight the effects of aging. Nippon Shinyaku intends to meet those needs by developing health food ingredients backed by solid scientific evidence.

In the nutrition sector, growth in the number of elderly people is expected to lead to expansion of the market for liquid meals and other nutritional products. In addition to nutritional supplements for people who cannot eat normal meals, we are working on developing nutritional ingredients that will help boost immune system functioning and combat protein energy malnutrition among the elderly.

### Building a Basis for Stable Earnings

Nippon Shinyaku will work to build a basis for stable earnings by increasing sales of priority products, developing highly original new products, expanding our business in growth fields, forming corporate alliances, and reviewing our operational structure while implementing cost management measures.

While giving top priority to safety and reliability, we will make use of the advanced manufacturing technologies and quality control expertise that we have acquired through the manufacture of pharmaceuticals to provide highly original functional food ingredients and contribute to people's good health.

