

# Financial Section

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## Six-Year Summary (Consolidated)

Nippon Shinyaku Co., Ltd. Years ended March 31	Millions of yen					
	2011	2010	2009	2008	2007	2006
Net sales	¥ 63,525	¥ 62,933	¥ 63,072	¥ 59,450	¥ 56,321	¥ 53,947
Income before income taxes and minority interests	5,935	6,933	7,686	6,879	5,290	3,285
Net income	3,958	4,096	4,500	4,031	2,900	1,612
Amounts per share (in yen):						
Basic net income	¥ 58.61	¥ 60.63	¥ 66.56	¥ 59.57	¥ 42.73	¥ 22.84
Cash dividends applicable to the year	19.00	19.00	18.00	16.00	12.00	10.00
Total assets	¥ 102,738	¥103,576	¥ 98,286	¥103,116	¥104,873	¥104,899
Equity	81,515	80,206	76,193	76,804	76,070	75,412
Capital investment	1,185	1,859	2,332	1,650	1,409	1,184
R&D expenses	8,967	8,441	7,853	7,898	8,200	10,071

# Management's Discussion and Analysis

## Financial Strategy

In line with our policy of maximizing corporate value, Nippon Shinyaku strives to strengthen its business foundation by bolstering the research and development systems that support our product development pipeline, and by retaining enough earnings to allow us to maintain a corporate structure that can survive in an increasingly competitive environment.

Regarding the return of profits to shareholders, our policy is to pay performance-linked dividends and maintain a consolidated payout ratio of about 30%. In some cases we may exclude extraordinary gains and/or losses when calculating the payout ratio. For the fiscal year through March 2011, the annual cash dividend is ¥19 per share, consisting of an interim dividend of ¥9 per share and a year-end dividend of ¥10 per share.

In the fiscal year through March 2012, we plan to pay annual dividends totaling ¥19 per share, consisting of an interim dividend of ¥9 per share and a year-end dividend of ¥10 per share.

## Liquidity and Capital Resources

Total assets decreased by ¥838 million from the end of the previous fiscal year to ¥102,737 million. Although marketable securities decreased, notes and accounts receivable increased, and current assets increased by ¥1,275 million. Property, plant and equipment and investment securities declined, resulting in a decline of ¥2,113 million in overall fixed assets compared to

the end of the previous term.

Liabilities decreased by ¥2,161 million from the end of the previous fiscal year to ¥21,044 million. Notes and accounts payable increased, but income taxes payable and other accounts payable decreased. Among long-term liabilities, liabilities for retirement benefits and deferred tax liabilities decreased.

Equity increased by ¥1,322 million from the end of the previous fiscal year to ¥81,692 million.

The equity ratio was 79.3%.

Net cash provided by operating activities amounted to ¥3,233 million. The main cash inflows were income before income taxes and minority interests and depreciation and amortization, while principal outflows were notes and accounts receivable, which increased relative to the previous year, and income taxes paid.

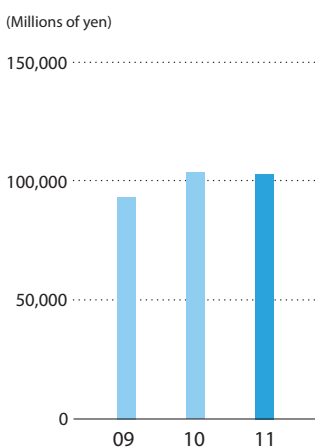
Net cash used in investing activities amounted to ¥2,844 million. The principal cash outflows were payments for capital expenditures and acquisition of license rights.

Net cash used in financing activities amounted to ¥1,393 million. This consisted primarily of cash payment of dividends.

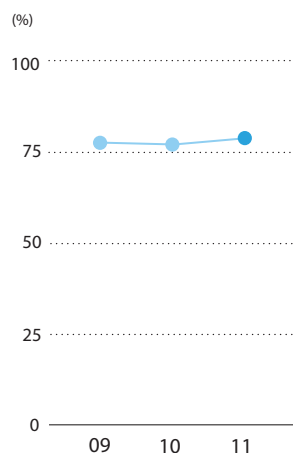
As a result, cash and cash equivalents at the end of the fiscal year decreased by ¥1,305 million from a year earlier to ¥18,142 million.

Nippon Shinyaku takes care to maintain a sound balance sheet and to secure appropriate levels of liquidity and access to

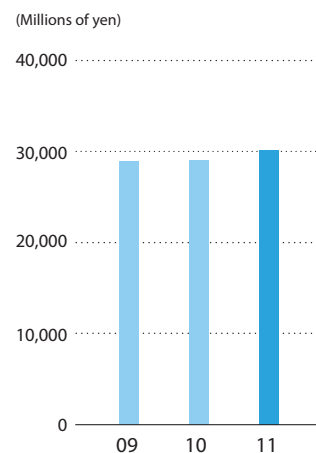
### Total Assets



### Equity Ratio



### Cost of Sales



the funds necessary for carrying out our business activities.

### Consolidated Cash Flows (Millions of yen)

	2009	2010	2011
Net cash provided by operating activities	6,370	9,225	3,233
Net cash used in investing activities	(3,566)	(3,648)	(2,844)
Net cash used in financing activities	(2,300)	(1,318)	(1,393)
Cash and cash equivalents, end of year	15,446	19,448	18,142

### Results of Operations

Business conditions surrounding both the pharmaceuticals and functional food industries remained harsh. The Japanese government continued to take measures to bring down medical expenses, including one that reduced prices of pharmaceuticals covered under the national health insurance plan by 6.5% as of April 2010, and another that promotes greater use of generic drugs. In the functional food industry, the tendency to favor low-priced products remained strong.

Despite these conditions, the Nippon Shinyaku Group's consolidated net sales rose by 0.9% from the previous fiscal year to ¥63,525 million thanks to growth in net sales of new pharmaceutical products and our mainstay functional foods. Growth in these products made up for a sharp decline in revenues from the licensing of industrial property rights. However, operating income declined by 19.8% to ¥5,181 million, and net income totaled ¥3,958 million, a decrease of 3.4% from

the previous fiscal year.

Earnings by segment were as follows.

#### (1) Pharmaceuticals

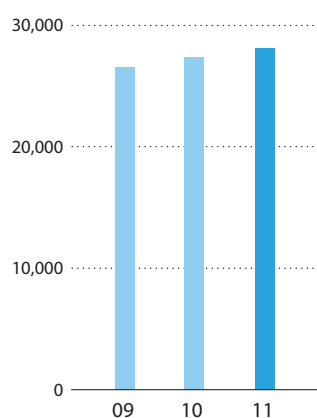
Revenue from the licensing of industrial property rights declined by ¥1,873 million, and sales of some pharmaceutical products declined, including Eviprostat®, a remedy for benign prostatic hypertrophy and Hyphen®, a non-steroidal analgesic and anti-inflammatory agent. Sales of other products increased, including erectile dysfunction (ED) treatment Cialis® and Lunabell® combination tablets, for which we received approval to add an indication for functional dysmenorrhea in December 2012. Sales of new products, such as Adcirca® treatment for pulmonary arterial hypertension, also contributed to performance. As a result, sales from our pharmaceuticals segment amounted to ¥52,554 million, an increase of 0.7% from the previous fiscal year.

#### (2) Functional Food

Although the processed food and health food industries continued to face difficult 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 and sales of health food ingredients and preservatives increased.

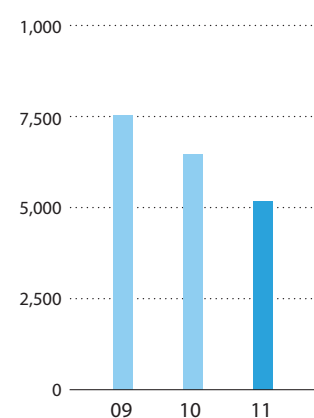
### Selling, General and Administrative Expenses

(Millions of yen)



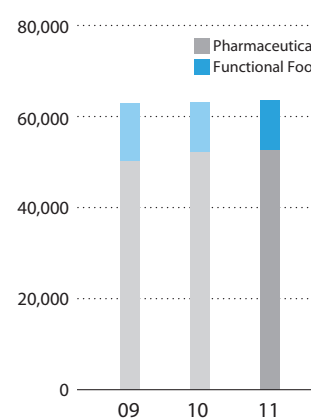
### Operating Income

(Millions of yen)



### Sales by Industry Segment

(Millions of yen)



# Consolidated Balance Sheets

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 10)	¥ 18,142	¥ 19,448	\$ 218,578
Time deposits (Note 10)	72	80	867
Marketable securities (Notes 3 and 10)	220	596	2,651
Notes and accounts receivables (Note 10):			
Trade notes	199	231	2,398
Trade accounts	27,375	24,586	329,819
Other	233	126	2,807
<b>Total notes and accounts receivables</b>	<b>27,807</b>	<b>24,943</b>	<b>335,024</b>
Inventories (Note 4)	11,548	10,866	139,133
Deferred tax assets (Note 9)	1,519	1,632	18,301
Other current assets	1,442	1,909	17,374
<b>Total current assets</b>	<b>60,750</b>	<b>59,474</b>	<b>731,928</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	8,119	8,160	97,819
Buildings and structures	26,077	25,924	314,181
Machinery, equipment and vehicles	12,148	12,385	146,361
Tools, furniture and fixtures	9,264	9,106	111,614
Construction in progress	203	230	2,446
<b>Total</b>	<b>55,811</b>	<b>55,805</b>	<b>672,421</b>
Accumulated depreciation	(36,988)	(35,970)	(445,639)
<b>Net property, plant and equipment</b>	<b>18,823</b>	<b>19,835</b>	<b>226,782</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 10)	11,003	12,765	132,566
Long-term prepaid expenses	8,866	8,616	106,819
Deferred tax assets (Note 9)	450	56	5,422
Other assets	2,846	2,830	34,290
<b>Total investments and other assets</b>	<b>23,165</b>	<b>24,267</b>	<b>279,097</b>
<b>TOTAL</b>	<b>¥ 102,738</b>	<b>¥ 103,576</b>	<b>\$ 1,237,807</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payables (Note 10):			
Trade notes	¥ 1,160	¥ 968	\$ 13,976
Trade accounts	4,137	3,723	49,843
Other	2,806	3,520	33,807
<b>Total notes and accounts payables</b>	<b>8,103</b>	<b>8,211</b>	<b>97,626</b>
Income taxes payable (Note 10)	598	1,283	7,205
Accrued expenses	3,345	3,331	40,301
Deposits from customers	295	290	3,554
Other current liabilities	562	1,083	6,771
<b>Total current liabilities</b>	<b>12,903</b>	<b>14,198</b>	<b>155,457</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for retirement benefits (Note 5)	7,719	8,230	93,000
Deferred tax liabilities (Note 9)		406	
Other long-term liabilities	423	372	5,097
<b>Total long-term liabilities</b>	<b>8,142</b>	<b>9,008</b>	<b>98,097</b>
<b>EQUITY (Notes 6 and 13):</b>			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	5,174	5,174	62,337
Capital surplus	4,444	4,444	53,542
Retained earnings	71,109	68,434	856,735
Treasury stock - at cost, 2,740,568 shares in 2011 and 2,705,042 shares in 2010	(2,059)	(2,019)	(24,807)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,881	4,195	34,711
Deferred gain on derivatives under hedge accounting	2	3	24
Foreign currency translation adjustments	(36)	(25)	(434)
<b>Total</b>	<b>81,515</b>	<b>80,206</b>	<b>982,108</b>
Minority interests	178	164	2,145
<b>Total equity</b>	<b>81,693</b>	<b>80,370</b>	<b>984,253</b>
<b>TOTAL</b>	<b>¥ 102,738</b>	<b>¥ 103,576</b>	<b>\$ 1,237,807</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>NET SALES</b> (Note 14)	¥ 63,525	¥ 62,933	\$ 765,361
<b>COST AND EXPENSES</b> (Note 14):			
Cost of sales	30,193	28,995	363,771
Selling, general and administrative expenses (Note 7)	28,151	27,476	339,168
<b>Total</b>	<b>58,344</b>	<b>56,471</b>	<b>702,939</b>
<b>Operating income</b> (Note 14)	<b>5,181</b>	<b>6,462</b>	<b>62,422</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	367	308	4,422
Interest expense	(10)	(10)	(121)
Other - net	397	233	4,783
<b>Other income - net</b>	<b>754</b>	<b>531</b>	<b>9,084</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>5,935</b>	<b>6,993</b>	<b>71,506</b>
<b>INCOME TAXES</b> (Note 9):			
Current	1,860	2,602	22,409
Prior periods		350	
Deferred	100	(68)	1,205
<b>Total income taxes</b>	<b>1,960</b>	<b>2,884</b>	<b>23,614</b>
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>3,975</b>		<b>47,892</b>
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>17</b>	<b>13</b>	<b>205</b>
<b>NET INCOME</b>	<b>¥ 3,958</b>	<b>¥ 4,096</b>	<b>\$ 47,687</b>

	Yen		U.S. Dollars
	2011	2010	2011
<b>AMOUNTS PER COMMON SHARE</b> (Notes 2.p and 12):			
Basic net income	¥ 58.61	¥ 60.63	\$ 0.71
Cash dividends applicable to the year	19.00	19.00	0.23

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	¥ 3,975	\$ 47,892
<b>OTHER COMPREHENSIVE INCOME (Note 11):</b>		
Unrealized loss on available-for-sale securities	(1,314)	(15,831)
Deferred loss on derivatives under hedge accounting	(1)	(12)
Foreign currency translation adjustments	(11)	(133)
<b>Total other comprehensive income</b>	<b>(1,326)</b>	<b>(15,976)</b>
<b>COMPREHENSIVE INCOME (Note 11)</b>	<b>¥ 2,649</b>	<b>\$ 31,916</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 11):</b>		
Owners of the parent	¥ 2,632	\$ 31,711
Minority interests	17	205

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Thousands					Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity
						Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
<b>BALANCE, APRIL 1, 2009</b>	67,577	¥ 5,174	¥ 4,444	¥ 65,554	¥ (1,986)	¥ 3,032	¥ 1	¥ (26)	¥ 76,193	¥ 151	¥ 76,344
Net income				4,096					4,096		4,096
Cash dividends, ¥19.00 per share				(1,216)					(1,216)		(1,216)
Purchase of treasury stock	(31)				(33)				(33)		(33)
Net change during the year						1,163	2	1	1,166	13	1,179
<b>BALANCE, MARCH 31, 2010</b>	67,546	5,174	4,444	68,434	(2,019)	4,195	3	(25)	80,206	164	80,370
Net income				3,958					3,958		3,958
Cash dividends, ¥19.00 per share				(1,283)					(1,283)		(1,283)
Purchase of treasury stock	(36)				(41)				(41)		(41)
Disposal of treasury stock	1				1				1		1
Net change during the year						(1,314)	(1)	(11)	(1,326)	14	(1,312)
<b>BALANCE, MARCH 31, 2011</b>	67,511	¥ 5,174	¥ 4,444	¥ 71,109	¥ (2,059)	¥ 2,881	¥ 2	¥ (36)	¥ 81,515	¥ 178	¥ 81,693

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity
					Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
<b>BALANCE, MARCH 31, 2010</b>	\$ 62,337	\$ 53,542	\$ 824,506	\$ (24,325)	\$ 50,542	\$ 36	\$ (301)	\$ 966,337	\$ 1,976	\$ 968,313
Net income			47,687					47,687		47,687
Cash dividends, \$0.23 per share			(15,458)					(15,458)		(15,458)
Purchase of treasury stock				(494)				(494)		(494)
Disposal of treasury stock				12				12		12
Net change during the year					(15,831)	(12)	(133)	(15,976)	169	(15,807)
<b>BALANCE, MARCH 31, 2011</b>	\$ 62,337	\$ 53,542	\$ 856,735	\$ (24,807)	\$ 34,711	\$ 24	\$ (434)	\$ 982,108	\$ 2,145	\$ 984,253

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 5,935	¥ 6,993	\$ 71,506
Adjustments for:			
Income taxes - paid	(2,521)	(3,241)	(30,373)
Depreciation and amortization	3,116	3,078	37,542
Changes in assets and liabilities:			
(Increase) decrease in trade notes and trade accounts receivables	(2,757)	3,006	(33,217)
Increase in inventories	(682)	(34)	(8,217)
Decrease (increase) in other current assets	585	(1,150)	7,048
Increase in trade notes and trade accounts payables	606	259	7,301
(Decrease) increase in other current liabilities	(349)	492	(4,205)
(Decrease) increase in liability for retirement benefits	(511)	221	(6,157)
Other - net	(189)	(399)	(2,277)
<b>Total adjustments</b>	<b>(2,702)</b>	<b>2,232</b>	<b>(32,555)</b>
<b>Net cash provided by operating activities</b>	<b>3,233</b>	<b>9,225</b>	<b>38,951</b>
<b>INVESTING ACTIVITIES:</b>			
Proceeds from redemption of marketable securities	620	1,084	7,470
Capital expenditures	(1,589)	(1,091)	(19,145)
Purchases of investment securities	(568)	(105)	(6,843)
Proceeds from redemption and sales of investment securities	127	211	1,530
Purchases of software	(299)	(455)	(3,602)
Acquisition of license rights	(1,047)	(3,245)	(12,614)
Other - net	(88)	(47)	(1,060)
<b>Net cash used in investing activities</b>	<b>(2,844)</b>	<b>(3,648)</b>	<b>(34,264)</b>
<b>FINANCING ACTIVITIES:</b>			
Cash dividends paid	(1,281)	(1,215)	(15,434)
Increase of treasury stock	(41)	(33)	(494)
Other - net	(71)	(70)	(855)
<b>Net cash used in financing activities</b>	<b>(1,393)</b>	<b>(1,318)</b>	<b>(16,783)</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>(302)</b>	<b>(257)</b>	<b>(3,639)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,306)</b>	<b>4,002</b>	<b>(15,735)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>19,448</b>	<b>15,446</b>	<b>234,313</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 18,142</b>	<b>¥ 19,448</b>	<b>\$ 218,578</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 11. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nippon Shinyaku Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83 to \$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation** - The consolidated financial statements as of March 31, 2011 and 2010 include the accounts of the Company and its significant two domestic and one overseas subsidiaries (together, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

In 2010, Laplus Pharma Co., Ltd., (consolidated subsidiary) was liquidated and excluded from the scope of consolidation from the year ended March 31, 2010.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investment in one unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit

included in assets resulting from transactions within the Companies is eliminated.

- b. Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit and commercial paper, all of which mature or become due within three months of the date of acquisition.
- c. Marketable and Investment Securities** - Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, which are not classified as held-to-maturity securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Realized gains and losses on available-for-sale securities are included in earnings and are calculated by using the moving-average method to determine the cost of securities sold. Non-marketable available-for-sale securities are stated at cost, cost being determined principally by the moving-average method. Write-downs are recorded in earnings for securities with a significant decline in value that is considered to be other than temporary.
- d. Inventories** - Inventories held for sale in the ordinary course of business are measured at the lower of cost, determined by the average cost method, or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.
- e. Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 10 to 50 years for buildings and structures, from eight to ten years for machinery, equipment and vehicles, and from four to six years for tools, furniture and fixtures.
- f. Long-lived Assets** - The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- g. Retirement and Pension Plans** - Employees of the Company and domestic subsidiaries terminating their employment are entitled to lump-sum severance payments based on the rate of pay at the time of termination, length of service and certain other factors. If the termination is involuntary or caused by death, the employees are entitled to greater payments than in the case of voluntary termination.

The Company has a cash balance pension plan, under which each participant has an account on which a fixed amount is contributed and interest added which is calculated yearly based

on a market-related interest rate with a certain minimum interest rate secured. The Company also has an unfunded retirement benefit plan for employees and a defined contribution pension plan to allow qualified persons aged from 60 to 64 to receive post-retirement benefits at their discretion. Consolidated domestic subsidiaries have unfunded retirement benefit plans.

**h. Asset Retirement Obligations** - In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥2 million (\$24 thousand) and income before income taxes and minority interests by ¥136 million (\$1,639 thousand). As of March 31, 2011, asset retirement obligation of ¥144 million (\$1,735 thousand) was recorded, which is included in other long-term liabilities.

**i. Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated at an amount considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in receivables outstanding.

**j. Leases** - In March 2007, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the

balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company continues to account for leases which existed at the transition date and did not transfer ownership of the leased property to the lessee as operating lease transactions. All other leases are accounted for as operating leases.

- k. Bonuses to Directors and Corporate Auditors** - Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.
- l. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- m. Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.
- n. Foreign Currency Financial Statements** - The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiary are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.
- o. Derivative Financial Instruments** - The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks related to the procurement of merchandise from overseas suppliers. The Company does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.
- p. Per Share Information** - Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

#### q. New Accounting Pronouncements

**Accounting Changes and Error Corrections** - In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied with revision to current accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors - When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Current:			
Government and corporate bonds	¥ 200	¥ 500	\$ 2,410
Trust fund investments		96	
Other	20		241
Total	¥ 220	¥ 596	\$ 2,651
Non-current:			
Equity securities	¥ 11,003	¥ 12,563	\$ 132,566
Government and corporate bonds		100	
Trust fund investments		102	
Total	¥ 11,003	¥ 12,765	\$ 132,566

The costs and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

March 31, 2011	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 6,134	¥ 4,534		¥ 10,668
Held-to-maturity	220			220

March 31, 2010	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 5,592	¥ 6,637		¥ 12,229
Government and corporate bonds	100			100
Trust fund investments	200		¥ 2	198
Held-to-maturity	500	3		503

March 31, 2011	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 73,904	\$ 54,626		\$ 128,530
Held-to-maturity	2,651			2,651

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥227 million (\$2,735 thousand) and ¥211 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥101 million (\$1,217 thousand) and ¥208 million for the years ended March 31, 2011 and 2010, respectively.

### 4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2011	
Finished products and merchandise	¥ 6,909	¥ 6,263	\$ 83,241	
Work in process	1,391	1,037	16,759	
Raw materials	3,248	3,566	39,133	
Total	¥ 11,548	¥ 10,866	\$ 139,133	

### 5. RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2011	
Projected benefit obligation	¥ 26,750	¥ 26,922	\$ 322,289	
Fair value of plan assets	(12,722)	(12,466)	(153,277)	
Unrecognized actuarial loss	(5,972)	(5,844)	(71,952)	
Unrecognized prior service cost	(337)	(382)	(4,060)	
Net liability	¥ 7,719	¥ 8,230	\$ 93,000	

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 866	¥ 875	\$ 10,434
Interest cost	535	518	6,446
Expected return on plan assets	(496)	(423)	(5,976)
Recognized actuarial loss	627	663	7,554
Amortization of prior service cost	45	45	542
Premiums for defined contribution pension plan and other	67	78	807
Net periodic benefit costs	¥ 1,644	¥ 1,756	\$ 19,807

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	4.0%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	15 years

## 6. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account

charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased can not exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,967 million (\$108,036 thousand) and ¥8,441 million for the years ended March 31, 2011 and 2010, respectively.

## 8. LEASES

The Companies lease certain vehicles, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2011 and 2010 were ¥1,175 million (\$14,157 thousand) and ¥1,119 million, respectively.

*Pro forma information of leased property whose lease inception was before March 31, 2008*

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases, without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 was as follows:

Tools, furniture and fixtures:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Acquisition cost	¥ 11	¥ 11	\$ 132
Accumulated depreciation	9	7	108
Net leased property	¥ 2	¥ 4	\$ 24

#### Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 1	¥ 2	\$ 12
Due after one year	1	2	12
<b>Total</b>	<b>¥ 2</b>	<b>¥ 4</b>	<b>\$ 24</b>

#### Depreciation expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Depreciation expense	¥ 2	¥ 3	\$ 24
Lease payments	¥ 2	¥ 3	\$ 24

Depreciation expense, which is not reflected in the accompanying statements of income, is computed by the straight-line method.

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 41% for the years ended March 31, 2011 and 2010. The overseas subsidiary is subject to the income tax of the country in which it operates.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
<b>Deferred tax assets:</b>			
Retirement benefits	¥ 3,165	¥ 3,373	\$ 38,133
Accrued expenses	1,161	1,169	13,988
Property, plant and equipment	80	82	964
Other	1,175	1,336	14,157
Less valuation allowance	(551)	(810)	(6,639)
<b>Deferred tax assets</b>	<b>5,030</b>	<b>5,150</b>	<b>60,603</b>
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities	1,654	2,439	19,928
Deferred gains on sales of property	1,373	1,385	16,542
Other	34	44	410
<b>Deferred tax liabilities</b>	<b>3,061</b>	<b>3,868</b>	<b>36,880</b>
<b>Net deferred tax assets</b>	<b>¥ 1,969</b>	<b>¥ 1,282</b>	<b>\$ 23,723</b>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 is as follows:

	2011	2010
Normal effective statutory tax rate	41.0%	41.0%
Expenses not deductible for income tax purposes	5.2	5.1
Income not taxable for income tax purposes	(2.1)	(0.6)
Increase in valuation allowance	(4.4)	3.2
Tax credits for research and development costs	(7.0)	(8.7)
Other - net	0.3	1.2
<b>Actual effective tax rate</b>	<b>33.0%</b>	<b>41.2%</b>

## 10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group policy for financial instruments

Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

### (2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Marketable securities, mainly certificate of deposits, are exposed to little or no risk of market price fluctuations. Investment securities, mainly equity instruments, are exposed to the risk of market price fluctuations. Marketable and investment securities, mainly held-to-maturity securities of customers and suppliers of the Companies, are exposed to the issuer's credit risk.

Payment terms of payables, such as trade notes, trade accounts, other payables and income taxes payable are less than one year. Payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

The Company's derivative transactions are specific foreign exchange forward contracts. The Company has entered into foreign exchange forward contracts to hedge foreign exchange risk specifically associated with imported merchandise, as requested by customers or based on judgment by the purchase department. Such derivative transactions are entered into to hedge foreign currency exposures incorporated within the Company's business.

### (3) Risk management for financial instruments

#### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Companies manage their credit risk from receivables on the basis of internal guidelines, which include monitoring payment terms and balances of major customers by the business administration and finance & accounting departments to identify the default risk of customers early. With respect to held-to-maturity financial investments, the Companies manage their exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines.

Because the counterparties to derivatives are limited to major financial institutions, the Company does not anticipate any losses from credit risk.

*Market risk management (foreign exchange risk and interest rate risk)*

Foreign currency trade payables are exposed to fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. The Companies have internal policies which restrict the use of derivatives only for the purpose of reducing market risks.

Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

*Liquidity risk management*

Liquidity risk comprises the risk that the Companies cannot meet its contractual obligations in full on maturity dates. The Companies manage their liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the finance & accounting department.

## (4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead.

## (a) Fair value of financial instruments

March 31, 2011	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 18,142	¥ 18,142	
Time deposits	72	72	
Notes and accounts receivables	27,574	27,574	
Marketable and investment securities	10,888	10,888	
<b>Total</b>	<b>¥ 56,676</b>	<b>¥ 56,676</b>	
Notes and accounts payables	¥ 8,103	¥ 8,103	
Income taxes payable	598	598	
<b>Total</b>	<b>¥ 8,701</b>	<b>¥ 8,701</b>	

March 31, 2010	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 19,448	¥ 19,448	
Time deposits	80	80	
Notes and accounts receivables	24,817	24,817	
Marketable and investment securities	13,027	13,030	¥ 3
<b>Total</b>	<b>¥ 57,372</b>	<b>¥ 57,375</b>	<b>¥ 3</b>
Notes and accounts payables	¥ 8,211	¥ 8,211	
Income taxes payable	1,283	1,283	
<b>Total</b>	<b>¥ 9,494</b>	<b>¥ 9,494</b>	

March 31, 2011	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 218,578	\$ 218,578	
Time deposits	867	867	
Notes and accounts receivables	332,217	332,217	
Marketable and investment securities	131,181	131,181	
<b>Total</b>	<b>\$ 682,843</b>	<b>\$ 682,843</b>	
Notes and accounts payables	\$ 97,626	\$ 97,626	
Income taxes payable	7,205	7,205	
<b>Total</b>	<b>\$ 104,831</b>	<b>\$ 104,831</b>	

*Cash and cash equivalents, notes and accounts receivable*

The carrying values of cash and cash equivalents, notes and accounts receivable approximate fair value because of their short maturities.

*Marketable and investment securities*

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Information about the fair value of marketable and investment securities by classification is included in Note 3.

*Notes and accounts payables, other payables, income taxes payable*

The carrying values of notes and accounts payables, other payables and income taxes payable approximate fair value because of their short maturities.

*Derivatives*

Information about the fair value of derivatives is omitted from disclosure because fair values and unrealized gains were immaterial for the years ended March 31, 2011 and 2010.

## (b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investments in equity instruments that do not have a quoted market price in an active market	¥ 335	¥ 334	\$ 4,036

(5) Maturity analysis of financial assets and securities with contractual maturities

March 31, 2011	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 18,142			
Time deposits	72			
Notes and accounts receivables	27,574			
Marketable and investment securities:				
Held-to-maturity:				
Corporate bonds	200			
Other	20			
<b>Total</b>	<b>¥ 46,008</b>			

March 31, 2010	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 19,448			
Time deposits	80			
Notes and accounts receivables	24,817			
Marketable and investment securities:				
Held-to-maturity:				
Government bonds	100			
Corporate bonds	300	¥ 100		
Available-for-sale with contractual maturities:				
Corporate bonds	100			
Other	100			
<b>Total</b>	<b>¥ 44,945</b>	<b>¥ 100</b>		

March 31, 2011	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	\$ 218,578			
Time deposits	867			
Notes and accounts receivables	332,217			
Marketable and investment securities:				
Held-to-maturity:				
Corporate bonds	2,410			
Other	241			
<b>Total</b>	<b>\$ 554,313</b>			

11. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	Millions of Yen
Total comprehensive income attributable to:	
Owners of the parent	¥ 5,262
Minority interests	13
<b>Total comprehensive income</b>	<b>¥ 5,275</b>

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of Yen
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥ 1,163
Deferred gain on derivatives under hedge accounting	2
Foreign currency translation adjustments	1
<b>Total other comprehensive income</b>	<b>¥ 1,166</b>

12. NET INCOME PER SHARE

Net income per share ("EPS") for the years ended March 31, 2011 and 2010 was as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2011 - Basic EPS				
Net income available to common shareholders	¥ 3,958	67,529	¥ 58.61	\$ 0.71
For the year ended March 31, 2010 - Basic EPS				
Net income available to common shareholders	¥ 4,096	67,558	¥ 60.63	

Diluted net income per share is not disclosed because there are no dilutive securities outstanding.

13. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 29, 2011, the Company's shareholders approved the following:

Payment of a year-end cash dividend of ¥10 (\$0.12) per share to holders of record at March 31, 2011 for a total of ¥675 million (\$8,133 thousand).

## 14. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

### 1. Description of reportable segments

The Companies' reportable segments are those for which separately financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Companies. Therefore, the Companies consists of the 'Pharmaceuticals' industry and 'Functional Food' industry. 'Pharmaceuticals' industry consists of the manufacturing and sale of drugs for urological diseases, inflammation and allergy, hematologic malignancies, cardiovascular and metabolic diseases, gastrointestinal disorders and others diseases. 'Functional Food' industry consists of the manufacturing and sale of health food ingredients, preservatives, protein preparations, nutritional ingredients, seasonings and spices, sterilization cleaning agents and others.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment  
The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".
3. Information about sales, profit (loss), assets and other items is as follows.

	Millions of Yen				
	2011				
	Reportable Segment			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	¥ 52,554	¥ 10,971	¥ 63,525		¥ 63,525
Intersegment sales or transfers					
Total	52,554	10,971	63,525		63,525
Segment profit	4,733	448	5,181		5,181
Segment assets	64,331	7,557	71,888	¥ 30,850	102,738
Other:					
Depreciation	2,918	164	3,082	34	3,116
Increase in property, plant and equipment and intangible assets	1,085	100	1,185		1,185

	Millions of Yen				
	2010				
	Reportable Segment			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	¥ 52,166	¥ 10,767	¥ 62,933		¥ 62,933
Intersegment sales or transfers					
Total	52,166	10,767	62,933		62,933
Segment profit	6,694	(232)	6,462		6,462
Segment assets	62,853	7,306	70,159	¥ 33,417	103,576
Other:					
Depreciation	2,885	159	3,044	34	3,078
Increase in property, plant and equipment and intangible assets	1,728	131	1,859		1,859

	Thousands of U.S. Dollars				
	2011				
	Reportable Segment			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	\$ 633,181	\$ 132,180	\$ 765,361		\$ 765,361
Intersegment sales or transfers					
Total	633,181	132,180	765,361		765,361
Segment profit	57,024	5,398	62,422		62,422
Segment assets	775,072	91,048	866,120	\$ 371,687	1,237,807
Other:					
Depreciation	35,157	1,976	37,133	409	37,542
Increase in property, plant and equipment and intangible assets	13,072	1,205	14,277		14,277

Notes: Unallocated corporate assets included under "Reconciliations" for 2011 and 2010 are ¥30,850 million (\$371,687 thousand) and ¥33,417 million, respectively, and consist primarily of funds such as cash equivalents, marketable securities, investment securities, assets of administrative functions and deferred tax assets.

## Related Information

### 1. Information about products and services

	Millions of Yen		
	2011		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥ 52,554	¥ 10,971	¥ 63,525

	Thousands of U.S. Dollars		
	2011		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	\$ 633,181	\$ 132,180	\$ 765,361

### 2. Information about geographical areas

#### (1) Sales

Information about geographic area is omitted, as sales to external customers located in Japan accounted for more than 90% of net sales presented in the consolidated statement of income for the year ended March 31, 2011.

#### (2) Property, plant and equipment

Information about geographic area is omitted, as property, plant and equipment located in Japan accounted for more than 90% of property, plant and equipment presented in the consolidated balance sheet as of March 31, 2011.

### 3. Information about major customers

Name of Customers	2011			Related Segment Name
	Sales			
	Millions of Yen	Thousands of U.S. Dollars		
MEDICEO CORPORATION	¥ 12,158	\$ 146,482		Pharmaceuticals
Alfresa Corporation	11,207	135,024		Pharmaceuticals
Suzuken Co., Ltd.	10,797	130,084		Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	6,511	78,446		Pharmaceuticals

For the year ended March 31, 2010

Information about industry segments of the Companies for the year ended March 31, 2010 is as follows:

## Industry Segments

### a. Sales and Operating Income

	Millions of Yen			
	Pharmaceuticals	Functional Food	Eliminations/Corporate	Consolidated
Sales to customers	¥ 52,166	¥ 10,767		¥ 62,933
Intersegment sales			¥ Nil	
Total sales	52,166	10,767		62,933
Operating expenses	45,472	10,999		56,471
Operating income (loss)	¥ 6,694	¥ (232)	¥ Nil	¥ 6,462

### b. Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	Pharmaceuticals	Functional Food	Eliminations/Corporate	Consolidated
Assets	¥ 62,853	¥ 7,306	¥ 33,417	¥ 103,576
Depreciation	2,885	159	34	3,078
Capital expenditures	1,728	131		1,859

# Independent Auditors' Report



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Nippon Shinyaku Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Nippon Shinyaku Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shinyaku Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*  
 June 29, 2011

Member of  
 Deloitte Touche Tohmatsu Limited