Helping people lead healthier, happier lives

The cover illustration is from Kotoha Onomatope ("Kotoha the Onomatopoeia Ninja"), a picture book published through the 9th Nippon Shinyaku Children’s Literary Awards contest. For more information about the contest, please refer to page 39 of this report.
The thrill of delivering new medicines to those who need them

The work of pharmaceutical discovery is never done, and even today, many diseases still have no effective medicine for treatment. Development in these areas can be slow because patients are few, which discourages companies from making the large R&D investments required.

At Nippon Shinyaku, we relish the challenge of delivering relief to those who suffer from diseases considered intractable. To that end, we strive to develop medicines that work to bring the joy of relief and recovery to patients and their families.

When others can’t, we can
When others won’t, we will

A candidate compound has one chance in 25,956 of becoming a new drug. In the cut-throat world of drug development, all but the most promising projects are abandoned so most candidate compounds never see the light of day.

At Nippon Shinyaku, our in-house drug discovery, in-licensing, product life cycle management and irrepressible determination to help people struggling with health issues, has seen us bring an average of at least one new drug to market every year for the past ten years.

Nippon Shinyaku is working to develop treatments for intractable diseases that as yet have no known effective cure. As long as there are people struggling with illness, no matter how many or few, we will continue to develop new medicines.
Determined to contribute to better health by harnessing the functions of food — the root of all medicines

“Medicine and food have the same origin,” as the saying goes, and our mission is to create safe, pioneering products that benefit your body as much as your taste buds. Since the inception of our functional food business segment in 1961, we have developed many radical new food items that have benefitted society. Now, in an era that demands a more diverse range of values from food, our proactive approach to opening up new inroads is more relevant than ever before, and provides impetus to our ongoing quest to help people lead healthier lives, and to contribute to the food industry.

A level of quality that only a pharmaceutical maker can provide

Since the very beginning of our food business, we have always recognized that food is directly connected to health, and so our products must be safe and high in quality. In practice, that means we apply our highly advanced pharmaceutical R&D strengths, manufacturing technologies, and quality control systems to food production. Our Pharmaceutical Products Reliability Assurance standards are also brought to bear in the pursuit of unimpeachable product quality and reliability. As a result, that pharmaceutical expertise has enabled us to make high-quality functional foods and ingredients and earn a reputation for reliability and credibility in the food industry.
Business Philosophy
Helping People Lead Healthier, Happier Lives

In the nearly 100 years since its establishment in 1919, Nippon Shinyaku has committed itself, as an R&D-based producer of new medication, to a distinctive kind of drug discovery. We have fulfilled the wishes of patients and medical professionals by listening to their voices, thereby developing and selling therapeutic medication aimed at diseases for which no effective treatment methodologies have been established.

Furthermore, since 1961, utilizing our technology and knowhow from the pharmaceuticals business, we have been branching out into the functional food business. We believe that medicine and food share the same importance in maintaining good health, and through providing society with functional foods, as well as pharmaceuticals, we aim to help people lead healthier, happier lives.

What has supported the Company since it was established, and helped Nippon Shinyaku grow into what it is today, is none other than the determination of all employees to be involved hands-on in the production of innovative products for which there is a pressing necessity.

We will continue our quest to meet as yet unfulfilled medical needs, to put a smile on the faces of patients and their families, and to seek a better future for all.

Management Policy

■ Customers: Supply Unique and High-quality Products
We will develop and supply pharmaceuticals that are safe and highly effective relative to other drugs, and that in some way contribute to a better quality of life in patients, first and foremost for patients who suffer from illnesses. We will develop and supply high-quality functional food that meets the needs of customers.

■ Society: Earn the Trust of Society
We will achieve regulatory compliance and adherence to internal rules, and always remember our corporate social responsibility and behave according to high ethical standards.

■ Employees: Develop Each Employee
We will develop each employee through goal-setting and positive challenges in work.

Guidelines for Action

■ Challenge: Meet Challenges
■ Speed: Speedy Action
■ Investigation: Spirit of Investigation

Editorial Policy
The report was composed so that all of our stakeholders can further understand our corporate value. Accordingly, we have created an integrated report to include not only financial information, but non-financial information such as that relating to the environment, society, and governance.

Period Covered
Fiscal 2017 (April 1, 2017–March 31, 2018). Some sections of the report also discuss initiatives from April 2018 onwards.

Companies Covered
Information in this report pertains to Nippon Shinyaku Co., Ltd. and its Japanese consolidated subsidiaries within the Nippon Shinyaku Group. However, some sections apply only to Nippon Shinyaku Co., Ltd.

Forward-Looking Statements
Statements contained in this report concerning plans, predictions, and strategies to improve future performance (“forward-looking statements”) are based on information currently available to the Company’s management, and inevitably involve a certain element of risk and uncertainties. Actual results may therefore differ from those in the forward-looking statements.

Figures presented in this report are taken from Nippon Shinyaku’s Financial Report for the year ended March 31, 2018. As figures have been rounded, totals may not exactly equal the sum of their composite statistics.

Product names featured in this report are registered trademarks of Nippon Shinyaku or affiliated companies.

Information in this report, including comments, has all been obtained in an appropriate manner.
Since the company’s founding, Nippon Shinyaku has been an R&D-oriented manufacturer that continues to bring needed medicine to society.

Japan’s first domestically produced vermicide for roundworms, Santonin, helps to improve public health

Since ancient times, roundworms have afflicted the people of Japan. Santonin is a specific medicine for eliminating the intestinal parasites. Originally it was imported to Japan from Russia, but Nippon Shinyaku worked hard to create its own production process. During the pre- and post-war years, Santonin greatly contributed to the improvement of public health in Japan.

Main Products Launched

1940 Santonin, Japan’s first domestically produced vermicide for roundworms
1950 Isomytal, hypnotic and sedative
1958 Azunol, anti-inflammatory remedy for skin disorders

Distinctive drugs primarily for urology and otorhinolaryngology

Nippon Shinyaku has a key presence in these fields, selling a number of products including the following.

In otorhinolaryngology: Lefose, an anti-inflammatory enzyme; and Cephadol to treat vertigo

In urology: Eviprostat to treat benign prostatic hypertrophy; Bladderon, a remedy for pollakisuria; and Estracyt to treat prostate cancer

Main Products Launched

1967 Eviprostat, remedy for benign prostatic hypertrophy
1974 Cephalotax, remedy for vertigo
1979 Bladderon, remedy for pollakisuria
1984 Estracyt, remedy for prostate cancer
1989 Gaulon N, remedy for gastric ulcers and gastritis

Many new products are released; new products take on a greater share of total sales

Nippon Shinyaku discovered, developed and released Gaulon N, a remedy for gastric ulcers and gastritis. This was followed by such new products as Selectol, a remedy for hypertension and angina pectoris; Orcl, an antirheumatic drug; Hypen, an anti-inflammatory drug; and Cialis, a remedy for erectile dysfunction. With the release of many new products, the share of new products in total sales expanded.

Main Products Launched

1992 Selectol, remedy for hypertension and angina pectoris
1994 Orcl, antirheumatic remedy
1994 Hypen, anti-inflammatory remedy
2009 Cialis, remedy for erectile dysfunction

Development speeds up, world-first new drugs are released

Nippon Shinyaku released Vidaza, a remedy for myelodysplastic syndrome, Zalutia, a drug for urinary disorders caused by benign prostatic hypertrophy, and other new products. The company discovered and developed Uptravi, the world’s first IP receptor agonist for pulmonary arterial hypertension that can be taken orally, which went on sale in 2016.
## Main Products

We are providing society with distinctive products in two major areas.

### Pharmaceuticals

<table>
<thead>
<tr>
<th>Drugs for Urological Diseases</th>
<th>Drugs for Hematology</th>
<th>Drugs for Intractable and Rare Diseases</th>
<th>Drugs for Gynecology</th>
<th>Drugs for Otorhinolaryngology</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zalutia</td>
<td>Estracyt</td>
<td>Cialis</td>
<td>Vidacal KA</td>
<td>Lunabel Tablets LD</td>
<td>Onatrem</td>
</tr>
<tr>
<td>Eviprostat</td>
<td>Opsumit</td>
<td>Uptorui</td>
<td>Vidacal KA</td>
<td>Lunabel Tablets ULD</td>
<td>Trimal OD</td>
</tr>
<tr>
<td>Zalutia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Reglec</td>
</tr>
<tr>
<td>Blackiron</td>
<td></td>
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</tr>
</tbody>
</table>

Zalutia improves urinary disorders (frequent urination, the urge to urinate, etc.), thereby improving quality of life for individuals with benign prostatic hyperplasia. Zalutia was named as a first-choice drug, which should help to extend market penetration.

Vidacal is the world’s first drug to have shown extended survival time for patients with myelodysplastic syndrome. It serves to reduce the frequency of blood transfusions and raise patient QOL.

For the treatment of pulmonary arterial hypertension, an intractable disease with an unfavorable prognosis, Nippon Shinyaku offers three types of oral drugs with different mechanisms of action—Adcirca, Opsumit (licensed from Actelion and co-promoted with Actelion Japan), and Uptravi. These three agents, which offer greater choice for treatment, have a substantial body of evidence for the three different mechanisms of action—Adcirca, Opsumit, and Uptravi.

Lunabel Tablets LD are a low-dose estrogen and progesterone compound agent, the first such medicinal agent for the remedy of dysmenorrhea associated with endometriosis to be covered by health insurance in Japan. Lunabel Tablets ULD offer a further reduced amount of estrogenic hormone to reduce the risk of thrombosis. Together, the remedies will help improve the quality of life of many women who suffer from menstrual cramps.

We leverage expertise in safety and quality control practices developed in our pharmaceuticals business to provide high-quality and evidence-based ingredients. Our Mikaku Fine series and other products can be used for a wide range of applications in the food industry.

We supply preservatives of consistent quality that both extend the shelf life of various foods and minimize the impact on flavor by using proprietary formulation techniques. Our Mikaku Fine series and other products can be used for a wide range of applications in the food industry.

We provide ingredients such as sodium caseinate and soy protein for use in processed meat products, fishery paste products, and other general food products, and ingredients such as milk proteins and peptides for use in therapeutic and sports nutritional foods.

### Functional Food

<table>
<thead>
<tr>
<th>Health Food for Consumers</th>
<th>Health Food Ingredients</th>
<th>Preservatives</th>
<th>Protein Preparations</th>
<th>Spices and Condiments</th>
</tr>
</thead>
<tbody>
<tr>
<td>WINZONE ENERGY ENERGY</td>
<td>Mangosteen Aqua</td>
<td>MIKAKU Fine S</td>
<td>MIKAKU MPI</td>
<td>Kenda – chili pepper extract</td>
</tr>
<tr>
<td>AGE-SHUT</td>
<td>Hyaluronic Acid 3000</td>
<td>MIKAKU Fine W</td>
<td>Lactocrystal plus</td>
<td>New Onion Concentrate</td>
</tr>
<tr>
<td></td>
<td>Gartonia Powder J</td>
<td>MIKAKU Fine L</td>
<td>Fitness S</td>
<td>Hassakap Concentrate H</td>
</tr>
<tr>
<td></td>
<td>RG Anta Extract Powder</td>
<td>MIKAKU Fine Z</td>
<td>PROGEL800</td>
<td>Hokkaido Cantaloupe pale Extract</td>
</tr>
</tbody>
</table>

We want to help people lead healthier, happier lives through diet. We communicate this directly to consumers by supplying original health foods for the sports market and aging care market that we develop in-house as a research-based maker of new pharmaceuticals.

Hokkaido Cantaloupe pale extract, produced in Hokkaido.

We utilize our extraction and formulation technologies developed in our pharmaceuticals business to make hot chili extracts, onion concentrates, as well as juice products from hasslebberries and cantaloupe melon produced in Hokkaido.
Message from the President

Nippon Shinyaku will improve people’s health by supplying unique and high-quality products

Corporate Vision
We aspire to be a company that plays a meaningful role in the healthcare sector

Nippon Shinyaku is committed to bringing people better health through its pharmaceuticals and functional food segments, providing distinctive products of high quality to society. In addition to supplying high-quality medicines, an important function of a pharmaceutical company, we feel it is our duty as a corporate citizen to assist in the development of society and the regions in which we do business, at the same time as we strive to improve corporate value from the standpoint of stakeholders. With an indispensable role to play in the healthcare field, we aspire to be a unique, trusted, and respected company that plays a meaningful role in society.

Situation in FY2017
Both sales and profits are higher than last year, reaching record highs

In fiscal 2017, in the Pharmaceuticals business, although no revenue was recorded for the active pharmaceutical ingredient of Uptravi (a treatment for pulmonary arterial hypertension that was released in Japan in November 2016), payments for which were calculated in the previous fiscal year, there has been growth in our new product suites—such as Zalutia, a drug for urinary disorders caused by benign prostatic hypertrophy, and Vidaza, a myelodysplastic syndrome treatment. There has been a rise in income from co-promotion, and growth in domestic sales of Uptravi along with rising royalty income from its overseas sales. These developments led to net sales of ¥97,416 million (a year-on-year increase of 2.5%). In the Functional Food business, net sales increased year-on-year by 4.2% to ¥14,031 million, due to increased sales of protein preparations, preservatives, and health food ingredients. As a result, the Nippon Shinyaku Group’s net sales increased 2.7% year-on-year to ¥101,448 million.

In terms of profit, operating income increased year-on-year by 11.8% to ¥17,079 million. Ordinary income was ¥17,451 million (a year-on-year increase of 7.4%). Net income attributable to owners of the parent was ¥12,953 million (a 10.2% year-on-year increase). In all cases profits rose by a large margin to all-time highs.

<table>
<thead>
<tr>
<th>Financial Item</th>
<th>FY2016 Business Performance</th>
<th>FY2017 Business Performance</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥98,781 million</td>
<td>¥101,448 million</td>
<td>2.7%</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥15,280 million</td>
<td>¥17,079 million</td>
<td>11.8%</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>¥16,244 million</td>
<td>¥17,451 million</td>
<td>7.4%</td>
</tr>
<tr>
<td>Net income attributable to owners of</td>
<td>¥11,749 million</td>
<td>¥12,953 million</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

Shigenobu Maekawa
President

ANNUAL REPORT 2018
Message from the President

Basic Policy on Management
Implementing our business philosophy at the core of all business activities

Nippon Shinyaku carries out business in pharmaceuticals and functional foods by steadily applying our business philosophy of helping people lead healthier, happier lives. Based on our guidelines for action—challenge, speed, and investigation—we encourage every one of our employees to work to achieve their targets with promptness and a strong sense of ethics. In this way we are able to build relationships of trust with patients and our many other stakeholders and carry out business activities with full integrity. Based on that trust, we aim to differentiate our products from those of other companies and grow by launching new products and improving profitability.

Growth Strategy for the Future
We are accelerating R&D and expanding internationally to achieve sustainable growth

Pharmaceutical companies throughout the industry were hit hard by NHK drug price revisions pursuant to 2018 medical treatment fee revisions. Drug prices were reduced by 1.65% on a medical cost basis (7.5% on the basis of drug costs). The government’s drastic reform of the drug pricing system sharply constrains the definition of new drugs eligible for innovation premiums, and a new system was introduced to lower the drug prices of certain long-listed items to the level of generic drugs. We expect change to escalate and intensify in the pharmaceutical industry. That includes a number of measures, as those above, being taken by the Japanese government to curb medical costs. Technological innovation is also advancing rapidly, and restructuring is taking place throughout the industry. In the food industry, consumers remain highly price-conscious and market competition is expected to intensify. To respond to such changes in the business environment and continue to grow in the future, we believe it is all the more necessary to maximize our business value through such measures as speeding up R&D and expanding our international business.

Overall Strategy

In research and development, we will boldly strive to promote open innovation and the latest drug discovery methods, create highly original drugs, and carry out highly reliable clinical trials. We are focusing on three core areas in the medium-to-long term—urology, hematology, and intractable and rare diseases. We are concentrating management resources on illnesses for which there is still a great need for effective treatment. Our three pillars are in-house drug discovery, in-licensing, and product life cycle management (PLCM), through which we are improving our development pipeline. Our aim is to launch one or more products per year on average and to expand market share by fostering each drug after its release into the market.

Outside of Japan, we anticipate future growth as a result of expanding the number of countries in which Uptravi is sold, combined with further market penetration. We are in the process of strengthening management at both our U.S. subsidiary, NS Pharma, Inc., and our Beijing Representative Office, aiming to commercialize such products as NS-065/MCNP-01, our treatment for Duchenne muscular dystrophy. We plan to increase international sales by promoting international business using measures tailored to suit the conditions of each target country.

In terms of capital investment, at the manufacturing building completed in March 2016 for active pharmaceutical ingredients (APIs) for clinical trials, we are pursuing the manufacture of APIs of investigational drugs such as nucleic acid drugs and NS-580 for endometriosis, which will lead to lower costs for APIs and speed up their research and development. Also, we completed a new facility at the Odawara Central Factory in July 2017 to manufacture highly active solid formulations in-house for our own pharmaceutical products, as well as to perform contract manufacturing. The facility is expected to reach full operating capacity in late fiscal 2018.

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Message from the President

Fulfilling our responsibility to society by contributing through our business activities

The purpose of our business is to protect the lives and health of people, and we believe that our business activities themselves build both corporate value and social value. We are concentrating particularly on the development of therapeutic agents for patients with intractable diseases and rare diseases, through which we offer unique value. Furthermore, we plan to not only fulfill our mission toward patients and medical professionals, but also contribute to the achievement of SDGs (the sustainable development goals of the United Nations) and enhance efforts toward ESG (Environment, Society, Governance). By so doing we aim to earn the trust of all our stakeholders and become indispensable to society.

Fulfilling our responsibility to society by contributing through our business activities

Fulfilling our responsibility to society by contributing through our business activities

Fulfilling our responsibility to society by contributing through our business activities

ESG Initiatives

The personal growth of each employee supports the continued growth of the company

A company’s growth is built on the individuals within it, making the personal growth of each employee indispensable. With respect to human resources, we employ various training systems to carry out personnel training and recruitment in order to develop the talents of employees who can always think critically and take necessary action on their own. We are working to actively recruit women and hire retired employees, and encourage the development of individuals of differing personalities and strengths. Plus, we are implementing motivation-boosting measures to enable employees to fulfill their potential and elicit their full capabilities. In January 2018, we introduced a flextime system for MRs for the first time in the pharmaceutical industry. We will continue to create an environment that is easy for employees to work in and encourage more efficient ways of working.

Forecast for FY2018

A continued rise in income for Pharmaceuticals and Functional Food

In the Pharmaceuticals business in fiscal 2018, we anticipate an increase in sales of 7.1% year on year to ¥930.6 billion due to growth in new product suites such as Uptravi and Zalutia, and growth in royalty income from Uptravi’s overseas sales. In the Functional Food business, we will focus further on developing and introducing new products, and by strengthening our efforts for priority items, we expect sales to be ¥14.4 billion (a year-on-year increase of 2.6%).

In terms of profits, we expect operating income to increase 8.3% year-on-year to ¥18.5 billion, ordinary income to increase 8.9% year-on-year to ¥19 billion, and net income attributable to owners of the parent to reach ¥14 billion (an 8.1% year-on-year increase). In all cases, profits are expected to increase year on year, and we aim to set record highs in earnings as we expand sales.

To Our Shareholders

An estimated increase of ¥6 per share year on year over FY2017

In order for the company to grow sustainably and provide value to shareholders, we need to raise profits above the cost of operations. One indicator of business efficiency is return on equity. In fiscal 2017, our ROE was 10.8%, indicating how far we exceeded our capital costs. We will continue working to create high value.

Regarding governance, at Nippon Shinyaku we recognize that it is a critical management priority to fulfill our accountability to all stakeholders by ensuring the transparency of management. We will continue striving to enhance corporate governance in line with our Corporate Governance Basic Policy, which sets forth our fundamental approach. In addition, Nippon Shinyaku conducts compliance training on a monthly basis and holds training and educational activities to raise awareness among all of our employees as part of our corporate integrity in business.

Main Initiatives Based on Our HR Strategy

The hiring of outside experts (mid-career recruitment), foreign students and others, in addition to recruiting new graduates

The cultivation of talented people with global sensibilities to take responsibility for the company’s core business

The provision of training to cultivate business leadership and enhance English language skills to produce talent estimated both inside and outside the company

The employment of people based on diversity, regardless of gender, age or disability

The establishment of an environment in which every employee can work with pride and motivation to achieve goals, while growing as individuals

Shigenobu Maekawa
President

August 2018

Sustainable Development Goals (SDGs) Main Initiatives Based on Our HR Strategy

● The establishment of an environment in which every employee can work with pride and motivation to achieve goals, while growing as individuals

SDGs (Sustainable Development Goals)
Our first drug for blood cancer, the leukemia drug Cylocide Injection, was approved in 1971. We later launched Cylocide N Injection, a high-dose formulation for relapsed/refractory acute leukemia resistant to treatment, and for malignant lymphoma as an additional indication. It remains an essential first-line drug in the treatment of acute myeloid leukemia (AML).

The widespread popularity of Cylocide encouraged us to further commit to development and marketing of blood cancer drugs to meet the many unmet medical needs still remaining in the field. We launched Trisenox in 2004 and Amnolake in 2005 as highly effective drugs for relapsed/refractory acute promyelocytic leukemia (APL), a very rare disease. We then released Vidaza, Japan’s first drug for myelodysplastic syndrome (MDS), in 2011. Vidaza has contributed greatly to treatment of MDS not only as a first-line drug but also through its important role in the development pipeline for our priority field of blood cancer.

Gazyva (generic name: obinutuzumab), a drug we developed jointly with Chugai Pharmaceutical Co., Ltd., was approved in July of this year. Clinical trials of Gazyva in CD20-positive follicular lymphoma showed that it had greater efficacy than previous treatments, making it a promising new treatment option.

Current projects in our blood cancer development pipeline are a drug for hepatic veno-occlusive disease (NS-73), a drug for myelofibrosis (NS-018), addition of AML to the indication of Vidaza, a drug for relapsed/refractory AML (NS-917), and a drug for secondary AML (NS-87). We are working on developing these products so that we can deliver new drugs to patients suffering from blood cancers as quickly as possible.

Nippon Shinyaku’s Initiatives in Hematological Disorders

Blood cancers, which are also called hematopoietic tumors, include leukemia, in which white blood cells replicate uncontrollably, malignant lymphoma, which originates in lymphoid tissue, and multiple myeloma, in which plasma cells become cancerous and cause tumor proliferation in the bone marrow. Nippon Shinyaku has been committed to R&D and marketing of blood cancer drugs ever since developing and marketing Cylocide (generic name: cytarabine), our first foray into the field.

Vidaza is a therapeutic agent for MDS that was launched in 2011. Overseas, it was first approved in the U.S. in 2004, and is currently sold in over 80 countries. MDS is a disease in which an abnormality occurs in hematopoietic cells and normal blood cells can no longer be produced. Fewer normal blood cells result in development of symptoms such as anemia, bleeding, and fever from infection, and as the disease progresses patients cannot live without blood transfusions. Although hematopoietic cell transplantation is available as a complete cure, as MDS is a disease that is prevalent in the elderly, active treatment such as transplantation is not an option for many MDS patients, thereby making MDS a disease with an extremely poor prognosis.

Vidaza exhibits the effect of inhibiting the proliferation of abnormal blood cells. In a comparative study with conventional treatment conducted in Europe, it was proven to extend the survival time. Also, in a clinical trial in Japan, it led to half of the patients needing a red blood cell transfusion to no longer needing one. One of the characteristic features of Vidaza is that this treatment can be used on an outpatient basis. Vidaza, which can also be used to treat elderly patients, is currently being used by many patients and is helping to improve their QOL.

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Hepatic veno-occlusive disease (VOD), also called hepatic sinusoidal obstruction syndrome, is a complication that occurs after hematopoietic cell transplantation. It is a complication that occurs after hematopoietic cell transplantation performed to treat blood cancers and other such diseases. It is caused by epithelial injury and inflammation of liver sinusoids associated with conditioning procedures such as myeloablative chemotherapy (administration of high-dose chemotherapy drugs) and systemic radiotherapy. These issues ultimately result in development of VOD three to four weeks after transplantation. This complication affects about 10% of patients who undergo allogeneic transplantation, and progression to severe disease with multiple organ failure is associated with a poor prognosis (with a mortality rate of over 80%). NS-73 is a single-stranded DNA purified from the intestinal mucosa of pigs. It is believed to be effective against VOD due to its protective effect on vascular endothelium and the coagulation-fibrinolysis system. It is the only drug recommended for VOD in Western guidelines. We anticipate that it will be approved soon in Japan due to the lack of any other available drug for the indication of VOD.

**NS-917 for Relapsed/Refractory Acute Myeloid Leukemia**

Acute myeloid leukemia (AML) is a disease in which genetic mutations in myeloblasts, immature blood cells that are part of the process of making blood, result in abnormal proliferation. It can cause anemia, fever due to infection, or bleeding, resulting from suppression of normal hematopoiesis. Typical treatment for AML consists of intensive chemotherapy called the “7+3” regimen (treatment with seven days of cytarabine and three days of daunorubicin). However, this regimen is not effective against secondary AML, and is said to have a poor prognosis. NS-917 is a liposomal formulation engineered with a special technique to ensure it contains the most effective ratio of cytarabine to daunorubicin, and it has properties that cause it to accumulate in bone marrow. In overseas clinical trials in secondary AML, it was demonstrated to be the first treatment in the world to extend survival time beyond the conventional “7+3” regimen. It has already been approved in the U.S. and will hopefully become the first drug for secondary AML in Japan as well.

**NS-018 for Myelofibrosis**

Myelofibrosis is a hematological disorder in which an abnormality occurs in hematopoietic cells, and the result of proliferation of fibrous tissue in the bone marrow, normal hematopoiesis is impaired. Myelofibrosis is a rare disease and patient numbers are low, with approximately 1,500 patients in Japan and around 26,000 patients worldwide. Anemia and enlargement of the spleen (hematopoiesis in the spleen instead of the bone marrow enlarging the spleen) reduce patients’ QOL and the disease may be fatal within a few years. Although hematopoietic cell transplantation is being performed in an attempt at a complete cure, in cases where transplantation cannot be performed due to advanced patient age and other reasons, treatment to address anemia and reduce symptoms is also important. NS-018 is a Janus Kinase 2 (JAK2) protein kinase inhibitor under development in the U.S. JAK2 is one of the enzymes involved in the mechanism of hematopoiesis and around half of patients with myelofibrosis have a mutation in this protein kinase gene. It is hoped that by selectively inhibiting JAK2 that are overly active due to genetic mutation, NS-018 will relieve the various symptoms of myelofibrosis while reducing the side effects.

**NS-87 for Secondary Acute Myeloid Leukemia**

Secondary AML is a general term for AML caused by treatment for another disease or AML that has transformed from myelodysplastic syndrome. It affects about 6,000 people in Japan. Like primary AML, it is treated with the “7+3” regimen (treatment with seven days of cytarabine and three days of daunorubicin). However, this treatment is not effective against secondary AML, and is said to have a poor prognosis. NS-87 is a lipid-based formulation engineered with a special technique to ensure it contains the most effective ratio of cytarabine to daunorubicin, and it has properties that cause it to accumulate in bone marrow. In overseas clinical trials in secondary AML, it was demonstrated to be the first treatment in the world to extend survival time beyond the conventional “7+3” regimen. It has already been approved in the U.S. and will hopefully become the first drug for secondary AML in Japan as well.

**NS-018 for Myelofibrosis**

Myelofibrosis is a hematological disorder in which an abnormality occurs in hematopoietic cells, and the result of proliferation of fibrous tissue in the bone marrow, normal hematopoiesis is impaired. Myelofibrosis is a rare disease and patient numbers are low, with approximately 1,500 patients in Japan and around 26,000 patients worldwide. Anemia and enlargement of the spleen (hematopoiesis in the spleen instead of the bone marrow enlarging the spleen) reduce patients’ QOL and the disease may be fatal within a few years. Although hematopoietic cell transplantation is being performed in an attempt at a complete cure, in cases where transplantation cannot be performed due to advanced patient age and other reasons, treatment to address anemia and reduce symptoms is also important. NS-018 is a Janus Kinase 2 (JAK2) protein kinase inhibitor under development in the U.S. JAK2 is one of the enzymes involved in the mechanism of hematopoiesis and around half of patients with myelofibrosis have a mutation in this protein kinase gene. It is hoped that by selectively inhibiting JAK2 that are overly active due to genetic mutation, NS-018 will relieve the various symptoms of myelofibrosis while reducing the side effects.

**Main Products in Development**

**Obtained Manufacture and Marketing Approval for Gazyva (Generic Name: obinutuzumab) for CD20-positive Follicular Lymphoma in July 2018**

**What is follicular lymphoma?**

Malignant lymphoma is classified by characteristics such as the type of lymphocyte that becomes cancerous and its progression speed. Follicular lymphoma (FL), a kind of indolent malignant lymphoma that affects B cells, has been increasing in prevalence in Japan in recent years. It manifests as lumps in lymph nodes in areas such as the neck, armpit, and groin that gradually increase in size over a period of several months. Once the disease spreads across the body, general symptoms such as fever, weight loss, and night sweats appear as well. Treatment for FL is determined by disease presentation. If the lymphoma is localized and progressing slowly, observation without treatment is selected or radiotherapy is performed. If the disease is progressing and the patient’s condition is deteriorating, it is treated with the anti-CD20 antibody rituximab alone or in combination with chemotherapy drugs. Even with this treatment, patients may experience repeated relapses and a complete cure is difficult to attain. To address this issue, there is demand for a new treatment that can extend time to relapse or progression.

**Features of Gazyva**

Gazyva was first developed globally by Roche Pharmaceuticals and in Japan by Chugai Pharmaceutical Co., Ltd. In 2012, Nippon Shinyaku began joint development of the drug with Chugai Pharmaceutical Co., Ltd. in Japan. Like rituximab, Gazyva works by acting on CD20 antigens expressed on B cells to destroy B cells. Gazyva exerts a potent antibody-dependent cytotoxic effect because of the modified glycan component of the antibody. It shows strong direct apoptotic activity and superior antitumor activity to rituximab. In the GALLIUM trial in indolent non-Hodgkin’s lymphoma, Gazyva showed statistically significant extended progression-free survival compared with rituximab when used in combination with chemotherapy drugs. These results indicate that the Gazyva drug has the potential to become a standard treatment for FL.

**Effect of Gazyva on B cells**

*Source: Mitsui R, et al., Blood, 2010; 115; 4393–4402*
To Enhance Corporate Value

Strategies by Function

Pharmaceuticals (R&D)

**Enhancement of the R&D pipeline in our main fields of focus**

We try to make effective use of both internal and external resources, with a focus on three main fields—urology, hematology, and intractable and rare diseases—to strengthen our in-house drug development. We are working to improve our development pipeline by overviewing the state of in-house drug discovery, and by carrying out in-licensing and PLCM.

Pharmaceuticals (Sales)

**Bolstering three product suites to be growth drivers**

With our sights on a mid-term and long-term plan for bringing new drugs to market, we are investing management resources in three fields (urology, hematology, and PAH), developing product suites to lead the way to sustainable growth.

Pharmaceuticals (Production)

**Stable product supply and improving productivity**

At every stage—procurement, manufacturing, and distribution—we seek to provide a stable supply of product and by improving efficiency and implementing cost management, we aim to boost productivity overall. We are also expanding contract manufacturing business at the Odawara Central Factory.

Functional Food

**Provision of high-quality, high added-value, original ingredients**

We are pouring management resources into R&D on health food ingredients as a field of focus, along with preservatives and protein preparations to supply high-quality, high added-value original ingredients and original products to meet customers’ needs.
We make effective use of both internal and external resources to provide patients with our unique medications even just one day earlier.

Situation in FY2017
Continuing developmental progress in our main fields of focus
Chugai Pharmaceutical Co., Ltd., with whom we have collaborated on the development of GA101 (product name: Gazyva, generic name: obinutuzumab, see page 20), an anti-CD20 monoclonal antibody for CD20-positive follicular lymphoma, applied for domestic manufacturing and marketing approval in August 2017, which was granted in July 2018. We are now working to offer Gazyva as a new treatment option to patients and medical practitioners without delay.

NS-73, a therapeutic agent for hepatic veno-occlusive disease after hematopoietic stem-cell transplantation, became listed as a “drug with high medical need” in August 2017 by the Study Group on Unapproved and Off-label Drugs of High Medical Need. We are currently preparing an application to gain approval for its manufacturing and marketing.

For an additional indication of Upravi, a Phase III trial for chronic thromboembolic pulmonary hypertension is underway with Actelion Pharmaceuticals Japan Ltd., for NS-304 (generic name: selexipag), a product launched in 2016 for pulmonary arterial hypertension. In addition, we are preparing the next clinical trial in the United States for the treatment of relapsed/refractory acute myeloid leukemia. Other drugs being prepared for development in Japan are NS-917 for the treatment of relapsed/refractory acute myeloid leukemia, and NS-87 for the treatment of secondary acute myeloid leukemia. In addition, we are preparing the next clinical trial in the United States for the myelodysplasia therapy NS-018. By adding these therapeutic agents to our product lineup, we are responding to medical needs in the area of blood cancer, through which we wish to do even more to help strengthen our lineup in the field of hematologically malignant disease.

Our Future Growth Strategy
Answering medical needs by strengthening our lineup in the field of blood cancer drugs
Nippon Shinyaku released NS-17 (product name: Vidaza, generic name: azacitidine) in 2011 as a remedy for myelodysplastic syndrome. A Phase II trial began in Japan in January 2018 to assess its efficacy in the treatment of acute myeloid leukemia. Other drugs being prepared for development in Japan are NS-917 for the treatment of relapsed/refractory acute myeloid leukemia, and NS-87 for the treatment of secondary acute myeloid leukemia. In addition, we are preparing the next clinical trial in the United States for the myelodysplasia therapy NS-018. By adding these therapeutic agents to our product lineup, we are responding to medical needs in the area of blood cancer, through which we wish to do even more to help strengthen our lineup in the field of hematologically malignant disease.

Main steps of new drug development
Basic research
Discovery and creation of a candidate compound that will form the basis for a new drug. A candidate compound is found by searching through chemically synthesized compounds or natural ingredients.

Non-clinical studies
Assess the efficacy and safety of the candidate compound. Before clinical trials are conducted in humans, animals and cells cultivated in test tubes are used to assess various aspects of the compound such as its pharmacological properties, pharmacokinetics, and toxicity.

Clinical trials
Trials are conducted to assess the efficacy and safety of the candidate compound in humans. Trials are usually divided into three phases. The potential of the compound to become a new drug is assessed through the steps shown on the right.

After the efficacy and safety of a candidate compound are verified through clinical trials, an application for drug approval is submitted to the Pharmaceuticals and Medical Devices Agency (PMDA). Once the compound is approved, it is produced and marketed as a new drug.
### Becoming a trusted partner in medical treatment by providing timely, accurate information

#### Situation in FY2017

New product lines in our main fields of focus are all doing well

We offer Zalutia for urinary disorders, Vidaza for hematological syndrome (MDS) and products to treat it. Vidaza is widely known as the first choice for patients with high-risk MDS who are not candidates for transplantation, and sales are exceeding initial estimates.

In the PAH field, Nippon Shinyaku is the only company in the world to offer oral preparations with three agents: Adcirca, Opsumit, and 115 sales teams across the country. Based on a subdivision into 43 business branches and communities, which increases the importance of local marketing. We thus restructured our sales organization, subdividing it into 43 business branches and 115 sales teams across the country. Based on a top-down strategy from head office, we set up a system that will allow us to formulate and execute strategy in a way that matches needs in each locality. In addition, we respond to a broad range of inquiries from patients and the general public with accurate, easily understood information.

Introducing a CTI* system has allowed us to continue to provide prompt, accurate responses. Our system allows us to quickly convey patients’ and medical professionals’ valuable opinions and comments to the relevant department. It also helps us to reflect this information in our reports to Ministry of Health, Labour and Welfare authorities and in our new drug formulations. For those seeking reference material, the Nippon Shinyaku corporate website carries information for medical professionals and patients. Medical professionals can find pharmacological information including drug information sheets, interview forms, package inserts, and updated usage warnings. Patients and general readers can find pharmacological guides and information aimed at improving wellness.

#### Our Future Growth Strategy

Improving the quality of MR activities and focusing on local area marketing

Our Sales and Marketing Division has created an internal culture that emphasizes ongoing learning, raising academic levels within the division. We have also established a Marketing & Development Department for each of our three main fields of focus to more systematically provide high-quality information to medical professionals. Starting in fiscal 2018, in order to improve the quality of each and every meeting between medical professionals and medical representatives (MRS), all MRS are being encouraged to ascertain the true needs of medical personnel and to acquire the skills to satisfy those needs, which involves thinking for themselves and working to improve their academic knowledge.

Meanwhile, the government has put in place a system that encourages collaboration in healthcare between companies and medical providers in local communities, which increases the importance of local marketing. We thus restructured our sales organization, subdividing it into 43 business branches and 115 sales teams across the country. Based on a top-down strategy from head office, we set up a system that will allow us to formulate and execute strategy in a way that matches needs in each locality. In addition, we respond to a broad range of inquiries from patients and the general public with accurate, easily understood information.

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#### Activity Highlights

**Supplying Information to Medical Practitioners and Patients**

**System for Supplying Information to Medical Practitioners**

Nippon Shinyaku introduced an in-house qualification system in fiscal 2013 to improve the quality of information provision. All personnel in the Sales and Marketing Division took the test and became qualified according to their level of knowledge—Basic, Advanced, and Specialist. By encouraging each MR to acquire a higher level of expertise, the qualification system helps to produce qualified MRs worthy of partnering with medical practitioners.

In addition, to carry out information-supplying activities that match community needs, we established a Key Account Management Department in fiscal 2017 to build a foundation for local area marketing, and will continue working to provide information that meets the particular needs of each community.

Providing Product Information

Nippon Shinyaku operates a Customer Call Center which receives inquiries from physicians and pharmacists, and replies with advice on the proper usage of our products. In addition, we respond to a broad range of inquiries from patients and the general public with accurate, easily understood information.

Introducing a CTI* system has allowed us to continue to provide prompt, accurate responses. Our system allows us to quickly convey patients’ and medical professionals’ valuable opinions and comments to the relevant department. It also helps us to reflect this information in our reports to Ministry of Health, Labour and Welfare authorities and in our new drug formulations.

For those seeking reference material, the Nippon Shinyaku corporate website carries information for medical professionals and patients. Medical professionals can find pharmacological information including drug information sheets, interview forms, package inserts, and updated usage warnings. Patients and general readers can find pharmacological guides and information aimed at improving wellness.

**Educating Patients through Websites and Smartphone Applications**

At Nippon Shinyaku, we distribute information helpful for resolving health concerns through a number of websites.

On our “Pulmonary Hypertension Treatment Support” website [Japanese only; http://pah-support.jp/], we provide information to deepen understanding of the rare PAH disease and how it is treated, along with explanations of medical expenses and systems.

**Measures Against Counterfeit Drugs**

Nippon Shinyaku recognizes that raising awareness of counterfeit medications is one important way to ensure patient safety. To combat the counterfeiting of ED medicines, we are partnering with three companies involved in the manufacture and distribution of ED treatments to jointly hold press seminars for media-related parties, and are working to raise awareness of the issue through exhibits about counterfeit drugs at academic society meetings.

Additionally, through our Anti-Counterfeiting Committee, we verify and scrutinize information concerning counterfeits of our products to enact appropriate countermeasures, cooperate with our licensor and industry organizations, and provide information to government and other related parties.
Pharmaceuticals Production

Steadily supplying high-quality pharmaceuticals that people need

Situation in FY2017
Reducing manufacturing costs and raising productivity

As a result of the Japanese government putting in place a policy to promote generic medicines, the production volume of long-listed products has been declining at the Odawara Central Factory. Although the overall decline in production has led to rising manufacturing costs, the introduction of a qualification certification system at the factory is helping to cross-train workers, and we are able to carry out manufacturing with fewer capable workers. This, combined with production streamlining and the acquisition of new manufacturing contracts, is helping us to lower manufacturing costs. We also provide an e-Learning program on cost control to raise awareness of costs among all employees working in the Resource Procurement, Production & Assurance Division. To lower distribution costs, we reviewed supply methods from subcontractors to our Logistic Centers, which has brought cost reductions in warehousing and shipping between eastern and western Japan.

Utilizing our technical capabilities as a manufacturer of new drugs to expand contract production
At the Odawara Central Factory, making use of a dormant injection packaging line and taking advantage of our developmental capabilities in the formulation of new drugs, in fiscal 2017 we took on contracts to manufacture thirteen products for seven companies. All of the contracting companies gave Nippon Shinyaku high ratings for both technological capabilities and product quality. We are thus able to utilize specialized facilities and a developmental capability that other contract manufacturers do not possess. We also plan to further expand these efforts with the cooperation of departments outside of Resource Procurement, Production & Assurance Division.

Our Future Growth Strategy
Increasing production capacity to meet anticipated growth in demand
In July 2017, a facility for manufacturing highly active solid formulations was constructed on the premises of the Odawara Central Factory. To prevent possible damage from flooding of the Sakawa River, a vibration-damping structure was used for earthquake-proofing among the many disaster prevention measures adopted for the facility. The new building will be responsible for manufacturing highly active formulations that are currently on the market and original anti-cancer drugs that are being developed. It also aims to establish a general contract manufacturing business to take advantage of the uniqueness of the Odawara Central Factory.

Activity Highlights

Quality Assurance and Supply Stability

Reliability Assurance from the R&D Stage to Post-Marketing
Under the leadership of the Regulatory Affairs Supervision and Assurance Division, Nippon Shinyaku strives to substantially secure the quality, efficacy, and safety that are indispensable to pharmaceutical products.

At the R&D stage of product development, we carry out clinical and non-clinical tests, and prepare application documents for manufacture and marketing approval. Our Regulatory Affairs Supervision and Assurance Division audits those documents at the appropriate stage to assure the reliability of data for non-clinical testing and clinical trials.

After receiving manufacture and marketing approval, we fulfill our responsibilities to the market by assuring the quality of the product being manufactured and sold, and affirming its safety. We also work to maintain and manage the aforementioned approval, marketing authorization, and manufacturing authorization.

Pharmaceutical Products Reliability Assurance

During the development of our products, we carry out risk management in accordance with a pharmaceutical risk management plan (RMP)*1. The RMP is created with the purpose of maintaining the safety of post-market drugs by evaluating the benefits and risks through all periods from the development phase to post-marketing; we carry out necessary safety measures based on the results. The RMP is open to the public, and information is shared with medical practitioners and patients to implement improved post-market safety measures. At present, Nippon Shinyaku has created RMPs for two tramadol formulations Tranal OD and Onetram, as well as Uptaxi. This information is made public on the websites of both the Pharmaceuticals and Medical Devices Agency (PMDA) and Nippon Shinyaku.

Stable Supply of Products
At the Odawara Central Factory, we introduced an original qualification certification system in fiscal 2014 and are working to enhance the versatility of employees’ skills. Under a vision to be a factory that is competitive in terms of cost and quality, we have implemented the balanced scorecard (BSC)*2 management method and are establishing strategy from a many-sided perspective that incorporates financials, customers, business processes, human resources, innovation, and more. We set KPIs*3 to manage our progress toward achievement of this strategy and vision. Our distribution framework is configured not only to help maintain quality, for instance through temperature control during transit and storage, but also incorporates ideas such as use of multiple storage sites to minimize loss risks in contingencies such as disasters.

Framework for Supplying Products
We implement a framework to secure the rapid and stable supply of high-quality pharmaceuticals through the use of sophisticated supply chain management (SCM), covering production and quality control through to logistics management.

Our diverse initiatives in this area include efforts to reduce lead times by enhancing the efficiency of our overall production process including quality control processes, and regularly evaluating our suppliers to encourage improvement.

Framework for Supplying Products

*1 Risk Management Plan: A document that defines critical risks with post-marketed pharmaceuticals and outlines the efforts made by the company to reduce those risks.

*2 Balanced Scorecard: A method for comprehensively measuring the extent to which the corporate strategy has been implemented

*3 Key performance indicators: Particularly important indicators among the business process monitoring indicators set under the BSC to achieve corporate goals.
Situation in FY2017
Selecting and focusing on high-added-value product lines
With the aging of society and recent health-conscious trends, people are becoming more interested in health and there is strong demand in the health food market. In 2017 the Japanese government revised its labeling system for foods with function claims, driving a steady increase in new products and the expansion of the health food market. In this climate we are concentrating on sales of high-value products in the fields of health food ingredients, preservatives, protein preparations, and end product business that directly delivers value to consumers.

In the end product business that we began in 2016, we have steadily expanded our lineup, including the WINZONE ENERGY × ENERGY supplement, and are establishing a new presence in the mail-order market. Looking ahead, we intend to expand our marketing activities and give our brands greater exposure in the market.

In the field of health food ingredients, we are concentrating on promoting sales of anti-aging ingredients such as hyaluronic acid. We also plan to actively research and develop products in collaboration with users.

In the field of preservatives, we are strengthening our efforts for ready-made meals sold at convenience stores and supermarkets (bento box lunches and prepared foods, and processed foods for commercial use) with a focus on our Mikaku Fine series, which extends shelf life with minimal impact on flavor.

In the field of protein preparations, we aim to become the most important protein product manufacturer for the processed food and nutrition markets, utilizing our strength in research to supply a wide range of items and develop unique, high-added-value products.

Our Future Growth Strategy
Positioning end products as a driver of growth and raising profitability
Our mission is to contribute to people’s healthy longevity and active living through food. We plan to build on a solid foundation established over many years by positioning end products developed for direct sales to consumers as a growth driver. This will transform our functional food business into a more highly profitable business.

Our increased efforts in preservatives are helping to reduce food waste. We develop original technologies to extend the recommended best-before date of foods while maintaining their flavor, thereby helping to reduce the amount of food that goes to waste.

Nippon Shinyaku and ESG Initiatives
While Nippon Shinyaku, through its business activities, provides customers with high-quality pharmaceuticals, it also considers itself a member of society and the regions in which it operates, and is aware of its responsibilities to contribute to their development.

By promoting initiatives for ESG (Environment, Society and Governance) issues, we contribute to the achievement of SDGs (Sustainable Development Goals) and aim to make a broader contribution to society.

Our Basic CSR Policies can be found on our website at http://www.nippon-shinyaku.co.jp/english/csr/
Corporate Governance

- Basic Concepts of Corporate Governance
  At Nippon Shinyaku, we recognize that it is a critical management priority to fulfill our accountability to all stakeholders, by securing the transparency of management in order to raise our corporate value through social contributions. This makes it essential for our corporate governance to function effectively, and, in line with four clearly defined basic concepts (which are posted on our website), we are working non-stop to enhance corporate governance as a means of driving sustainable growth and increased value of our public presence, as well as mid-term and long-term corporate value.

The Corporate Governance Basic Policy was instituted on December 15, 2015, and sets forth our basic concepts of corporate governance. The Policy has been revised as of June 29, 2016.

- Overview of Corporate Governance Organization
  Nippon Shinyaku operates with a Board of Auditors, comprised of ten directors (of whom three are external directors) and four corporate auditors (of whom two are outside auditors). Furthermore, a Nominating Committee and Remuneration Committee operate under the supervision of the Board of Directors.

  Directors’ terms of service are renewed on a yearly basis in order to ensure that they balance their managerial responsibilities and to ensure an organization conducive to optimal governance in keeping with the business climate. Meanwhile, the appointment of three external directors is intended to further improve managerial transparency and objectivity and ensure stringent controls for financial reporting.

  Corporate Auditors attend all meetings of the Board of Directors as well as important business-related meetings. The two outside auditors, whose independence from the company is guaranteed, oversee management through the Board of Auditors.

Organization for Corporate Governance

- Implementing the Corporate Governance Code
  Adhering to the essence and spirit of the Corporate Governance Code spelled out by the Tokyo Stock Exchange in June 2015, Nippon Shinyaku assessed the state of our efforts to implement the code’s principles for the sake of sustainable growth and improved corporate value in the mid-term and long-term. Under the Corporate Governance Report released in November 2017, we carry out “Disclosure Based on the Principles of the Corporate Governance Code” and currently disclose “Reasons for Non-compliance with the Principles of the Corporate Governance Code”.

- Internal Control System
  The internal control system is stipulated under the Companies Act and prescribes the basic policy at the Board of Directors, while establishing a framework to ensure the proper execution of business. Through internal control, we strive to ensure regulatory compliance and raise the effectiveness and efficiency of our business. Moreover, we comply with the internal control reporting applied from fiscal 2008 in accordance with the Financial Instruments and Exchange Act, operate under a framework we have developed for assessing proper financial reporting, and, through the Internal Audit Department positioned directly under the President, evaluate the state of internal controls for financial reporting.

  Nippon Shinyaku employs Deloitte Touche Tohmatsu LLC as its accounting auditor, to help ensure the observance of proper accounting procedures and secure transparent management through internal control auditing. The Internal Audit Department examines the processes behind risk management, control and governance of the entire group and assesses their effectiveness. Information about their results is then shared with the Board of Auditors and the accounting auditor.

Develop Innovative Pharmaceuticals, Strengthen Management, and Improve Profitability

Fundamental reforms the Japanese government has made to the NHI drug price system and its push for the use of generic drugs in recent years have created tough conditions for new drug manufacturers. Efforts to achieve sustainable universal health coverage while promoting innovation are important, but concerns over the hollowing out of the pharmaceutical industry in Japan are being raised due to the deceleration of growth in long-listed products and acceleration of overseas expansion. In such circumstances, it becomes ever more important to sustainably discover and develop products in-house and set up a new generation of product pipelines. I plan to use my specialized knowledge and expertise as a pharmacologist to help develop innovative pharmaceuticals and strengthen management associated with those efforts. I also aim to concentrate on improving profitability. Other areas I plan to focus on include enhancing corporate governance and cultivating human resources for managing drug discovery and individuals with an open mind needed to lead the organization into the future.

Directors Should Take a More Broad-Minded Approach to Important Issues

Nippon Shinyaku will celebrate its 100th anniversary in 2019. Everyone in the company needs to be working together toward the goals of developing new drugs and transforming ourselves into a global company, both of which will be vital to sustaining growth in the future. The role of the outside director is to focus on improving corporate governance so that these efforts can have the maximum effect. We must help create an environment that enables executives to make decisions in a rational and transparent way.

In fiscal 2017, individual directors initiated topics that led to vibrant discussions and better evaluations by the Board of Directors. This fiscal year, building upon this open atmosphere, I feel that the directors must take a more broad-minded approach to important issues. This will surely lead to improved corporate value for Nippon Shinyaku.

Active Discussions by Board of Directors Open to Varied Questions and Opinions

In recent years, significant changes have been taking place in the business environment for pharmaceutical companies, such as fundamental reform to NHI drug price revisions. Nippon Shinyaku has been responding by developing new drugs, expanding globally, and implementing innovative workplace reforms. To help further this development, as an outside director I aim to provide multilateral, diverse views, thereby helping to stimulate and calibrate corporate activities.

The Board of Directors has been open to questions and opinions coming from a variety of perspectives, and has actively engaged in discussions, so it has deemed to have performed its role effectively. In the past year, I personally joined preliminary briefings of the Board of Directors, as well as training seminars held on suitable current topics and other meetings, through which I gained a deeper understanding of the business. So, this year I will continue to study more and will work hard to help Nippon Shinyaku achieve further progress.
Board of Directors, Corporate Officers and Corporate Auditors

Shigenobu Maekawa
President
1970 Joined Nippon Shinyaku Co., Ltd.
1966 Temporarily transferred to Japan Federation of Employers’ Associations
2002 Department Manager, Corporate Planning Dept., Corporate Strategy Office
2004 Corporate Officer
2006 Director
2007 Managing Director
2017 General Manager, Corporate Planning, Finance & Accounting, and Information System
2017 President (Current position)

Attendance at board meetings (FY2017): 13/13

Akira Matsuura
Managing Director
1979 Joint Nippon Shinyaku Co., Ltd.
2004 Department Manager, Chemical Research Dept., Discovery Research Labs., R&D
2009 Department Manager, Discovery Research Labs., Mobile Development Center R&D
2006 Corporate Officer, Department Manager, Discovery Research Labs., R&D
2010 Director
2015 General Manager, R&D (Head of R&D (current position)
2016 Managing Director (current position)

Attendance at board meetings (FY2017): 13/13

Hitoshi Saito
Director
1970 Joint Nippon Shinyaku Co., Ltd.
2002 Department Manager, Sourcing & Purchasing Dept., Manufacturing Management & Material Procurement Div., Osaka Regional Tradewatch Station
2008 Department Manager, R&D Administration Dept., R&D Administration Div., R&D
2010 Corporate Officer, Head of R&D Administration Div., R&D
2014 Director (current position)
2015 General Manager, Resource Procurement, Production & Administration (current position)

Attendance at board meetings (FY2017): 13/13

Ken Kobayashi
Director
1982 Joined Nippon Shinyaku Co., Ltd.
2007 Department Manager, Kyosho Business Office, Sales and Marketing
2010 Corporate Officer, Department Manager, Nagoya Business Office, Sales Promotion Div., Sales and Marketing
2013 Corporate Officer, Head of Tokyo Area Div., Sales and Marketing
2015 Corporate Officer, Deputy Head of Functional Food Div. (current position)
2015 Director (current position)
2015 General Manager, Functional Food, Head of Functional Food Div. (current position)

Attendance at board meetings (FY2017): 13/13

Shouzou Sano
Director
1984 Joint Nippon Shinyaku Co., Ltd.
2003 Department Manager, Sales and Business Offices, Sales and Marketing
2010 Corporate Officer, Department Manager, Osaka Business Office, Sales Promotion Div., Sales and Marketing
2012 Corporate Officer, Head of Tokyo Area Div., Sales and Marketing
2015 Director (current position)
2015 General Manager, Sales and Marketing (current position)

Attendance at board meetings (FY2017): 13/13

Takashi Takaya
Director
1968 Joint Nippon Shinyaku Co., Ltd.
2003 Department Manager, Marketing Dept., Sales and Marketing
2008 Department Manager, Marketing Dept., Sales and Marketing Planning Div., Sales and Marketing
2010 Department Manager, Marketing Dept., Sales and Marketing Planning Div., Sales and Marketing
2011 General Manager, Marketing and Planning Div., Sales and Marketing
2012 Corporate Officer, Head of Sales and Marketing Planning Div., Sales and Marketing
2018 Director (current position)
2018 General Manager, Administration (current position)

Takamaru Edamitsu
Director
1969 Joint Nippon Shinyaku Co., Ltd.
2011 Department Manager, Corporate Planning Dept.
2013 Corporate Officer, Department Manager, Corporate Planning Dept.
2016 Director (current position)
2018 General Manager, Business Management (current position)

Attendance at board meetings (FY2017): 13/13

Yukio Sugihara
External Director
1988 Professor, Institute for Chemical Research, Kyushu University
1990 Guest professor, Pharmaceutical Dept., The University of Manchester
1999 Director, Institute for Chemical Research, Kyushu University
2005 Emeritus professor, Kyushu University (current position)
2005 President, The Pharmaceutical Society of Japan
2007 Speciality appointed professor, Faculty of Pharmaceutical Sciences, Doshisha Women’s College of Liberal Arts
2013 Director (current position)
2016 Outside Director, Kyosen Corporation (current position)

Attendance at board meetings (FY2017): 13/13

Hirosi Sakata
External Director
1986 Registrar with Kyoto Bar Association
1986 Senior partner, Osaka Law Office (current position)
1986 Vice President, Kyoto Bar Association
2010 Guest researcher, Faculty of Law, University of Cambridge
2011 Professor, Doshisha University Law School, Graduate School of Law and Politics
2013 Director (current position)
2016 Outside Director, Kyosen Corporation (current position)

Attendance at board meetings (FY2017): 13/13

Myuki Sakurai
External Director
1982 Completed legal training at the Legal Training and Research Institute of Japan
1992 Registered with Osaka Bar Association
1992 Joint name with Osaka Bar Association (current position)
2001 President of Kondo Law Office (current position)
2010 Auditor, Nippon Life Ins. Foundation (current position)
2018 Director, Osaka University (current position)
2017 Director (current position)

Attendance at board meetings (FY2017): 13/13

Corporate Officers

Taro Sakurai
Department Manager, Administration
2008 Graduated from the University of Tokyo

Hiroko Nakajima
Chief Medical Officer
2005 Graduated from the University of Tokyo

Teruyo Inada
2000 Graduated from the University of Tokyo

Kazuyuki Mori
Head of R&D Administration Div., R&D

Hiroyuki Yamaura
Department Manager, Nuclear Medicine, Osaka

Hisashi Suhara
Head of Regulatory Affairs, Governmental Relations
2009 Graduated from the University of Tokyo

Hitoshi Ishizawa
Department Manager, Basic Sciences, Osaka

Koji Horino
Department Manager, Preventive Div., Osaka

Hayato Wada
Department Manager, Basic Sciences, Osaka

Hidetaka Batsaka
Department Manager, Osaka Central Factory

Current as of June 26, 2019

Taro Sakurai
Department Manager, Administration
2008 Graduated from the University of Tokyo

Hiroko Nakajima
Chief Medical Officer
2005 Graduated from the University of Tokyo

Teruyo Inada
2000 Graduated from the University of Tokyo

Kazuyuki Mori
Head of R&D Administration Div., R&D

Hiroyuki Yamaura
Department Manager, Nuclear Medicine, Osaka

Hisashi Suhara
Head of Regulatory Affairs, Governmental Relations
2009 Graduated from the University of Tokyo

Hitoshi Ishizawa
Department Manager, Basic Sciences, Osaka

Koji Horino
Department Manager, Preventive Div., Osaka

Hayato Wada
Department Manager, Basic Sciences, Osaka

Hidetaka Batsaka
Department Manager, Osaka Central Factory

Current as of June 26, 2019
Compliance

Framework for Compliance
The Nippon Shinyaku Group implements Compliance Operating Rules, with the Director, General Manager of Administration acting as a compliance officer and a dedicated department to oversee compliance initiatives. The supervising director for each department in place is responsible for departmental compliance initiatives, which are carried out by the managers in each department.

Compliance Initiatives
Group-wide compliance initiatives are planned, formulated and implemented by the dedicated department, with input from the compliance council. In April and October of 2017, the President and the compliance officer announced an appeal for the strengthening of compliance implementation and the establishment of a corporate culture where no compliance breach would be ignored or condoned. Alongside this announcement we implemented the training and education activities outlined below throughout the year.

Compliance Training in Fiscal 2017

<table>
<thead>
<tr>
<th>Type of Training</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental compliance training (monthly)</td>
<td>Departmental training incorporating company-wide content and department-specific content.</td>
</tr>
<tr>
<td>Training for new employees (April)</td>
<td>Training that focuses on teaching new employees about compliance concepts and approaches, and stressing the importance of compliance.</td>
</tr>
<tr>
<td>Training for newly promoted managers (March–October)</td>
<td>Training that focuses on teaching compliance to newly promoted managers.</td>
</tr>
<tr>
<td>Enhanced Training (October–November)</td>
<td>Departmental compliance training in October followed by supplemental training through November. The theme for fiscal 2017 was “Harassment Prevention: Power Harassment.”</td>
</tr>
<tr>
<td>Training on the Charter of Business Conduct for new employees (as and when required)</td>
<td>Enhancing understanding of and compliance with the Charter of Business Conduct.</td>
</tr>
</tbody>
</table>

Education Initiatives
- Conducted a learning education for compliance for employees in their second year of employment.
- Prepared compliance education posters with slogans that were selected as winners in an internal competition, and put up posters in each department.
- Created compliance cards combined with safety contact cards and distributed these to new employees among others.

Employee Hotline for Compliance Reporting
We operate an employee hotline for compliance reporting, so that any employee of Nippon Shinyaku or group companies can report on or discuss regulatory violations or other compliance issues, as a means of self-policing. We have set up hotline call centers both within and outside the company and these can be reached through a dedicated phone number or e-mail address, with guidelines in place to protect the privacy of reporting employees and to secure confidentiality.

The security of reporting employees is clearly specified in the guidelines to ensure that the person will not be transferrred against his or her interests and that such a transfer and other prejudicial measures are not imposed in fact. Furthermore, with regard to “Compliance Reporting System” we communicate information on a regular basis in order to further spread awareness throughout our group companies.

Responsible Procurement
Companies have much greater responsibilities than simply providing products to consumers. Corporate social responsibility requires that a company protect human rights, comply with laws and regulations, and protect the environment throughout its supply chain.

At Nippon Shinyaku, our policies, including our desire to earn the trust of society at large, are promoted by, and adhered to, in our Responsible Procurement Guidelines. The Responsible Procurement Guidelines are a statement of our dedication to stringent legal compliance, confidentiality, equitable business practices, rational selection of suppliers, and consideration for the environment. We are determined to uphold our responsibility to society by pursuing such responsible procurement policies together with our business partners.

Risk Management

Framework for Risk Management
Nippon Shinyaku Group investigates various risks and departments managing risks formulate preventive policies and methods for responding to them. This is done based on the Basic Risk Management Rules. Additionally, each year we identify highly critical risks. In fiscal 2017, these were “cyber-attacks,” “information leakage,” “disasters,” “harassment,” and “breaches of labor laws”, which led us to beef up our management framework and raise awareness. Furthermore, every year we conduct a self-check survey of all group employees for the purpose of verifying each individual’s risk awareness.

When an incident occurs, the director in charge of risk management receives a report from the risk management department, and then determines the effect the incident will exert on business operations. If the effect is considered minor, the department assigned to handle such an incident will be directed to respond. If, on the other hand, it is deemed that the incident will have a serious effect on business operations, the President will be immediately notified, while a temporary crisis management office will be established to respond to the incident in a timely manner.

Path of Risk Notification (as of April 1, 2018)

- First employee to identify risk
  - If high urgency
    - Director in charge of department where risk occurred
    - Supervising manager of employee
  - If minor risk
    - Risk management department
      - Director in charge of risk management
      - Supervisor for the specific risk
      - Departments assigned to cooperate

Institutes for Information Security
Nippon Shinyaku implements a basic policy and rules to guide our institutes for information security. We operate and implement an Information Security Management System (ISMS) Committee that implements specific rules for information security, guided by the basic policy and rules. We are also advancing technological measures tailored to advancements in IT and changes in society in order to protect the Nippon Shinyaku Group’s information assets from a variety of risks. At the same time, as a countermeasure against human risks, we have revised various company rules and educate our employees so they thoroughly recognize the importance of information security.

In fiscal 2017 we focused our activities on computer viruses, cyberterrorism, and the corruption, disappearance, fabrication, and leakage of electronic data, and engaged in employee education, awareness-raising, and the disclosure of information as well as taking out cyber-insurance for all group companies.

Furthermore, to counter the troubling recent development of targeted small attacks (ransomware, etc.), we are improving our internal measures through the strengthening of our system, and thorough education and training for all employees.

In the future we will continue to strengthen our information security.

- Anti-Harassment Action
We consider harassment a serious issue that disorients and injures upon the human rights of its victims. In addition to establishing the Workplace Improvement & Human Rights Awareness Committee to prevent harassment in all forms and to maintain a positive working environment, the Nippon Shinyaku Group has written and enforced the Harassment Prevention Rules. There are other ways we work to prevent harassment, such as compliance training, as well as the production of an information pamphlet about our anti-harassment policy which we distribute to all employees.

- Disaster Countermeasures (Formulating the BCP)
To ensure the supply of medicines to patients is not disrupted in emergency situations such as earthquakes and other disasters, we have established a Business Continuity Plan aimed at keeping the Odawara Central Factory up and running in major earthquakes (up to level six on the Japanese shindo scale). Meanwhile, we continue to bolster readiness in other areas, such as inventory storage facilities and support for partner companies, and are prepared to invoke the Business Continuity Plan whenever required.

- Respect for and Protection of Intellectual Property Rights
In recognizing the importance of intellectual properties, the Nippon Shinyaku Group’s Patent Strategy Committee formulates global patent application strategies as well as examines and determines measures to address various issues associated with intellectual properties created during various stages, from early R&D to post-marketing. To ensure the freedom of our business activities, we properly secure intellectual property rights, including patents and trademarks, related to our proprietary drugs and functional foods.

Our basic stance is to also respect the intellectual property rights of third parties, which we ensure by carefully managing intellectual property risks through the examination of rights and other means.
**Human Resources/Organization**

**Promoting Work-Life Balance**

- **Our Basic Approach to Work-Life Balance**
  As part of work life balance promotion efforts, Nippon Shinyaku conducts the “Good Job Initiative.” We envision the goals of the Good Job Initiative as: working productively, resting regularly, and leading a fruitful lifestyle that increases one’s satisfaction and zest for life.

- **Challenge 100 to Improve Productivity**
  Launched to commemorate the company’s centenary in 2019, Challenge 100 is a movement aimed at improving productivity. Our hope is to leverage Nippon Shinyaku’s unique strengths to set ourselves apart from our rivals and boost corporate power.

**Promoting Diversity**

- **Promoting Women in the Workplace**
  Nippon Shinyaku launched the “Maruenu Supplement” project in June 2011 to support women wanting to take a step up in career.

  Nippon Shinyaku has acted early to promote increased activity by women as the company’s mission. We are working to prepare an environment and create opportunities for growth so that women who, due to various circumstances, are hesitant about their next actions can step boldly forward.

  In fiscal 2017, we held “Happy Career Seminars” for women who work as production engineers and who aim to be future leaders. With a “hints to make working fun” theme, seminar participants studied work-life balances and how to pursue career development. Female management candidates participated in a seminar sponsored by the Japan Institute for Women’s Empowerment & Diversity Management—A 21st-Century Women’s Empowerment & Diversity Management Tutorial—and were given an opportunity to build an external network as well as personal skills.

**Personnel Training**

- **Basic Approach to Training**
  We organize employee training based on our management policy of “developing each employee.” The aim is for individual employees to improve their skills by using the opportunity to learn and grow.

- **Cultivating Global Talent**
  As our business becomes more international in scope, developing a globally-capable workforce has become increasingly important. We believe that a globally-capable workforce has a broader perspective and is better equipped to identify and overcome the challenges of modern business. To that end, we established an Overseas Training Program for R&D staff in fiscal 2015 and, from fiscal 2016, held two kinds of English training courses, one for elite employees and one for those who attended of their own accord.

**Shaping the Work Environment**

- **Occupational Health and Safety**
  Nippon Shinyaku is committed to securing employee health and safety, and complying with Industrial Safety and Health Law in order to create comfortable working conditions. We are committed to pursuing unified initiatives for health and safety.

  We conduct risk assessment and risk prediction activities, and we are practicing the “5S activities” to identify potential risks and hazards in our workplaces and establish measures to prevent them. The research laboratories also put an emphasis on conducting risk assessments for chemical substances, which is another effort toward preventing occupational accidents. We also consider maintaining employee health by working with the health insurance association to promote activities based on health management.

- **Mental Healthcare**
  Nippon Shinyaku introduced an externally developed Employee Assistance Program (EAP) in March 2003, and has been carrying out stress checks once a year for prevention, early detection, and early response to mental illness. With stress checks legally stipulated since December 2015, the EAP is being further utilized to improve the workplace environment.

**Flextime system enables a good balance between work and child-raising**

In October 2017, I returned to work from childcare leave and took on MR duties on shorter work hours. A flextime system was adopted for MR positions in January 2018 so that I could schedule my work around nursery school pickup times, or the physical condition of my child. The new system also made it possible to go home during breaks and take care of household chores, and in other ways use time more effectively than before. Immediately upon my return from childcare leave I felt anxious and wondered whether I could work as I had before, but thanks to this flextime system I was able to adjust the cycles of my weekday, and soon the anxiety was gone away. Sometimes unplanned things happen, like my child suddenly getting sick, but with support from the others on my team, I am able to work and have an enjoyable time doing so.

**Ayako Tameike**

No. 1 GP Team, No. 2 Marketing Office
Osaka Business Office
Social Contributions

Activities that Benefit Society

● Nippon Shinyaku Children’s Literary Awards
We have nurtured the spirited growth and future dreams of the children who will inherit our world through picture books. With this in mind, we created the Nippon Shinyaku Children’s Literary Awards to commemorate our 90th anniversary in 2009 with the support of the Japan Juvenile Writers Association. The Nippon Shinyaku Children’s Literary Awards call for compositions as either stories or illustrations and winning submissions are selected in each category and a picture book is made based on the best compositions. This book is then distributed to children throughout major educational institutions as well as children’s hospitals and public facilities. Also, visitors to our special website (Japanese only: http://kodomo-bungaku.jp) are able to see electronic versions of past and present books and hear them read aloud as they browse the pages.

Local children were invited to the awards ceremony held in October 2017, where the picture book Kobata Nipm Onomatope (“Kotoba the Onomatopoeia Ninja”), the winner of the 9th award, was presented. The Japanese pronunciation comes from the French word for onomatopoeia, “onomatopee,” and since many Japanese words that express sounds and actions appear in the book, we conducted a program for children to experience the wonders of sounds in a science show.

Also, upon the recommendation of Kyoto City, which sponsors the Nippon Shinyaku Children’s Literary Awards, we were presented with the Minister of State for Special Missions’ Award in the Develop- ment and Support for Children and Young People category of the Cabinet Office’s Awards for Supporters of Children/Family and Youth.

● Nippon Shinyaku & Seitaro Kuroda Smiles Art Project
We have visited a number of locations throughout Japan for the Awards for Supporters of Children/Family and Youth ceremony.

● The Yamashina Botanical Research Institute
The Yamashina Botanical Research Institute was established in 1934 as the Yamashina Pilot Farm. Since then, we have amassed a collection of some 3,000 varieties of medicinal and therapeutic plants from around the world, including mibuyomogi (Artemisia maritima) in Santorini, the vermicide that has played such a large part in our corporate development.

The institute’s collection contains many rare plants, including 160 names as ingredients of the natural remedies listed in the Japanese Pharmacopoeia, as well as many plants on the Japanese Ministry of the Environment’s endangered plants list, and even tree tumbo (Medicago minuta), which is recognized world over as endangered. Indeed, the institute’s research is a vital part of today’s efforts to preserve biodiversity. Moreover, the institute is a proud participant in local activities in Kyoto to preserve rare plants, helping to prevent and propagates Asarum cauliscens Maxim, and ohsuyan setumicopterise.

In fiscal 2017, the institute received the Aboc-Culta Award from the Japan Association of Botanical Gardens for the achievement of populating the scientific names of plants. The institute also held four tours in spring and autumn on national holidays, tours for the general public, tours for local elementary school students, summer vacation indigo dyeing workshops, and other events. Last year there were more than 1,700 visitors.

● Activities to Preserve and Maintain the Culture of Kyoto
For more than half a century Nippon Shinyaku has annually produced washcloths and calendars with pictures made using Katazome, a traditional stencil dying technique unique to Kyoto. These works feature Kyoto’s seasonal scenery, customs, and historical events. Also, four times a year, we publish an independent quarterly magazine called Kyoto. This publication showcases the profound appeal of Kyoto from a number of perspectives—it carries in-depth articles introducing the wonders of Kyoto, from proud cultural assets like its shrines and temples, to its cuisine and famous local products.

Contributing to the Field of Medicine

● Educating People About Illnesses
We have hosted public lectures by doctors since 1998. In February 2018, we held a medical symposium on “Ulinary Disorders and Lifestyle Diseases” attended by 262 people. The venue was full and the symposium was a great success. We have been distributing the content of the symposium as newspaper articles and to medical institutions as materials for patients in the effort to disseminate correct, up-to-date information on such disorders and medicine for treatment.

● Promoting Understanding of Rare and Intractable Diseases
To coincide with Rare Disease Day—the last day of February—we held an informal meeting with specialists and university students aiming to become doctors and pharmacists on the theme of “Support for patients with intractable diseases.” We are publishing the content as newspaper articles to promote better understanding of intractable diseases.

The Awards for Supporters of Children/Family and Youth ceremony

The Nippon Shinyaku Co., Ltd. has sent picture books annually to kindergartens and elementary schools in the city of Kyoto, where the company was founded. Every time I see an award-winning work, I feel that it has been chosen to stimulate the imagination and rich sensitivity of children from the unique perspective of a company that has a long history of building the future through new medicine. The works also touch the hearts of adults and I look forward to seeing a new picture book every year. I wish to see children grow up with a kind heart, robust mind, and strong will to fulfill their dreams. I also wish to express my heartfelt gratitude to Nippon Shinyaku for promoting these efforts to support children’s healthy development.

Wonderful picture books that touch children’s hearts

The Nippon Shinyaku Children’s Literature Award was established in 2009. Since that time, Nippon Shinyaku Co., Ltd. has sent picture books annually to kindergartens and elementary schools in the city of Kyoto, where the company was founded.

Activity at the Saitama Children’s Medical Center

Calendar and the quarterly magazine Kyoto

A washcloth featuring a motif of pictures made using Katazome

Teaching high school students

Informal meeting on support for patients with intractable disease

Public lecture

The Nippon Shinyaku Children’s Literature Award

From ancient Kyoto to modern Japan, the company has nurtured the spirited growth and future dreams of children who will inherit the world through picture books. With this in mind, the Nippon Shinyaku Children’s Literary Awards were established in 2009 to commemorate the company’s 90th anniversary in 2009 with the support of the Japan Juvenile Writers Association. The Nippon Shinya

Activities to Preserve and Maintain the Culture of Kyoto

The Yamashina Botanical Research Institute

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Kyoto City Board of Education

Superintendent of Education, Masahide Arita

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Activities that Benefit Society

● Nippon Shinyaku Children’s Literary Awards

● Nippon Shinyaku & Seitaro Kuroda Smiles Art Project

The Nippon Shinyaku & Seitaro Kuroda Smiles Art Project

We have visited a number of locations throughout Japan for the Awards for Supporters of Children/Family and Youth ceremony. In addition, we also held several baseball workshops for elementary and junior high school students to work on their baseball skills. We also provided baseball coaching for university students and other activities. Through these efforts we are working to improve youth’s baseball skills and physical strength, while increasing our interaction with local communities.

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The Basis of Value Creation

Environmental Management

Nippon Shinyaku Basic Environmental Policy

At Nippon Shinyaku, our mission is to help people lead healthier, happier lives. When we seek growth, it should be in harmony with the natural environment. That is why we strive to protect, sustain, and improve the environment through eco-considerate business activities.

1. We will effectively operate an internal organization responsible for environmental issues and establish clear targets for our collective pursuit of environmental conservation initiatives.
2. We will comply with laws, regulations, and internal rules pertaining to the environment, and work at environmental conservation cognizant of our responsibility to society at large.
3. We will maintain an accurate awareness of the impact of our business activities on the environment (e.g., global warming, depletion of resources, environmental pollution) and seek to continuously improve our environmental preservation activities and prevent pollution.

Environmental Management System

Nippon Shinyaku formulated the Nippon Shinyaku Basic Environmental Policy as the guideline for our environmental conservation activities. The Environment Committee, chaired by Director, General Manager of Administration, was established to put this policy into practice and determine the direction and targets of our environmental preservation activities.

- Environmental Conservation Costs
  - Costs within our business areas
  - Pollution prevention costs
  - Global environmental conservation costs
  - Resource recycling costs
  - Upstream & downstream costs
  - Management activity costs
  - R&D costs
  - Social activity costs
  - Environmental remediation costs

Environmental conservation benefits

- CO2 emissions
- Electricity usage
- Heat oil & biomass usage
- City gas & LPG usage
- Sandblasting & disposal usage
- Water consumption
- Waste substances generated
- Fixed amount of landfill waste

Putting Environmental Management System into Action

At our Odawara Central Factory production site, Nippon Shinyaku acquired ISO 14001 for international environmental management activities. At the head office, our site for research and development, we acquired KES Environmental Management System Standard Step 2 (hereinafter KES Step 2) certification in June 2012 and are engaged in environmental management activities.

In fiscal 2017, periodic audits were conducted at the Odawara Central Factory and renewal audits were carried out at the head office. No serious problems that would lead to environmental pollution were found, and the certification was continued.

Environmental Accounting

The following is an accounting of the environmental costs and benefits in fiscal 2017.

Environmental conservation costs

| Costs within our business areas | 90,492 | 299,945 |
| Pollution prevention costs | 27,315 | 60,713 |
| Global environmental conservation costs | 65,477 | 116,348 |
| Resource recycling costs | 0 | 97,824 |
| Upstream & downstream costs | 0 | 7,384 |
| Management activity costs | 18,125 | 64,452 |
| R&D costs | 0 | 78 |
| Social activity costs | 0 | 3,674 |
| Environmental remediation costs | 0 | 11,677 |
| Total | 110,617 | 364,542 |

Waste recycling rate: 55% or more

Promote Proper Management of Chemical Substances

- Promote the proper management of chemical substances, including those stipulated under the Pollutant Release and Transfer Register (PRTR) system, and continuously reduce their emission into the natural environment.

Promoting Energy Conservation and Global Warming Countermeasures

- Reduce total energy consumption (GJ) in FY2019 to below FY1990 levels.
- Reduce the CO2 emissions*2 basic unit*3 by about 40% from the FY2010 level by FY2019.
- Reduce the final amount of landfill waste by about 70% from the FY2005 level by FY2019.
- Reduce the basic unit of waste generated*4 by about 50% from the FY2005 level by FY2019.

Saving Resources, Reducing Waste and Promoting the 3Rs

- Keep the waste recycling rate at 55% or more by FY2019.
- Promote green purchasing and procurement practices.

The 5th Nippon Shinyaku Environmental Targets Plan (FY2017–2019)

The Nippon Shinyaku Environmental Targets Plan sets specific voluntary targets for the company to carry out its Basic Environmental Policy. The 5th Nippon Shinyaku Environmental Targets Plan, a three-year plan that began in April 2017, adds to previous targets a new set of numerical targets – basic units for CO2 emissions and volume of waste generated, and for the waste recycling rate.

<table>
<thead>
<tr>
<th>The 5th Nippon Shinyaku Environmental Targets Plan**</th>
<th>Numerical Targets</th>
<th>Results in FY2017</th>
<th>Progress toward Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental cost within our business area:</td>
<td>80,000 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Pollution prevention cost:</td>
<td>40 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Global environmental conservation cost:</td>
<td>60 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Resource recycling cost:</td>
<td>90 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Upstream &amp; downstream costs:</td>
<td>10 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Management activity cost:</td>
<td>30 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>R&amp;D cost:</td>
<td>0 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Social activity cost:</td>
<td>0 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Environmental remediation cost:</td>
<td>10 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
<tr>
<td>Total</td>
<td>100 GJ or less</td>
<td>Reached</td>
<td>Reached</td>
</tr>
</tbody>
</table>

Environmental performance by maintaining certifications for environmental management systems (ISO 14001 and KES*).
Environmental Performance

Promotion of Energy Conservation and Global Warming Countermeasures

Nippon Shinyaku has established guidelines for saving electricity and energy to promote power savings among all employees. The guidelines cover, for example, appropriate indoor temperature settings, turning off unnecessary lighting, and recommending the use of stairs. Starting in April 2018, a “year-round no-necktie” policy is being implemented to further promote energy conservation.

On the facility side, a plan to promote more efficient use of electricity is being implemented through the systematic upgrading of and cleaning of large-scale air conditioning equipment by professional contractors. In lighting equipment, we have been sequentially replacing existing light bulbs with LEDs at major offices since fiscal 2016. In the head office area, we were able to reduce power consumption in lighting by about 4%.

As a result of these efforts, we achieved our targets for total energy consumption and CO2 emissions basic unit in fiscal 2017. In comparison to fiscal 2016, energy usage increased by 5.4% and CO2 emissions increased by 4.4% at major offices, but this was due to a study being conducted to prepare for industrialization in the new building at the Odawara Central Factory, completed in July 2017, which was factored into planned business activities.

Reducing Volume of Waste

We achieved all three targets in fiscal 2017—final amount of landfill waste, basic unit of waste generated, and waste recycling rate. Waste generation increased about 20% over fiscal 2016, but this was due to wastewater generated in the planned industrialization study (mentioned above) conducted at the Odawara Central Factory's new building. After full detoxification, the water met environmental standards and was released into the surrounding environment.

For waste with low PCB concentrations, we have properly followed storage protocols in the head office area and the Odawara Central Factory.

Proper Management of Chemical Substances

We submit reports to the legal authorities on business sites that handle more than 1 ton of Class 1 designated chemical substances per year based on the PRTR system. This applies to acetonitrile and n-hexane for the head office, and dichloromethane for Discovery Research Laboratories in Tsukuba, both were reported appropriately.

The amounts of acetonitrile and n-hexane used decreased by 3.5% and 2.3%, respectively, compared to fiscal 2016, but dichloromethane increased about 40%.

The Odawara Central Factory's new building was completed in July 2017. It has numerous advanced features to ensure maximum safety, quality, and environmental protection. These include the prevention of external leakage of highly active substances using containment equipment (primary), containment by airflow and chamber pressure (secondary), and containment by the building (tertiary).

Communication on the Environment

We participate in or cooperate with many types of community environmental activities, and also give environment-related donations and offer school workshops.

Awarded for Environmental Excellence

Based on Kyoto City Global Warming Countermeasure Ordinances

Businesses in the city of Kyoto are obligated by ordinance to formulate a three-year plan with regard to CO2 emissions control and to report on the status of implementation, the results of which are made public. Nippon Shinyaku’s plan, completed in March 2017, received the highest S-class designation (excellent business operator), for which we were awarded an award from the mayor of Kyoto.

Material Balance of Our Business Activities

<table>
<thead>
<tr>
<th>Input</th>
<th>Raw materials</th>
<th>Packaging materials</th>
<th>Energy</th>
<th>Water consumption</th>
<th>Equipment</th>
<th>Office supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>236 t</td>
<td>231 t</td>
<td>Electricity: 14,049,000 kWh</td>
<td>Tap water: 66,000 m³</td>
<td>Machinery</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Heavy oil: 5 m³</td>
<td>Well water: 209,000 m³</td>
<td>Other supplies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Heavy oil: 3 m³</td>
<td>Diesel: 1 m³</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Gasoline: 949 m³</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>City gas: 1,832,000 m³</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Output</td>
<td>CO2 emissions</td>
<td>Shipped products</td>
<td>Transported products</td>
<td>Waste substances</td>
<td>Waste emission</td>
<td>Container and package recycling</td>
</tr>
<tr>
<td></td>
<td>13,314 t</td>
<td>450 t</td>
<td>160,000 t-km</td>
<td>Amort generated: 507 t</td>
<td>Wastewater: 270,000 m³</td>
<td>Waste containers and packages: 189 t</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Final amount of landfill waste: 2.0 t</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total energy consumption (thousands of GJ)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GJ</td>
<td>4443</td>
<td>229</td>
<td>201</td>
<td>219</td>
<td>230</td>
<td>230</td>
<td>230</td>
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</tbody>
</table>

CO2 emissions (tons)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2</td>
<td>138</td>
<td>220</td>
<td>203</td>
<td>201</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
</tbody>
</table>

Waste substances generated (tons)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste substances</td>
<td>2,725</td>
<td>2,636</td>
<td>2,697</td>
<td>2,772</td>
<td>2,817</td>
<td>2,817</td>
<td>2,817</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Landfill volume</td>
<td>2.5</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Details on environmental data are on our website (Japanese only).
http://www.nippon-shinyaku.co.jp/car/environment_manage.html
Summaries and Highlights

Summary of Consolidated Financial Indicators

<table>
<thead>
<tr>
<th>For the year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales (Millions of Yen)</td>
<td>78,517</td>
<td>79,991</td>
<td>84,209</td>
<td>98,781</td>
<td>101,448</td>
<td>95,056</td>
</tr>
<tr>
<td>Pharmaceuticals (Millions of Yen)</td>
<td>63,345</td>
<td>66,340</td>
<td>70,489</td>
<td>85,315</td>
<td>87,416</td>
<td>82,679</td>
</tr>
<tr>
<td>Net sales (Millions of Yen)</td>
<td>13,172</td>
<td>13,651</td>
<td>13,272</td>
<td>13,466</td>
<td>14,031</td>
<td>13,267</td>
</tr>
<tr>
<td>Operating income (Millions of Yen)</td>
<td>8,038</td>
<td>8,562</td>
<td>8,549</td>
<td>15,280</td>
<td>17,079</td>
<td>161,122</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent (Millions of Yen)</td>
<td>5,750</td>
<td>5,882</td>
<td>6,340</td>
<td>11,749</td>
<td>12,953</td>
<td>122,198</td>
</tr>
<tr>
<td>Depreciation and amortization (Millions of Yen)</td>
<td>2,704</td>
<td>2,665</td>
<td>2,452</td>
<td>2,648</td>
<td>2,733</td>
<td>26,160</td>
</tr>
<tr>
<td>Capital investment (Millions of Yen)</td>
<td>1,072</td>
<td>1,239</td>
<td>3,554</td>
<td>3,949</td>
<td>2,811</td>
<td>26,518</td>
</tr>
<tr>
<td>R&amp;D expenses (Millions of Yen)</td>
<td>9,530</td>
<td>8,968</td>
<td>9,739</td>
<td>14,903</td>
<td>13,221</td>
<td>124,732</td>
</tr>
</tbody>
</table>

End of the year

| Total assets (Millions of Yen) | 118,188 | 129,767 | 135,370 | 150,905 | 158,192 | 1,492,377 |
| Net assets (Millions of Yen) | 93,186 | 101,207 | 102,762 | 114,316 | 125,689 | 1,185,745 |

Financial information per share

| Earnings per share (Yen) | 85.25 | 87.26 | 94.10 | 174.42 | 192.31 | 1.81 |
| Dividend per share (Yen) | 23 | 25 | 28 | 48 | 52 | 0.49 |

Principal financial indicators

| Ratio of net worth (%) | 78.7 | 77.8 | 75.6 | 75.6 | 79.3 | - |
| Return on equity (%) | 6.3 | 6.1 | 6.2 | 10.8 | 10.8 | - |
| Pay-out ratio (%) | 27.0 | 28.7 | 29.8 | 27.5 | 27.0 | - |

Service highlights

<table>
<thead>
<tr>
<th>Summary of ESG Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total energy consumption (Thousands of GJ)</td>
</tr>
<tr>
<td>CO2 emissions t</td>
</tr>
<tr>
<td>CO2 per unit of revenue (Million yen)</td>
</tr>
<tr>
<td>Number of employees (People)</td>
</tr>
</tbody>
</table>

Financial Highlights

Net Sales (Millions of Yen)

Operating Income (Millions of Yen)

Net income attributable to owners of the parent (Millions of Yen)

R&D Expenses (Millions of Yen)

EPS / ROE

Dividend Per Share / Pay-Out Ratio

Non-Financial Highlights

Total Energy Consumption (Thousands of GJ)

CO2 Emissions t

Number of Employees (People)
1. Fundamental Policy Regarding Profit Sharing

Under our strategy to maximize corporate value, we strive to bolster R&D to expand our product development pipeline. We also have to consider the balance between investment, in equipment or facilities to allow us to maintain a corporate position that can withstand increasingly competitive conditions, and returns of profit, in order to strengthen our business foundations. Our policy on returning profits to shareholders is to issue dividends linked to earnings and maintain a consolidated payout ratio of around 30%. In some cases, we may exclude extraordinary gains and/or losses when calculating the payout ratio.

For the year ended March 31, 2018 (fiscal 2017), we issued an annual cash dividend of ¥25 per share, comprising an interim dividend of ¥20 per share and year-end dividend of ¥5 per share.

For the year ending March 31, 2019, we are projecting an annual dividend of ¥50 per share, comprising an interim dividend of ¥50 per share and year-end dividend of ¥20 per share.

2. Financial Condition

Increases in marketable securities, notes receivable, accounts receivables, inventory assets and others, and a decrease in cash and deposits compared to the previous fiscal year end caused current assets to total ¥97,953 million.

Fixed assets totaled ¥60,238 million due to increases in investment securities, long-term prepaid expenses and tangible fixed assets compared to the previous fiscal year end.

As a result, total liabilities decreased by ¥8,404 million compared to the previous fiscal year end, to ¥32,503 million.

Equity increased by ¥9,167 million compared to the previous fiscal year end, to ¥116,234 million. Accumulated other comprehensive income increased by ¥2,194 million to ¥9,216 million.

As a result, net assets increased by ¥11,372 million to ¥125,689 million. The equity ratio was 79.3%.

Net cash provided by operating activities amounted to ¥6,719 million. The main cash inflows were income before income taxes of ¥17,451 million, depreciation costs of ¥2,773 million, and an increase in trade notes and trade accounts payable of ¥2,407 million, while the main outflows were income tax, etc. paid of ¥6,220 million and an increase in accounts receivable of ¥3,286 million.

Net cash used in investing activities amounted to ¥11,342 million. The main cash outflows were expenditures for the acquisition of marketable securities of ¥4,420 million, and the acquisition of long-term prepaid expenses of ¥4,004 million.

Net cash used in investing activities amounted to ¥3,787 million, primarily comprising cash payment of dividends and other factors.

As a result, cash and cash equivalents as of March 31, 2018 decreased by ¥8,404 million compared to the previous fiscal year end, to ¥27,510 million.

3. Summary of Consolidated Business Results

1. Pharmaceuticals

In the Pharmaceuticals segment, although no revenue was recorded for the active pharmaceutical ingredient of Upravi (a treatment for pulmonary arterial hypertension that was released in Japan in November 2016), payments for which were calculated in the previous fiscal year, there has been growth in our new product suites—such as Zafirlukast, a drug for urinary disorders caused by benign prostatic hypertrophy, Vialuma, a myotrophic dystrophy syndrome treatment, Tranal and Onetram for cancer pain and chronic pain, and Actonof for pulmonary arterial hypertrophy. There has been a rise in income from co-promotion, and growth in domestic sales of Upravi along with rising royalty income from its overseas sales. These developments led to net sales of ¥97,416 million (a year-on-year increase of 2.5%). Upravi is also sold overseas by Actelion Pharmaceuticals under the trade name UPTRAVI.

2. Functional Food

In the Functional Food segment, sales increased in protein preparations, preservatives and health food ingredients. As a result, net sales increased by 4.2% year-on-year to ¥14,031 million.

Business Risks

The following are some of the risks that could impact the financial position and business results of the Nippon Shinyaku Group. Forward-looking statements contained below are based on judgments made at the end of the current fiscal year.

1. Regulatory Control Risks

The core pharmaceuticals and functional food businesses of the Nippon Shinyaku Group are strictly regulated under the Pharmaceuticals, Medical Devices and Other Therapeutic Products Act and Food Sanitation Act. In the event that regulatory changes require the Group to recall or cease the sale of products, it could impact our business results.

2. R&D Risks

Pharmaceuticals R&D is a lengthy process that requires significant capital, yet the probability that it will lead to the release or licensing of new pharmaceuticals is not high. If R&D is abandoned because drugs are found not to be effective or there are safety issues, we will not be able to recover the capital that we invested, and in some instances this could affect the financial position or business results of the Nippon Shinyaku Group.

3. Side Effect Risks

Pharmaceuticals are thoroughly tested for safety and strictly reviewed before they are authorized to be sold. However, if unexpected side effects arise after pharmaceuticals are placed on the market, the Group could be required to recall or cease the sale of products, which could impact our business results.

4. Drug Price Revision Risks

Selling prices of drugs used for medical care are set based on drug price standards under the national health insurance system. Drug price standards are generally revised downward every two years. Depending on extent of the price decrease, it could impact the business results of the Nippon Shinyaku Group.

5. Manufacturing and Procurement Risks

The Nippon Shinyaku Group is improving its production facilities. At the same time, if operations at manufacturing facilities cease due to natural disasters or other circumstances, they could interrupt the supply of products and impact our business results.

In addition, we procure certain products and important ingredients from specific suppliers. If the supply is interrupted, it could impact our business results.
## Consolidated Financial Statements

### Consolidated Balance Sheet

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
March 31, 2018

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT ASSETS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 11)</td>
<td>¥ 27,510</td>
<td>¥ 35,914</td>
<td>$ 259,528</td>
</tr>
<tr>
<td>Time deposits (Note 11)</td>
<td>957</td>
<td>867</td>
<td>9,028</td>
</tr>
<tr>
<td>Marketable securities (Notes 3 and 11)</td>
<td>4,420</td>
<td>2,657</td>
<td>41,098</td>
</tr>
<tr>
<td>Notes and accounts receivables (Note 11):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade notes</td>
<td>702</td>
<td>556</td>
<td>6,222</td>
</tr>
<tr>
<td>Trade accounts</td>
<td>39,462</td>
<td>36,322</td>
<td>372,283</td>
</tr>
<tr>
<td>Other</td>
<td>225</td>
<td>347</td>
<td>2,122</td>
</tr>
<tr>
<td>Total notes and accounts receivables</td>
<td>40,390</td>
<td>37,226</td>
<td>381,037</td>
</tr>
<tr>
<td>Inventories (Note 4)</td>
<td>20,345</td>
<td>18,577</td>
<td>191,933</td>
</tr>
<tr>
<td>Deferred tax assets (Note 10)</td>
<td>2,777</td>
<td>2,408</td>
<td>26,198</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,551</td>
<td>1,135</td>
<td>14,632</td>
</tr>
<tr>
<td>Total current assets</td>
<td>97,955</td>
<td>98,787</td>
<td>924,084</td>
</tr>
<tr>
<td>PROPERTY, PLANT AND EQUIPMENT:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>7,463</td>
<td>7,463</td>
<td>70,405</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>27,178</td>
<td>25,187</td>
<td>256,396</td>
</tr>
<tr>
<td>Machinery, equipment, and vehicles</td>
<td>12,330</td>
<td>10,834</td>
<td>116,320</td>
</tr>
<tr>
<td>Tools, furniture, and fixtures</td>
<td>8,879</td>
<td>8,577</td>
<td>81,877</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>67</td>
<td>2,153</td>
<td>632</td>
</tr>
<tr>
<td>Total</td>
<td>55,718</td>
<td>54,216</td>
<td>525,641</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(34,616)</td>
<td>(34,173)</td>
<td>(326,566)</td>
</tr>
<tr>
<td>Net property, plant and equipment</td>
<td>21,102</td>
<td>20,043</td>
<td>199,075</td>
</tr>
<tr>
<td>INVESTMENTS AND OTHER ASSETS:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities (Notes 3 and 11)</td>
<td>26,309</td>
<td>21,681</td>
<td>248,198</td>
</tr>
<tr>
<td>Long-term prepaid expenses</td>
<td>9,621</td>
<td>7,085</td>
<td>90,764</td>
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<tr>
<td>Deferred tax assets (Note 10)</td>
<td>45</td>
<td>55</td>
<td>424</td>
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<tr>
<td>Other assets</td>
<td>3,161</td>
<td>3,252</td>
<td>29,820</td>
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<tr>
<td>Total investments and other assets</td>
<td>39,136</td>
<td>32,074</td>
<td>369,207</td>
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<tr>
<td>TOTAL</td>
<td>¥ 158,192</td>
<td>¥ 150,905</td>
<td>$ 1,492,377</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.

### LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT LIABILITIES:</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payables (Note 11):</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Trade notes</td>
<td>¥ 2,016</td>
<td>¥ 1,966</td>
<td>$ 19,018</td>
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<tr>
<td>Trade accounts</td>
<td>6,622</td>
<td>4,265</td>
<td>52,471</td>
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<tr>
<td>Other</td>
<td>5,727</td>
<td>9,285</td>
<td>54,028</td>
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<tr>
<td>Total notes and accounts payables</td>
<td>14,367</td>
<td>15,517</td>
<td>155,537</td>
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<tr>
<td>Income taxes payable (Note 11)</td>
<td>2,115</td>
<td>3,892</td>
<td>19,952</td>
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<tr>
<td>Accrued expenses</td>
<td>4,228</td>
<td>3,942</td>
<td>39,886</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>255</td>
<td>263</td>
<td>2,405</td>
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<tr>
<td>Other current liabilities</td>
<td>1,488</td>
<td>3,384</td>
<td>14,037</td>
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<tr>
<td>Total current liabilities</td>
<td>22,454</td>
<td>27,001</td>
<td>211,830</td>
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<tr>
<td>LONG-TERM LIABILITIES:</td>
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<td></td>
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<tr>
<td>Liability for retirement benefit (Note 5)</td>
<td>7,422</td>
<td>8,064</td>
<td>70,018</td>
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<tr>
<td>Deferred tax liabilities (Note 10)</td>
<td>2,305</td>
<td>1,121</td>
<td>21,746</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>321</td>
<td>401</td>
<td>3,028</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>10,048</td>
<td>9,587</td>
<td>94,792</td>
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<tr>
<td>EQUITY (Notes 6 and 14):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>5,174</td>
<td>5,174</td>
<td>48,811</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4,445</td>
<td>4,445</td>
<td>41,933</td>
</tr>
<tr>
<td>Treasury stock – at cost, 2,896,632 shares in 2018 and 2,894,408 shares in 2017</td>
<td>(2,464)</td>
<td>(2,450)</td>
<td>(23,245)</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>11,469</td>
<td>9,235</td>
<td>108,198</td>
</tr>
<tr>
<td>Defined loss on derivatives under hedge accounting</td>
<td>(8)</td>
<td>(5)</td>
<td>(47)</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>4</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>Defined retirement benefit plans</td>
<td>(2,252)</td>
<td>(2,217)</td>
<td>(21,245)</td>
</tr>
<tr>
<td>Total</td>
<td>125,451</td>
<td>114,089</td>
<td>1,183,500</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>237</td>
<td>226</td>
<td>2,235</td>
</tr>
<tr>
<td>Total equity</td>
<td>125,689</td>
<td>114,316</td>
<td>1,185,745</td>
</tr>
<tr>
<td>TOTAL</td>
<td>¥ 158,192</td>
<td>¥ 150,905</td>
<td>$ 1,492,377</td>
</tr>
</tbody>
</table>
### Consolidated Financial Statements

#### Consolidated Statement of Income
Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Note 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES (Note 15)</td>
<td>¥101,448</td>
<td>¥98,781</td>
<td>$957,056</td>
</tr>
</tbody>
</table>

**Cost and Expenses:**
- Cost of sales: ¥46,929 ¥44,835 ¥442,726
- Selling, general, and administrative expenses (Notes 7 and 8): ¥37,439 ¥38,666 ¥353,198
- Total: ¥84,368 ¥83,501 ¥795,924

**Operating income (Note 15):** ¥17,079 ¥15,280 ¥161,122

**Other Income (Expenses):**
- Interest and dividend income: ¥486 ¥434 ¥4,584
- Interest expense (3) (3) (28)
- Impairment loss (Note 9): (111) (533) (1,047)
- Other – net: 371 197 3,500

**Income Before Income Taxes:** ¥17,451 ¥15,477 ¥164,632

**Income Taxes (Note 10):**
- Current: ¥4,622 ¥4,864 ¥43,603
- Deferred (140) (1,152) (1,320)
- Total income taxes: ¥4,482 ¥3,712 ¥42,283

**Net Income:** ¥12,953 ¥11,749 ¥122,198

#### Consolidated Statement of Comprehensive Income
Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Note 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET INCOME</td>
<td>¥12,969</td>
<td>¥11,756</td>
<td>$123,349</td>
</tr>
</tbody>
</table>

**Other Comprehensive Income (Loss) (Note 12):**
- Unrealized gain on available-for-sale securities: ¥2,234 143 21,075
- Deferred (loss) gain on derivatives under hedge accounting (3) (3)
- Foreign currency translation adjustments (6) (6) (56)
- Defined retirement benefit plans (34) 1,203 (320)
- Total other comprehensive income: 2,164 1,337 23,659

**Comprehensive Income:** ¥15,163 ¥13,102 ¥143,047

**Total Comprehensive Income attributable to:**
- Owners of the parent: ¥15,147 ¥13,067 ¥142,059
- Noncontrolling interests: 15 15 141

See notes to consolidated financial statements.

#### Consolidated Statement of Changes in Equity
Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>Accumulated Other Comprehensive Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>87,363</td>
<td>V 5,174</td>
</tr>
<tr>
<td>Capital Stakes</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unrealized Gain (Loss) on Derivatives under Hedge Accounting</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Foreign Currency Translation Adjustments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Defined Retirement Benefit Plans Total</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net change during the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>12,953</td>
<td>¥11,749</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Net Income attributable to:***
- Owners of the parent: ¥15,147 ¥13,067 ¥142,059
- Noncontrolling interests: 15 15 141

See notes to consolidated financial statements.

#### Footnotes
- See notes to consolidated financial statements.

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**ANNUAL REPORT 2018**

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**ANNUAL REPORT 2018**
Consolidated Financial Statements

Consolidated Statement of Cash Flows
Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries
Year Ended March 31, 2018

<table>
<thead>
<tr>
<th>Year Ended March 31, 2018</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPERATING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>$17,451</td>
<td>$164,632</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes – paid</td>
<td>(15,477)</td>
<td>(68,679)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,773</td>
<td>26,160</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>756</td>
<td></td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in trade notes and trade accounts receivables</td>
<td>(3,286)</td>
<td>(31,000)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>(1,769)</td>
<td>(16,679)</td>
</tr>
<tr>
<td>Decrease (increase) in other current assets</td>
<td>(141)</td>
<td>(3,829)</td>
</tr>
<tr>
<td>Decrease (increase) in trade notes and trade accounts payables</td>
<td>2,407</td>
<td>22,708</td>
</tr>
<tr>
<td>Decrease in other current liabilities</td>
<td>(189)</td>
<td>(1,783)</td>
</tr>
<tr>
<td>Decrease in liability for retirement benefits</td>
<td>(682)</td>
<td>(6,028)</td>
</tr>
<tr>
<td>Other – net</td>
<td>(5,339)</td>
<td>(31,500)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(10,732)</td>
<td>(101,246)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>6,719</td>
<td>63,387</td>
</tr>
</tbody>
</table>

INVESTING ACTIVITIES:

| Purchases of property, plant and equipment | (4,017) | (37,890) |
| Purchases of investment securities | (1,431) | (13,500) |
| Purchases of other assets | (160)  | (1,509)  |
| Acquisition of long-term prepaid expenses | (4,004) | (37,774) |
| Other – net                       | (1,728) | (16,302) |
| Total cash used in investing activities | (11,342) | (107,000) |

FINANCING ACTIVITIES:

| Cash dividends paid            | (3,768) | (35,547) |
| Repurchase of treasury stock   | (14)    | (132)    |
| Other – net                    | (4)     | (38)     |
| Total cash used in financing activities | (3,787) | (35,726) |

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS:

<table>
<thead>
<tr>
<th>6</th>
<th>57</th>
</tr>
</thead>
</table>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:

<table>
<thead>
<tr>
<th>(8,404)</th>
<th>(79,283)</th>
</tr>
</thead>
</table>

CASH AND CASH EQUIVALENTS OF NEWLY-CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR:

<table>
<thead>
<tr>
<th>67</th>
</tr>
</thead>
</table>

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR:

<table>
<thead>
<tr>
<th>35,914</th>
<th>338,811</th>
</tr>
</thead>
</table>

CASH AND CASH EQUIVALENTS, END OF YEAR:

| 27,510 | 35,914 | 259,928 |

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION OF 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 accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018. 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 ¥106 to $1, the approximate rate of exchange at March 31, 2018. 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, 2018 and 2017, include the accounts of the Company and its three domestic subsidiaries and one overseas subsidiary (collectively, the "Companies"). The control and influence concepts, 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. 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 commercially papers, 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 that are not classified as held-to-maturity securities and are reported, except for nonmarketable available-for-sale securities, at fair value, with unrealized gains and losses, net of applicable taxes, are 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. Nonmarketable 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 mainly 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 of property, plant and equipment of the Companies is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and structures, from 8 to 10 years for machinery, equipment, and vehicles, and from 4 to 6 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 is 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 disposal.

g. Retirement and Pension Plans - The Company has contributory funded defined benefit pension plans, unfunded retirement benefit plans and a defined contribution pension plan for employees. Certain subsidiaries use a simplified method of calculated pension liabilities.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are discounted to a present value using a discount rate formula. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 15 years within the average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

See notes to consolidated financial statements.
h. Allowance for Doubtful Accounts - The allowance for doubtful accounts is an amount considered to be appropriate based on the Companies’ past credit loss experience and an evaluation of potential losses in uncollectible accounts receivable and inventory.

i. Leases - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating lease transactions.

j. Allowance for Bonuses - To prepare for the payment of employee bonuses, an amount corresponding to the current portion of estimated bonus payments to employees is recorded.

k. Income Taxes - The provision for income taxes is computed based on the pretax income included in the consolidated statement 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 income tax rates to the temporary differences.

l. Foreign Currency Transactions - All short- 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 statement of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

n. Derivative Financial Instruments - The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency exchange 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 consolidated statement of income and b) for derivatives used for hedging purposes, if such 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.

o. Per Share Information - Basic net income per share (EPS) is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

p. Accounting Changes and Error Corrections - Under Accounting Standards Board of Japan (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 are required as follows: (1) Changes in Accounting Policies —When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the 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 restated 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 a prior period financial statements is discovered, those statements are restated.

q. New Accounting Pronouncements - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018. The Company expects to account for the standard in accordance with this guidance effective for annual periods beginning on or after April 1, 2021, and in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

4. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished products and merchandise</td>
<td>$14,337</td>
<td>$12,291</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>4,337</td>
<td>4,020</td>
</tr>
<tr>
<td>Total</td>
<td>$18,674</td>
<td>$16,311</td>
</tr>
</tbody>
</table>

5. RETIREMENT AND PENSION PLANS

To provide for the payment of employee retirement allowances, the Company has adopted a defined contribution pension plan. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trust. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

1. Defined Benefit Pension Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$20,662</td>
<td>$19,609</td>
</tr>
<tr>
<td>Current service</td>
<td>1,081</td>
<td>1,090</td>
</tr>
<tr>
<td>Interest cost</td>
<td>236</td>
<td>239</td>
</tr>
<tr>
<td>Actuarial (gains) losses</td>
<td>422</td>
<td>3,961</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,381)</td>
<td>(1,361)</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$20,068</td>
<td>$19,778</td>
</tr>
</tbody>
</table>

(2) The changes in plan assets for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$20,597</td>
<td>$19,609</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>823</td>
<td>791</td>
</tr>
<tr>
<td>Actuarial losses</td>
<td>(1,551)</td>
<td>(1,430)</td>
</tr>
<tr>
<td>Contributions from the employer</td>
<td>1,866</td>
<td>1,825</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,337)</td>
<td>(1,456)</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$21,997</td>
<td>$20,745</td>
</tr>
</tbody>
</table>

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded defined benefit obligation</td>
<td>$26,415</td>
<td>$24,188</td>
</tr>
<tr>
<td>Plan assets</td>
<td>(21,597)</td>
<td>(20,597)</td>
</tr>
<tr>
<td>Unfunded defined benefit obligation</td>
<td>4,818</td>
<td>46,602</td>
</tr>
<tr>
<td>Net liability arising from defined benefit obligation</td>
<td>$7,422</td>
<td>$8,064</td>
</tr>
<tr>
<td>Liability for retirement benefits</td>
<td>$7,422</td>
<td>$8,064</td>
</tr>
</tbody>
</table>

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held-to-maturity</td>
<td>$26,369</td>
<td>$24,188</td>
</tr>
<tr>
<td>Other</td>
<td>1,090</td>
<td>1,090</td>
</tr>
<tr>
<td>Total</td>
<td>$27,459</td>
<td>$25,278</td>
</tr>
</tbody>
</table>

The costs and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held-to-maturity</td>
<td>$26,369</td>
<td>$24,188</td>
</tr>
<tr>
<td>Other</td>
<td>1,090</td>
<td>1,090</td>
</tr>
<tr>
<td>Total</td>
<td>$27,459</td>
<td>$25,278</td>
</tr>
</tbody>
</table>
(4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousand U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>¥ 1,061</td>
<td>$10,198</td>
</tr>
<tr>
<td>Interest cost</td>
<td>236</td>
<td>2,226</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(823)</td>
<td>(7,764)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>470</td>
<td>4,518</td>
</tr>
<tr>
<td>Recognized actuarial losses</td>
<td>45</td>
<td>424</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>56</td>
</tr>
<tr>
<td><em>Total</em></td>
<td>¥ 1,024</td>
<td>$9,692</td>
</tr>
</tbody>
</table>

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousand U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior service cost</td>
<td>(49)</td>
<td>(517)</td>
</tr>
<tr>
<td>Actual losses (gain)</td>
<td>94</td>
<td>1,722</td>
</tr>
<tr>
<td><em>Total</em></td>
<td>¥ 45</td>
<td>$1,168</td>
</tr>
</tbody>
</table>

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousand U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior service cost</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td>Unrecognized actual losses</td>
<td>3,220</td>
<td>5,714</td>
</tr>
<tr>
<td><em>Total</em></td>
<td>¥ 3,240</td>
<td>$30,575</td>
</tr>
</tbody>
</table>

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2018 and 2017 consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousand U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic bonds</td>
<td>17.2%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Domestic stocks</td>
<td>15.8</td>
<td>16.1</td>
</tr>
<tr>
<td>Foreign bonds</td>
<td>12.4</td>
<td>12.7</td>
</tr>
<tr>
<td>Foreign stocks</td>
<td>10.2</td>
<td>11.1</td>
</tr>
<tr>
<td>General accounts</td>
<td>31.5</td>
<td>29.1</td>
</tr>
<tr>
<td>Alternative</td>
<td>9.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Others</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>_Total _</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return that are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2018 and 2017 are set forth as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>0.1% - 0.8%</td>
<td>0.1% - 0.9%</td>
</tr>
<tr>
<td>Expected rate of return on plan assets</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

2. Defined Contribution Pension Plan

Premiums for defined contribution pension plan were ¥73 million ($688 thousand) and ¥66 million for the years ended March 31, 2018 and 2017, respectively.

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 dividends upon resolution at the shareholders meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year 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 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 certain limitations and additional requirements.

(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 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 with equity 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 cannot exceed the amount available for distribution to the shareholders, which is determined by a 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 ¥13,221 million ($124,752 thousand) and ¥14,003 million for the years ended March 31, 2018 and 2017, respectively.

8. LEASES

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

Total rental expenses for the years ended March 31, 2018 and 2017, were ¥1,311 million ($12,368 thousand) and ¥1,266 million, respectively.

Future minimum payments under noncancelable operating leases are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousand U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>¥ 11</td>
<td>$ 110</td>
</tr>
<tr>
<td>Due after one year</td>
<td>¥ 298</td>
<td>2,980</td>
</tr>
<tr>
<td><em>Total</em></td>
<td>¥ 309</td>
<td>$ 3,090</td>
</tr>
</tbody>
</table>

9. LONG-LIVED ASSETS

The Companies reviewed their long-lived assets for impairment as of March 31, 2017. As a result, the Companies recognized an impairment loss of ¥766 million for long-term prepaid expenses. Due to a termination of a pharmaceutical product development program related to the prepaid expenses, the carrying amount was written down to zero. No impairment loss was recognized in 2018.

10. 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 rates of approximately 30.5% and 31.0% for the years ended March 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:
(1) Group policy for financial instruments
Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are not used 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 certificates of deposit, 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 currency exchange risk specifically associated with imported merchandise, as requested by customers or based on the judgment of the purchasing department. Such derivative transactions are entered into to hedge foreign currency exposures occurring 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 and accounting departments to identify the default risk of customers in advance. With respect to held-to-maturity financial investments, the Companies manage their exposure to credit risk by limiting their funding to high credit rating bonds in accordance with their 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 currency exchange risk and interest rate risk
Foreign currency trade payables are exposed to fluctuations in foreign currency exchange rates. Such foreign currency exchange risk is hedged principally by forward foreign currency contracts. The Companies have internal policies that restrict the use of derivatives to only

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

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. Fair value information for marketable and investment securities by classification is included in Note 5.

Notes and accounts receivables and income taxes payable

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

Derivatives

Fair value information for derivatives is omitted because fair values and unrealized gains were immaterial for the years ended March 31, 2018 and 2017.

(a) Financial instruments

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash and cash equivalents</th>
<th>Notes and accounts receivables</th>
<th>Marketable and investment securities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 35,914</td>
<td>¥ 36,914</td>
<td>¥ 20,000</td>
<td>¥ 92,828</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 35,914</td>
<td>¥ 36,914</td>
<td>¥ 20,000</td>
<td>¥ 92,828</td>
</tr>
</tbody>
</table>

Total other comprehensive income (loss)

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Unrealized gain (loss) on available-for-sale securities</th>
<th>Amount before income tax effect</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 3,215</td>
<td>¥ 2,234</td>
<td>¥ 143</td>
<td>¥ 3,358</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 2,830</td>
<td>¥ 2,432</td>
<td>¥ 144</td>
<td>¥ 2,576</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash and cash equivalents</th>
<th>Notes and accounts receivables</th>
<th>Marketable and investment securities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 27,910</td>
<td>¥ 40,390</td>
<td>¥ 37,226</td>
<td>¥ 105,526</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 28,092</td>
<td>¥ 40,390</td>
<td>¥ 39,080</td>
<td>¥ 107,562</td>
</tr>
</tbody>
</table>

Total

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash and cash equivalents</th>
<th>Notes and accounts receivables</th>
<th>Marketable and investment securities</th>
<th>Total</th>
</tr>
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<td>¥ 28,092</td>
<td>¥ 40,390</td>
<td>¥ 39,080</td>
<td>¥ 107,562</td>
</tr>
</tbody>
</table>

Deferred gain (loss) on derivatives

Under hedge accounting:
Gains (losses) arising during the year

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 1</td>
<td>¥ (5)</td>
<td>¥ 6</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 1</td>
<td>¥ (4)</td>
<td>¥ 5</td>
</tr>
</tbody>
</table>

12. OTHER COMPREHENSIVE INCOME (LOSS)

<table>
<thead>
<tr>
<th>Date</th>
<th>Unrealized gain (loss) on available-for-sale securities</th>
<th>Amount before income tax effect</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 3,215</td>
<td>¥ 2,234</td>
<td>¥ 143</td>
<td>¥ 3,358</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 2,830</td>
<td>¥ 2,432</td>
<td>¥ 144</td>
<td>¥ 2,576</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 1</td>
<td>¥ (4)</td>
<td>¥ 5</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 1</td>
<td>¥ (4)</td>
<td>¥ 5</td>
</tr>
</tbody>
</table>

Foreign currency translation adjustments

Adjustments arising during the year

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 1</td>
<td>¥ (56)</td>
<td>¥ 56</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 1</td>
<td>¥ (56)</td>
<td>¥ 56</td>
</tr>
</tbody>
</table>

Deferred retirement benefit plans:
Adjustments arising during the year

Reclassification adjustments to profit or loss

Amount before income tax effect

Income tax effect

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ (5,415)</td>
<td>¥ (5,415)</td>
<td>¥ 0</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ (4,821)</td>
<td>¥ (4,821)</td>
<td>¥ 0</td>
</tr>
</tbody>
</table>

Total other comprehensive income (loss)

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Gains (losses) arising during the year</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2018</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
<tr>
<td>March 31, 2017</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
<td>¥ 2,194</td>
</tr>
</tbody>
</table>
13. NET INCOME PER SHARE

Net EPS for the years ended March 31, 2018 and 2017 was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic EPS</th>
<th>Diluted EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>¥ 1.81</td>
<td>¥ 1.81</td>
</tr>
<tr>
<td>2017</td>
<td>¥ 1.80</td>
<td>¥ 1.80</td>
</tr>
</tbody>
</table>

14. SUBSEQUENT EVENTS

At the general shareholders’ meeting held on June 28, 2018, the Company’s shareholders approved the following: Payment of year-end cash dividend of ¥26 ($0.24) per share to holders of record at March 31, 2018, for a total of ¥1,751 million ($16,518 thousand).

15. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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 segment performance and deciding how to allocate resources to operating segments.

1. Description of Reportable Segments

The Companies’ reportable segments are those for which separate 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. As such, the Companies’ reportable segments consist of the ‘Pharmaceuticals’ industry and ‘Functional Food’ industry. The ‘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 other diseases. The ‘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, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

3. Information about Sales, Profit, Assets, and Other Items

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018 (Mil. Yen)</th>
<th>2017 (Mil. Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>¥ 87,416</td>
<td>¥ 72,395</td>
</tr>
<tr>
<td>Intergroup sales or transfers</td>
<td>¥ 14,031</td>
<td>¥ 13,789</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 101,448</td>
<td>¥ 86,184</td>
</tr>
<tr>
<td>Segment profit</td>
<td>¥ 16,351</td>
<td>¥ 15,896</td>
</tr>
<tr>
<td>Segment assets</td>
<td>¥ 23,528</td>
<td>¥ 23,528</td>
</tr>
<tr>
<td>Other</td>
<td>¥ 4,849</td>
<td>¥ 4,849</td>
</tr>
<tr>
<td>Increase in property, plant and equipment and intangible assets</td>
<td>¥ 2,370</td>
<td>¥ 2,370</td>
</tr>
<tr>
<td>Weighted-average shares</td>
<td>138,315</td>
<td>138,315</td>
</tr>
</tbody>
</table>

Note: Unallocated corporate assets included under “Reconciliations” for 2018 and 2017 are ¥58,991 million ($556,518 thousand) and ¥61,541 million, respectively, and comprised primarily of funds, such as cash equivalents, investment securities, assets for administrative functions, and deferred tax assets.

16. RELATED INFORMATION

1. Information about products and services

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018 (Mil. Yen)</th>
<th>2017 (Mil. Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>¥ 87,416</td>
<td>¥ 72,395</td>
</tr>
<tr>
<td>Intergroup sales or transfers</td>
<td>¥ 14,031</td>
<td>¥ 13,789</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 101,448</td>
<td>¥ 86,184</td>
</tr>
</tbody>
</table>

2. Information about geographical areas

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018 (Mil. Yen)</th>
<th>2017 (Mil. Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>¥ 80,456</td>
<td>¥ 74,017</td>
</tr>
<tr>
<td>Intergroup sales or transfers</td>
<td>¥ 14,017</td>
<td>¥ 13,789</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 94,473</td>
<td>¥ 87,806</td>
</tr>
</tbody>
</table>

Note: Sales are classified by country or region based on the location of customers.