

# Ten-Year Summary

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries

(FY)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018
<b>For the year</b>										Millions of Yen	Thousands of U.S. Dollars
Net sales	62,932	63,525	67,304	69,941	76,517	79,991	84,209	98,781	101,448	114,716	1,033,477
Pharmaceuticals	52,165	52,554	55,746	58,318	63,345	66,340	70,489	85,315	87,416	100,223	902,909
Functional food	10,767	10,970	11,558	11,622	13,172	13,651	13,720	13,466	14,031	14,492	130,558
Cost of sales	29,018	30,218	32,702	34,776	39,033	41,226	44,016	44,835	46,929	50,952	459,027
Gross profit	33,937	33,332	34,601	35,165	37,483	38,764	40,192	53,946	54,519	63,764	574,450
Total selling, general and administrative expenses	27,475	28,151	28,588	28,263	29,445	30,202	31,643	38,666	37,439	43,119	388,459
Selling, general and administrative expenses	19,035	19,184	19,174	19,214	19,914	21,233	21,904	23,762	24,217	26,418	238,000
R&D expenses	8,440	8,967	9,414	9,049	9,530	8,968	9,739	14,903	13,221	16,701	150,459
Operating income	6,461	5,181	6,012	6,901	8,038	8,562	8,549	15,280	17,079	20,644	185,981
Net income attributable to owners of the parent	4,096	3,958	3,715	4,647	5,750	5,882	6,340	11,749	12,953	16,302	146,864
Depreciation and amortization	3,078	3,116	2,948	2,759	2,704	2,665	2,452	2,648	2,773	3,418	30,792
Capital investment	1,859	1,185	967	1,332	1,072	1,239	3,554	3,949	2,811	1,242	11,189
Cash flows from operating activities	9,225	3,233	3,658	3,767	6,015	6,113	8,915	18,916	6,719	15,310	137,927
Cash flows from investing activities	(3,648)	(2,844)	(759)	(2,026)	(3,357)	(3,718)	(3,978)	(5,750)	(11,342)	511	4,603
Cash flows from financing activities	(1,318)	(1,393)	(1,341)	(1,413)	(1,606)	(1,773)	(1,907)	(2,193)	(3,787)	(3,708)	(33,405)
<b>End of the year</b>										Millions of Yen	Thousands of U.S. Dollars
Total assets	103,575	102,737	106,304	113,730	118,188	129,757	135,370	150,905	155,887	168,763	1,520,387
Interest-bearing debt	182	113	75	35	—	—	—	—	—	—	—
Net assets	80,370	81,692	84,566	89,529	93,186	101,207	102,762	114,316	125,689	135,190	1,217,927
<b>Financial information per share</b>										Yen	U.S. Dollars
Earnings per share	60.63	58.62	55.04	68.87	85.25	87.26	94.10	174.42	192.31	242.04	2.18
Net assets per share	1,187.42	1,207.43	1,250.11	1,323.87	1,378.93	1,498.88	1,522.33	1,693.81	1,862.54	2,003.39	18.05
Dividend per share	19	19	19	21	23	25	28	48	52	70	0.63
<b>Principal financial indicators</b>										%	%
Operating income to net sales	10.3	8.2	8.9	9.9	10.5	10.7	10.2	15.5	16.8	18.0	—
Equity ratio	77.4	79.3	79.4	78.5	78.7	77.8	75.8	75.6	80.5	80.0	—
Return on assets	6.4	5.0	5.8	6.3	6.9	7.0	6.5	10.8	11.2	12.7	—
Return on equity	5.2	4.9	4.5	5.4	6.3	6.1	6.2	10.8	10.8	12.5	—
Payout ratio	31.3	32.4	34.5	30.5	27.0	28.7	29.8	27.5	27.0	28.9	—

# Management's Discussion and Analysis

## 1. Overview of Performance

For the Nippon Shinyaku Group and other members of the pharmaceutical industry, the operating environment has become very challenging owing to drastic reforms to the NHI drug price system, government initiatives to promote greater use of generics, and various other measures aimed at reining in healthcare expenditure.

Although heightened health-consciousness has created strong demand for functional food, the business climate also remains harsh for Nippon Shinyaku's Functional Food segment, due to factors including consumer thriftiness and accompanying stagnation in household spending, as well as higher costs for transportation and labor, and a more competitive landscape.

Under these circumstances, the Nippon Shinyaku Group worked hard to realize its goal of earning society's trust and respect as an indispensable entity in the healthcare field—in short, as a company with a meaningful role to play.

Against this backdrop, net sales increased 13.1% year on year to ¥114,716 million. Factors contributing to this increase included growth in sales of new pharmaceutical products in Japan, as well as co-promotion revenues, royalty revenues from overseas sales of Uptravi (a proprietary treatment for pulmonary arterial hypertension (PAH)), and milestone payments for Uptravi. In terms of profits, R&D expenditure increased owing to upfront payments associated with in-licensing agreements and advances in clinical development, and sales promotion costs for new products also rose, but higher sales ensured that operating income increased year on year by 20.9% to ¥20,644 million. Ordinary income was ¥21,540 million (a year-on-year increase of 23.4%), and net income attributable to owners of the parent recorded a 25.9% year-on-year increase. In short, profits rose by a large margin.

## 2. Overview by Segment

### 1 Pharmaceuticals

The Pharmaceuticals business experienced growth in sales of Uptravi (proprietary PAH treatment), Zolmitriptan (a drug for urinary disorders caused by benign prostatic hypertrophy), and Cialis (a remedy for erectile dysfunction), and in Uptravi's case there was also growth in royalty income from overseas sales, as well as in income from co-promotion. The business saw further contributions from sales of Gazyva, a treatment for CD20-positive follicular lymphoma launched in August 2018 in conjunction with Chugai Pharmaceutical, and milestone payments for Uptravi, leading to net sales of ¥100,223 million (a year-on-year increase of 14.6%).

### 2 Functional Food

Net sales increased 3.3% year on year to ¥14,492 million, due to increased sales of health food ingredients, protein preparations, and preservatives.

## 3. Financial Condition

Decreases in marketable securities and inventories, and increases in cash and cash equivalents and time deposits compared to the previous fiscal year-end caused current assets to total ¥110,720 million. Fixed assets totaled ¥58,042 million due to decreases in investment securities, long-term prepaid expenses and net property, plant and equipment

compared to the previous fiscal year-end. As a result, total assets increased by ¥12,876 million compared to the previous fiscal year-end, to ¥168,763 million.

Current liabilities totaled ¥25,406 million due to an increase in income taxes payable, despite a decrease in notes and accounts payables compared to the previous fiscal year-end. Long-term liabilities totaled ¥8,165 million, due to an increase in deferred tax liabilities compared to the previous fiscal year-end. As a result, total liabilities increased by ¥3,375 million compared to the previous fiscal year-end, to ¥33,572 million.

Equity increased by ¥12,593 million compared to the previous fiscal year-end, to ¥128,827 million. Accumulated other comprehensive income decreased by ¥3,107 million to ¥6,109 million. As a result, total equity increased by ¥9,501 million to ¥135,190 million.

The equity ratio was 80.0%.

Net cash provided by operating activities amounted to ¥15,310 million. The main cash inflows were income before income taxes of ¥21,540 million, depreciation and amortization of ¥3,418 million, and a decrease in inventories of ¥972 million, while the main outflows were an increase in trade notes and trade accounts receivables of ¥6,391 million, and income taxes—paid of ¥4,355 million.

Net cash provided by investing activities amounted to ¥511 million. The main cash inflow was ¥4,420 million in proceeds from redemption of marketable securities, while the main outflow was expenditure of ¥1,351 million for the purchase of property, plant and equipment.

Net cash used in financing activities amounted to ¥3,708 million, primarily comprising cash dividends paid.

As a result, cash and cash equivalents as of March 31, 2019 increased by ¥12,122 million compared to the previous fiscal year-end, to ¥39,632 million.

## 4. Fundamental Policy Regarding Profit Sharing

Under our strategy to maximize corporate value, we strive to bolster R&D to expand our product development pipeline, while further strengthening our business foundations by striking a balance between investment in establishing a corporate structure that can withstand intensifying competition, and the return of profits.

Our policy on returning profits to shareholders is to issue dividends linked to business performance. During the 5th Five-year Medium-term Management Plan (April 2014 to March 2019), we sought to maintain a consolidated payout ratio of around 30%, and in the period covered by the 6th Five-year Medium-term Management Plan (April 2019 to March 2024), we aim to increase the consolidated payout ratio to around 35%. In some cases, we may exclude extraordinary gains and/or losses when calculating the payout ratio.

For fiscal 2018, we issued an annual cash dividend of ¥70 per share, comprising an interim dividend of ¥29 per share and year-end dividend of ¥41 per share. As a result, we had a dividend payout ratio of 28.9% in fiscal 2018.

For fiscal 2019, we are projecting an annual dividend of ¥86 per share, comprising an interim dividend of ¥43 per share and year-end dividend of ¥43 per share.

# 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 fiscal year ended March 31, 2019.

### 1 Regulatory Control Risks

The core Pharmaceuticals and Functional Food businesses of the Nippon Shinyaku Group are strictly regulated under the Pharmaceutical and Medical Device Act (officially called the Act on Securing the Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics), and the Food Sanitation Act. In the event that changes to these laws require the Group to recall or cease the sale of products, it could impact our business performance.

### 2 Intellectual Property (IP) Risks

The Nippon Shinyaku Group practices appropriate control over intellectual property rights and is vigilant against third-party infringement of such rights. An actual infringement of IP rights could trigger a decline in Nippon Shinyaku Group sales, so in some instances the company will engage in litigation to protect its rights. While the Nippon Shinyaku Group strives to ensure that its own business activities do not infringe upon the IP rights of others, there is a risk of litigation in the event of such infringements, which could require the company to pay compensation, or cease relevant business activities. In such cases, the Group's business performance could be adversely affected.

### 3 Litigation Risks

It is possible that the Nippon Shinyaku Group's business activities will give rise in future to litigation, related for example to pharmaceutical side effects, product liability, environmental and labor issues, and fair trade. Such litigation also could impact business performance.

### 4 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 out-licensing of new pharmaceuticals is not high. If R&D is abandoned because drugs are found to lack efficacy or have safety issues, we will not be able to recover the capital that we invested, and in some instances this could affect the business performance of the Nippon Shinyaku Group.

### 5 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 business performance.

### 6 Regulatory Risks, Including Moves to Limit Healthcare Expenditures

The Pharmaceuticals business is subject to a variety of laws, regulations, and ordinances. In its bid to reduce healthcare expenditures, Japan's government has introduced a number of policies including drug price cuts for prescription pharmaceuticals and measures to promote greater use of generics, and debate continues over how to further reform the healthcare system. Any additional reforms to the healthcare system—such as stricter regulations concerning the development, manufacture, and sale of pharmaceuticals—could have an impact on the Group's business performance.

### 7 Manufacturing and Procurement Risks

The Nippon Shinyaku Group is improving production efficiency by consolidating its manufacturing facilities. At the same time, if operations at manufacturing facilities cease due to natural disasters or other circumstances, this could interrupt the supply of products and impact our business performance. In addition, we procure certain products and important ingredients from specific suppliers. If supply is interrupted, it could impact our business performance.

### 8 Financial Market and Foreign Exchange Rate Fluctuation Risks

There is a risk that financial market movements—including swings in share prices, interest rates, or foreign exchange rates—could lead to declines in the market value of asset holdings and corporate pension assets, or affect transactions denominated in foreign currencies. These kind of fluctuations potentially could affect the Group's business performance.

### 9 Risks Related to IT Security and Information Management

The Nippon Shinyaku Group uses all manner of information systems, and operations could be hindered in the event of system failures or cyberattacks. The Group also holds a large amount of confidential (including personal) information, and if this information was leaked to external parties, business performance could be affected by payment of monetary damages, or erosion of public trust.

# Consolidated Financial Statements

## Consolidated Balance Sheet

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 10)	¥ 39,632	¥ 27,510	\$ 357,045
Time deposits (Note 10)	987	957	8,891
Marketable securities (Notes 3 and 10)	1,520	4,420	13,693
Notes and accounts receivables (Note 10):			
Trade notes	696	702	6,270
Trade accounts	45,859	39,462	413,144
Other	591	225	5,324
<b>Total notes and accounts receivables</b>	<b>47,147</b>	<b>40,390</b>	<b>424,747</b>
Inventories (Note 4)	19,373	20,345	174,531
Other current assets	2,060	1,551	18,558
<b>Total current assets</b>	<b>110,720</b>	<b>95,176</b>	<b>997,477</b>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>			
Land	7,463	7,463	67,234
Buildings and structures	27,428	27,178	247,099
Machinery, equipment, and vehicles	12,277	12,330	110,603
Tools, furniture, and fixtures	8,842	8,679	79,657
Construction in progress	199	67	1,792
<b>Total</b>	<b>56,211</b>	<b>55,718</b>	<b>506,405</b>
Accumulated depreciation	(35,635)	(34,616)	(321,036)
<b>Net property, plant, and equipment</b>	<b>20,575</b>	<b>21,102</b>	<b>185,360</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 10)	23,460	26,309	211,351
Long-term prepaid expenses	8,765	9,621	78,963
Deferred tax assets (Note 9)	2,330	517	20,990
Other assets	2,910	3,161	26,216
<b>Total investments and other assets</b>	<b>37,466</b>	<b>39,608</b>	<b>337,531</b>
<b>TOTAL</b>	<b>¥ 168,763</b>	<b>¥ 155,887</b>	<b>\$ 1,520,387</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payables (Note 10):			
Trade notes	¥ 1,798	¥ 2,016	\$ 16,198
Trade accounts	6,188	6,622	55,747
Other	6,924	5,727	62,378
<b>Total notes and accounts payables</b>	<b>14,910</b>	<b>14,367</b>	<b>134,324</b>
Income taxes payable (Note 10)	3,597	2,115	32,405
Accrued expenses	4,382	4,228	39,477
Deposits from customers	257	255	2,315
Other current liabilities	2,259	1,488	20,351
<b>Total current liabilities</b>	<b>25,406</b>	<b>22,454</b>	<b>228,882</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for retirement benefits (Note 5)	7,843	7,422	70,657
Deferred tax liabilities (Note 9)	2		18
Other long-term liabilities	320	321	2,882
<b>Total long-term liabilities</b>	<b>8,165</b>	<b>7,743</b>	<b>73,558</b>
<b>EQUITY (Notes 6 and 13):</b>			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	5,174	5,174	46,612
Capital surplus	4,445	4,445	40,045
Retained earnings	121,677	109,078	1,096,189
Treasury stock—at cost, 2,897,365 shares in 2019 and 2,896,632 shares in 2018	(2,469)	(2,464)	(22,243)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	9,440	11,469	85,045
Deferred loss on derivatives under hedge accounting	(5)	(5)	(45)
Foreign currency translation adjustments	0	4	0
Defined retirement benefit plans	(3,326)	(2,252)	(29,963)
<b>Total</b>	<b>134,936</b>	<b>125,451</b>	<b>1,215,639</b>
Noncontrolling interests	253	237	2,279
<b>Total equity</b>	<b>135,190</b>	<b>125,689</b>	<b>1,217,927</b>
<b>TOTAL</b>	<b>¥ 168,763</b>	<b>¥ 155,887</b>	<b>\$ 1,520,387</b>

## Consolidated Financial Statements

## Consolidated Statement of Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>NET SALES</b> (Note 14)	¥ 114,716	¥ 101,448	\$ 1,033,477
<b>COST AND EXPENSES:</b>			
Cost of sales	50,952	46,929	459,027
Selling, general, and administrative expenses (Notes 7 and 8)	43,119	37,439	388,459
<b>Total</b>	<b>94,071</b>	<b>84,368</b>	<b>847,486</b>
<b>Operating income</b> (Note 14)	<b>20,644</b>	<b>17,079</b>	<b>185,981</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	542	486	4,882
Interest expense	(3)	(3)	(27)
Other—net	357	(111)	3,216
<b>Other income—net</b>	<b>896</b>	<b>371</b>	<b>8,072</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>21,540</b>	<b>17,451</b>	<b>194,054</b>
<b>INCOME TAXES</b> (Note 9):			
Current	5,674	4,622	51,117
Deferred	(457)	(140)	(4,117)
<b>Total income taxes</b>	<b>5,217</b>	<b>4,482</b>	<b>47,000</b>
<b>NET INCOME</b>	<b>16,323</b>	<b>12,969</b>	<b>147,054</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>20</b>	<b>15</b>	<b>180</b>
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>¥ 16,302</b>	<b>¥ 12,953</b>	<b>\$ 146,864</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.o and 12):			
Basic net income	¥ 242.04	¥ 192.31	\$ 2.18
Cash dividends applicable to the year	70.00	52.00	0.63

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>NET INCOME</b>	¥ 16,323	¥ 12,969	\$ 147,054
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 11):			
Unrealized gain (loss) on available-for-sale securities	(2,028)	2,234	(18,270)
Deferred gain (loss) on derivatives under hedge accounting	(4)	(6)	(36)
Foreign currency translation adjustments	(1,074)	(34)	(9,675)
Defined retirement benefit plans	(3,107)	2,194	(27,990)
<b>Total other comprehensive income (loss)</b>	<b>(3,107)</b>	<b>2,194</b>	<b>(27,990)</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>¥ 13,215</b>	<b>¥ 15,163</b>	<b>\$ 119,054</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>			
Owners of the parent	¥ 13,195	¥ 15,147	\$ 118,873
Noncontrolling interests	20	15	180

See notes to consolidated financial statements

## Consolidated Statement of Changes in Equity

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2019

	Thousands		Millions of Yen								Total	Noncontrolling Interest	Total Equity
	Outstanding Number of Shares of Common Stock	Common Stock	Accumulated Other Comprehensive Income						Total				
			Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments		Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2017	67,357	¥ 5,174	¥ 4,445	¥ 99,897	¥ (2,450)	¥ 9,235	¥ (5)	¥ 11	¥ (2,217)	¥ 114,089	¥ 226	¥ 114,316	
Net income attributable to owners of the parent				12,953						12,953		12,953	
Cash dividends, ¥56.00 per share				(3,771)						(3,771)		(3,771)	
Purchase of treasury stock	(2)					(14)				(14)		(14)	
Net change during the year							2,234	(6)	(34)	2,194	11	2,205	
BALANCE, MARCH 31, 2018	67,354	5,174	4,445	109,078	(2,464)	11,469	(5)	4	(2,252)	125,451	237	125,689	
Net income attributable to owners of the parent				16,302						16,302		16,302	
Cash dividends, ¥55.00 per share				(3,704)						(3,704)		(3,704)	
Purchase of treasury stock						(5)				(5)		(5)	
Net change during the year							(2,028)	(4)	(1,074)	(3,107)	15	(3,091)	
BALANCE, MARCH 31, 2019	67,354	¥ 5,174	¥ 4,445	¥ 121,677	¥ (2,469)	¥ 9,440	¥ (5)	¥ (3,326)	¥ (3,326)	¥ 134,936	¥ 253	¥ 135,190	

	Thousands of U.S. Dollars (Note 1)		Millions of Yen								Total	Noncontrolling Interest	Total Equity
	Common Stock	Capital Surplus	Accumulated Other Comprehensive Income						Total				
			Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans					
BALANCE, MARCH 31, 2018	\$ 46,612	\$ 40,045	\$ 982,684	\$ (22,198)	\$ 103,324	\$ (45)	\$ 36	\$ (20,288)	\$ (20,288)	\$ 1,130,189	\$ 2,135	\$ 1,132,333	
Net income attributable to owners of the parent			146,864							146,864		146,864	
Cash dividends, \$0.49 per share			(33,369)							(33,369)		(33,369)	
Purchase of treasury stock				(45)						(45)		(45)	
Net change during the year					(18,270)		(36)	(9,675)	(27,990)	(27,990)	135	(27,846)	
BALANCE, MARCH 31, 2019	\$ 46,612	\$ 40,045	\$ 1,096,189	\$ (22,243)	\$ 85,045	\$ (45)	\$ (29,963)	\$ (29,963)	\$ (29,963)	\$ 1,215,639	\$ 2,279	\$ 1,217,927	

See notes to consolidated financial statements.



## Consolidated Financial Statements

## Consolidated Statement of Cash Flows

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 21,540	¥ 17,451	\$ 194,054
Adjustments for:			
Income taxes—paid	(4,355)	(6,220)	(39,234)
Depreciation and amortization	3,418	2,773	30,792
Changes in assets and liabilities:			
Increase in trade notes and trade accounts receivables	(6,391)	(3,286)	(57,576)
Decrease (increase) in inventories	972	(1,768)	8,756
Increase in other current assets	(508)	(416)	(4,576)
(Decrease) increase in trade notes and trade accounts payables	(653)	2,407	(5,882)
Decrease in other current liabilities	(808)	(189)	(7,279)
Decrease in liability for retirement benefits	(1,124)	(692)	(10,126)
Other—net	3,220	(3,339)	29,009
<b>Total adjustments</b>	<b>(6,230)</b>	<b>(10,732)</b>	<b>(56,126)</b>
<b>Net cash provided by operating activities</b>	<b>15,310</b>	<b>6,719</b>	<b>137,927</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant, and equipment	(1,351)	(4,017)	(12,171)
Purchases of investment securities	(102)	(1,431)	(918)
Purchases of software	(107)	(160)	(963)
Purchase of long-term prepaid expenses	(962)	(4,004)	(8,666)
Other—net	3,035	(1,728)	27,342
<b>Net cash provided by investing activities</b>	<b>511</b>	<b>(11,342)</b>	<b>4,603</b>
<b>FINANCING ACTIVITIES:</b>			
Cash dividends paid	(3,698)	(3,768)	(33,315)
Purchase of treasury stock	(5)	(14)	(45)
Other—net	(4)	(4)	(36)
<b>Net cash used in financing activities</b>	<b>(3,708)</b>	<b>(3,787)</b>	<b>(33,405)</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>9</b>	<b>6</b>	<b>81</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>12,122</b>	<b>(8,404)</b>	<b>109,207</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>27,510</b>	<b>35,914</b>	<b>247,837</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 39,632</b>	<b>¥ 27,510</b>	<b>\$ 357,045</b>

See notes to consolidated financial statements.

## 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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111 to \$1, the approximate rate of exchange at March 31, 2019. 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, 2019 and 2018, include the accounts of the Company and its three domestic subsidiaries and one overseas subsidiary (collectively, the "Companies").

Under 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 commercial paper, all of which mature or become due within three months of the date of acquisition.

**c. Marketable and Investment Securities** - Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities 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 disposition.

**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 attributed to periods on a benefit formula basis. 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.

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

**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 leases.

**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.

On February 16, 2018, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥2,777 million, which was previously classified as current assets, as of March 31, 2018, have been reclassified as investments and other assets, in the accompanying consolidated balance sheet.

- 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.

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

- p. **Accounting Changes and Error Corrections** - Under 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 reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

- q. **New Accounting Pronouncements** - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," 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 apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Equity securities			
Government and corporate bonds	¥ 1,520	¥ 4,020	\$ 13,693
Other		400	
Total	¥ 1,520	¥ 4,420	\$ 13,693
Noncurrent:			
Equity securities	¥ 22,918	¥ 25,828	\$ 206,468
Government and corporate bonds	511	451	4,603
Other	29	29	261
Total	¥ 23,460	¥ 26,309	\$ 211,351

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, were as follows:

March 31, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 9,637	¥ 13,280		¥ 22,918
Held-to-maturity	2,061			2,061

March 31, 2018	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 9,636	¥ 16,191		¥ 25,828
Other	400			400
Held-to-maturity	4,500		¥ 5	4,495

March 31, 2019	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 86,819	\$ 119,639		\$ 206,468
Held-to-maturity	18,567			18,567

### 4. INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products and merchandise	¥ 14,064	¥ 14,337	\$ 126,702
Work in process	1,362	1,671	12,270
Raw materials and supplies	3,946	4,337	35,549
Total	¥ 19,373	¥ 20,345	\$ 174,531

### 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 trustee. 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 29,020	¥ 28,662	\$ 261,441
Current service cost	1,091	1,081	9,828
Interest cost	212	236	1,909
Actuarial losses	1,054	422	9,495
Benefits paid	(1,777)	(1,381)	(16,009)
Balance at end of year	¥ 29,601	¥ 29,020	\$ 266,675

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 21,597	¥ 20,597	\$ 194,567
Expected return on plan assets	863	823	7,774
Actuarial losses	(955)	(152)	(8,603)
Contributions from the employer	2,017	1,666	18,171
Benefits paid	(1,765)	(1,337)	(15,900)
Balance at end of year	¥ 21,758	¥ 21,597	\$ 196,018

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Defined benefit obligation	¥ 27,161	¥ 26,415	\$ 244,693
Plan assets	(21,758)	(21,597)	(196,018)
	5,403	4,818	48,675
Unfunded defined benefit obligation	2,439	2,604	21,972
Net liability arising from defined benefit obligation	¥ 7,843	¥ 7,422	\$ 70,657

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 7,843	¥ 7,422	\$ 70,657
Net liability arising from defined benefit obligation	¥ 7,843	¥ 7,422	\$ 70,657

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥1,091	¥1,081	\$9,828
Interest cost	212	236	1,909
Expected return on plan assets	(863)	(823)	(7,774)
Amortization of prior service cost	443	479	3,990
Recognized actuarial losses	20	45	180
Others	41	6	369
Net periodic benefit costs	¥ 947	¥1,024	\$8,531

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥ (20)	¥(45)	\$ (180)
Actuarial losses	1,566	94	14,108
Total	¥1,545	¥ 49	\$13,918

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost		¥ 20	
Unrecognized actuarial losses	¥4,786	3,220	\$43,117
Total	¥4,786	¥3,241	\$43,117

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
	Domestic bonds	15.1%
Domestic stocks	12.8	15.8
Foreign bonds	11.2	12.4
Foreign stocks	9.2	10.2
General accounts	34.7	31.5
Alternative	13.8	9.3
Others	3.2	3.6
Total	100.0%	100.0%

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, 2019 and 2018, are set forth as follows:

	2019	2018
Discount rate	0.1-0.8%	0.1-0.6%
Expected rate of return on plan assets	4.0	4.0

2. Defined Contribution Pension Plan

Premiums for the defined contribution pension plan were ¥81 million (\$729 thousand) and ¥73 million for the years ended March 31, 2019 and 2018, 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 so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the 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 ¥16,701 million (\$150,459 thousand) and ¥13,221 million for the years ended March 31, 2019 and 2018, respectively.

## 8. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2019 and 2018, were ¥1,433 million (\$12,918 thousand) and ¥1,311 million, respectively.

Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases	
	2019	
	Millions of Yen	Thousands of U.S. Dollars
	Due within one year	¥ 29
Due after one year	166	1,495
Total	¥196	\$1,765

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2019 and 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Retirement benefits	¥2,396	¥2,267	\$21,585
Accrued expenses	1,107	1,087	9,972
Property, plant, and equipment	31	31	279
Supplies	1,861	1,427	16,765
Other	2,065	1,729	18,603
Less valuation allowance	(309)	(309)	(2,783)
Deferred tax assets	7,151	6,231	64,423
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	3,839	4,721	34,585
Deferred gains on sales of property	966	970	8,702
Other	17	21	153
Deferred tax liabilities	4,823	5,714	43,450
Net deferred tax assets	¥2,328	¥ 517	\$20,972

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2019, with the corresponding figures for 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.5	0.6
Income not taxable for income tax purposes	(0.5)	(0.5)
Tax credits for research and development costs	(6.9)	(6.1)
Inhabitant tax on per capita basis	0.3	0.4
Other—net	0.3	0.8
Actual effective tax rate	24.2%	25.7%



## 10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group policy for financial instruments

Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are 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 purchase 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 only for the purpose of reducing market risks.

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

#### Liquidity risk management

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

### (4) Fair values of financial instruments

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

#### (a) Fair value of financial instruments

March 31, 2019	Millions of Yen			Unrealized Gain/Loss
	Carrying Amount	Fair Value		
Cash and cash equivalents	¥ 39,632	¥ 39,632		
Time deposits	987	987		
Notes and accounts receivables	47,147	47,147		
Marketable and investment securities	24,651	24,651		
<b>Total</b>	<b>¥ 112,418</b>	<b>¥ 112,418</b>		
Notes and accounts payables	¥ 14,910	¥ 14,910		
Income taxes payable	3,597	3,597		
<b>Total</b>	<b>¥ 18,507</b>	<b>¥ 18,507</b>		

March 31, 2018	Millions of Yen			Unrealized Gain/Loss
	Carrying Amount	Fair Value		
Cash and cash equivalents	¥ 27,510	¥ 27,510		
Time deposits	957	957		
Notes and accounts receivables	40,390	40,390		
Marketable and investment securities	30,399	30,394	¥ 5	
<b>Total</b>	<b>¥ 99,258</b>	<b>¥ 99,252</b>	<b>¥ 5</b>	
Notes and accounts payables	¥ 14,367	¥ 14,367		
Income taxes payable	2,115	2,115		
<b>Total</b>	<b>¥ 16,482</b>	<b>¥ 16,482</b>		

March 31, 2019	Thousands of U.S. Dollars			Unrealized Gain/Loss
	Carrying Amount	Fair Value		
Cash and cash equivalents	\$ 357,045	\$ 357,045		
Time deposits	8,891	8,891		
Notes and accounts receivables	424,747	424,747		
Marketable and investment securities	222,081	222,081		
<b>Total</b>	<b>\$ 1,012,774</b>	<b>\$ 1,012,774</b>		
Notes and accounts payables	\$ 134,324	\$ 134,324		
Income taxes payable	32,405	32,405		
<b>Total</b>	<b>\$ 166,729</b>	<b>\$ 166,729</b>		

#### Cash and Cash Equivalents

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

#### Marketable and Investment Securities

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

#### Notes and Accounts Payables and Income Taxes Payable

The carrying values of notes and accounts payables 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, 2019 and 2018.

### (b) Carrying amount of financial instruments whose fair value cannot be reliably determined

March 31, 2019	Carrying Amount		
	Millions of Yen	2018	Thousands of U.S. Dollars 2019
Investments in equity instruments that do not have a quoted market price in an active market	¥ 329	¥ 329	\$ 2,963

### (5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2019	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 39,632			
Time deposits	987			
Notes and accounts receivables	47,147			
Marketable and investment securities:				
Held-to-maturity securities	1,520	¥ 240	¥ 300	
Available-for-sale securities with contractual maturities				
<b>Total</b>	<b>¥ 89,287</b>	<b>¥ 240</b>	<b>¥ 300</b>	

March 31, 2018	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 27,510			
Time deposits	957			
Notes and accounts receivables	40,390			
Marketable and investment securities:				
Held-to-maturity securities	4,040	¥ 160		¥ 300
Available-for-sale securities with contractual maturities	400			
<b>Total</b>	<b>¥ 73,298</b>	<b>¥ 160</b>		<b>¥ 300</b>

March 31, 2019	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	\$ 357,045			
Time deposits	8,891			
Notes and accounts receivables	424,747			
Marketable and investment securities:				
Held-to-maturity securities	13,693	\$ 2,162	\$ 2,702	
Available-for-sale securities with contractual maturities				
<b>Total</b>	<b>\$ 804,387</b>	<b>\$ 2,162</b>	<b>\$ 2,702</b>	

## 11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2019	2018	2019	
Unrealized gain (loss) on available-for-sale securities:				
Gains arising during the year	¥ (2,911)	¥ 3,215	\$ (26,225)	
Amount before income tax effect	(2,911)	3,215	(26,225)	
Income tax effect	882	(981)	7,945	
<b>Total</b>	<b>¥ (2,028)</b>	<b>¥ 2,234</b>	<b>\$ (18,270)</b>	
Deferred gain (loss) on derivatives under hedge accounting:				
Gains arising during the year		¥ 1	\$	
<b>Total</b>	<b>¥</b>	<b>¥</b>	<b>\$</b>	
Foreign currency translation adjustments:				
Adjustments arising during the year	¥ (4)	¥ (6)	\$ (36)	
<b>Total</b>	<b>¥ (4)</b>	<b>¥ (6)</b>	<b>\$ (36)</b>	
Defined retirement benefit plan (s):				
Adjustments arising during the year	¥ (2,009)	¥ (574)	\$ (18,099)	
Reclassification adjustments to profit or loss	464	524	4,180	
Amount before income tax effect	(1,545)	(49)	(13,918)	
Income tax effect	471	15	4,243	
<b>Total</b>	<b>¥ (1,074)</b>	<b>¥ (34)</b>	<b>\$ (9,675)</b>	
<b>Total other comprehensive income (loss)</b>	<b>¥ (3,107)</b>	<b>¥ 2,194</b>	<b>\$ (27,990)</b>	



## 12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2019-				
Basic EPS				
Net income available to common shareholders	¥16,302	67,354	¥242.04	\$2.18
For the year ended March 31, 2018-				
Basic EPS				
Net income available to common shareholders	¥12,953	67,355	¥192.31	

## 13. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 27, 2019, the Company's shareholders approved the following:

Payment of a year-end cash dividend of ¥41 (\$0.36) per share to holders of record at March 31, 2019, for a total of ¥2,761 million (\$2,873 thousand).

## 14. 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 for which such information is evaluated regularly by the chief operating decisionmaker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### 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 performed in order to decide how resources are allocated among the Companies. As such, the Companies' reportable segments consist of the "Pharmaceuticals" industry and the "Functional Food" industry. The "Pharmaceuticals" industry consists of the manufacturing and sale of drugs for urological diseases, inflammation and allergies, 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 (Loss), Assets, Liabilities, 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 (Loss), Assets, Liabilities, and Other Items

	Millions of Yen				
	2019				
	Reportable Segments			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	¥100,223	¥14,492	¥114,716		¥114,716
Total	¥100,223	¥14,492	¥114,716		¥114,716
Segment profit	¥19,679	¥965	¥20,644		¥20,644
Segment assets	93,772	10,879	104,651	¥64,111	168,763
Other:					
Depreciation	3,232	148	3,380	37	3,418
Increase in property, plant, and equipment and intangible assets	1,180	61	1,242		1,242

	Millions of Yen				
	2018				
	Reportable Segments			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	¥87,416	¥14,031	¥101,448		¥101,448
Total	¥87,416	¥14,031	¥101,448		¥101,448
Segment profit	¥16,351	¥728	¥17,079		¥17,079
Segment assets	88,285	10,914	99,200	¥58,991	158,192
Other:					
Depreciation	2,494	240	2,734	38	2,773
Increase in property, plant, and equipment and intangible assets	2,672	138	2,810		2,811

	Thousands of U.S. Dollars				
	2019				
	Reportable Segments			Reconciliations	Consolidated
Pharmaceuticals	Functional Food	Total			
Sales:					
Sales to external customers	\$902,909	\$130,558	\$1,033,477		\$1,033,477
Total	\$902,909	\$130,558	\$1,033,477		\$1,033,477
Segment profit	\$177,288	\$8,693	\$185,981		\$185,981
Segment assets	844,792	98,009	942,801	\$577,576	1,520,387
Other:					
Depreciation	29,117	1,333	30,450	333	30,792
Increase in property, plant, and equipment and intangible assets	10,630	549	11,189		11,189

Note: Unallocated corporate assets included in "Reconciliations" for 2019 and 2018 are ¥64,111 million (\$577,576 thousand) and ¥58,991 million, respectively, and consisted primarily of funds, such as cash equivalents, investment securities, assets for administrative functions, and deferred tax assets.

## Related Information

### 1. Information about Products and Services

	Millions of Yen		
	2019		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥100,223	¥14,492	¥114,716

	Millions of Yen		
	2018		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥87,416	¥14,031	¥101,448

	Thousands of U.S. Dollars		
	2019		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	\$902,909	\$130,558	\$1,033,477

### 2. Information about Geographical Areas

#### (1) Sales

	Millions of Yen				
	2019				
	Europe			Other	Total
Japan	Switzerland	Other			
	¥91,817	¥21,827	¥633	¥437	¥114,716

	Millions of Yen				
	2018				
	Europe			Other	Total
Japan	Switzerland	Other			
	¥86,455	¥14,406	¥410	¥175	¥101,448

	Thousands of U.S. Dollars				
	2019				
	Europe			Other	Total
Japan	Switzerland	Other			
	\$827,180	\$196,639	\$5,702	\$3,936	\$1,033,477

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

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

Information about geographical areas is omitted, as property, plant, and equipment located in Japan accounted for more than 90% of property, plant, and equipment presented in the consolidated balance sheets as of March 31, 2019 and 2018.

#### (3) Information about Major Customers

Name of Customers	Sales		Related Segment Name
	Millions of Yen	Thousands of U.S. Dollars	
	2019		
Actelion Pharmaceuticals Ltd.	¥21,827	\$196,639	Pharmaceuticals
Alfresa Corporation	17,511	157,756	Pharmaceuticals
Suzuken Co., Ltd.	17,309	155,936	Pharmaceuticals
MEDICEO CORPORATION	16,980	152,972	Pharmaceuticals

Name of Customers	Sales		Related Segment Name
	Millions of Yen	Thousands of U.S. Dollars	
	2018		
MEDICEO CORPORATION	¥16,461		Pharmaceuticals
Suzuken Co., Ltd.	15,896		Pharmaceuticals
Alfresa Corporation	15,763		Pharmaceuticals
Actelion Pharmaceuticals Ltd.	14,406		Pharmaceuticals



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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated balance sheet of Nippon Shinyaku Co., Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

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

*Deloitte Touche Tohmatsu LLC*

June 27, 2019

Member of  
 Deloitte Touche Tohmatsu Limited

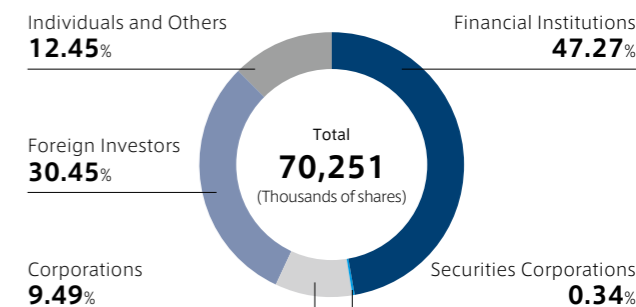
**Corporate Data**

<b>Corporate Name</b>	Nippon Shinyaku Co., Ltd.	<b>Representative Director</b>	Shigenobu Maekawa, President
<b>Founded</b>	November 20, 1911	<b>Independent and Certified Public Accountants</b>	Deloitte Touche Tohmatsu Shijokarasuma FT Square 20, Naginataboko-cho, Karasuma-higashiiru, Shijo-dori, Shimogyo-ku, Kyoto 600-8008, Japan
<b>Date of Incorporation</b>	October 1, 1919	<b>Issued and Outstanding Number of Shares</b>	70,251,484
<b>Head Office</b>	14, Nishinosho-Monguchi-cho, Kisshoin, Minami-ku, Kyoto 601-8550, Japan Phone: +81-75-321-1111 Facsimile: +81-75-321-0678 http://www.nippon-shinyaku.co.jp/english/	<b>Number of Shareholders</b>	4,673
<b>Paid-in Capital</b>	¥5.2 billion (Listed on the First Section of the Tokyo Stock Exchange)	<b>Share Registrar</b>	Mitsubishi UFJ Trust and Banking Corporation 6-3, Fushimimachi 3-chome, Chuo-ku, Osaka 541-0044, Japan

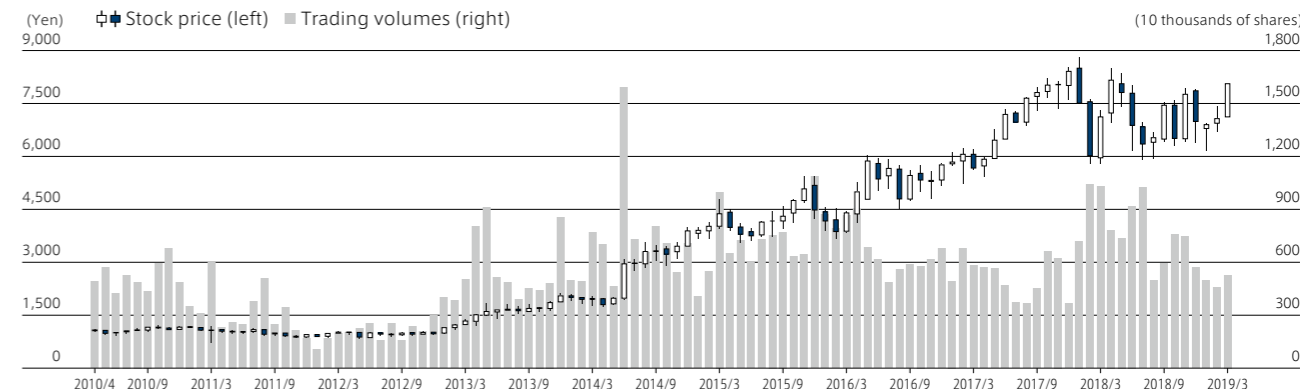
**Major Shareholders**

Meiji Yasuda Life Insurance Company
The Master Trust Bank of Japan, Ltd. (Trust account)
Japan Trustee Services Bank, Ltd. (Trust account)
MUFG Bank, Ltd.
The Bank of Kyoto, Ltd.
STATE STREET BANK AND TRUST COMPANY 505001
THE CHASE MANHATTAN BANK, N. A. LONDON SPECIAL ACCOUNT NO. 1
Nippon Life Insurance Company
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT
Japan Trustee Services Bank, Ltd. (Trust account 9)

**Distribution of Shares Issued**



**Stock Price and Trading Volumes**



**Network** As of April 1, 2019

**Main Offices**

**Tokyo Office** Business Offices Sapporo, Tohoku, Kanetsu, Tokyo, Saitama, Chiba, Yokohama, Nagoya, Osaka, Keiji/Hokuriku, Kobe, Chushikoku, Kyushu  
Business Branches Asahikawa, Kitatohoku, Fukushima, Niigata, Tochigi, Ibaraki, Koshin, Josai, Jonan, Tama, Yokohamanishi, Shizuoka, Hokuriku, Himeji, Okayama, Shikoku, Kitakyushu, Nishikyushu, Kumamoto, Minamikyushu, Okinawa, and others

Discovery Research Laboratories, Discovery Research Laboratories in Tsukuba, Food Development Laboratories, Yamashina Botanical Research Institute, Odawara Central Factory, East Logistics Center, West Logistics Center

**Domestic Subsidiaries**

Sioe Pharmaceutical Co., Ltd., Tajima Shokuhin Kogyo Co., Ltd., NS Shared Service. Co., Ltd.

**Overseas Offices and Subsidiary**

NS Pharma, Inc., Beijing Representative Office, London Office