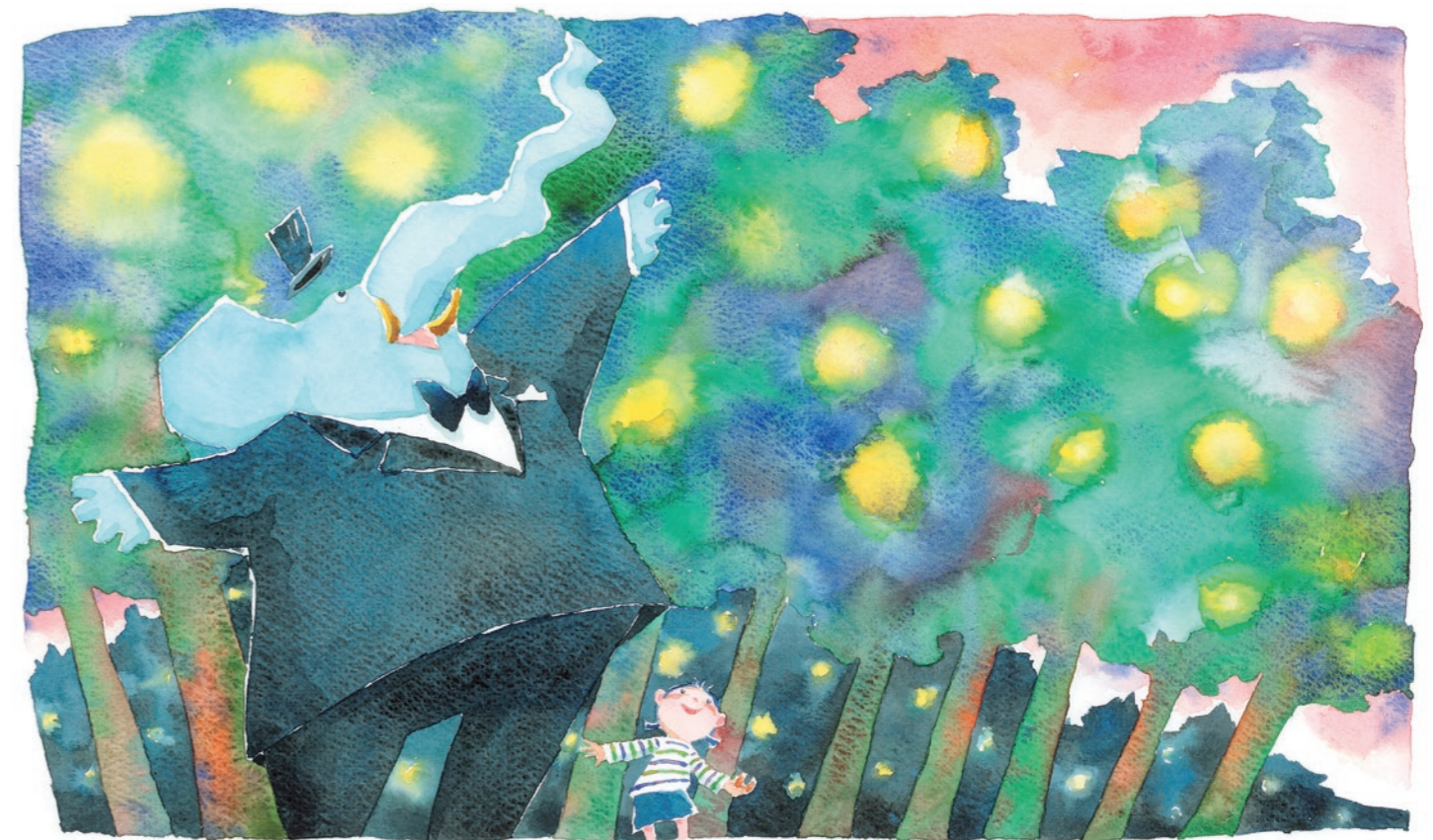


# ANNUAL REPORT 2012

Year ended March 31, 2012



## NIPPON SHINYAKU CO., LTD.

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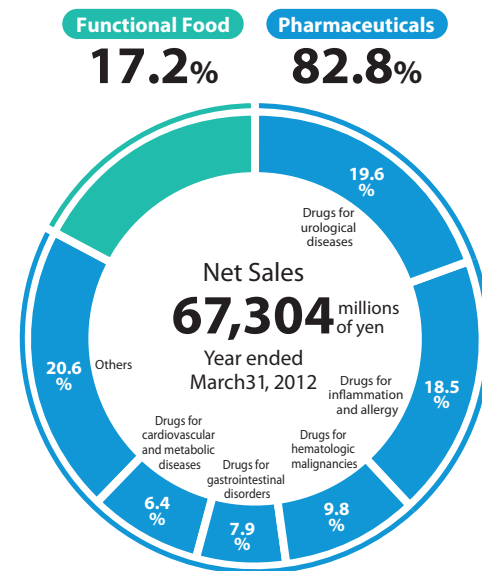
The cover illustration is from "The Mysterious Blue Elephant," a picturebook published through the Nippon Shinyaku Children's Literary Awards contest. For more information about the contest, please refer to page 27 of this report.



# Helping people lead healthier, happier lives

Nippon Shinyaku has provided products that help people lead healthier and happier lives through our pharmaceuticals business—part of our company since day one—and our functional food business, which operates under the belief that food is a form of medicine.

In the pharmaceuticals segment, we believe that our mission is to continually develop novel and unique medicines that benefit patients. In the functional food segment, we leverage our expertise in pharmaceuticals to deliver proprietary functional food ingredients that are beneficial to society and that help people live healthier lives.



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### 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.

### Pharmaceuticals

#### Drugs for urological diseases



- Eviprost®
- Bladderon®
- Estracyt®
- Cialis®

Eviprost®, a treatment for benign prostatic hypertrophy, has been prescribed for many years, primarily by urologists. We began selling erectile dysfunction (ED) treatment Cialis® in July 2009, and sales have been growing ever since.

#### Drugs for hematologic malignancies



- Vidaza®
- Cycloide®
- Trisenox®
- Amnolake®

Vidaza®, the treatment for myelodysplastic syndrome (MDS) that we launched in March 2011, is the only medicine in the world that has been shown to prolong survival in MDS patients. This has helped it penetrate the market quite quickly.

#### Drugs for inflammation and allergy



- Erizas®
- Baynas®
- Azunol®Gargle Liquid
- Livostin®
- Hypen®

When we introduced Erizas® for allergic rhinitis in December 2009, it was the first powdered steroid preparation in Japan to effectively relieve symptoms through once-a-day administration. In addition to only requiring one application per day, allergy sufferers appreciate the convenience of the product's special applicator that makes it possible to spray both nostrils at once. In June 2012, we released a new 14-day metered dose inhaler-type preparation.

#### Drugs for gastrointestinal disorders



- Gaslon N®
- Portolac®

Although the market for protective factor potentiators has contracted slightly, we are seeing further growth in sales of our mucosal protective Gaslon N®, a remedy for gastric ulcers and gastritis, thanks to new evidence of its efficacy.

#### Drugs for cardiovascular and metabolic diseases



- Adcirca®
- Selectol®

Launched in December 2009, Adcirca® is a remedy for pulmonary arterial hypertension, which is considered to be an intractable disease. Taken orally once a day, it works by inhibiting phosphodiesterase-5.

#### Others



- Lunabell®
- Tramal®
- Cephadol®
- Prulifloxacin

After Lunabell® was brought to market in July 2008 as a remedy for dysmenorrhea resulting from endometriosis, Japanese health insurance programs covered its use and it achieved solid market penetration. Sales have grown even more since we obtained approval in December 2010 to list functional dysmenorrhea as an additional indication.

### Functional Food

#### Health food ingredients



- Garcinia Powder J
- Hyaluronic acid 3000
- NSCP aqua
- Mangostin α 20
- Mallotus japonicus powder F
- Morus leaves extract powder

We leverage expertise in safety and quality control practices developed in our pharmaceuticals business to provide health food ingredients beneficial to maintaining and improving human health based on assured quality and evidence of efficacy.

#### Preservatives



- Mikaku Fine Z
- New Restol HB
- New Sutan VS
- Prokeep GS-56
- Neto Killer S25
- Epona N-100

We supply preservatives that both extend the shelf life of various foods and minimize effects on flavor. Our extensive lineup can be used for just about any application in the food industry.

#### Protein preparations and nutritional ingredients



- Dried Egg White H
- Sodium Caseinate CW
- Enlacto HG
- Fitness S
- Lactocrystal
- Milka MCI80

We provide dried egg whites, sodium caseinate and soy protein for use in general foods such as processed meats and fish pastes, and milk protein and peptides for hospital-use nutritional foods.

#### Spices and condiments



- Kenda – chili pepper extract
- New Onion Concentrate
- Kenda – spice
- Haskap Concentrate H
- Hokkaido Cantaloupe Melon Extract

We utilize our extraction and manufacturing technologies developed in our pharmaceutical business to make spices, hot chili extracts, onion concentrate, as well as juice extracts from haskap and cantaloupe melon produced in Hokkaido.

#### Others



- Suncircle H
- Nineace S

We provide products that disinfect and maintain hygienic standards of containers and equipment used in food processing plants.

### Editorial Policy

#### • Period Covered

Fiscal 2011 (April 1, 2011–March 31, 2012). Some sections of the report also discuss initiatives since April 2012.

#### • Companies Covered

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

\*Figures presented in this report are taken from Nippon Shinyaku's Financial Report for the fiscal year ended March, 31 2012. As figures have been rounded, totals may not exactly equal the sum of their composite statistics.

## Consolidated Financial Highlights

### Summary of consolidated financial index

Fiscal year	2012	2011	2010	2009	2008	2012
	millions of yen					Thousands of U.S. Dollars
Net sales	67,304	63,525	62,932	63,072	59,450	820,792
Pharmaceuticals	55,746	52,554	52,165	50,357	48,659	679,841
Drugs for urological diseases	13,189	13,741	13,541	11,708	11,696	160,836
Drugs for inflammation and allergy	12,464	13,675	12,858	14,231	14,143	151,998
Drugs for hematologic malignancies	6,600	3,092	2,825	2,749	2,710	80,483
Drugs for cardiovascular and metabolic diseases	4,330	4,601	4,575	4,675	4,931	52,806
Drugs for gastrointestinal disorders	5,324	5,111	5,051	4,773	4,815	64,928
Functional food	11,558	10,970	10,767	12,714	10,790	140,951
Cost of sales	32,702	30,218	29,018	28,888	27,365	398,817
Gross income on sales	34,601	33,307	33,914	34,184	32,084	421,975
Selling, general and administrative expenses	28,588	28,151	27,475	26,610	25,610	348,646
Operating income	6,012	5,181	6,461	7,547	6,461	73,329
Net income	3,715	3,958	4,096	4,499	4,030	45,317
Depreciation and amortization	2,948	3,116	3,078	2,875	2,847	35,951
Capital investment	967	1,185	1,859	2,331	1,650	11,804
R&D expenses	9,414	8,967	8,440	7,853	7,898	114,809

End of the fiscal year	millions of yen					Thousands of U.S. Dollars
Total assets	106,304	102,737	103,575	98,286	103,115	1,296,403
Net assets	84,566	81,692	80,370	76,344	76,951	1,031,293

Financial information per share	yen					U.S. Dollars
Book value per share	1,250.11	1,207.43	1,187.42	1,127.49	1,135.40	15.25
Earnings per share	55.04	58.62	60.63	66.56	59.57	0.67
Dividend per share	19	19	19	18	16	0.23

Principal financial index						%
Ratio of net worth	79.4	79.3	77.4	77.5	74.5	—
Return on equity	4.48	4.90	5.24	5.88	5.27	—
Pay-out ratio	34.5	32.4	31.3	27.0	26.9	—

Notes: U.S. dollar amounts are converted from yen amounts at the rate of U.S.\$1 = ¥82, the approximate exchange rate on March 31, 2012.

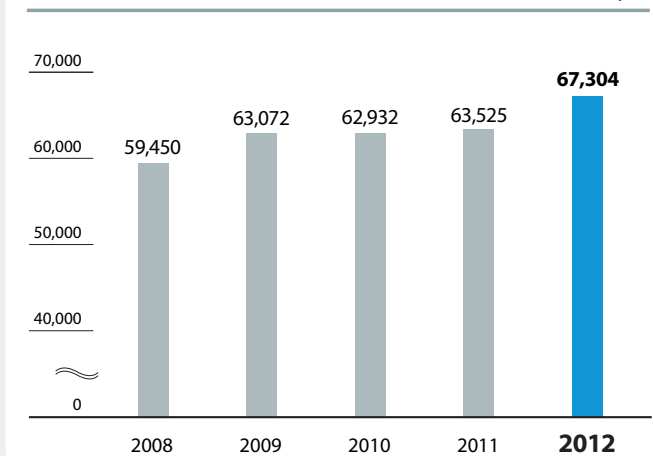
### ESG indices\*1 summary

Total energy consumption (thousands of GJ)*2	231	245	240	247	263	—
CO <sub>2</sub> emissions (t)*2	9,568	10,813	10,559	10,846	11,780	—
CO <sub>2</sub> per unit of revenue (t/million yen)*2	0.143	0.171	0.168	0.173	0.199	—
Number of employees (people)	1,823	1,815	1,749	1,734	1,721	—

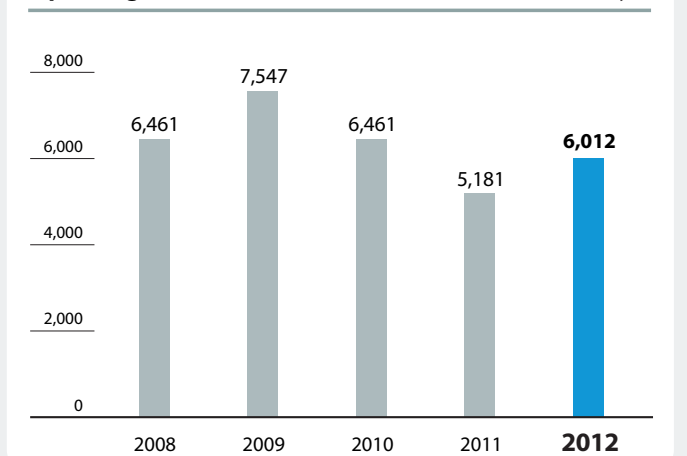
\*1 Indices related to environment, social, and corporate governance initiatives.

\*2 Applies to main business locations (excluding our sales offices).

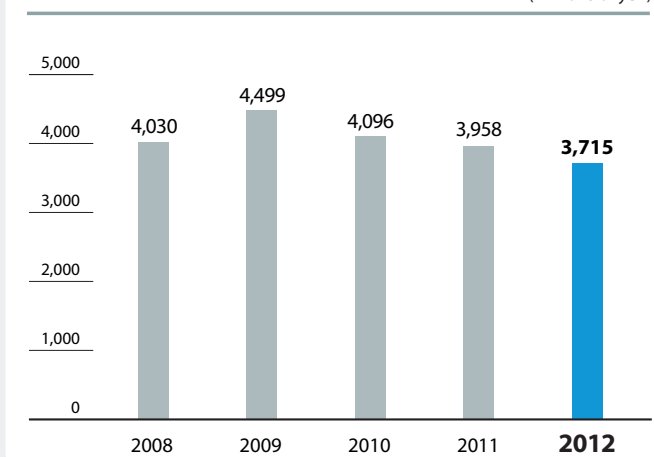
### Net sales (millions of yen)



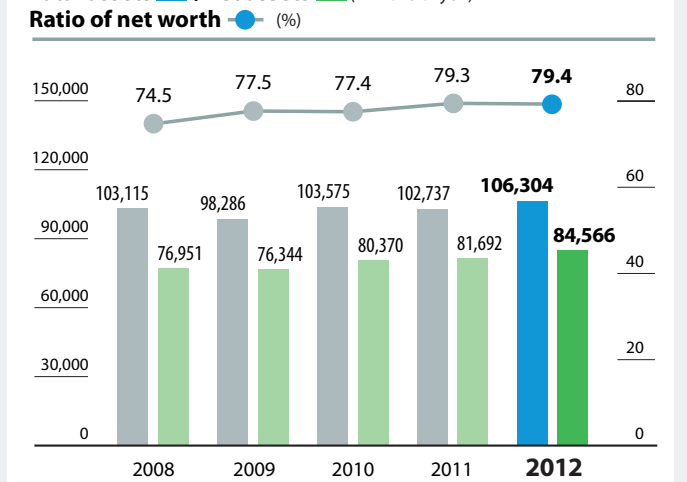
### Operating income (millions of yen)



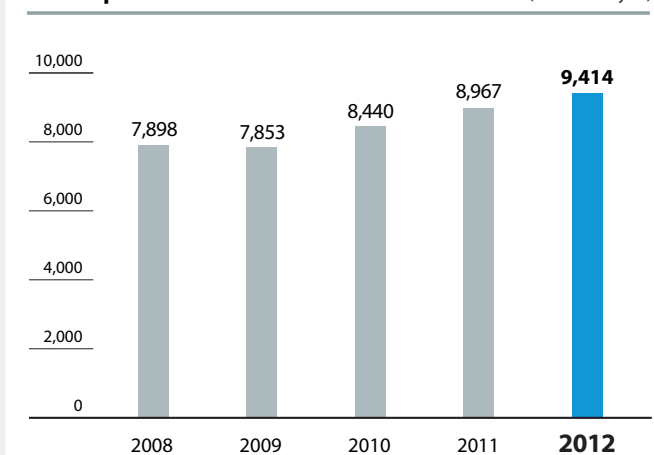
### Net income (millions of yen)



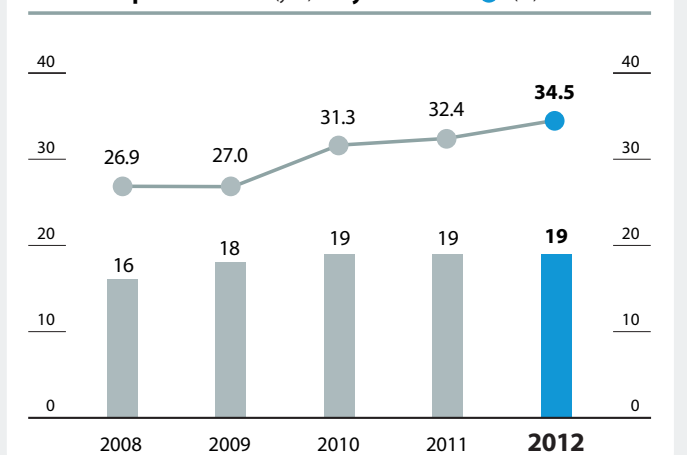
### Total assets / Net assets (millions of yen)



### R&D expenses (millions of yen)



### Dividend per share (yen) / Pay-out ratio (%)



Helping People Lead Healthier, Happier Lives



Business Philosophy

Helping People Lead Healthier, Happier Lives

Our corporate slogan is to build a healthier future, so that people can live longer and enjoy more fruitful and more energetic lives.

Shigenobu Maekawa  
President

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 for patients, first and foremost for patients who suffer from illnesses. We will develop and supply high-quality functional food that meet 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.

Code of Conduct

Challenge: Meet Challenges

We will always take a positive approach in pursuing our goals, with a firm belief and sense of responsibility rooted in an ethical approach.

Speed: Speedy Action

We will always take speedy action to make certain to seize opportunities.

Investigation: Spirit of Investigation

We will carefully investigate and analyze information that we have broadly gathered, and carefully plan to achieve our goals, and make certain to implement plan-do-check-action (PDCA) cycles.

Business Results for the Fiscal Year Ended March 31, 2012

Focus on Marketing New Products with High Added-Value amid Challenging Business Conditions

The fiscal year ended March 31, 2012 was a difficult year for the Japanese economy, which was impacted by the Great East Japan Earthquake and other factors such as the strong yen and financial crisis in Europe.

The Nippon Shinyaku Group continued to face tough business conditions in the pharmaceuticals and functional food segments, due to the continuing emphasis on measures to limit medical costs in the pharmaceuticals sector, and the continued strong trend toward low-cost foods in the food sector.

Under the circumstances, the Nippon Shinyaku Group recorded net sales of ¥67,304 million (up 5.9% year-on-year), operating profits of ¥6,012 million (up 16.1% year-on-year), and ordinary income of ¥6,193 million (up 13.1% year-on-year). Net income was ¥3,715 million (down 6.1% year-on-year), due to factors such as an increase in income tax adjustments necessitated by changes to the effective tax rate.

In the pharmaceuticals segment, lower than normal pollen counts affected sales of Livostin® allergy remedy and Baynas® remedy for allergic rhinitis, while competition from other pharmaceuticals and generic drugs led to lower sales of Hypen® non-steroidal analgesic and anti-inflammatory agent. Sales from six products that we released to the market starting in 2008 contributed significantly to an overall increase in net sales. We recorded significant increases in sales of products designed to address unmet medical needs, including Lunabell® dysmenorrhea remedy, Adcirca® treatment agent for pulmonary arterial hypertension, and Vidaza® remedy for myelodysplastic syndrome released in March 2011. As a result, net sales amounted to ¥55,746 million (up 6.1% year-on-year).

In the functional food segment, both the processed food and health food sectors continued to be marked by challenging business conditions. However, we significantly increased our sales of health food ingredients together with nutritional ingredients and preservatives, and recorded strong sales of protein preparations. As a result, net sales in the functional food segment were ¥11,558 million (up 5.4% year-on-year).

Financial Position

Assets, Debts, and Net Assets

For the fiscal year ended March 31, 2012, total assets increased by ¥3,567 million year-on-year to ¥106,304 million. Total debts increased by ¥693 million year-on-year to ¥21,738 million. Net assets increased by ¥2,873 million year-on-year to ¥84,566 million.

Cash Flows

For the fiscal year ended March 31, 2012, cash and cash equivalents increased by ¥1,523 million year-on-year to ¥19,665 million. Net cash from operating activities amounted to ¥3,658 million, while net cash used in investing activities amounted to ¥759 million. Net cash expended for financing activities amounted to ¥1,341 million.

Medium- and Long-Term Business Strategy

The business segments we operate in have been marked by increasingly tougher business conditions due to factors such as the continuing emphasis on measures to limit medical costs, and sluggish consumption owing to uncertainty over the global financial situation. Under the circumstances, we must accelerate our efforts to implement innovations in order to realize our corporate vision and achieve growth as a corporation. To guide our efforts, we formulated our 4th Medium-term Management Plan for achieving innovation and growth, covering the five-year period starting from the fiscal year ended March 31, 2010.

In the pharmaceuticals business, we have been focusing on developing and supplying unique and high-quality pharmaceuticals that are safe and highly effective relative to other drugs, and that in some way contribute to a better quality of life for patients, first and foremost for patients who suffer from illnesses and targeting the fields of urology and hematology that we specialize in. By focusing on the three pillars of drug discovery research, in-licensing, and product life cycle management, we are striving to expand the pipeline of product development to consistently bring new pharmaceuticals to market.

Aiming to Be a Company with a Meaningful Existence

At Nippon Shinyaku, we aim to be a company with a meaningful existence in healthcare, through business activities that are rooted in our business philosophy and guided by our management policy and codes of conduct. We pursue this vision by endeavoring to reinvent ourselves centering on five target areas, and secure growth through the process of reinvention.



In terms of sales, we are seeking to achieve balanced growth between our new and existing products. For marketing and informational activities, we are employing efficient and scientific approaches to managing our products and improving productivity among our medical representatives.

In the area of production, we seek to earn the trust of society by ensuring that we consistently supply high-quality active pharmaceutical ingredients and pharmaceuticals. In addition, we are pursuing low-cost management in an effort to enhance our cost competitiveness and improve profitability.

In the functional food business, we supply high-quality products that leverage our advanced technology as a pharmaceuticals company. We are developing products that meet customer needs, and identifying priority products and marketing strategies to expand sales, for the efficient and systematic pursuit of the functional food business. Furthermore, we are striving to position the business to achieve growth and generate consistent profits by expanding the scope of the business.

Nippon Shinyaku embraces a code of conduct: Meet Challenges, Speedy Action, and Spirit of Investigation. By making rapid and correct business decisions based on careful investigation and analysis, we will actively allocate our business resources to priority areas, while expanding our human resource development so that all employees can positively approach their work with pride and motivation. At the same time, we are renewing our personnel policies in an effort to boost employee motivation and facilitate their growth.

Corporate Social Responsibility Initiatives

Executing Our Management Policy to Achieve Sustainable Growth Together with Society

The Nippon Shinyaku Group is committed to achieving our business philosophy of "Helping people lead healthier, happier lives." We will achieve sustainable growth together with society and meet our corporate social responsibility (CSR) through our management policy to supply unique and high-quality products, and earn the trust of society while developing each employee.

In our CSR initiatives, we endeavor to strike a balance between social contributions through our business activities, and social contributions outside of business. Our initiatives separate from business activities include sponsorship of the Nippon Shinyaku Children's Literary Awards contest and the Shining Future for Children Fund, which organizes a fundraising drive to provide vaccines for needy children in developing countries. We send employees to teach workshops for elementary school students in the community, and arrange for our corporate baseball team to conduct baseball clinics for youth. We are also involved in initiatives to preserve and maintain Kyoto culture, and operate the Yamashina Botanical Research Institute, which is open to the public.

Projected Business Results for the Fiscal Year Ending March 31, 2013

Increased Sales and Profits

In the pharmaceuticals segment, we forecast increased sales in the next fiscal year, despite the effects of the April 2012 revisions to pharmaceutical prices under the National Insurance System, and the government's policy to promote generic drug prescriptions. The drivers of increased sales are the further growth of Vidaza® remedy for myelodysplastic syndrome and Lunabell® dysmenorrhea remedy, which both contributed greatly during the current fiscal year, as well as Erizas® (14-day) treatment for allergic rhinitis launched in June 2012.

In the functional food segment, we forecast increased sales from our strengthened initiatives toward priority products and our market enlargement strategies.

With the above in mind, we expect net sales of ¥69,100 million, operating profits of ¥6,400 million, ordinary income of ¥6,600 million, and net income of ¥4,200 million.

Dividends

Returning Profits to Shareholders

Under our strategy to maximize corporate value, we strive to strengthen our business foundations by bolstering R&D to expand the pipeline for product development, and retain sufficient earnings to enable us to maintain a corporate position to withstand increasingly competitive conditions. Our policy on returning profits to shareholders is to issue dividends linked to earnings and maintain a consolidated payout ratio of around 30%.

For the fiscal year ended March 31, 2012, we issued an annual cash dividend of ¥19 per share, comprising an interim dividend of ¥9 per share and year-end dividend of ¥10 per share.

For the fiscal year ending March 31, 2013, we are projecting an annual cash dividend of ¥21 per share, comprising an interim dividend of ¥10 per share and year-end dividend of ¥11 per share.

Moving forward, we will continue our efforts to meet the expectations of stakeholders, and we welcome the continued feedback and support of our stakeholders.

President *S. Maehawa*

Responding to Unmet Medical Needs

# Vidaza® — Japan's First Treatment for Myelodysplastic Syndrome

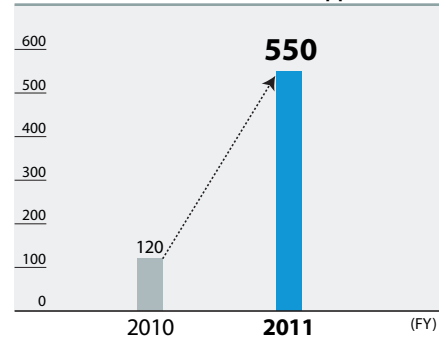
Myelodysplastic syndrome (MDS) is a group of intractable hematological disorders that often progress to leukemia. Vidaza® is an epoch-making novel drug developed in the United States that has been proven to be very effective in the treatment of MDS.

We launched Vidaza® in March 2011, and since then, we have engaged in information provision activities aimed at its further penetration in the market.

## Launch of Vidaza® Sales

In March 2011, Nippon Shinyaku began selling Vidaza®, a remedy for MDS. This drug has been demonstrated to be highly effective in the treatment of MDS and its release was much anticipated in Japan. As of March 31, 2012, we have supplied Vidaza® to some 550 medical institutions throughout the country, including university hospitals and training facilities affiliated with the Japanese Society of Hematology. Net sales of the drug have also grown to about ¥4,600 million.

### Number of Medical Institutions Supplied



## Toward a Treatment for MDS

### What is MDS?

MDS is a group of disorders in which abnormalities in the hematopoietic stem cells found in bone marrow affect one, two or all three types of blood cells—red blood cells, white blood cells and platelets—resulting in a decrease in the number of blood cells. In MDS, the marrow may also produce immature blood cells, or blasts, and a rise in these cells could lead to acute myeloid leukemia (AML), making MDS a disease with a very poor prognosis. MDS appears mostly in the elderly and it has been designated as an intractable disease in Japan.

One of the treatment options for MDS is a hematopoietic stem cell transplant. However,

since MDS is a disease that most often affects the physically weak elderly and is accompanied by complications, in actuality there are only a limited number of cases where a transplant is feasible, due to loss of physical strength and the side effects. As a result, the development of a new treatment was eagerly anticipated.

### Arrival of the Long-Awaited Novel MDS Drug Vidaza®

Vidaza® represents a new type of MDS drug developed in the United States. In addition to killing cancerous cells, the drug is also effective at inhibiting DNA methylation, which epigenetically adjusts the on-off switch of genes.

In an international phase III clinical trial (AZA-001) targeting high-risk MDS patients, treatment with Vidaza® significantly extended patient life compared to the group receiving conventional chemotherapy and it also doubled the two-year survival rate\*1 from 26% to 51%. Vidaza® has also been confirmed to delay the onset of leukemia.

The primary side effect of the drug was bone-marrow suppression\*2, but the severity and occurrence rate were comparable to the control group, while non-hematological toxicity\*3 was in general mild in nature.

\*1: Two-year survival rate after the start of treatment

\*2: Reduction in the number of blood cells produced in the bone marrow

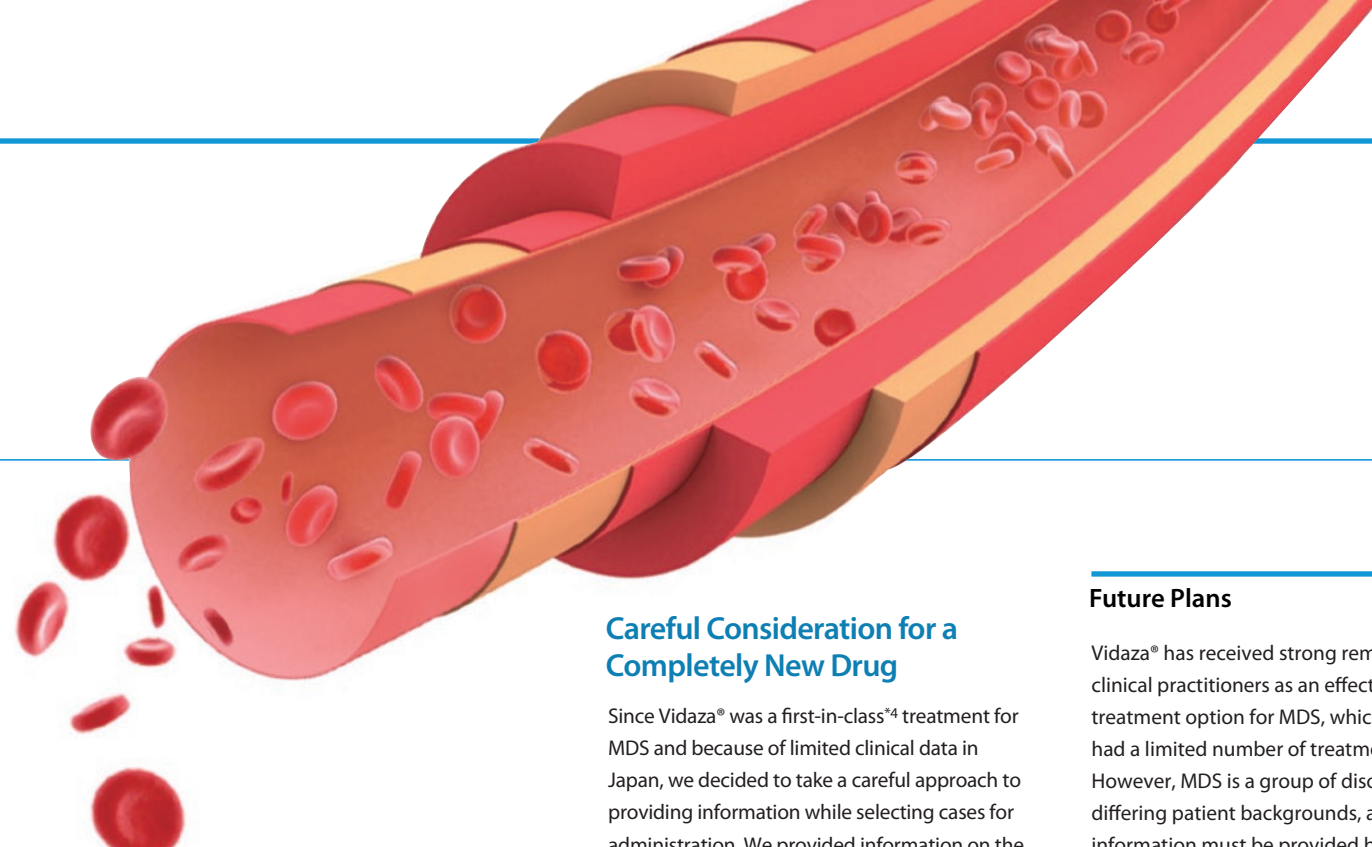
\*3: A side-effect of anti-cancer drugs in which organs other than the blood system can be damaged

## Launching Sales of the Novel Drug in Japan As Quickly As Possible

### Marketing Approval Obtained in January 2011

Thanks to its comparatively mild side effects and strong efficacy, Vidaza® carried with it strong expectations for improving patient quality of life.

Then, we concluded a licensing agreement with Pharmion Corporation, current Celgene Corporation of the US (New Jersey) in 2006 in order to bring Vidaza® to the Japan market as quickly as possible. After conducting clinical trials in Japan, we applied for marketing approval from the Ministry of Health, Labour and Welfare in 2009. After the review process was completed, marketing approval was granted for Vidaza® in January 2011. Immediately following approval, we began providing information on the drug to hematologists and the pharmaceutical departments of hospitals. We also made preparations so that the drug could be promptly available for patient treatments soon after the NHI price listing took effect.



## Careful Consideration for a Completely New Drug

Since Vidaza® was a first-in-class\*4 treatment for MDS and because of limited clinical data in Japan, we decided to take a careful approach to providing information while selecting cases for administration. We provided information on the drug's efficacy and safety to training facilities affiliated with the Japanese Society of Hematology with a strong clinical track record in blood cancers, based on the insight gained from the international phase III clinical trial conducted in 15 countries and 79 facilities in Europe and North America (AZA-001) as well as the clinical trial conducted in Japan.

Additionally, we organized a series of lectures across Japan led by physicians that participated in the clinical trial and MDS opinion leaders as part of our effort to convey information on the proper usage of the drug.

\*4: An original, highly useful, novel pharmaceutical that significantly changes existing treatment regimens

## Future Plans

Vidaza® has received strong remarks from clinical practitioners as an effective additional treatment option for MDS, which until now only had a limited number of treatment methods. However, MDS is a group of disorders with differing patient backgrounds, and so detailed information must be provided based on the status of each case. In addition, we are examining ways to quickly channel new information gathered about Vidaza® to medical professionals by establishing evidence for new administration methods in combination with a stem cell transplant or other drugs. Beginning in FY 2012, we also plan to enhance the information on the drug that we are currently providing over the Internet.

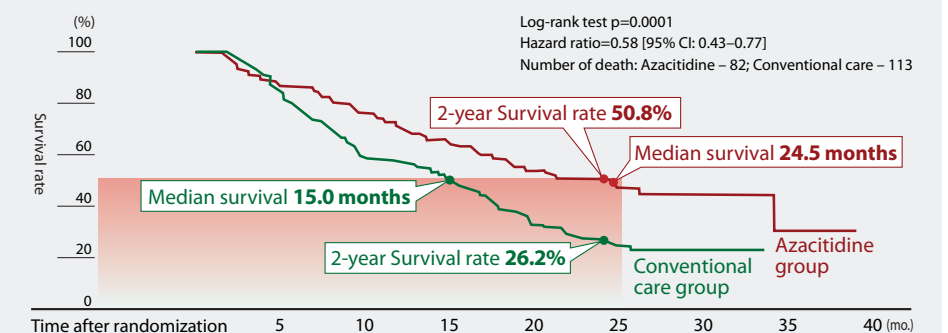
## The First and Only Drug to Extend the Survival Time of High-Risk MDS Patients

MDS is categorized into high-risk, poor prognosis types and low-risk, comparatively good prognosis types. The results of the international phase III clinical trial for Vidaza® (AZA-001) proved that the drug extends the survival time of high-risk MDS patients. Today, Vidaza® is the only drug in the world to have been shown to improve the prognosis of high-risk MDS patients.

In addition, Vidaza® has been indicated for and is expected to be effective in treating all types of MDS. With its aging population, the number of MDS patients in Japan is expected to increase going forward, and as such, Vidaza® is expected to play a key role in treating the disease.

\* Azacitidine (in the chart to right) is the generic name for Vidaza®.

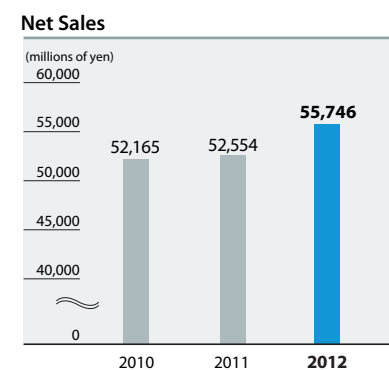
### Kaplan-Meier Curve of Survival Time (efficacy analysis set)



### Number of patients at risk

	0	5	10	15	20	25	30	35	40
Azacitidine group	179	152	190	85	52	90	10	1	0
Conventional care group	179	132	95	89	32	14	5	0	0

# Pharmaceuticals



Nippon Shinyaku's core business is pharmaceuticals. This business mainly targets Japan's prescription drug market through development and sales of therapeutic agents for intractable diseases that have yet to find an effective cure as well as for diseases where patients strongly require improved quality of life during treatment.

## Market Conditions

### Market conditions remain challenging

In fiscal 2011, Japan's prescription drug market was valued at some ¥9 trillion on a NHI price basis. Due in part to the lack of NHI price revisions, the market grew by 5.5% year on year in fiscal 2011.

However, legislative changes such as ongoing and enhanced policies to minimize medical expenses were seen as the country's social security costs continue to rise. Examples include strategies to promote use of generic drugs and additional NHI price cuts for long-term listed drugs. As such, Japan's domestic market remains challenging.

Meanwhile, in response to aging society and changes in disease composition, key growth drivers are gradually shifting from existing products for lifestyle diseases to specialty drugs aimed at addressing unmet medical needs. Amidst this change, new drugs such as anti-cancer agents, diabetic medicine with a new mechanism of action, and combination preparations of antihypertensive compounds are being released one after another, thereby invigorating the prescription drug market. In addition, demand for disease areas such as cancer and rheumatism has risen for the market as a whole.



## Sales Conditions

### Sales of new drug products have grown, resulting in increased revenues

In response to the current market situation, Nippon Shinyaku is further accelerating its R&D in order to release a steady stream of new drug products with greater added value in a speedy manner. We are also committed to enhancing the value of our existing drug products by considering new possibilities from a product lifecycle perspective, based on an evaluation of their status in meeting current market needs, and if needed, we modify the drug's formulation.

Our pharmaceuticals business saw a decline in sales for certain long-term listed drugs and allergy-related drugs from the influence of this season's pollen amounts. However, our new lineup of drug products that have been brought to market in a steady stream, in particular our core products, have seen a significant increase in sales.

Current fiscal year sales of Vidaza®, a treatment for myelodysplastic syndrome (MDS) that was released in March 2011, grew significantly, as did Lunabell®, combination tablets for dysmenorrhea, Adcirca®, a drug for pulmonary arterial hypertension, and Gaslon N®, a remedy for gastric ulcers and gastritis. As a result, pharmaceutical business net sales rose 6.1% year on year to ¥55,746 million.

## Prospects for FY2012

### Sales of new drug products expected to grow and result in increased revenues

Although the environment surrounding the pharmaceutical industry is becoming more challenging, we are implementing strategies with a focus on our new drug product lineup based on strategic R&D management defined in our 4th Medium-term Management Plan.

In fiscal 2012, we will further promote market penetration of therapeutic agent Vidaza®, a treatment for MDS, which contributed significantly to sales growth in fiscal 2011. In addition, in June 2012, we released an upgraded version of our existing drug Erizas®, a treatment of allergic rhinitis. Until now, powder capsules had to be refilled after each use, but the new version now comes loaded with powder for 14 days of use and a counter for the number of remaining uses. We expect to increase our revenues from new drug products by about 40% thanks to greater penetration in the market.

The growth in sales of our new drug products will absorb the affects of declining standard NHI prices and is expected to increase net sales of our pharmaceuticals business by 2.8% year on year to ¥57,300 million.

Moreover, we aim to apply for an additional indication of Tramal® for chronic pain as a non-narcotic analgesic as well as conduct a phase III trial of long-acting oral analgesic NS-24 in hopes of marketing drug products from our pipeline in a prompt and steady manner (please see page 14).

Moving forward, we will continue to bring new drug products with specialized functions to market in order to boost our competitiveness and earnings power, and maximize corporate value.



# Pharmaceuticals

## Research & Development

### Nippon Shinyaku's R&D Vision

Nippon Shinyaku has determined five fields of medicine on which to focus its primary R&D efforts: urology, hematology, obstetrics and gynecology, otorhinolaryngology, and orthopedics. With an emphasis on these specialty fields, we aim to provide products to address patient needs through in-house drug discovery and manufacturing, licensing from other companies, and product life cycle management (PLCM). In particular, we are driven by a sense of responsibility to meet the challenges of developing treatments for rare diseases and intractable diseases currently without a cure.

### Drug Discovery Research

With a focus on our core medical specialty of urological and hematological diseases, and through elucidating the causes of new ailments, the development of our unique and proprietary drugs is conducted with an emphasis on speed.

### Licensing-in Activity

We work actively to license in both marketed products and development candidates within our core medical specialty, in order to enhance our product pipeline.

### Product Life Cycle Management (PLCM)

From the perspective of the life cycle, we examine possibilities for adding new indications or new formulations for our products on the market and under development, in order to maximize product value.

### Development of New Technology

Nippon Shinyaku is actively engaged in advanced research centered on genomic drug discovery\*1 and nucleic acid drugs\*2 at Discovery Research Laboratories in Tsukuba, Ibaraki Prefecture. In particular, we are focused on the development of pharmaceuticals based on a new therapeutic principle which emphasizes the relationship between gene functions and mutations with disease.

\*1: To analyze the connection between a disease and genes as a way of defining the target for drug discovery

\*2: Pharmaceuticals that control the function of a specific gene. A portion of the structure includes the structural component of genes, nucleic acid.

### Development of the R&D Pipeline

In March 2012, we filed an application for the marketing approval of NS-11 (Acamprosate calcium), a drug for supporting maintenance of abstinence from alcohol in patients with alcohol dependence. Alcohol dependence syndrome is one of the psychochemical dependence syndromes, recovery from which requires abstaining from alcohol for the remainder of one's life. NS-11 is a remedy that acts on the central nervous system in suppressing the desire for alcohol in patients. Its significant efficacy in the improvement of success rate of abstinence in comparison to the placebo\*3 group was verified in a clinical trial conducted in Japan. Promptly making this treatment available to medical institutions will contribute greatly to the treatment of alcohol dependence syndrome in Japan.

In addition, we are also preparing an application for an additional indication of chronic pain for NS-315 (Tramal), a non-narcotic analgesic. Moreover, the development of clinical trial phase is also being steadily implemented. (Please see the table on the right for additional details.)

Going forward, we will continue to develop a structure for the continuous launch of promising treatments.

\*3: Substance of no therapeutic function used in comparative experiments in order to differentiate between recovery due to a patient's auto-suggestion and due to therapeutic use.

## Recently we have launched two products while development is steadily underway on promising new drugs

We strive for the development of high quality products through appropriate allocation of management resources for drug discovery research, licensing-in activities, and PLCM, with a clear definition of R&D targets. As a result of our efforts, in fiscal 2010, we launched Tramal® for the treatment of cancer pain and Vidaza®, a remedy for myelodysplastic syndrome (MDS).

We are currently developing promising new drugs including NS-11, a drug for supporting maintenance of abstinence from alcohol in patients with alcohol dependence, which has been submitted for a New Drug Application. In the future, we will engage actively in the development of therapeutics for diseases that have yet to see an established cure. In order to provide therapeutic products for patients as quickly as possible, we aim to achieve early approval by accelerating our clinical development process and improving success rates of clinical trials.



**Akira Matsuura**

Director, General Manager, Research & Development Division

### Pipeline : Domestic

Code No. (Generic name)	Development phase	Therapeutic field	Indications	Origin	Development	Phase I	Phase II	Phase III	Application	Launch
<b>NS-11</b> (Acamprosate calcium)	Application	Other	Support maintenance of abstinence from alcohol in patients with alcohol dependence	Licensed-in from: Merck Serono International S.A. (Switzerland)	Nippon Shinyaku	[Progress bar]				
Reduces the hyperactivity of glutamatergic nerve system induced by alcohol dependence, which is considered to lead to reduce desire of drinking in patients with alcohol dependence. Launched in about 30 countries in Europe and North America.										
<b>NS-315</b> (Tramadol hydrochloride)	Application (Preparation)	Other	Chronic pain	Licensed-in from: Grünenthal GmbH (Germany)	Nippon Shinyaku	[Progress bar]				
Additional indications of Tramal®. In addition to cancer pain, an application is being prepared for chronic pains such as osteoarthritis, lower back pain, and postherpetic neuralgia.										
<b>LY450190</b> (Tadalafil)	PIII	Urology	Urinary disorder caused by BPH	Licensed-in from: Eli Lilly Japan K.K.	Eli Lilly Japan K.K.	[Progress bar]				
As a therapeutic agent for benign prostatic hypertrophy (BPH), it possesses a new mechanism of action to inhibit phosphodiesterase-5. Currently in phase III trial being conducted by Eli Lilly Japan K.K.										
<b>NS-24</b> (Tramadol hydrochloride)	PIII	Other	Cancer pain Non-cancer related chronic pain	Licensed-in from: Paladin Labs Inc. (Canada)	Nippon Shinyaku	[Progress bar]				
Long-acting form of Tramadol hydrochloride, which has the same degree of efficacy and safety as Tramal® with one dose a day. Available in 19 countries around the world.										
<b>ACT-064992</b> (Macitentan)	PIII (Preparation)	Cardiovascular and metabolic system	Pulmonary arterial hypertension	Licensed-in from: Actelion Pharmaceuticals Ltd. (Switzerland)	Co-development: Actelion Pharmaceuticals Japan Ltd.	[Progress bar]				
A highly active, tissue-specific dual endothelin receptor antagonist that shows effect with one dose a day. Actelion conducted an international phase III trial, except in Japan, and obtained positive results.										
<b>NS-304</b> (Selexipag)	PII	Cardiovascular and metabolic system	Pulmonary arterial hypertension/Chronic thromboembolic pulmonary hypertension	Nippon Shinyaku	Co-development: Actelion Pharmaceuticals Japan Ltd.	[Progress bar]				
Orally-available, long-acting PGI2 receptor agonist, currently in phase II trial conducted together with Actelion Pharmaceuticals Japan Ltd.										
<b>NS-141</b>	PII	Inflammation/allergy	Pruritus associated with cutaneous disease	Nippon Shinyaku	Nippon Shinyaku	[Progress bar]				
An external preparation with a new mechanism of action that has no antihistaminic activity. Has an effect on intractable pruritus that does not respond to existing treatments.										

### Pipeline : Overseas

Code No. (Generic name)	Development phase	Therapeutic field	Indications	Origin	Development	Phase I	Phase II	Phase III	Application	Launch
<b>NM441</b> (Prulifloxacin)	Launch preparation PIII (Preparation)	Infectious diseases	Synthetic antibacterial	Nippon Shinyaku	Licensed-out to: Yuhan Corporation	[Progress bar]				
Licensed-out to: Lee's Pharmaceutical Holdings Ltd										
<b>NS-304</b> (Selexipag)	PIII	Cardiovascular and metabolic system	Pulmonary arterial hypertension	Nippon Shinyaku	Licensed-out to: Actelion Pharmaceuticals Ltd.	[Progress bar]				
Actelion is conducting a phase III trial worldwide, except in Japan.										
<b>NS-187</b> (Bafetinib)	PII	Hematologic malignancies	B-cell chronic lymphoid leukemia Chronic myeloid leukemia (PII preparation)	Nippon Shinyaku	Licensed-out to: CytRx Corporation (USA)	[Progress bar]				
Potent inhibitor of Bcr-Abl and Lyn tyrosine kinases. Possibly effective in imatinib-resistant and/or recurrent leukemia.										
<b>NS-018</b>	PI/II	Hematologic malignancies	Myelofibrosis	Nippon Shinyaku	Nippon Shinyaku	[Progress bar]				
JAK2 tyrosine kinase inhibitor. Due to its high selectivity to activated JAK2, it can be a treatment for myelofibrosis with increased efficacy and reduced side effects.										

# Pharmaceuticals

## Sales

### Core Measures

#### Marketing Division employing a three-pronged approach

As part of our marketing strategy, the emphasis of marketing activities has been placed on our new lineup of drug products. The Marketing Division combines its marketing, academic, and logistics capabilities to formulate and implement our marketing action plan. This refers to the streamlined integration of each strategy by providing each department with a specific direction to follow, which together leads to one solid action.

#### For new drug products, we are implementing our action plan based on this strategy

A product manager has been assigned to each of our four new products: Lunabell®, Vidaza®, Adcirca® and Tramal® capsules for the treatment of cancer pain, to enhance promotional campaigns targeting key opinion leaders (KOL)\*1 throughout Japan, and to formulate strategies for the future of the drug, based on which specific action plans are implemented.

Myelodysplastic syndrome (MDS) treatment Vidaza® continues to be in strong demand from patients and medical institutions. Since its launch, it has contributed to the treatment of a great many MDS

patients. Nippon Shinyaku is working to further increase the efficacy and safety of Vidaza® by providing appropriate usage information to specialists and pharmacists, particularly so that Vidaza® can be of help to patients with a high risk of developing leukemia. Sales promotions are conducted by our team of MRs that cover medical institutions involved in the diagnosis and treatment of hematological malignancies throughout Japan, where they provide information on proper product use. Their activities are supported through collaboration with academic staff in charge of hematological malignancy related drug products and approximately 50 regional academic staff located at each of our branch offices in Japan. Also, we provide information to hematologists and pharmacists through hematological malignancy KOLs at academic seminars, etc. In MR activities, we will continue to strive for timely dissemination of information that matches the needs of medical experts as well as improve the quality and quantity of information provided.

#### Clear awareness of and strict emphasis on compliance

We are strongly aware of compliance with regulations and are committed to its thorough implementation. To abide by the Transparency Guideline addressing the relationship between company activities and medical institutions\*2

established by the Japan Pharmaceutical Manufacturers Association, and to meet the need for voluntary improvements in our internal regulations\*3 on business entertaining activities as stipulated by the Fair Trade Council of the Ethical Pharmaceutical Drugs Marketing Industry, we conduct compliance training within each division every month on an ongoing basis.

\*1 Physicians with the power to influence other physicians in their treatment decisions and the prescription trend within their medical specialty.

\*2 Voluntary standards necessary to define the amount and purpose of pharmaceutical companies providing remuneration to medical institutions.

\*3 Revisions on the maximum amount spent for business entertaining activities. The new rule starts in April 2012.

## TOPICS

### Provided information on proper drug use in a more timely manner

In order to provide users with better and timelier information, we began disseminating information via the Internet in fiscal 2011. In fiscal 2011, we were able to provide practical instructions on medicines such as Tramal®, capsules for the treatment of cancer pain, by the prescribing physician. Additionally, we enhanced our training system by making information from physicians and product managers available to MRs over the Internet. In fiscal 2012, we will continue to use the Internet to provide comprehensive instructions on the proper use of our new drug products, including Vidaza® and Adcirca®.

## Production

### Core Measures

#### Revising inventory criteria and raw materials procurement, and working toward stable supply

In order to provide high quality active pharmaceutical ingredients and finished products at a steady pace, it is crucial for raw materials to be procured with consistency. Since our establishment, we have adopted a policy to hedge risk by sourcing raw materials from two separate suppliers for pharmaceutical products used to treat rare diseases as well as anti-cancer agents that have no substitution and possess a great influence on society.

In the current fiscal year, we upgraded certain outdated production equipment. In addition, based on the 4th Medium-term Management Plan, we formulated a BCP\*4 for the Odawara Central Factory located in Western Kanagawa Prefecture.

The Odawara Central Factory is situated within the zone expected to see heavy damage in the event an earthquake with a maximum seismic intensity of upper 6 strikes the Tokai region. As such, countermeasures have been planned based on different considerations, including equipment safety, IT, distribution, and

storage of products and raw materials, in order to minimize damage and resume factory operations within two months of the anticipated disaster.

In addition to the above measures, following the Great East Japan Earthquake, efforts have also been made to improve the earthquake resistance of buildings and equipment as well as increase product inventory.

#### Focused on reducing costs

We are implementing cost reduction efforts within each division in order to enhance our profit margin.

In fiscal 2011, our Procurement Division reduced procurement costs by closely evaluating new suppliers and obtaining competitive bids, while the Manufacturing Division introduced measures, including staggered work schedules, that have greatly reduced overtime hours, thereby reducing personnel costs. Our Logistics Division also cut costs by re-evaluating its shipping providers.

Meanwhile, we aim to develop our Consignment Manufacturing Business by utilizing one of Japan's largest microparticle coating machines used to manufacture orally-disintegrating tablets which we installed at the Odawara Central Factory this fiscal year.

#### Advancing quality assurance and safety management

As a pharmaceutical products business, it is essential for us to ensure the quality and safety of our products. To that end, our Assurance Division is mainly in charge of quality assurance and safety management.

The division performs audits of trials for obtaining new drug marketing approval and application documents at an appropriate stage to ensure the reliability of research data. In addition, it also implements scheduled and spontaneous audits at sites that manufacture active pharmaceutical ingredients and formulations to verify their compliance status with GQP\*5 and GMP\*6.

As for managing the safety of our pharmaceutical products, in addition to adhering to GVP\*7, we also collect, analyze, and evaluate data on side effects via medical institutions, medical professionals, and related companies within Japan and abroad, as well as from patients, their family, articles, and conference reports.

If an issue arises, we determine a response and report to the regulating authorities as well as provide feedback to medical professionals and patients.

\*5 Quality management standards for pharmaceutical products  
\*6 Production management and quality management standards for pharmaceutical products  
\*7 Safety management standards for pharmaceutical products after marketing approval

\*4 Business Continuity Plan

### Further expanding our information dissemination activities aimed at the sales growth of our new drug product lineup

We are committed to maximizing our new drug product lineup which we have been developing continuously since fiscal 2008.

For example, Vidaza®, a much-anticipated treatment for MDS brought to market in Japan in March 2011, was made available at an early date through an accelerated delivery plan. This medication yields greater results as the treatment cycle repeats. To increase its market penetration, we will be hosting seminars and using the Internet to further enhance our information dissemination efforts, in addition to providing information on treatment cycles, as it is important to provide appropriate information based on actual clinical results from KOL. Moreover, we will strengthen our information collection system for appropriate product use and in turn relay this back to patients and medical professionals in hopes of becoming a company they can trust.

Also, following Adcirca®, a new drug for pulmonary arterial hypertension released in December 2009, we have been developing a number of drugs with different mechanisms of action to be launched in the same field. Through their market penetration we aim to become a leader in the field.

Going forward, we will continue to utilize our combined capabilities in marketing, academics, and logistics to promote sales activities that address the diversifying needs for academic information and wholesale distribution set to rise with the increase in new drug products.

**Tetsuyasu Yuno**

Director, General Manager, Sales and Marketing Division

### Stabilizing existing businesses while actively expanding new ones

Our most important mission is to provide a steady stream of high quality pharmaceutical drug products. For this reason, we are devoted to strengthening our supply chain, procuring raw materials used in our main products from two different suppliers, ensuring the steady operation of production equipment, and implementing high standards of GMP. Furthermore, in the 4th Medium-term Management Plan (2009-2013), we have formulated policies to prevent business continuity risks due to the failed procurement of raw materials and suspension of operations at our factories. In fiscal 2009, we established a BCP for the Odawara Central Factory and systematically implemented risk aversion strategies for the entire supply chain. Moreover, the Great East Japan Earthquake that struck in March 2011 served as an opportunity for us to revise this BCP and enhance building and facility earthquake resistance in fiscal 2011. This also gave us an opportunity to identify drug products that impact society and increase their stockpiles.

While we are implementing strategies to ensure stable business operations, we have also taken a proactive stance toward expanding our Consignment Manufacturing Business with the hope of effectively utilizing current facilities at the Odawara Central Factory with the aim of generating greater profits. Through opening up the avenue of consignment manufacturing, which will make effective use of existing facilities including microparticle coating machines purchased in fiscal 2011, we hope to further expand our business operations going forward.

**Tsugio Tanaka**

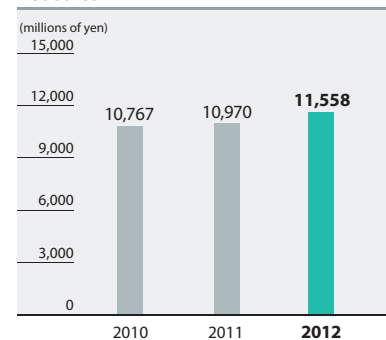
Director, General Manager, Resource Procurement, Production & Assurance Division



# Functional Food



Net Sales



Nippon Shinyaku has been in the business of functional food since 1961 with the belief that “medicine and food have the same origin.” Focused primarily on the Japanese market, we provide a range of products including functional ingredients to maintain and improve health in the health foods market, spices, preservatives, and protein preparations to the processed foods market, and nutritional ingredients for food products for the elderly.

## Market Conditions

### Consumers are saving more and seeking safety and security of food

Continuing deflation, recent consumer tendencies to save, and increasing pressure to lower prices have put the processed foods market in dire straits.

Especially in Japan, where simply making new products no longer guarantees sales, processed food manufacturers are fighting for their very survival.

Consumer frugality is now slowing even the once solid growth in the health foods industry.

Processed food manufacturers now face unprecedented consumer demand for information—including information about ingredient sources for better traceability and pesticide management information—to improve safety and security of food.

## Sales Conditions

### Dramatically improved sales of health food ingredients boosted revenue

While difficult times persist for Functional Food Company, we are exploring new business opportunities by strengthening flagship products as we develop new ones. In FY 2011, these efforts dramatically improved sales of health food ingredients like collagen and hyaluronic acid, nutritional ingredients like caseinates, and preservatives like the new “Mikaku Fine Z.” The efforts also boosted sales of protein preparations like dried albumen and soy proteins. This saw consolidated sales rise 5.4% year-on-year to ¥11.558 billion.

## Main Strategy

### Develop safe, high-quality functional food and ingredients

Functional Food Company’s products include seasonings and spices, preservatives, protein preparations, health food ingredients, nutritional ingredients, sterilizers, cleansers, and wheat products. These are used as auxiliary ingredients in processed foods and health foods, and are used in keeping factories sanitary.

Created using a variety of techniques developed over many years through the pharmaceuticals business, these products undergo strict quality control and are well received and trusted by the processed foods and health foods industries.

In recent years, as the population ages and thinks more about its health, we are working to enhance our functional food and ingredients for the nutraceutical and nutrition industries.

“As foods that directly impact health, Nippon Shinyaku’s functional food ingredients must always be safe, quality products.” This has been our motto since we began our functional food business as a pharmaceuticals manufacturer. To accomplish this, we apply advanced techniques, strict quality control,

GLP\*1 in R&D, and GMP in production, which have been developed in pharmaceutical manufacturing.

To address ever-growing consumer demand for food safety, Functional Food Company makes safety and trust a top priority and develops a range of new functional food ingredients as it works to improve the health of its customers through food.

\*1 Standard for conduct of nonclinical safety studies of drugs

## Prospects for FY 2012

### In addition to putting more new products on the market, we will be starting new business ventures

Sales for next year are projected to be ¥11.8 billion, a 2.1% increase year-on-year.

While hard times are expected to continue next year in the food industry, we will be expanding our functional food business by putting new products, such as highly water-soluble health product ingredients and shelf life extenders that minimally affect taste, on the market to address user demand and the needs of the times.

We will also be rolling out business in new overseas markets.



## We meet the needs of the times with precision, providing highly-original functional food and ingredients that benefit society

As a company dealing in functional food and ingredients under our philosophy “helping people lead healthier, happier lives,” we make the most of our advanced manufacturing techniques and quality control expertise honed through many years of pharmaceutical business to improve our customers’ health by providing highly-original functional food and ingredients that benefit society.

As a functional food manufacturer within Nippon Shinyaku, we make safety and trust a top priority as we conduct R&D into natural food ingredients and create a variety of functional food and ingredients. What people want from foods is constantly changing. Functional Food Company meets the needs of the times with precision, providing highly-original functional food and ingredients that benefit society.



**Hiroshi Adachi**  
Director, COO, Functional Food Company

## CSR Management

### Promoting CSR

#### Our Approach to Corporate Social Responsibility

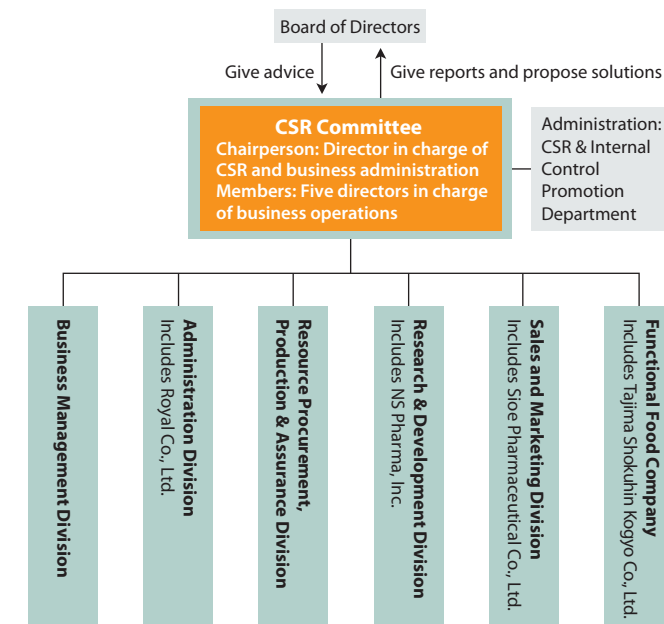
The Nippon Shinyaku Group places great importance on meeting the expectations of diverse stakeholders who are connected with our business activities, in order to meet our corporate social responsibility (CSR).

To realize this approach, we have established codes of conduct each governing our relation to the environment and society, encompassing all stakeholders including patients, business partners, users, shareholders, investors, and our employees.

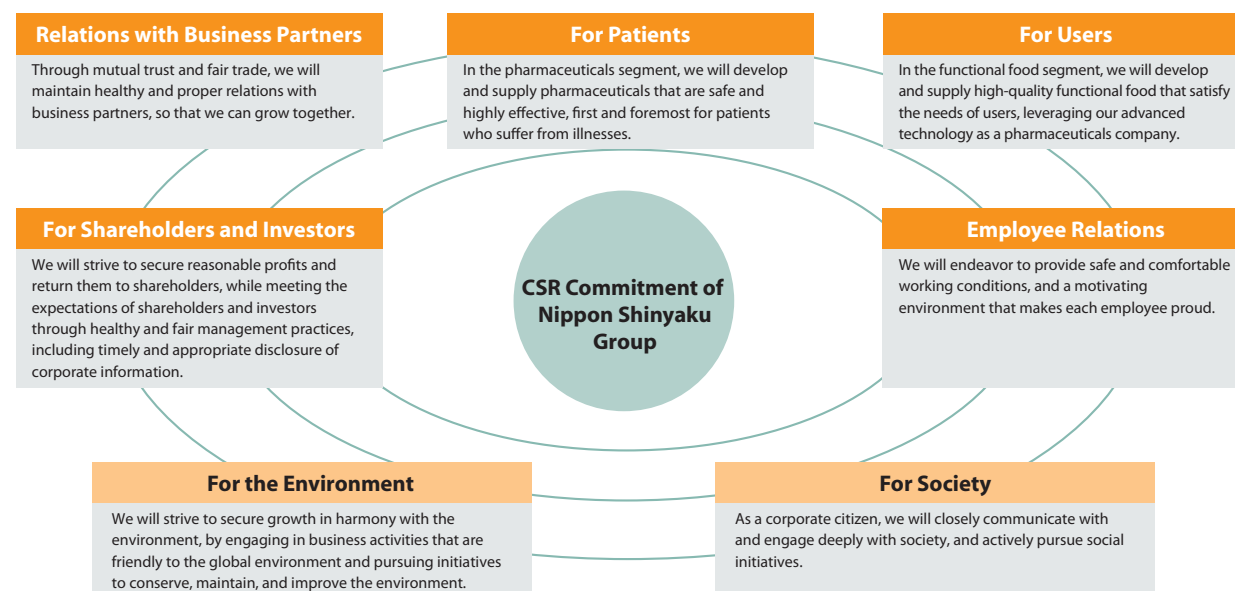
#### Framework for CSR

The Nippon Shinyaku Group operates a CSR Committee that lays out the direction of CSR initiatives and works to confirm that corporate activities meet social standards and expectations, in seeking to expand the Group-wide implementation of CSR initiatives under the basic CSR policy. The committee engages in inter-departmental discussions regarding the direction of CSR initiatives and important related matters raised by business divisions, and reports to the Board of Directors and proposes solutions as the need arises.

Framework for Corporate Social Responsibility (as of April 1, 2012)



#### Our Approach to CSR



### Human Rights and Ethics

#### Ethical Consideration for R&D

Ethical considerations are important to pharmaceuticals R&D, along with the pursuit of new knowledge and life science discovery. At Nippon Shinyaku, we operate a framework to ensure that human rights and animal welfare are rightfully considered in R&D.

Since human materials such as cells, tissue, and blood are used to conduct basic research and predict the safety and effectiveness of medicines on humans, we take into account ethical considerations for the people who supply such materials for research. We implement internal rules that adhere to ethical guidelines issued by the Japanese government for both clinical research and human genome/DNA analysis research, and operate an ethical committee for basic research relating to humans. The committee, which includes members from outside the Company, carefully reviews basic research activities from a fair and neutral perspective and publicly discloses information related to these reviews.

Clinical trials to verify the effectiveness and safety of medicines on humans are carried out with a strong emphasis on the human rights of patients who participate in these trials, and protecting their personal information as well as securing their safety and welfare. We adhere to legislation such as the Pharmaceutical Affairs Law and standards such as good clinical practice (GCP), and operate an internal review committee for clinical trials. The committee comprises members from diverse backgrounds, and serves to review the ethical and scientific validity of clinical trials to secure their quality.

Research using animals is essential to verifying the safety and effectiveness of medicines, and we follow internal rules that are compliant with regulations and guidelines. We operate a committee for animal testing to verify that all animal testing is carried out under 3R<sup>1</sup> principles for replacement, reduction, and refinement, as prescribed by our internal rules. We regularly inspect the framework for conducting animal testing in order to verify compliance with regulations and guidelines, and in fiscal 2012 we will undergo a third-party certification evaluation.

<sup>\*1</sup> 3R principles refer to replacement for considering alternatives to animal testing, reduction to minimize the use of animals, and refinement to reduce stress or discomfort for animals.

### Quality Assurance and Stable Production

#### Production and Quality Management

Through a collaborative effort between production and R&D, we strive for high quality and stable production starting from small-scale manufacturing at the research stage, while leveraging our many years of manufacturing expertise and advanced technologies for commercial production.

The Odawara Central Factory, which is our main production facility, implements the three principles of good manufacturing practice (GMP) in a constant effort to optimize facilities and structures as well as systems and people, while securing high quality. Our GMP implementation is regularly audited by the head office and companies that we supply as well as export distributors, to achieve continuous improvement.

#### 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 sourcing ingredients from more than one supplier to ensure stable procurement.

#### Framework for Supplying Products



#### Procurement Management

Ingredients used in the pharmaceuticals are either made at our facilities, or procured from suppliers in and outside of Japan. We thoroughly audit every ingredient supplier and regularly conduct on-site verification. We provide feedback to suppliers in the event of an irregularity, and work together to enhance quality and secure the stable supply of ingredients.

We actively encourage our suppliers to develop effective frameworks for risk management.

CSR Management

Appropriate Conduct of Sales Activities

Adherence to JPMA Promotion Code and Fair Competition Code

Medical representatives visit with medical professionals to ensure the proper use of pharmaceuticals by gathering and providing information regarding the quality, effectiveness, and safety of pharmaceuticals. Medical representatives work in tandem with medical professionals for the provision of drug therapy, and must adhere to high ethical standards. Nippon Shinyaku implements its own guidelines for sales activities, that are based on the Japan Pharmaceutical Manufacturers Association (JPMA), Promotion Code and Fair Competition Code of the Ethical Pharmaceutical Drugs Marketing Industry. The internal guidelines outline our standards for conduct in activities that involve the promotion of pharmaceuticals.

In fiscal 2011, we revised our guidelines in response to changes in the Fair Competition Code covering the provision of food and beverages, and which take effect starting from 2012. We also conducted education to inform employees of the changes. We will continue adhering to these guidelines in fiscal 2012 to ensure that our sales activities are properly executed.



Promotion Code awareness poster

Transparency Guideline

In January 2011, the JPMA which represents R&D-oriented pharmaceutical companies, established transparency guideline for the relation between corporate activities and medical institutions.

In accordance with the approach of this guideline, Nippon Shinyaku initiated an internal project to implement transparency guideline in 2011, to draw up and implement transparency guideline and establish an internal system for information disclosure. Under this guideline, information disclosure is aimed at securing the transparency of our relations with medical institutions in contributing to the advancement of life sciences, and informing stakeholders that we adhere to high ethical standards in pursuing our corporate activities.

Fostering Human Resources and a Welcoming Labor Environment

Our Approach to Human Resources and Labor Management

We have made it our highest priority to develop each employee, since they are the driving force behind our corporate activities. We are focused on expanding our human resources development to facilitate the growth of all employees, and are revising our personnel systems in order to invigorate the organization and strengthen our business foundations, so that we may be an organization that makes our employees proud. Furthermore, in order to effect sustainable growth, we are pursuing workplace diversity in the face of a working population that is shrinking due to aging demographics and fewer children. We are also working to create conditions that help foster a workplace climate where every single employee—each with diverse values—can flourish and be independent.

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.

The Odawara Central Factory has operated an occupational health and safety management system (OHSMS) since fiscal 2005. The system adheres to government OHSMS guidelines and occupational health and safety system (OHSAS) 18001 and 18002 standards, and directs the plant to implement risk assessments. The head office's area implemented risk assessments on a trial basis in fiscal 2010, and began conducting full-fledged risk assessments in fiscal 2011. These assessments are used to identify potential risks and harmful effects in the workplace beforehand, in order to implement suitable safety measures.

Occupational Accident Record

Fiscal Year	2007	2008	2009	2010	2011
Head office's area <sup>*1</sup>	8	6	10	6	11
Sales offices	4	0	7	13	9
Chitose area (plant)	1	0	0	0	0
Odawara Central Factory	5	1	0	1	1
Discovery Research Laboratories in Tsukuba	0	0	0	1	0
No. of accidents <sup>*2</sup>	18 (3)	7 (0)	17 (1)	21 (2)	21 (1)
Occupational accident incident rate <sup>*3</sup>	0.99	0	0.34	0.67	0.32

<sup>\*1</sup> Includes members of the corporate baseball team  
<sup>\*2</sup> Number of accidents necessitating time off from work are shown in brackets  
<sup>\*3</sup> Rate of accidents per million hours worked by full-time workers; occupational accident incident rate = (no. of occupational accidents÷total hours of labor) x 1 million hours

Contributions to Society

Our Approach to Social Contribution

Nippon Shinyaku believes that it is necessary to strike a balance in our CSR initiatives between contributing to society through our business activities and contributing to society through non-business activities.

In terms of contributions through our business activities, we provide extremely safe and effective pharmaceutical products to patients in need, while also developing superior-quality functional food that meet the needs of consumers. In terms of our contributions through non-business activities, the Nippon Shinyaku Children's Literary Awards and our youth baseball clinics are initiatives directed toward supporting the healthy growth of children and young adults. Similarly, other projects include efforts to preserve and protect the rich culture of Kyoto and our biodiversity preservation activities. Nippon Shinyaku fervently pursues initiatives mindful of nature and the environment, along with projects to deepen communication and exchange with society.

Environmental Conservation

Basic Environmental Policy

Nippon Shinyaku Basic Environmental Policy

**As a corporate citizen and to help people lead healthier and happier lives, Nippon Shinyaku will work to enrich society by establishing a policy for sustainable conservation of the environment, and settings goals for the entire company to pursue.**

1. We will establish and operate an internal organization responsible for environmental issues, for the collective pursuit of environmental conservation initiatives. We will also expand our self-management for the sustainable pursuit of environmental conservation initiatives.
2. We will comply with environmental regulations and prepare internal rules and manuals to enhance our environmental conservation initiatives.
3. We will predict and assess environmental impacts starting from the planning and development phases, to reduce environmental impacts at all phases in the product life cycle.
4. We will enhance our efforts in the areas of resource and energy conservation, waste reduction, recycling, chemical substances management, and green procurement.
5. We will train and educate all employees to recognize the importance of environmental conservation and act in a responsible manner.
6. We will actively communicate with local communities and share information, in an effort to enhance the quality of our environmental conservation initiatives.

Established: January 26, 1998 Revised: June 27, 2002

Acquisition of ISO 14001 Certification

Nippon Shinyaku has acquired ISO 14001 certification at all production facilities with a significant environmental impact, covering the Chitose Synthesis Plant, Chitose Functional Food Plant, and Odawara Central Factory. We contract an outside audit organization to conduct third-party audits of our environmental management systems, and implement internal audits of our business locations.

A renewal audit and regular audit by an outside audit organization in fiscal 2011 found a few minor nonconformities and observations, but none were considered a major environmental risk. We addressed the nonconformities by formulating and rapidly implementing an action plan to make the needed improvements.

Moving forward, we will continue to improve our environmental management systems in order to reduce the environmental impact of our business activities.

Audit Results

Business Location		Chitose Synthesis Plant, Chitose Functional Food Plant	Odawara Central Factory
Time of ISO 14001 acquisition		December 2002	August 2004
Last third-party audit		October 2011 (renewal audit)	February 2012 (regular audit)
Nonconformities	No. of minor nonconformities	0	1
	No. of observations	1	2

Environmental Audits

The department that oversees environmental management for the head office area conducts regular environmental audits for business locations (including consolidated subsidiaries) that engage in manufacturing and R&D activities but are not presently certified for environmental management systems.

In fiscal 2011, we conducted environmental audits for Discovery Research Laboratories in Tsukuba and Tajima Shokuhin Kogyo Co., Ltd., in order to assess the environmental management and verify compliance with environmental regulations. No issues with regulatory compliance were found.

CSR Management

Information Disclosure and Dialogue with Stakeholders

Our Approach to Information Disclosure

Nippon Shinyaku is committed to timely and appropriate disclosure of corporate information as an essential factor for the health of equity markets. In accordance with the regulations of the Financial Instruments and Exchange Act and rules of stock exchanges that list our shares, we practice timely and fair information disclosure for all stakeholders and the media.

We operate an information disclosure committee that discusses critical corporate information and meets every month to decide on methods for disclosure and other matters. Important information that must be disclosed under timely disclosure rules for the Tokyo Stock Exchange (TSE) is released using the Timely Disclosure network (TDnet) operated by the TSE. We rapidly disclose other essential information by other means such as distribution of press releases, which we then publish on our corporate website.

Dialogue with Stakeholders

Nippon Shinyaku promotes CSR and we consider it important to listen to and engage in dialogue with our stakeholders—including patients, business partners, users, shareholders, investors, and employees. Requests and feedback that we receive from stakeholders through dialogue help to shape our corporate activities, in aiming to fulfill our responsibilities to stakeholders and earn their confidence.

We believe that meeting the expectations of stakeholders will enable us to grow as a corporation and in turn contribute to the sustainable growth of society.

Aiming to be a company that meets society's expectations and secures the confidence and recognition of society

With the growing importance of CSR to corporate activities, corporations are today expected to fulfill many social responsibilities. The Nippon Shinyaku Group has made a basic commitment to CSR that guides us to enhance our compliance and risk management in all aspects of our business, in the honest pursuit of corporate activities that reflect high ethical standards. In addition to our business activities in the segment of healthcare, which by themselves contribute to society, we actively pursue many social initiatives on our own.

Moving forward, the Nippon Shinyaku Group will endeavor to sustainably develop our pharmaceuticals and functional food businesses in a way that is friendly to the global environment. We are committed to meeting our social responsibilities as a corporation, and through our daily work, each of us will strive to build a company that meets the expectations of society and secures the confidence and recognition of society.

Yoshiro Yura

Director, General Manager, Administration Division

CSR Activities Report

Standing Alongside Patients and Medical Professionals

Providing Information

Educating Consumers about Ailments through our Website

At Nippon Shinyaku, we distribute information helpful for resolving health concerns through our company website.

On our "Talking about Menstrual Cramps" website (<http://seiritsu.jp/>), we provide information on endometriosis and dysmenorrhea (menstrual cramps), introduce specialist physicians from across the nation, and encourage those who feel they may have a medical condition to visit their doctor at an early stage.

On our "ED Care Support" website (<http://www.ed-care-support.jp/>), we introduce medical institutions where individuals can receive consultations, and at the same time try to relieve any psychological resistance to seeking out help by dispelling some of the misunderstandings surrounding the issue of erectile dysfunction (ED). In addition, since counterfeit ED drugs are often distributed, we are actively providing information and promoting awareness about these counterfeit drugs.

On our "Nose Care" website (<http://hana783.jp/>), we inform readers of the basic mechanisms of nasal inflammation, explain and advise about causes and solutions of seasonal pollen allergies and year round allergic rhinitis, and offer detailed information on treatments available for allergic rhinitis.

Our future plans include building an educational website providing information on alcohol dependency.



Our ED Care Support Website

Public Lectures and Newspaper/Magazine Contributions

Every year since 1998, Nippon Shinyaku has invited physicians to give lectures open to public audiences. In October 2011, we held a medical symposium for middle- to older-aged residents of Osaka, with a lecture titled "Hear from a Urology Expert: Find Out about Urinary Health Concerns and their Solutions." The lecture was attended by approximately 300 people.

Also, we contributed to a variety of media, such as our educational advertisements on ED in newspapers and in the magazine *President*. These contributions inform readers of accurate information on illnesses and up to

date research developments in pharmaceutical treatments. Going forward, we plan to continue these educational activities to further convey information to the public.



A Nippon Shinyaku Public Lecture Event

Offering Advice through our Drug Consultants

As pharmaceutical products have been described as "chemicals with directions attached," their effective use begins with appropriate attention toward their indications, dosage, mechanism of action, side effects, etc. Consequently, Nippon Shinyaku has Drug Consultants who receive inquiries from physicians and pharmacists, and reply with advice on the proper usage of our products. Also, for patients and members of the general public, we respond to a broad range of inquiries with accurate, easy to understand information.

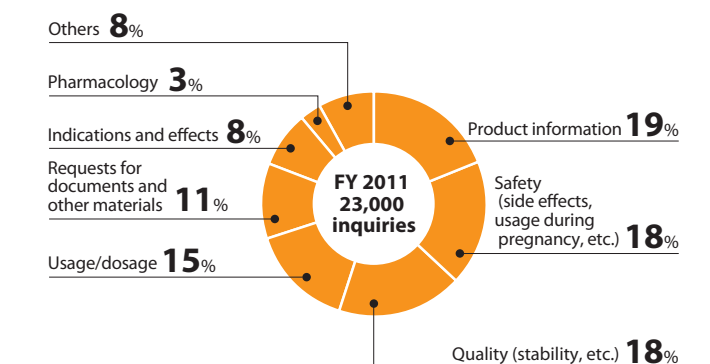
Although the quantity of inquiries has been increasing year by year, introducing a CTI system\*1 has allowed us to continue to provide prompt, accurate responses. In fiscal 2011 alone, we handled 23,000 inquiries. Our system allowed us to quickly convey valuable patients' and medical professionals' opinions and comments to the relevant department. It also helped 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 pharmaceutical information including drug information sheets\*2, interview forms, package inserts, and updated usage warnings. Patients and general readers can find information intended to contribute to the greater health and wellness of the citizens of Japan.

\*1 A system linking telephones and computers that routes calls to customer service representatives and incorporates information management features.

\*2 Explanation sheets (in Japanese, English, and other languages) intended for patients.

Common Inquiries



## CSR Activities Report

### Quality Assurance and Supply Stability

#### Reliability Assurance from the R&D Stage to Post-Marketing

Under the leadership of the Assurance Division, Nippon Shinyaku strives to unflinchingly 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 sales approval. Our Assurance Division audits these documents at the appropriate stage to assure the accuracy of non-clinical test data and the reliability of clinical trials.

After receiving manufacture and sales approval, we assure the quality of the product being manufactured and sold, affirm its safety, and work to manage and maintain manufacture and sales approval and license. In fiscal 2011, we renewed our pharmaceutical manufacturing and sales industry license.\*1

\*1 Pharmaceutical manufacturing and sales industry license renewals are required by law every five years.

#### Pharmaceutical Products Reliability Assurance

R&D stage		
Nonclinical tests		Clinical trials
Test data reliability assurance based on GLP and reliability criteria		Clinical trial reliability assurance based on GCP
▼		
Post-manufacture and marketing		
Manufacturing	Marketing	Approval, license maintenance, management
Post-manufacture and marketing quality assurance based on GMP and GQP	Post-manufacture and marketing safety management based on GVP	Manufacture and marketing approval, manufacture and marketing license maintenance, management

#### Swift, Stable Product Supply

At our Odawara Central Factory, we have instituted a production framework dedicated to reducing manufacturing lead-time and ensuring swifter product supply. Multi-skill employee training\*2 and a cell manufacturing system\*3 have been introduced as part of this framework.

Also, we have adopted a Business Continuity Plan (BCP) in the event of any disasters, so that disruptions to the supply of products to patients may be avoided. In addition, we have diversified our storage locations for product inventory and are working with various partner companies to bolster our support framework. The Great East Japan Earthquake last year prompted us to reassess in fiscal 2011 some of the social issues surrounding our more critical products. We increased our normal inventories kept on hand and considered ways to prevent any shortages of these key products.

\*2 Training and education that makes each employee proficient in multiple operation tasks.

\*3 A system where each production team is in charge of all manufacturing steps, in contrast to the standard model of separately dividing different manufacturing steps between teams.

#### Close Collaboration between Three Management Chiefs

The Revised Japanese Pharmaceutical Affairs Law that took effect in 2005 stipulates that companies in the pharmaceutical products manufacturing and marketing industry shall appoint “three chiefs”: a marketing supervisor-general, a quality assurance manager, and a safety management supervisor. The marketing supervisor-general oversees the other two chiefs and is the official ultimately responsible for products placed on the market.

At Nippon Shinyaku, we follow these stipulations and appoint the three officials as a team of leaders that meets regularly to share information and ensure close, collaborative operations between all relevant departments.

### Responding to Patient Needs

#### Researching Market Needs

At Nippon Shinyaku, when we receive complaints from patients and medical professionals regarding product quality, we duly investigate the causes of all quality concerns, give feedback to the party that brought the information forward, and use the new information in assuring future quality enhancement.

Nippon Shinyaku’s Quality Assurance Division works under the supervision of the quality assurance manager to ensure the highest quality products. In close cooperation with domestic and overseas bulk substance and product manufacturing plants, audits of manufacturing facilities are performed regularly, or more often if necessary, with due compliance under the Pharmaceutical Affairs Law and related regulations.

Our Safety Management Division collects information on product side effects, etc. from a wide variety of sources, including domestic and overseas medical institutions, medical professionals, partner companies, patients, patient families, medical journals, and reports from academic associations. We analyze and evaluate this information, determine necessary response measures, issue reports to regulatory agencies, and supply feedback to patients and medical professionals.

We also gather information made available by regulatory agencies and other members of our industry, then share this information within the Company.

#### Providing Pharmaceutical Products that Meet Patient Needs

Using information gathered from patients and medical institutions, we are developing products that are both easy to swallow and convenient to use.

For example, we are developing medicines with less bitter aftertastes and medicines that dissolve in one’s mouth without any need for water. These adjustments are welcome news to those patients who experience unpleasant tastes and troublesome difficulty when swallowing pills and tablets.

In fiscal 2011, we began using microparticle coating machinery one of the largest available in Japan in order to enhance our manufacturing capabilities for orally dissolving medicines.

### In Partnership with Employees

#### Providing Productive, Employee-Friendly Workplaces

Nippon Shinyaku strives for appropriate work-life balance through an environment that harmonizes rewarding work and rewarding lifestyles for its employees. We promote the “Good Job Initiative” as part of this effort. Nippon Shinyaku defines the “Good Job Initiative” as: working productively, resting regularly, and leading a fruitful lifestyle that increases one’s satisfaction and zest for life. Our policies for effecting this include identifying overloads, wastefulness, and inconsistencies in each work process, while advancing productivity and equality through incorporating appropriate rotation of duties. This prevents work from being disproportionately assigned only to certain individuals.

As part of efforts at our head office’s area and surrounding offices in fiscal 2011, we instituted “no overtime days,” required all employees to return home by 8:00 pm, and encouraged time-specific limits to work hours. As a result, we were able to reduce occurrences of overtime by about 13%.

#### Career Support System: “Growth For Each and Every Employee”

Nippon Shinyaku’s career development system gives preexisting employees the opportunity to contemplate their career goals in concrete terms, move toward improving their work skills, and submit applications for desired career changes. In fiscal 2010, we introduced a new component of this framework called CAST (Career Approach SysTem). As an in-house employee recruitment system, CAST makes information available about the types of workers each department is looking to acquire, with specific mention of desired skills and qualifications. Similarly, the aspirations of employees are also solicited so that the interests of both parties can be reflected in employee transfers and personnel changes. The system aims to foster autonomous, empowered employees and to help create the opportunity for them to proactively plan their future career paths.

In addition to this, Nippon Shinyaku has established a Career Support Academy called CASA. This system is structured on the twin aspects of education and training for each level of employees, and elite education and training for future leaders and managers. Support is also available for employees seeking to attain higher level degrees such as a

doctorate or MBA. Our intention is to recognize the increased corporate value that comes from enhancements in the abilities of our employees, as well as to create a challenging and active organizational environment.

#### Terakoya Academy

Nippon Shinyaku regularly holds an off-site gathering we call the Terakoya Academy. These gatherings provide employees with an occasion to discuss work issues in a more casual environment. The Terakoya Academy meetings held up to fiscal 2011 were based on the theme of Innovation and Growth, as defined in Nippon Shinyaku’s 4th Medium-term Management Plan. The meetings bring employees together with the company president and executives in charge of each division. The occasion is a valuable opportunity for direct, lively discussion with the management ranks so that employees can attain a better understanding of the company’s policies. Terakoya Academy’s objective is to build a business structure with openness and accessibility for all of its participants.



A scene from the Terakoya Academy gathering

#### Hiring Employees with Disabilities

For Nippon Shinyaku, proactively hiring employees with disabilities is one of the social responsibilities incumbent upon us as a corporation. Consequently, since fiscal 2007, we have carried out a dual system for hiring mentally disabled individuals in collaboration with a special-needs support school. This system includes features such as involving a number of consultants for disabled workers. The consultants are stationed in the workplace to help promote an environment where disabled workers will be able to productively work side by side with non-disabled workers.

In fiscal 2011, we worked to expand these hiring practices while developing new work tasks for disabled workers. This was possible, for example, when we converted the linen laundering process at our research laboratory to an in-house operation.

CSR Activities Report

Joining with Society and Local Communities

The Nippon Shinyaku Children's Literary Awards

Nippon Shinyaku wants to nurture the spirited growth and future dreams of the children who will inherit our world. With this hope in mind, and to commemorate our 90th anniversary as a company, we instituted the Nippon Shinyaku Children's Literary Awards in 2009.

The Nippon Shinyaku Children's Literary Awards work with the support of the Japan Juvenile Writers Association to call for works of art as either stories or illustrations. A winning submission is selected in each category and both works of art are made into picture books. Approximately 30,000 of these books are then distributed nation-wide to medical institutions, children's hospitals, and public libraries, as well as kindergartens and elementary schools in Kyoto (the site of our head offices) and Odawara (the site of our Central Factory). Also, visitors to our website are able to see electronic versions of the books and hear them read aloud as they browse the pages.

In addition, through the Nippon Shinyaku Children's Literary Awards, we cooperated with another project to contribute to local communities. This project was called the Children's City - Mini-Kyoto 2011. In this event, children are taught to build a virtual town while working at jobs that interest them. They do shopping or even open a store of their own and the virtual experience gives participants a window into what it is like to be a member of society and use their own faculties to get by. The event is organized by an executive committee composed of members of the Kyoto Children's Center NPO and other groups. Nippon Shinyaku participated through the Nippon Shinyaku Children's Picture Play Workshop. Winning submissions from the Nippon Shinyaku Children's Literary Awards contest were read aloud and the listeners drew their own pictures so that they could perform picture plays with them. The Kyoto Children's Center NPO



Picture book: "The Mysterious Blue Elephant"

also helped us organize an awards ceremony at a hotel in Kyoto where local children were invited to attend, celebrate the winners of the Literary Awards, and listen to a public reading of the books.

Furthermore, through our Shining Future for Children Fund started in 2009, we collect donations from employees to support the Japan Committee - Vaccines for the World's Children, which strives to protect children in developing countries from infectious disease. The books printed through our Literary Awards contest are not intended for sale, but we have devised a scheme where people outside the company who donate 500 yen to the Shining Future for Children Fund may receive a free copy of one of the books as a token of gratitude.

Going forward, we would like to continue to expand the scope of the Nippon Shinyaku Children's Literary Awards to nurture the spirited growth and future dreams of children, while supporting the creation of picture books that encourage the development of gentle, resilient youth.



Group photograph from the Awards Ceremony



A scene during the picture play workshop Public reading of one of the books

The Nippon Shinyaku Children's Literary Awards website  
<http://kodomo-bungaku.jp/>

Disease Education Activities

Cancer is the most common cause of death in Japan. As part of cancer treatment, it is important to find ways for patients to avoid enduring excessive pain. Nippon Shinyaku is part of the Cancer Pain Relief Consortium that strives to spread information and educate patients on therapies for pain relief. Similarly, we support the Ministry of Health, Labour and Welfare's Orange Balloon Project for increasing awareness of palliative care.

Also, a significant number of women endure menstrual cramps, though relatively few of them are aware that endometriosis or other disorders are possible causes. Nippon Shinyaku promotes a public education campaign symbolized by yellow ribbons in order to disseminate accurate information on menstrual cramps and endometriosis. In fiscal 2011, we started a smart phone-specific "Talking About Menstrual Cramps" website with functionality for predicting one's menstrual cycle. We also cooperated with a seminar held during women's health week (March 1-8).



Orange Balloon Project



Our "Talking About Menstrual Cramps" website

Initiatives to Preserve Biodiversity

Nippon Shinyaku's Yamashina Botanical Research Institute was founded in 1934 as the Yamashina Pilot Farm and is an important part of our R&D efforts. The facility stores and cultivates nearly 3,000 varieties of medicinal and therapeutic plants gathered from across the globe. One of the products from the Institute, mibuyomogi, was used as an ingredient in our Santonin vermicide and greatly contributed to the growth of Nippon Shinyaku.

Also among the plants preserved and cultivated at the Institute are Tree tumbo (Welwitschia mirabilis) and many other species that are facing global extinction. The Institute preserves these, and carries out its horticultural research, as a way of contributing to the protection of our natural biodiversity. Close collaboration is also promoted with technicians active at universities and horticulture centers within Kyoto, which allows for joint research symposiums and other opportunities to exchange information about environmental issues, and cultivating and preserving endangered plants.

Fiscal 2011 saw the continued appeal of the Institute, as approximately 100 groups (totally 1000 visitors) made time to stop by the facility and express their interest in learning about the connection between plants and medicine, and studying the valuable plants we preserve and cultivate.

These visitors included local residents, such as groups of plant enthusiasts and elementary school students, as well as groups from pharmacist associations and doctors from across Japan interested in medicinal plants.



Yamashina Botanical Research Institute

Activities to Preserve and Maintain the Culture of Kyoto

With our head offices being located in Kyoto, Nippon Shinyaku is engaged in various activities to spread the historical heritage and traditional culture of Kyoto to a wide audience.

Over the half-century since 1954, we have produced an annual calendar of Kataezome prints made using dyeing stencils and a traditional dyeing technique. The calendar images introduce a variety of aspects of Kyoto, including seasonal landscapes, traditional artifacts, and historical events. We also produce tenugui hand towels featuring designs from these Kataezome prints and made using a traditional staining process.

Also, four times a year, we publish an independent quarterly magazine called Kyo, originally started in 1967. This publication 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.



The Kataezome calendar and other items

Supporting Education through Sports

In fiscal 2011, the Nippon Shinyaku amateur baseball team made its 11th consecutive and 29th overall appearance representing the city of Kyoto in the Intercity Baseball Tournament.

To promote athletics in the local community, the team held the Japan High School Baseball Federation Kyoto Skills Development Clinic in November 2011 at Wakasa Stadium. Approximately 300 attendees from 70 high schools received hands-on instruction in baseball techniques as part of the team's effort to contribute to baseball skill development in the greater Kyoto community. Also in the same month, an Evening Youth Baseball Workshop and a training seminar for coaches were held for 22 teams and approximately 300 youngsters who were invited to join from various parts of Kyoto city. The workshop and seminar were organized by the Kyoto City Amateur Sports Association and Kyoto Baseball Association, with support from the City of Kyoto. Similarly, in January 2012, we collaborated with the Odawara Sports Association to hold the 4th Odawara Youth Baseball Clinic for 6 teams and approximately 70 players from local clubs in the city of Odawara. The baseball clinic held for about 20 players from the Kushimoto Koza High School baseball team in February in Kushimoto, Wakayama prefecture, where we hold our own annual spring training camps, is another example of these efforts. These various clinics and events were intended to improve youths' baseball skills and physical strength, and create opportunities for exchange with the communities near our business locations.



Players receiving instruction at the Evening Youth Baseball Workshop

CSR Activities Report

Environmental Conservation Activities

3rd Nippon Shinyaku Environmental Targets Plan and Results

Nippon Shinyaku has pursued continuous environmental preservation activities along clear medium-term goals that we have set for ourselves. Since fiscal 2011, we have centered our activities around the 3rd Nippon Shinyaku Environmental Targets Plan.

Objective	Targets	FY 2011 Results
CO <sub>2</sub> Emissions Reductions (Global Warming Countermeasures)	<ul style="list-style-type: none"> <li>Hold FY 2013 CO<sub>2</sub> emissions at or below FY 1990 levels. (JPMA target: 23% reduction by FY 2020, as compared to FY 2005 levels)</li> </ul>	<ul style="list-style-type: none"> <li>We created an in-house Energy Conservation Committee and worked on company-wide energy conservation/energy efficiency measures.</li> <li>FY 2011 CO<sub>2</sub> emissions of 9,568 tons*<sup>1</sup> were a 9.5% reduction over the target amount of 10,569 tons from FY 1990.</li> <li>Of our fleet of 693 sales force vehicles, 658 were environmentally friendly models.</li> </ul>
Reduction of Waste	<ul style="list-style-type: none"> <li>Achieve zero emissions*<sup>2</sup> company-wide by FY2013.</li> <li>Actively pursue the 3Rs (Reduce, Reuse, Recycle) and work to increase our usage ratio of recycled materials.</li> </ul>	<ul style="list-style-type: none"> <li>With a FY 2011 final landfill waste ratio of 0.4%, we were able to meet our zero emissions target.</li> <li>We reduced waste volume to 462 tons at our main business locations, down from 480 tons in FY 2010.</li> </ul>
Promote Proper Management of Chemical Substances	<ul style="list-style-type: none"> <li>We believe in the proper management of chemical substances, including those stipulated under the Pollutant Release and Transfer Register (PRTR) system, and our goal is to continuously reduce their emission into the natural environment.</li> </ul>	<ul style="list-style-type: none"> <li>In FY 2010 we reduced our usage of chloroform and acetonitrile, though our usage of dichloromethane increased.</li> </ul>
Promote an Environmental Management System (EMS)	<ul style="list-style-type: none"> <li>Continually improve the results of our environmental performance by maintaining ISO 14001 certification.</li> <li>Introduce an EMS tailored to the characteristics of our head office's area.</li> </ul>	<ul style="list-style-type: none"> <li>Completed the periodic inspection of our Odawara Central Factory in February 2012. Completed the update inspection of our Chitose Synthesis Plant &amp; Functional Food Plant in October 2011.</li> <li>We are currently working to introduce the KES Environmental Management System (Step 2) at our head offices.</li> </ul>
Environmentally Conscious Product Upgrades and Materials Procurement	<ul style="list-style-type: none"> <li>Reduce product packaging materials as part of pharmaceutical product package simplification efforts.</li> <li>Promote green purchasing and procurement practices.</li> </ul>	<ul style="list-style-type: none"> <li>We introduced green purchasing measures for office supplies at our main business locations. (Average green purchasing rates were 90% in FY 2009, 88% in FY 2010, and 88% in FY 2011).</li> </ul>
Communication with Society and Local Neighbors	<ul style="list-style-type: none"> <li>Actively participate in activities to give back to the areas where we do business.</li> <li>Appropriately disclose information (through our corporate website and Annual Report) to society and to the local areas of our business offices.</li> </ul>	<ul style="list-style-type: none"> <li>Implemented beautification projects at our business offices and in surrounding local communities.</li> <li>Held guest lectures at elementary schools in Kyoto.</li> <li>Collected aluminum cans at our Odawara Central Factory and donated wheel chairs to the Odawara-city Welfare for the Disabled Conference.</li> </ul>
Promote Environmental Education	<ul style="list-style-type: none"> <li>Implement environmental preservation education for all of our employees.</li> </ul>	<ul style="list-style-type: none"> <li>Each of our main business locations decided on an environmental education theme and carried out employee instruction programs to raise awareness of these preservation topics.</li> </ul>
Providing an Environmental Organizational Structure	<ul style="list-style-type: none"> <li>Review and strengthen the organization of our Environment Committee in order to promote company-wide environmental preservation activities.</li> <li>Clearly identify environmental management responsibility and authority while promoting high quality environmental preservation activities.</li> </ul>	<ul style="list-style-type: none"> <li>Along with introducing an EMS, we restructured the EMS organization of our head office, thereby clarifying the responsibilities and authority of each official involved.</li> </ul>

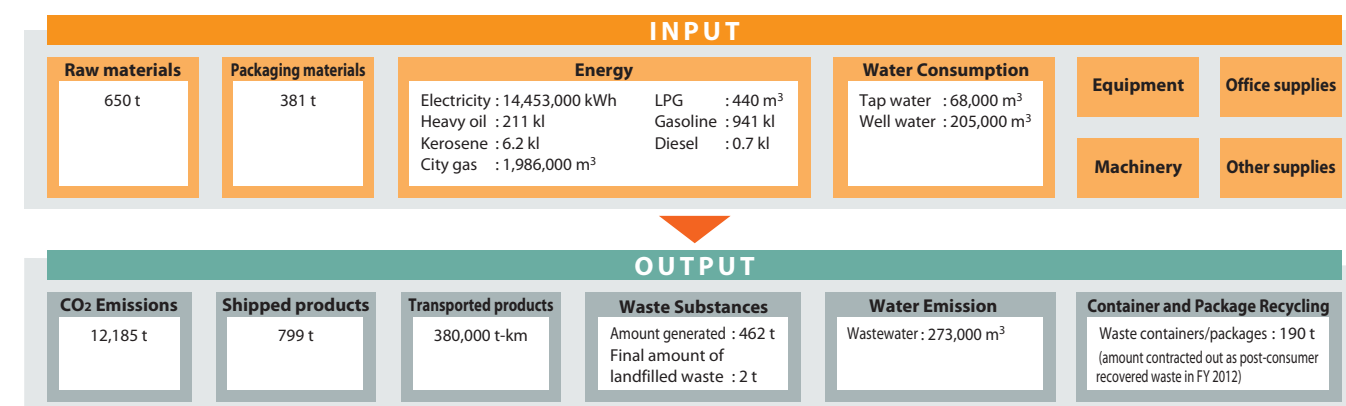
\*1 This figure is for the business locations to which the FY 1990 emission amounts are applicable (i.e., our main business locations apart from our sales offices, etc.); total emissions were 12,185 tons. Calculations are made using the CO<sub>2</sub> real emissions coefficients from the Ministry of Economy, Trade and Industry.

\*2 "Zero emissions" is defined as a final landfill waste ratio (final amount of landfilled waste/amount of waste generated x 100) of 1.0% or lower achieved by the recycling of waste generated during business activities.

Material Balance in our Business Activities

Material balance refers to the amounts of input, in terms of resources and energy used in our business activities, and output, in terms of the environmental impact of manufactured and marketed products, waste substances, greenhouse gas emissions, wastewater, etc. Understanding the material balance offers a way to gain an overall picture of Nippon Shinyaku's effect on the environment.

Nippon Shinyaku uses the material balance information in its efforts to decrease the amounts of resource and energy inputs as well as environmentally detrimental outputs from its business activities.



Environmental Accounting

Nippon Shinyaku carries out environmental accounting, based on Company criteria, aimed at efficiently and effectively promoting our environmental preservation efforts. As part of this environmental accounting, we quantitatively assess environmental conservation costs and environmental conservation gains. The costs are categorized according to the connections between business activities and environmental impacts, and the gains are the result of efforts to lessen our burden on the environment. The environmental conservation gains are stated as year-on-year increases or decreases in environmental impact items in the material balance calculations.

\* Statistical methodology: refer to the Ministry of the Environment's Environmental Accounting Guidelines, 2005 ver.

Environmental Conservation Costs

(unit: thousands of yen)

Costs	Investments	Expenses	Primary Initiatives
Costs within our business areas	1,072	146,320	
Pollution prevention costs	1,072	38,725	Upgrading deodorizing/exhaust control apparatus; maintenance management of wastewater processing facilities
Global environmental conservation costs	0	59,011	Energy conservation activities
Resource recycling costs	0	48,585	Proper waste disposal efforts
Upstream and downstream costs	0	9,995	Contract costs for post-consumer container/packaging recovery efforts
Management activity costs	0	80,562	EMS maintenance and operation, green space conservation, personnel expenses for the Environmental Management Division
R&D costs	0	0	-
Social activity costs	0	4,754	Donations and funding for groups involved with our Elementary School lectures and environmental preservation initiatives
Environmental remediation costs	0	0	-
<b>Total</b>	<b>1,072</b>	<b>241,636</b>	

(excluding our sales offices)

Environmental Conservation Benefits

Benefit verification	Units	FY 2010 Results	FY 2011 Results	Amount of Increase/Reduction	Rate of Increase/Reduction
CO <sub>2</sub> emissions	Tons	13,377	12,185	▲ 1,192	▲ 9%
Electricity usage	Thousand kWh	16,402	14,453	▲ 1,949	▲ 12%
Oil, kerosene usage	kl	220	217	▲ 3	▲ 1%
City gas, LPG usage	Thousand m <sup>3</sup>	2,442	1,986	▲ 456	▲ 19%
Gasoline, diesel usage	kl	916	942	▲ 26	3%
Water consumption (main business locations)	Thousand m <sup>3</sup>	323	273	▲ 50	▲ 15%
Waste substances generated (main business locations)	Tons	480	462	▲ 18	▲ 4%
Final amount of landfilled waste (main business locations)	Tons	2	2	0	0%

CSR Activities Report

Reducing CO<sub>2</sub> Emissions

<b>Targets</b>	Hold FY 2013 CO <sub>2</sub> emissions at or below FY 1990 levels.
<b>FY 2011 Results</b>	At 9,568 tons, we achieved our goal of improving on FY 1990's level of 10,569 tons.

Energy Conservation Efforts

Nippon Shinyaku is continuously endeavoring to conserve energy and reduce emissions of CO<sub>2</sub>. These efforts include switching boilers and air conditioning equipment to energy efficient models when they reach the end of their life span, reassessing how and when the equipment is operated, and encouraging employees to dress appropriately for the season (following Japan's so-called 'cool biz' and 'warm biz' dress codes).

Following the disruptions from the Great East Japan Earthquake, domestic companies have been required to conserve electricity. In June 2011, Nippon Shinyaku created an Energy Efficiency and Conservation Promotion Committee. The committee drafted Energy Conservation Guidelines and promotes increased energy conservation efforts company-wide, including unified efforts to continue cutting back on air conditioning, lighting, elevator, and office equipment usage. Results from these efforts led to total CO<sub>2</sub> emissions of 9,568 tons<sup>\*1</sup>, a 9.5% reduction over the fiscal 1990 amount of 10,569 tons.

<sup>\*1</sup> This figure is for the business locations to which the FY 1990 emission amounts are applicable (i.e., our main business locations apart from our sales offices, etc.); total emissions were 12,185 tons. Calculations are made using the CO<sub>2</sub> real emissions coefficients from the Ministry of Economy, Trade and Industry.

Introducing Environmental Friendly Vehicles in our Sales Fleet

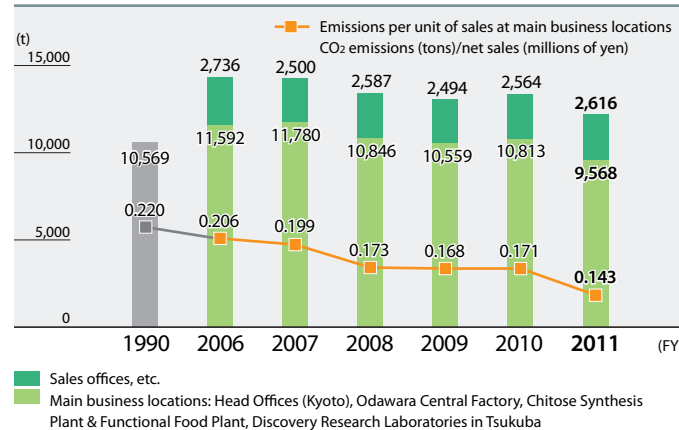
Our policy is to use low emissions models (with 4 star ratings for 75% emissions reduction based on 2005 criteria) for our fleet of sales force vehicles, and since fiscal 2008 we have been gradually phasing in high gas mileage, low CO<sub>2</sub> hybrid models. As of the end of fiscal 2011, 658 out of 693 vehicles used by our sales force were environmentally friendly models (either low emissions or hybrid vehicles).

In addition, we stepped up our environmental preservation activities by promoting use of trains, instead of vehicles, in Tokyo where the public transportation system is highly developed. At the same time, we are also examining the use of electric vehicles in our fleet going forward.

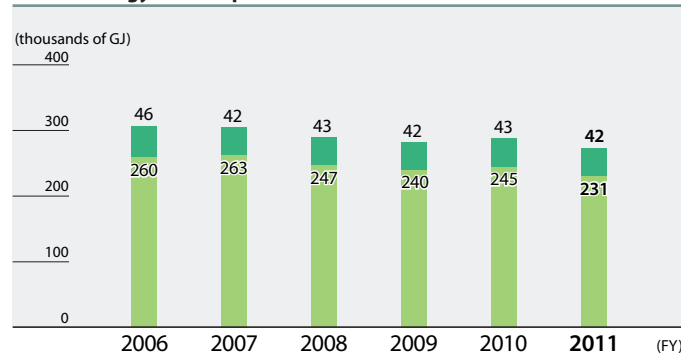


Sales force hybrid vehicle

CO<sub>2</sub> Emissions



Overall Energy Consumption



Reducing Volume of Waste

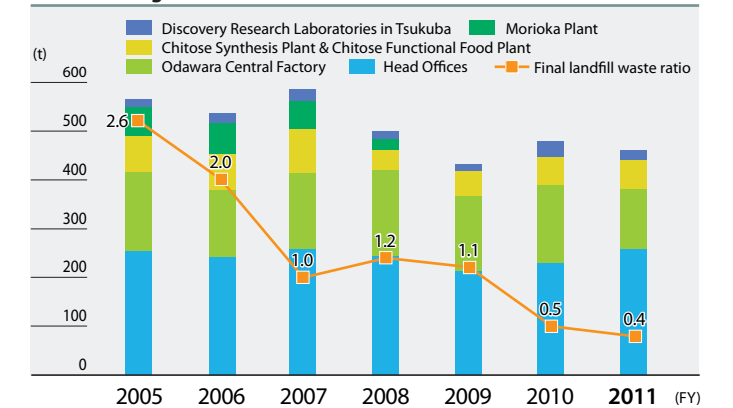
<b>Targets</b>	Achieve company-wide zero emissions by fiscal 2013.
<b>FY 2011 Results</b>	Following on from FY 2010, we achieved zero emissions with a 0.4% final landfill waste ratio.

Results of Initiatives

The amount of waste generated in fiscal 2011 was 462 tons—an 18-ton reduction over fiscal 2010's amount of 480 tons. The final landfill waste ratio of 0.4% continued our achievement of zero emissions from fiscal 2010. Also, in accord with the PCB Special Measures Act, we are stringently following storage protocol for PCB waste at our main offices (in Kyoto) and the Odawara Central Factory (in Kanagawa).

Nippon Shinyaku also participates in a supply network for green purchasing. Office supplies, etc. that have low environmental impact are favored over other products when purchasing decisions are made. Green purchasing practices are followed when sourcing office supplies at our ISO 14001-certified Chitose Synthesis Plant, Chitose Functional Food Plant, and Odawara Central Factory as part of their environmental management activities.

Annual Changes in Waste Generation



Proper Management of Chemical Substances

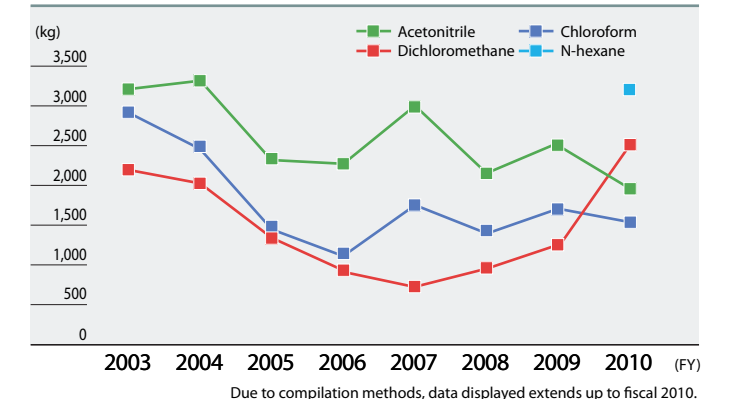
<b>Targets</b>	Promote the proper management of chemical substances designated under the PRTR Act <sup>*2</sup> .
<b>Results</b>	Fiscal 2010 usage of chloroform and acetonitrile was reduced over fiscal 2009 levels, though usage of dichloromethane increased.

Results of Initiatives

For materials used in our research laboratories, we set and reviewed in-house regulations following relevant laws with regard to substances of concern, such as genetically modified organisms and virulent specimens, in addition to a variety of controlled chemical substances, such as those designated in the PRTR Act. Along with this, we worked to keep our facilities up to date and properly managed.

We submitted legal notifications for our business locations that handled one ton or more annually of Class 1 Designated Chemical Substances under the PRTR Act. Although we were able to continue to hold our fiscal 2010 usage of chloroform within our target amount (which we set in our 2nd Nippon Shinyaku Environmental Targets Plan), usage of dichloromethane increased over fiscal 2009 levels. Also, our usage of n-hexane, newly subject to reporting as of fiscal 2011 under the revised 2008 PRTR Act enforcement order, was 3,200 kg.

Usage Amounts of Class 1 Designated Chemical Substances under the PRTR Act



<sup>\*2</sup> Act on confirmation, etc. of release amounts of specific chemical substances in the environment and promotion of improvements to the management thereof

# Corporate Governance

## Corporate Governance and Internal Control

### Our Approach to Corporate Governance

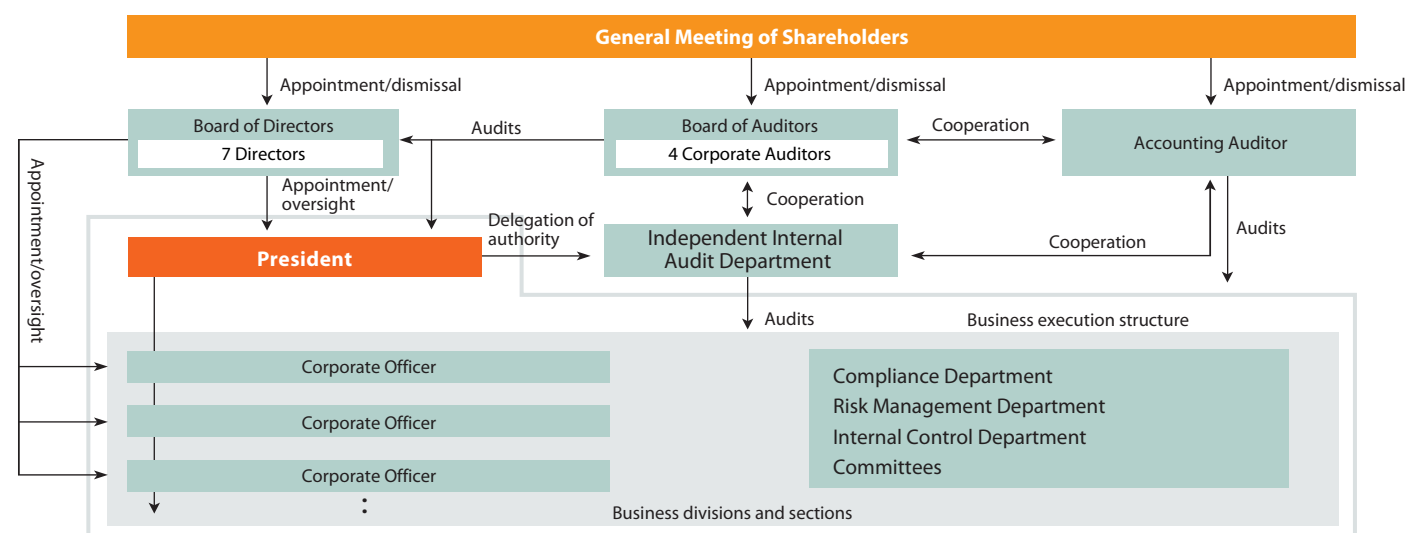
At Nippon Shinyaku, we recognize that it is a critical management priority to fulfill our accountability to all stakeholders, by securing the transparency of management in order to raise our corporate value through social contributions. This makes it essential for our corporate governance to function effectively, and we are committed to further expanding the framework for internal control, compliance, and risk management.

### Framework for Corporate Governance

Nippon Shinyaku strives to enhance corporate governance while raising the transparency of management and increasing corporate value, so that we can continue to secure the confidence of society.

Nippon Shinyaku employs a system of auditors, with the general meeting of shareholders, Board of Directors, and Board of Auditors serving as internal bodies. The Board of Directors is comprised of seven directors, with each director responsible for executing separate areas of work in order to efficiently manage the Company. The Board of Auditors is comprised of four auditors including two outside auditors. These auditors attend meetings of the Board of Directors and other important meetings, in addition to reviewing documents and periodically meeting with the President, and work closely with the Internal Audit Department to provide an effective framework for audits.

### Organization for Corporate Governance



### Internal Control System

The internal control system is stipulated under the Companies Act and prescribes the fundamental policies of the Board of Directors, while establishing a framework to ensure the proper execution of the business. Through internal control, we strive to secure regulatory compliance and raise the effectiveness and efficiency of our business. Since fiscal 2008, internal control reporting has been obligated under the Financial Instruments and Exchange Act, and to comply with these requirements we operate a framework to secure the appropriateness of financial reporting and evaluate internal controls for financial reporting. Nippon Shinyaku employs Deloitte Touche Tohmatsu LLC as an accounting auditor, to help secure the transparency of management and ensure the observance of proper accounting procedures.

We operate the Internal Audit Department that reports directly to the President and is responsible for verifying that these frameworks are properly operating. The Internal Audit Department works with the Board of Auditors and accounting auditor to audit the effectiveness of internal controls as well as compliance efforts and risk management. In addition, we have Compliance Operating Rules in place to secure the proper execution of business activities and employee duties, and have assigned a dedicated department to encourage compliance, while having a system in place for internal reporting. At the same time, we have assigned a dedicated department for risk management, to variously manage risks that could have a critical impact on the management of the Company.

## Compliance

### Framework for Compliance

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

### Compliance Initiatives

Group-wide compliance initiatives are formulated and implemented by the dedicated department, with input from the compliance council.

In fiscal 2011, we implemented the training and education activities outlined below, and the President and compliance officer issued messages to employees in April and October 2011 to stress the need for compliance.

### Compliance Training in Fiscal 2011

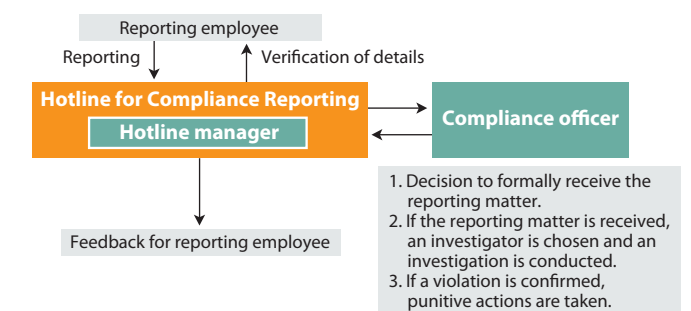
Type of Training	Description
Departmental compliance training (monthly)	Conducted departmental training incorporating company-wide content and department-specific content.
Training for new employees (April)	Training that focuses on teaching new employees about compliance concepts and approaches, and stressing the importance of compliance.
Training for newly promoted managers (April, October)	Training that focuses on teaching compliance to newly promoted managers.
Training on revisions to Charter of Business Conduct (July–August)	Training to inform employees about changes to our Charter of Business Conduct that we revised in 2011.
Direct training (October–January)	Conducted compliance training at the head office and other offices in Japan and at Group companies. Training in fiscal 2011 was focused on ethics for Group employees.

### Education Initiatives

- Conducted e-learning education for compliance.
- Prepared a compliance education poster with a slogan and design applied by employees, and put up posters in each department.
- Distributed a compliance reference card to all employees.

### 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. The hotline can be reached through a dedicated phone number or e-mail address, and guidelines are in place to protect the privacy of reporting employees and to secure confidentiality. Employees are briefed on the hotline in training, and all employees receive a card that lists the hotline contact information, so that they are familiar with the system.



## Risk Management

### Initiatives for Risk Management

The Nippon Shinyaku Group has Basic Risk Management Rules in place that direct the Company to identify underlying risks and specify departments that are responsible for each risk. The Group also designates measures to prevent risks and crises as well as specifies countermeasures for when these situations arise.

In fiscal 2011 as well as fiscal 2010, we took a number of steps to further enhance our framework for risk management, focusing on the following three areas: information management, disaster and accident response, and occupational safety and health. In the area of information management, Group companies prepared rules for risk management, and we formulated guidelines for use of social media as well as conducted training. In the area of disaster and accident response, we revised our manuals to enhance the system for confirming the safety of employees, based on experiences from the Great East Japan Earthquake. We also conducted Company-wide drills for confirming employee safety, in addition to conducting our annual disaster preparedness drills that help to reinforce procedures. Additionally, we examined a business continuity plan (BCP) in the event of a major earthquake affecting our head office. In the area of occupational safety and health, we conducted risk assessments for the head office area and revisited our risk measures for occupational safety, in order to enhance the framework for securing occupational safety and health.

Nippon Shinyaku also implemented a risk awareness survey for management in fiscal 2011, to help in identifying areas of risk to be addressed in fiscal 2012. These survey results and the results from implemented initiatives will be discussed by the directors in charge of various departments, to pursue future initiatives aimed at critical areas of risk.

**Framework for Risk Management**

The Nippon Shinyaku Group has a contact system and response procedures in place if a risk or crisis arises, under Basic Risk Management Rules.

If an employee has information that a risk has or may have occurred, he or she notifies the supervising manager, who in turn notifies the risk management department and the director in charge of risk management. If the employee determines that there is a particularly high level of urgency, he or she directly notifies the risk management department. The administrative department reports to the director in charge of risk management, and judges the degree of impact on business activities from the risk. If the risk is determined to have a minor impact, the supervising department for the particular risk is instructed to respond and take action. However, if the risk is determined to have a major impact signifying a crisis, the situation is immediately reported to the President and a temporary crisis management office is assembled headed by the Company directors. At the same time, a working group in charge of practical response is assembled to summarily report to the crisis management office with information that is needed to help in decision making, and to report on proposed countermeasures. The working group also establishes a framework to enable rapid response according to instructions from the crisis management office.

**Initiatives for Information Security**

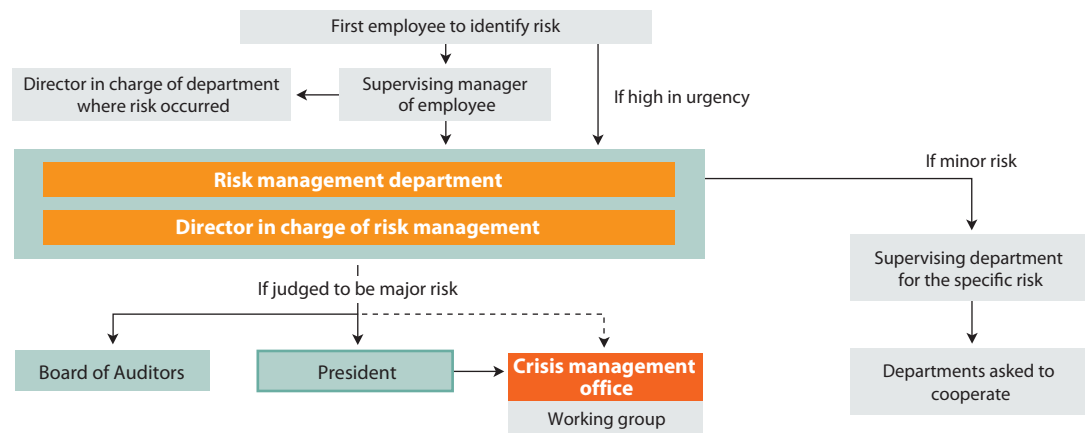
In today's rapidly shifting business conditions, the information risks that affect corporations are continually changing, while the spread of new and convenient information technologies is also giving rise to new risks. To secure and maintain information security, corporations must continually implement measures under a security policy.

Nippon Shinyaku implements a basic policy and rules to guide our initiatives for information security. We operate an information security management system (ISMS) committee that implements specific rules for information security, guided by the basic policy and rules.

In fiscal 2011, we formulated information security rules extending to Group companies, to facilitate the management of confidential information throughout the Nippon Shinyaku Group. We also formulated new guidelines for the handling of social media and conducted e-learning education, in light of the increasing pervasiveness of social media and growing user base.

In addition, we studied and analyzed IT risks and examined countermeasures for the damage and loss of electronic data as well as data falsification and leakage. Moving forward, Nippon Shinyaku will continue to address information security concerns with an emphasis on preventing the leakage of confidential information.

**Path of Risk Notification (as of April 1, 2012)**



Akira Matsuura  
Director

Yoshiro Yura  
Director

Tsugio Tanaka  
Director

Tetsuyasu Yuno  
Director

Kazuo Fukushima  
Managing Director

Shigenobu Maekawa  
President

Hiroshi Adachi  
Director

**President**

Shigenobu Maekawa

**Managing Director**

Kazuo Fukushima  
(General Manager, Business Management)

**Directors**

Hiroshi Adachi  
(COO, Functional Food Company)

Yoshiro Yura  
(General Manager, Administration Div.)

Tsugio Tanaka  
(General Manager, Resource Procurement, Production & Assurance Div.)

Akira Matsuura, Ph. D  
(General Manager, Research & Development Div.)

Tetsuyasu Yuno  
(General Manager, Sales and Marketing Div.)

**Corporate Auditors**

Yoichi Toriyama  
(Standing Corporate Auditor)

Kenji Kameyama  
(Standing Corporate Auditor)

Yasuo Tanabe  
(Outside Auditor)

Yoshishige Suzuma  
(Outside Auditor)

**Corporate Officers**

Taro Sakurai  
(General Manager, Finance & Accounting Dept.)

Kiyotaka Konno  
(General Manager, Clinical Development Div.)

Yoshitaka Fukuda  
(General Manager, Personnel Dept.)

Shigeki Sonoda  
(General Manager, Odawara Central Factory)

Hironori Ninomiya, Ph. D  
(General Manager, Regulatory Affairs Supervision & Assurance Div.)

Hitoshi Saito  
(General Manager, Research & Development Administration Div.)

Kenro Kobayashi  
(General Manager, Nagoya Business Office)

Hideya Mukai, Ph. D  
(General Manager, Discovery Research Labs.)

Shouzou Sano  
(General Manager, Osaka Business Office)

Seiichiro Morimura  
(General Manager, Business Development Div.)

Tomoyuki Ota  
(General Manager, Tokyo Business Office)

Takashi Takaya  
(General Manager, Sales and Marketing Planning Div.)

## Service Network

### Offices in Japan

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#### Sapporo Business Office

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#### Morioka Business branch

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#### Sendai Business Office

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Japan  
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#### Takasaki Business Office

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#### Ibaraki Business branch

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Tokyo 103-0027, Japan  
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Tokyo 190-0012, Japan  
Phone: +81-42-528-3701

#### Saitama Business Office

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Japan  
Phone: +81-48-649-5261

#### Chiba Business Office

15-8, Tsurusawa-cho, Chuo-ku, Chiba 260-0003,  
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#### Yokohama Business Office

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Phone: +81-45-948-5773

#### Nagoya Business Office

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Nagoya 461-0014, Japan  
Phone: +81-52-931-8576

#### Kyoto Business Office

89 Takeda Jobodaiin-cho, Fushimi-ku,  
Kyoto 612-8445, Japan  
Phone: +81-75-621-4600

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1-10-32, Ekinishihon-machi, Kanazawa  
920-0025, Japan  
Phone: +81-76-263-7105

#### Osaka Business Office

5-7, Doshomachi 2-chome, Chuo-ku,  
Osaka 541-0045, Japan  
Phone: +81-6-6203-3812

#### Kobe Business Office

3-1-7, Isobe-dori, Chuo-ku, Kobe 651-0084,  
Japan  
Phone: +81-78-230-7654

#### Takamatsu Business Office

1-1, Daiku-machi, Takamatsu 760-0042, Japan  
Phone: +81-87-811-3337

#### Okayama Business branch

1-1-15, Nodaya-cho, Kita-ku, Okayama  
700-0815, Japan  
Phone: +81-86-231-1985

#### Hiroshima Business Office

19-27, Misasakitamachi, Nishi-ku, Hiroshima  
733-0006, Japan  
Phone: +81-82-238-0666

#### Fukuoka Business Office

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#### Kumamoto Business branch

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### Local Offices

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Matsumoto, Joto, Johoku, Jonan, Atsugi,  
Shonan, Shizuoka, Hamamatsu, Himeji,  
Matsuyama, Matsue, Kitakyushu, Oita, Nagasaki,  
Okinawa

### East Logistic Center

3-3, Nishibukuro, Yashio, Saitama 340-0833, Japan  
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### West Logistic Center

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### Research Laboratories Kyoto

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Minami-ku,  
Kyoto 601-8550, Japan  
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### Discovery Research Laboratories in Tsukuba

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Ibaraki 305-0003, Japan  
Phone: +81-29-850-6216

### Odawara Central Factory

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Odawara 250-0861, Japan  
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### Chitose Synthesis Plant

1007-81, Izumisawa, Chitose,  
Hokkaido 066-0051, Japan  
Phone: +81-123-28-1220

### Chitose Functional Food Plant

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### Overseas Offices

#### Beijing Representative office

3015, Changfugong Office Building, No.26, Jian  
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100022, China

#### London Office

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Road, Chiswick, London, W4 5YA, UK

### Subsidiaries

#### Soie Pharmaceutical Co., Ltd.

3-1-11, Shioe, Amagasaki,  
Hyogo 661-0976, Japan  
Phone: +81-6-6499-2601  
Facsimile: +81-6-6499-8205

#### Tajima Shokuhin Kogyo Co., Ltd.

435, Higashishiba, Hidaka-cho, Toyooka,  
Hyogo 669-5328, Japan  
Phone: +81-796-42-1095  
Facsimile: +81-796-42-3763

#### NS Pharma, Inc.

Mack-Cali Centre III-South Tower, 2nd Floor  
140 East Ridgewood Avenue  
Paramus, NJ 07652, U.S.A.  
Phone: +1-201-986-3860  
Facsimile: +1-201-986-3865

#### Royal Co., Ltd.

14, Nishinosho-Monguchi-cho,  
Kisshoin, Minami-ku,  
Kyoto 601-8550, Japan  
Phone: +1-75-314-8258  
Facsimile: +1-75-314-7550



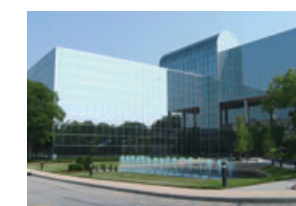
### Overseas Offices/Subsidiaries



Beijing Representative office



London Office



NS Pharma, Inc.

# Financial Section

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Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

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## Operating Results

### 1. Fundamental Policy Regarding Profit Sharing

Under our strategy to maximize corporate value, we strive to strengthen our business foundations by bolstering R&D to expand the pipeline for product development, and retaining sufficient earnings to enable us to maintain a corporate position to withstand increasingly competitive conditions. 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 fiscal year ended March 31, 2012, we issued an annual cash dividend of ¥19 per share, comprising an interim dividend of ¥9 per share and year-end dividend of ¥10 per share. For the fiscal year ending March 31, 2013, we are projecting an annual dividend of ¥21 per share, comprising an interim dividend of ¥10 per share and year-end dividend of ¥11 per share.

### 2. Financial Condition

Total assets increased by ¥3,567 million since March 31, 2011, to ¥106,305 million. While other current assets decreased, notes and accounts receivables together with cash and deposits increased, so that current assets rose by ¥5,583 million. Fixed assets decreased by ¥2,016 million since March 31, 2011.

Liabilities increased by ¥694 million since March 31, 2011, to ¥21,739 million. Notes and account payables decreased while income tax payable and other account payables increased, so that current debts increased by ¥1,059 million since March 31, 2011. Fixed debts decreased by ¥365 million since March 31, 2011. Equity increased by ¥2,873 million since March 31, 2011, to ¥84,566 million.

The equity ratio was 79.4%.

Net cash from operating activities amounted to ¥3,659 million. The main cash inflows were income before income taxes of ¥6,194 million and depreciation costs of ¥2,948 million, while the main outflows were an increase of account receivables of ¥4,414 million and income tax paid of ¥1,531 million.

Net cash used in investing activities amounted to ¥759 million. The main cash outflow was for the capital expenditures of ¥988 million, while the main cash inflow was the proceeds from redemption of marketable securities of ¥240 million.

Net cash expended for financing activities amounted to ¥1,341 million, primarily comprising cash payment of dividends.

As a result, cash and cash equivalents as of March 31, 2012 increased by ¥1,524 million year-on-year, to ¥19,666 million.

Nippon Shinyaku takes care to maintain a sound balance sheet and secure appropriate levels of liquidity and access to capital necessary to carry out our business activities.

### 3. Summary of Consolidated Business Results

Business conditions remained challenging in the pharmaceuticals and functional food segments, due to the continuing emphasis on measures to limit medical costs in the pharmaceuticals sector, and the continued strong trend toward low-cost foods in the food sector.

Under the circumstances, the Nippon Shinyaku Group recorded net sales of ¥67,305 million (up 5.9% year-on-year), operating profits of ¥6,013 million (up 16.1% year-on-year), and ordinary income of ¥6,194 million (up 13.1% year-on-year). Net income was ¥3,716 million (down 6.1% year-on-year), due to factors such as an increase in income tax adjustments necessitated by changes to the effective tax rate.

Following is a summary of the business results in each segment.

#### 1. Pharmaceuticals

In the pharmaceuticals segment, sales of Livostin® allergy remedy, Baynas® remedy for allergic rhinitis, and Hypen® non-steroidal analgesic and anti-inflammatory agent were down, while sales of Lunabell® dysmenorrhea remedy and Adcirca® treatment agent for pulmonary arterial hypertension were up. Sales of Vidaza® remedy for myelodysplastic syndrome, which was released in March 2011, contributed significantly to net sales, which amounted to ¥55,746 million (up 6.1% year-on-year).

#### 2. Functional Food

In the functional foods segment, both the processed food and health food sectors continued to be marked by challenging business conditions. However, we significantly increased our sales of health food ingredients together with nutritional ingredients and preservatives, and recorded strong sales of protein preparations. As a result, net sales in the functional foods segment were ¥11,558 million (up 5.4% year-on-year).

## Business Risks

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 beginning 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 Pharmaceutical Affairs 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.

In addition, there are intellectual property theft risks and product liability risks, that in some cases 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

The selling price of drugs used for medical care is 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 efficiency by concentrating its manufacturing facilities. At the same time, if operations at manufacturing facilities cease due to a natural disaster or other circumstance, it 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, 2012

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 10)	¥ 19,666	¥ 18,142	\$ 239,829
Time deposits (Note 10)	322	72	3,927
Marketable securities (Notes 3 and 10)		220	
Notes and accounts receivables (Note 10):			
Trade notes	240	199	2,927
Trade accounts	31,748	27,375	387,171
Other	84	233	1,024
<b>Total notes and accounts receivables</b>	<b>32,072</b>	<b>27,807</b>	<b>391,122</b>
Inventories (Note 4)	11,925	11,548	145,427
Deferred tax assets (Note 9)	1,635	1,519	19,939
Other current assets	713	1,442	8,695
<b>Total current assets</b>	<b>66,333</b>	<b>60,750</b>	<b>808,939</b>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>			
Land	8,031	8,119	97,939
Buildings and structures	26,147	26,077	318,866
Machinery, equipment, and vehicles	12,577	12,148	153,378
Tools, furniture, and fixtures	9,185	9,264	112,012
Construction in progress	1	203	12
<b>Total</b>	<b>55,941</b>	<b>55,811</b>	<b>682,207</b>
Accumulated depreciation	(38,105)	(36,988)	(464,695)
<b>Net property, plant, and equipment</b>	<b>17,836</b>	<b>18,823</b>	<b>217,512</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 10)	11,170	11,003	136,220
Long-term prepaid expenses	8,112	8,866	98,927
Deferred tax assets (Note 9)	200	450	2,439
Other assets	2,654	2,846	32,366
<b>Total investments and other assets</b>	<b>22,136</b>	<b>23,165</b>	<b>269,952</b>
<b>TOTAL</b>	<b>¥ 106,305</b>	<b>¥ 102,738</b>	<b>\$ 1,296,403</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payables (Note 10):			
Trade notes	¥ 1,414	¥ 1,160	\$ 17,244
Trade accounts	3,605	4,137	43,963
Other	3,104	2,806	37,854
<b>Total notes and accounts payables</b>	<b>8,123</b>	<b>8,103</b>	<b>99,061</b>
Income taxes payable (Note 10)	1,294	598	15,780
Accrued expenses	3,531	3,345	43,061
Deposits from customers	306	295	3,732
Other current liabilities	708	562	8,634
<b>Total current liabilities</b>	<b>13,962</b>	<b>12,903</b>	<b>170,268</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for retirement benefits (Note 5)	7,358	7,719	89,732
Other long-term liabilities	419	423	5,110
<b>Total long-term liabilities</b>	<b>7,777</b>	<b>8,142</b>	<b>94,842</b>
<b>EQUITY (Notes 6 and 12):</b>			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	5,174	5,174	63,098
Capital surplus	4,445	4,444	54,207
Retained earnings	73,542	71,109	896,854
Treasury stock - at cost, 2,757,573 shares in 2012 and 2,740,568 shares in 2011	(2,076)	(2,059)	(25,317)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,329	2,881	40,597
Deferred gain on derivatives under hedge accounting	2	2	24
Foreign currency translation adjustments	(41)	(36)	(500)
<b>Total</b>	<b>84,375</b>	<b>81,515</b>	<b>1,028,963</b>
<b>Minority interests</b>	<b>191</b>	<b>178</b>	<b>2,330</b>
<b>Total equity</b>	<b>84,566</b>	<b>81,693</b>	<b>1,031,293</b>
<b>TOTAL</b>	<b>¥ 106,305</b>	<b>¥ 102,738</b>	<b>\$ 1,296,403</b>

## Consolidated Financial Statements

### Consolidated Statement of Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>NET SALES</b> (Note 14)	¥ 67,305	¥ 63,525	\$ 820,792
<b>COST AND EXPENSES</b> (Note 14):			
Cost of sales	32,703	30,193	398,817
Selling, general, and administrative expenses (Note 7)	28,589	28,151	348,646
<b>Total</b>	61,292	58,344	747,463
<b>Operating income</b> (Note 14)	6,013	5,181	73,329
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	289	367	3,524
Interest expense	(9)	(10)	(109)
Other - net	(99)	397	(1,207)
<b>Other income - net</b>	181	754	2,208
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	6,194	5,935	75,537
<b>INCOME TAXES</b> (Note 9):			
Current	2,229	1,860	27,183
Deferred	230	100	2,805
<b>Total income taxes</b>	2,459	1,960	29,988
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	3,735	3,975	45,549
<b>MINORITY INTERESTS IN NET INCOME</b>	19	17	232
<b>NET INCOME</b>	¥ 3,716	¥ 3,958	\$ 45,317
		Yen	U.S. Dollars
<b>AMOUNTS PER COMMON SHARE</b> (Notes 2.p and 12):			
Basic net income	¥ 55.04	¥ 58.61	\$ 0.67
Cash dividends applicable to the year	19.00	19.00	0.23

See notes to consolidated financial statements.

### Consolidated Statement of Comprehensive Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	¥ 3,735	¥ 3,975	\$ 45,549
<b>OTHER COMPREHENSIVE INCOME</b> (Note 11):			
Unrealized gain (loss) on available-for-sale securities	448	(1,314)	5,463
Deferred loss on derivatives under hedge accounting		(1)	
Foreign currency translation adjustments	(5)	(11)	(61)
<b>Total other comprehensive income</b>	443	(1,326)	5,402
<b>COMPREHENSIVE INCOME</b> (Note 11)	¥ 4,178	¥ 2,649	\$ 50,951
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b> (Note 11):			
Owners of the parent	¥ 4,159	¥ 2,632	\$ 50,719
Minority interests	19	17	232

See notes to consolidated financial statements.

### Consolidated Statement of Changes in Equity

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2012

	Thousands		Millions of Yen							Minority Interests	Total Equity
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total		
BALANCE, APRIL 1, 2010	67,546	¥ 5,174	¥ 4,444	¥ 68,434	¥ (2,019)	¥ 4,195	¥ 3	¥ (25)	¥ 80,206	¥ 164	¥ 80,370
Net income				3,958					3,958		3,958
Cash dividends, ¥19.00 per share				(1,283)					(1,283)		(1,283)
Purchase of treasury stock	(36)				(41)				(41)		(41)
Disposal of treasury stock	1				1				1		1
Net change during the year						(1,314)	(1)	(11)	(1,326)	14	(1,312)
BALANCE, MARCH 31, 2011	67,511	5,174	4,444	71,109	(2,059)	2,881	2	(36)	81,515	178	81,693
Net income				3,716					3,716		3,716
Cash dividends, ¥19.00 per share				(1,283)					(1,283)		(1,283)
Purchase of treasury stock	(18)				(17)				(17)		(17)
Disposal of treasury stock	1		1						1		1
Net change during the year						448		(5)	443	13	456
BALANCE, MARCH 31, 2012	67,494	¥ 5,174	¥ 4,445	¥ 73,542	¥ (2,076)	¥ 3,329	¥ 2	¥ (41)	¥ 84,375	¥ 191	¥ 84,566

	Thousands of U.S. Dollars (Note 1)		Thousands of U.S. Dollars (Note 1)							Minority Interests	Total Equity
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total			
BALANCE, MARCH 31, 2011	\$ 63,098	\$ 54,195	\$ 867,183	\$ (25,110)	\$ 35,134	\$ 24	\$ (439)	\$ 994,085	\$ 2,171	\$ 996,256	
Net income			45,317					45,317		45,317	
Cash dividends, \$0.23 per share			(15,646)					(15,646)		(15,646)	
Purchase of treasury stock				(207)				(207)		(207)	
Disposal of treasury stock			12					12		12	
Net change during the year					5,463		(61)	5,402	159	5,561	
BALANCE, MARCH 31, 2012	\$ 63,098	\$ 54,207	\$ 896,854	\$ (25,317)	\$ 40,597	\$ 24	\$ (500)	\$ 1,028,963	\$ 2,330	\$ 1,031,293	

See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

 Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
 Years Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 6,194	¥ 5,935	\$ 75,537
Adjustments for:			
Income taxes - paid	(1,531)	(2,521)	(18,671)
Depreciation and amortization	2,948	3,116	35,951
Changes in assets and liabilities:			
Increase in trade notes and trade accounts receivables	(4,414)	(2,757)	(53,829)
Increase in inventories	(377)	(682)	(4,598)
Decrease in other current assets	610	401	7,439
(Decrease) increase in trade notes and trade accounts payables	(278)	606	(3,390)
Increase (decrease) in other current liabilities	308	(349)	3,756
Decrease in liability for retirement benefits	(361)	(511)	(4,402)
Other - net	560	(5)	6,829
<b>Total adjustments</b>	<b>(2,535)</b>	<b>(2,702)</b>	<b>(30,915)</b>
<b>Net cash provided by operating activities</b>	<b>3,659</b>	<b>3,233</b>	<b>44,622</b>
<b>INVESTING ACTIVITIES:</b>			
Proceeds from redemption of marketable securities	240	620	2,927
Capital expenditures	(988)	(1,589)	(12,049)
Purchases of investment securities	(5)	(568)	(61)
Proceeds from redemption and sales of investment securities	172	127	2,098
Purchases of software	(129)	(299)	(1,573)
Acquisition of license rights		(1,047)	
Other - net	(49)	(88)	(598)
<b>Net cash used in investing activities</b>	<b>(759)</b>	<b>(2,844)</b>	<b>(9,256)</b>
<b>FINANCING ACTIVITIES:</b>			
Cash dividends paid	(1,281)	(1,281)	(15,622)
Increase of treasury stock	(17)	(41)	(207)
Other - net	(43)	(71)	(525)
<b>Net cash used in financing activities</b>	<b>(1,341)</b>	<b>(1,393)</b>	<b>(16,354)</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>(35)</b>	<b>(302)</b>	<b>(427)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,524</b>	<b>(1,306)</b>	<b>18,585</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>18,142</b>	<b>19,448</b>	<b>221,244</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 19,666</b>	<b>¥ 18,142</b>	<b>\$ 239,829</b>

See 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 conformity with accounting principles generally accepted in Japan, which are different in certain respects as to 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 which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥82 to \$1, the approximate rate of exchange at March 31, 2012. 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, 2012 and 2011, include the accounts of the Company and its significant two domestic and one overseas subsidiaries (together, the "Companies"). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

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

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

## b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, and commercial paper, all of which mature or become due within three months of the date of acquisition.

## c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, which are not classified as held-to-maturity securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, 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 by the average cost method, or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

## e. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is principally computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 10 to 50 years for buildings and structures; from eight to ten years for machinery, equipment, and vehicles; and from four to six years for tools, furniture, and fixtures.

**f. Long-lived Assets**

The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**g. Retirement and Pension Plans**

Employees of the Company and domestic subsidiaries terminating their employment are entitled to lump-sum severance payments based on the rate of pay at the time of termination, length of service, and certain other factors. If the termination is involuntary or caused by death, the employees are entitled to greater payments than in the case of voluntary termination.

The Company has a cash balance pension plan, under which each participant has an account on which a fixed amount is contributed and interest added, which is calculated yearly based on a market-related interest rate with a certain minimum interest rate secured. The Company also has an unfunded retirement benefit plan for employees and a defined contribution pension plan to allow qualified persons aged from 60 to 64 years to receive postretirement benefits at their discretion. Consolidated domestic subsidiaries have unfunded retirement benefit plans.

**h. Asset Retirement Obligations**

In March 2008, the Accounting Standards Board of Japan published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation

cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**i. Allowance for Doubtful Accounts**

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

**j. Leases**

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

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

**k. Bonuses to Directors and Corporate Auditors**

Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

**l. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated 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 tax laws to the temporary differences.

**m. Foreign Currency Transactions**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**n. Foreign Currency Financial Statements**

The balance sheet accounts and revenue and expense accounts of the consolidated overseas subsidiary are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at historical rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

**o. Derivative Financial Instruments**

The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks related to the procurement of merchandise from overseas suppliers. The Company does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the 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.

**p. Per Share Information**

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

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

**q. Accounting Changes and Error Corrections**

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied with revision to current accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**r. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits** - On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000, and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

**(a) Treatment in the balance sheet**

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

**(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)**

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013, with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013, and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

**3. MARKETABLE AND INVESTMENT SECURITIES**

Marketable and investment securities as of March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	2011
<b>Current:</b>				
Government and corporate bonds	¥	¥	200	\$
Other			20	
<b>Total</b>	<b>¥</b>	<b>¥</b>	<b>220</b>	<b>\$</b>
<b>Non-current:</b>				
Equity securities	¥	¥	11,170	\$ 136,220
<b>Total</b>	<b>¥</b>	<b>¥</b>	<b>11,170</b>	<b>\$ 136,220</b>

The costs and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2012</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 5,949	¥ 4,886		¥ 10,835

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

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2012</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 72,549	\$ 59,585		\$ 132,134

Proceeds from sales of available-for-sale securities for the years ended March 31, 2012 and 2011, were ¥71 million (\$866 thousand) and ¥227 million, respectively. Gross realized loss (gains) on these sales, computed on the moving average cost basis, were ¥119 million (\$1,451 thousand) and (¥101 million) for the years ended March 31, 2012 and 2011, respectively.

**4. INVENTORIES**

Inventories at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	2011
Finished products and merchandise	¥ 6,844	¥ 6,909	\$ 83,464	
Work in process	1,436	1,391	17,512	
Raw materials	3,645	3,248	44,451	
<b>Total</b>	<b>¥ 11,925</b>	<b>¥ 11,548</b>	<b>\$ 145,427</b>	

**5. RETIREMENT BENEFITS**

The liability for employees' retirement benefits at March 31, 2012 and 2011, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	2011
Projected benefit obligation	¥ 26,147	¥ 26,750	\$ 318,866	
Fair value of plan assets	(12,990)	(12,722)	(158,415)	
Unrecognized actuarial loss	(5,507)	(5,972)	(67,158)	
Unrecognized prior service cost	(292)	(337)	(3,561)	
<b>Net liability</b>	<b>¥ 7,358</b>	<b>¥ 7,719</b>	<b>\$ 89,732</b>	

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	2011
Service cost	¥ 857	¥ 866	\$ 10,451	
Interest cost	531	535	6,476	
Expected return on plan assets	(506)	(496)	(6,171)	
Recognized actuarial loss	678	627	8,268	
Amortization of prior service cost	45	45	549	
Premiums for defined contribution pension plan and other	55	67	671	
<b>Net periodic benefit costs</b>	<b>¥ 1,660</b>	<b>¥ 1,644</b>	<b>\$ 20,244</b>	

Assumptions used for the years ended March 31, 2012 and 2011, are set forth as follows:

	2012	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	4.0%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	15 years	15 years

**6. EQUITY**

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

**(a) Dividends**

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

The Companies Act permits companies to distribute dividends in kind (noncash 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 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 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 ¥9,414 million (\$114,805 thousand) and ¥8,967 million for the years ended March 31, 2012 and 2011, respectively.

## 8. LEASES

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

Total rental expenses for the years ended March 31, 2012 and 2011, were ¥1,206 million (\$14,707 thousand) and ¥1,175 million, respectively.

Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases	
	Millions of Yen	Thousands of U.S. Dollars
	<b>2012</b>	
Due within one year	¥ 6	\$ 73
Due after one year	21	256
<b>Total</b>	<b>¥ 27</b>	<b>\$ 329</b>

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

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

#### Tools, furniture, and fixtures:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Acquisition cost	¥ 12	¥ 11	\$ 146	
Accumulated depreciation	11	9	134	
Net leased property	¥ 1	¥ 2	\$ 12	

#### Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Due within one year	¥ 1	¥ 1	\$ 12	
Due after one year		1		
<b>Total</b>	<b>¥ 1</b>	<b>¥ 2</b>	<b>\$ 12</b>	

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

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Depreciation expense	¥ 1	¥ 2	\$ 12	
Lease payments	¥ 1	¥ 2	\$ 12	

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

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2012 and 2011. The overseas subsidiary is subject to the income tax of the country in which it operates.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Deferred tax assets:				
Retirement benefits	¥ 2,652	¥ 3,165	\$ 32,341	
Accrued expenses	1,096	1,161	13,366	
Property, plant and equipment	69	80	841	
Other	1,175	1,175	14,329	
Less valuation allowance	(374)	(551)	(4,560)	
Deferred tax assets	<b>4,618</b>	<b>5,030</b>	<b>56,317</b>	
Deferred tax liabilities:				
Unrealized gain on available-for-sale securities	1,558	1,654	19,000	
Deferred gains on sales of property	1,196	1,373	14,585	
Other	29	34	354	
Deferred tax liabilities	<b>2,783</b>	<b>3,061</b>	<b>33,939</b>	
Net deferred tax assets	<b>¥ 1,835</b>	<b>¥ 1,969</b>	<b>\$ 22,378</b>	

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011, is as follows:

	2012	2011
Normal effective statutory tax rate	41.0%	41.0%
Expenses not deductible for income tax purposes	4.3	5.2
Income not taxable for income tax purposes	(1.4)	(2.1)
Increase in valuation allowance	(2.0)	(4.4)
Tax credits for research and development costs	(8.8)	(7.0)
Effect of tax rate reduction	6.0	
Other - net	0.6	0.3
Actual effective tax rate	<b>39.7%</b>	<b>33.0%</b>

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 36% afterwards. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012, by ¥155 million (\$1,890 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥371 million (\$4,524 thousand).

## 10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group policy for financial instruments

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

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Marketable securities, mainly certificate of deposits, are exposed to little or no risk of market price fluctuations. Investment securities, mainly equity instruments, are exposed to the risk of market price fluctuations. Marketable and investment securities, mainly held-to-maturity securities of customers and suppliers of the Companies, are exposed to the issuer's credit risk. Payment terms of payables, such as trade notes, trade accounts, other payables, and income taxes payable, are less than one year. Payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates. The Company's derivative transactions are specific foreign exchange forward contracts. The Company has entered into foreign exchange forward contracts to hedge foreign exchange risk specifically associated with imported merchandise, as requested by customers or based on 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 early. 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 exchange risk and interest rate risk)

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

derivatives only for the purpose of reducing market risks.

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

#### Liquidity risk management

Liquidity risk comprises the risk that the Companies cannot meet 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, 2012	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 19,666	¥ 19,666	
Time deposits	322	322	
Notes and accounts receivables	31,988	31,988	
Marketable and investment securities	10,835	10,835	
<b>Total</b>	<b>¥ 62,811</b>	<b>¥ 62,811</b>	

Notes and accounts payables	¥ 8,123	¥ 8,123	
Income taxes payable	1,294	1,294	
<b>Total</b>	<b>¥ 9,417</b>	<b>¥ 9,417</b>	

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

Notes and accounts payables	¥ 8,103	¥ 8,103	
Income taxes payable	598	598	
<b>Total</b>	<b>¥ 8,701</b>	<b>¥ 8,701</b>	

March 31, 2012	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 239,829	\$ 239,829	
Time deposits	3,927	3,927	
Notes and accounts receivables	390,098	390,098	
Marketable and investment securities	132,134	132,134	
<b>Total</b>	<b>\$ 765,988</b>	<b>\$ 765,988</b>	

#### Cash and cash equivalents, notes and accounts receivable

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

#### Marketable and investment securities

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

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

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

#### Derivatives

Fair value information for derivatives is omitted from disclosure because fair values and unrealized gains were immaterial for the years ended March 31, 2012 and 2011.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Investments in equity instruments that do not have a quoted market price in an active market	¥ 335	¥ 335	\$ 4,086

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

March 31, 2012	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 19,666			
Time deposits	322			
Notes and accounts receivables	31,988			
<b>Total</b>	<b>¥ 51,976</b>			

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

March 31, 2012	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	\$ 239,829			
Time deposits	3,927			
Notes and accounts receivables	390,098			
<b>Total</b>	<b>\$ 633,854</b>			

## 11. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrealized gain (loss) on available-for-sale securities:		
Gains arising during the year	¥ 233	\$ 2,842
Reclassification adjustments to profit or loss	119	1,451
Amount before income tax effect	352	4,293
Income tax effect	96	1,170
<b>Total</b>	<b>¥ 448</b>	<b>\$ 5,463</b>

Deferred gain (loss) on derivatives under hedge accounting:		
Gains arising during the year	¥ (1)	\$ (12)
Amount before income tax effect	(1)	(12)
Income tax effect	1	12
<b>Total</b>	<b>¥</b>	<b>\$</b>

Foreign currency translation adjustments:		
Adjustments arising during the year	¥ (5)	\$ (61)
Amount before income tax effect	(5)	(61)
<b>Total</b>	<b>¥ (5)</b>	<b>\$ (61)</b>

<b>Total other comprehensive income</b>	<b>¥ 443</b>	<b>\$ 5,402</b>
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The corresponding information for the year ended March 31, 2011, was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

## 12. NET INCOME PER SHARE

Net EPS for the years ended March 31, 2012 and 2011, was as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	

For the year ended March 31, 2012 - Basic EPS				
Net income available to common shareholders	¥ 3,716	67,502	¥ 55.04	\$ 0.67

For the year ended March 31, 2011 - Basic EPS				
Net income available to common shareholders	¥ 3,958	67,529	¥ 58.61	

Diluted net EPS is not disclosed because there are no dilutive securities outstanding.

### 13. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 28, 2012, the Company's shareholders approved the following:  
Payment of a year-end cash dividend of ¥10 (\$0.12) per share to holders of record at March 31, 2012, for a total of ¥675 million (\$8,231 thousand).

### 14. SEGMENT INFORMATION

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

#### 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. Therefore, the Companies' reportable segments consist of the 'Pharmaceuticals' industry and 'Functional Food' industry. 'Pharmaceuticals' industry consists of the manufacturing and sale of drugs for urological diseases, inflammation and allergy, hematologic malignancies, cardiovascular and metabolic diseases, gastrointestinal disorders, and others diseases. 'Functional Food' industry consists of the manufacturing and sale of health food ingredients, preservatives, protein preparations, nutritional ingredients, seasonings and spices, sterilization cleaning agents, and others.

#### 2. Methods of measurement for the amounts of sales, profit (loss), assets, and other items for each reportable segment

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

#### 3. Information about sales, profit (loss), assets, and other items is as follows.

	Millions of Yen				
	2012				
	Reportable Segment				
	Pharmaceuticals	Functional Food	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥ 55,747	¥ 11,558	¥ 67,305		¥ 67,305
Intersegment sales or transfers					
Total	55,747	11,558	67,305		67,305
Segment profit	5,571	442	6,013		6,013
Segment assets	66,299	8,068	74,367	¥ 31,938	106,305
Other:					
Depreciation	2,758	156	2,914	34	2,948
Increase in property, plant and equipment and intangible assets	885	83	968		968

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

	Thousands of U.S. Dollars				
	2012				
	Reportable Segment				
	Pharmaceuticals	Functional Food	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	\$ 679,841	\$ 140,951	\$ 820,792		\$ 820,792
Intersegment sales or transfers					
Total	679,841	140,951	820,792		820,792
Segment profit	67,939	5,390	73,329		73,329
Segment assets	808,525	98,390	906,915	\$ 389,488	1,296,403
Other:					
Depreciation	33,634	1,903	35,537	414	35,951
Increase in property, plant and equipment and intangible assets	10,793	1,012	11,805		11,805

Notes: Unallocated corporate assets included under "Reconciliations" for 2012 and 2011 are ¥31,938 million (\$389,488 thousand) and ¥30,850 million, respectively, and consist primarily of funds, such as cash equivalents, marketable securities, investment securities, assets of administrative functions, and deferred tax assets.

### Related Information

#### 1. Information about products and services

	Millions of Yen		
	2012		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥ 55,747	¥ 11,558	¥ 67,305

	Thousands of U.S. Dollars		
	2012		
	Pharmaceuticals	Functional Food	Total
Sales to external customers	\$ 679,841	\$ 140,951	\$ 820,792

#### 2. Information about geographical areas

##### (1) Sales

Information about geographic area is omitted, as sales to external customers located in Japan accounted for more than 90% of net sales presented in the consolidated statement of income for the year ended March 31, 2012.

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

Information about geographic area is omitted, as property, plant, and equipment located in Japan accounted for more than 90% of property, plant, and equipment presented in the consolidated balance sheet as of March 31, 2012.

#### 3. Information about major customers

Name of Customers	2012			Related Segment Name
	Sales			
	Millions of Yen	Thousands of U.S. Dollars		
MEDICEO CORPORATION	¥ 13,048	\$ 159,122		Pharmaceuticals
Alfresa Corporation	11,912	145,268		Pharmaceuticals
Suzuken Co., Ltd.	11,290	137,683		Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	6,888	84,000		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 consolidated subsidiaries as of March 31, 2012, 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 conformity 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 conformity 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 consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity 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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 29, 2012

Member of  
 Deloitte Touche Tohmatsu Limited

**Corporate Name**

Nippon Shinyaku Co., Ltd.

**Head Office**

14, Nishinosho-Monguchi-cho, Kisshoin,  
 Minami-ku, Kyoto 601-8550, Japan

**Issued and Outstanding Number of Shares**

70,251,484

**Founded**

November 20, 1911

Phone: +81-75-321-1111

Facsimile: +81-75-321-0678

**Number of Shareholders**

5,281

**Date of Incorporation**

October 1, 1919

**Independent and Certified Public Accountants**

Deloitte Touche Tohmatsu  
 Shijokarasuma FT Square  
 20, Naginataboko-cho, Karasuma-higashiiru,  
 Shijo-dori Shimogyo-ku, Kyoto 600-8008,  
 Japan

**Major Shareholders**

Meiji Yasuda Life Insurance Company  
 Japan Trustee Services Bank, Ltd. (Trust account)  
 The Master Trust Bank of Japan, Ltd. (Trust account)  
 The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
 The Bank of Kyoto, Ltd.  
 Nippon Life Insurance Company  
 PERSHING-DIV. OF DLJ SECS. CORP.  
 Tokio Marine & Nichido Fire Insurance Co.,Ltd.  
 Mitsubishi Corporation  
 Japan Trustee Services Bank, Ltd. (Trust account 9)

**Paid-in Capital**

¥5,174 million

**Representative Director**

Shigenobu Maekawa  
 President

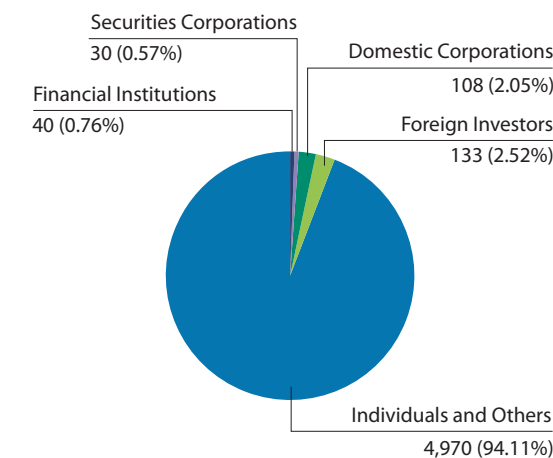
**Share Register**

Mitsubishi UFJ Trust and Banking Corporation  
 6-3, Fushimimachi 3-chome, Chuo-ku,  
 Osaka 541-0044, Japan

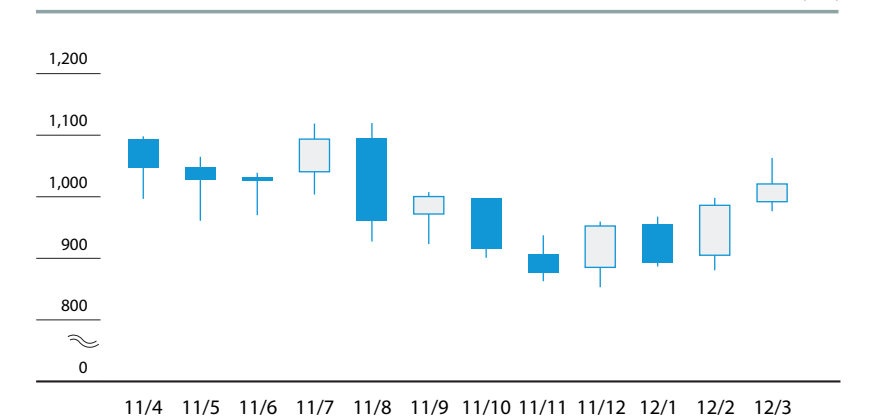
**Employees**

1,823

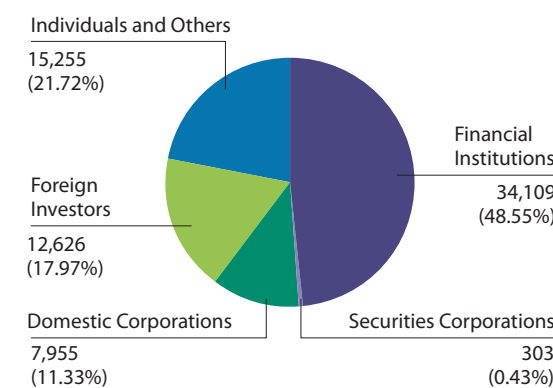
**Distribution of Shareholders**



**Stock Price**



**Distribution of Shares Issued (Thousands of shares)**



**Trading Volumes**

