

# Ten-Year Financial Data

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries

(FY)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
<b>For the year</b>										Millions of Yen	Thousands of U.S. Dollars
Net sales	67,304	69,941	76,517	79,991	84,209	98,781	101,448	114,716	116,637	121,885	1,108,045
Pharmaceuticals	55,746	58,318	63,345	66,340	70,489	85,315	87,416	100,223	101,643	106,478	967,981
Functional Food	11,558	11,622	13,172	13,651	13,720	13,466	14,031	14,492	14,994	15,406	140,054
Cost of sales	32,702	34,776	39,033	41,226	44,016	44,835	46,929	50,952	53,155	49,954	454,127
Gross profit	34,601	35,165	37,483	38,764	40,192	53,946	54,519	63,764	63,481	71,931	653,918
Total selling, general and administrative expenses	28,588	28,263	29,445	30,202	31,643	38,666	37,439	43,119	41,813	45,796	416,327
Selling, general and administrative expenses	19,174	19,214	19,914	21,233	21,904	23,762	24,217	26,418	27,819	29,692	269,927
R&D expenses	9,414	9,049	9,530	8,968	9,739	14,903	13,221	16,701	13,994	16,104	146,400
Operating income	6,012	6,901	8,038	8,562	8,549	15,280	17,079	20,644	21,668	26,134	237,581
Net income attributable to owners of the parent	3,715	4,647	5,750	5,882	6,340	11,749	12,953	16,302	16,866	20,702	188,200
Depreciation and amortization	2,948	2,759	2,704	2,665	2,452	2,648	2,773	3,418	3,468	3,550	32,272
Capital investment	967	1,332	1,072	1,239	3,554	3,949	2,811	1,242	2,500	2,583	23,481
Cash flows from operating activities	3,658	3,767	6,015	6,113	8,915	18,916	6,719	15,310	12,737	21,388	194,436
Cash flows from investing activities	(759)	(2,026)	(3,357)	(3,718)	(3,978)	(5,750)	(11,342)	511	(2,339)	(1,564)	(14,218)
Cash flows from financing activities	(1,341)	(1,413)	(1,606)	(1,773)	(1,907)	(2,193)	(3,787)	(3,708)	(5,660)	(6,199)	(56,354)
<b>End of the year</b>										Millions of Yen	Thousands of U.S. Dollars
Total assets	106,304	113,730	118,188	129,757	135,370	150,905	155,887	168,763	175,017	197,028	1,791,163
Interest-bearing debt	75	35	—	—	—	—	—	—	—	—	—
Net assets	84,566	89,529	93,186	101,207	102,762	114,316	125,689	135,190	145,760	162,543	1,477,663
<b>Financial information per share</b>										Yen	U.S. Dollars
Earnings per share	55.04	68.87	85.25	87.26	94.10	174.42	192.31	242.04	250.42	307.37	2.79
Net assets per share	1,250.11	1,323.87	1,378.93	1,498.88	1,522.33	1,693.81	1,862.54	2,003.39	2,160.11	2,409.01	21.9
Dividend per share	19	21	23	25	28	48	52	70	86	99	0.90
<b>Principal financial indicators</b>										%	%
Operating income to net sales	8.9	9.9	10.5	10.7	10.2	15.5	16.8	18.0	18.6	21.4	—
Equity ratio	79.4	78.5	78.7	77.8	75.8	75.6	80.5	80.0	83.1	82.4	—
Return on assets	5.8	6.3	6.9	7.0	6.5	10.8	11.2	12.7	12.6	14.0	—
Return on equity	4.5	5.4	6.3	6.1	6.2	10.8	10.8	12.5	12.0	13.5	—
Payout ratio	34.5	30.5	27.0	28.7	29.8	27.5	27.0	28.9	34.3	32.2	—

# Non-Financial Data



## Environment

### Material Flow Data (FY)

INPUT	Classification	2018	2019	2020	
Materials	Raw materials (t)	311	267	225	
	Packaging materials (t)	267	272	232	
	Energy	Electricity <sup>1</sup> (1,000 kWh)	15,058	14,987	15,251
		Heavy oil (kL)	0	0	0
		Kerosene (kL)	3	3	4
		City gas (1,000 m <sup>3</sup> )	1,640	1,629	1,549
		LPG (m <sup>3</sup> )	336	374	1
		Gasoline (kL)	899	600	389
		Diesel (kL)	1	2	2
	Water consumption	Tap water (1,000 m <sup>3</sup> )	66	59	59
Well water (1,000 m <sup>3</sup> )		138	123	101	
OUTPUT	Products				
	Shipped products (t)	524	484	461	
Gas & Water emissions	Transported products (10,000 t-km)	15	16	13	
	CO <sub>2</sub> emissions <sup>2</sup> (Scope 1,2)(t-CO <sub>2</sub> )	12,638	11,218	10,496	
Waste substances	Wastewater (1,000 m <sup>3</sup> )	204	182	161	
	Amount generated (t)	522	482	428	
Container and package recycling <sup>3</sup>	Final amount of landfilled waste (t)	1.5	3.01	3.93	
	Waste containers and packages (Amount contracted out as post-consumer recovered waste) (t)	201	201	195	
Class I Designated Chemical Substances handled <sup>4</sup>	Acetonitrile (kg)	6,930	3,558	5,557	
	Chloroform (kg)	305	344	124	
	Dichloromethane (kg)	2,256	3,004	2,075	
	N-hexane (kg)	2,492	1,983	2,697	

\*1 Electricity consumption increased due to a switch from a gas absorption-type air-conditioning system to an electric one at the Odawara Central Factory.  
 \*2 Despite the overall power consumption increase, CO<sub>2</sub> emissions decreased from the previous year as a result of the reduced use of other energy sources.  
 \*3 Waste containers and packaging (FY2019 entrusted amount for recycling)  
 \*4 Amount of Class I Designated Chemical Substances handled based on the transfer register system under PRTR law

### Putting Environmental Management System Certification into Action

Office name	Acquired certifications	Date of certification acquisition	Last 3rd-party review
Odawara Central Factory	ISO 14001	August 2004	February 2021 (Periodic review)
Head Office area business office	KES Step2 <sup>5</sup>	June 2012	August 2020 (Review for renewal)

\*5 KES: Abbreviation for Kyoto Environmental management system Standard

### Environmental Accounting (FY)

Environmental conservation costs (excluding our sales offices)	Costs	2019		2020	
		Investments	Expenses	Investments	Expenses
	Costs within our business areas (Thousands of yen)	182,129	231,657	209,596	241,856
	-Pollution prevention costs <sup>7</sup> (Thousands of yen)	30,700	25,384	19,000	53,301
	-Global environmental conservation costs <sup>8</sup> (Thousands of yen)	151,429	141,062	190,596	132,483
	-Resource recycling costs <sup>9</sup> (Thousands of yen)	0	65,211	0	56,072
	Upstream & downstream costs <sup>10</sup> (Thousands of yen)	0	4,768	0	4,845
	Management activity costs <sup>11</sup> (Thousands of yen)	19,049	78,362	0	79,246
	R&D costs (Thousands of yen)	0	0	0	0
	Social activity costs <sup>12</sup> (Thousands of yen)	0	1,995	0	1,173
	Environmental remediation costs (Thousands of yen)	0	84	0	164
	Total (Thousands of yen)	201,178	316,866	209,596	327,284

Environmental conservation benefits <sup>13</sup>	Benefit verification	2019	2020	Year on year change	Year on year rate
		CO <sub>2</sub> emissions (t-CO <sub>2</sub> )	11,218	10,496	-722
	-Electricity usage (1,000 kWh)	14,987	15,251	264	101.8%
	-Heavy oil & kerosene usage (kL)	3	4	1	142.1%
	-City gas & LPG usage (1,000 m <sup>3</sup> )	1,629	1,549	-80	95.1%
	-Gasoline & diesel usage (kL)	602	391	-211	64.9%
	Water consumption (main business locations) (1,000 m <sup>3</sup> )	182	161	-21	88.2%
	Waste substances generated (main business locations) (t)	482	428	-54	88.8%
	Final amount of landfilled waste (main business locations) (t)	3.0	3.9	0.9	130.6%

\*6 Costs aimed at reducing the environmental impact caused by business activities. We compiled them based on "Environmental Accounting Guidelines 2005" published by the Ministry of the Environment  
 \*7 Costs related to environmental damage prevention due to pollution such as water pollution, soil pollution, air pollution, etc.  
 \*8 Costs related to global warming prevention, energy-saving activities, etc.  
 \*9 Costs related to proper disposal of waste, recycling etc.  
 \*10 Consignment fee for recycling of containers and packaging (costs for collection and recycling of packaging containers for pharmaceuticals, etc. in Nippon Shinyaku), etc.  
 \*11 Costs related to maintenance and operation of EMS (Environmental Management System) and environmental education of employees  
 \*12 Costs related to offering classes to elementary schools in Kyoto city, greening in the workplace, regional cleanup activities, etc.  
 \*13 Corresponding to an increase or decrease in factors impacting the environment from the reference year: the decreased gasoline and diesel usage due to reduced external sales activities and increased internal work due to the COVID-19 pandemic.

	2016	2017	2018	2019	2020
<b>CO<sub>2</sub> emissions (t-CO<sub>2</sub>)</b>					
Main business locations <sup>14</sup>	10,165	10,609	10,129	9,435	9,181
Sales offices, etc.	2,772	2,705	2,509	1,783	1,315
<b>Supply chain emissions by scope (t-CO<sub>2</sub>)</b>					
Scope 1: Direct greenhouse gas (GHG) emissions from owned or controlled sources	—	—	—	5,063	4,396
Scope 2: Indirect emissions that occur through the use of purchased electricity, steam, and heat	—	—	—	6,155	6,101
Scope 3: Fuel- and energy-related activities not included in Scope 1 or Scope 2	—	—	—	1,019	1,037
Scope 3: Waste generated in operations	—	—	—	—	222
Scope 3: Business travel	—	—	—	—	235
Scope 3: Employee commuting	—	—	—	—	231
Scope 3: End-of-life treatment of sold products	—	—	—	160	159
<b>Total energy consumption (Thousands of GJ)</b>					
Main business locations <sup>14</sup>	199	209	212	211	210
Sales offices, etc.	43	43	40	30	23
<b>Electricity (1,000 kWh)</b>					
Main business locations <sup>14</sup>	13,039	13,980	14,180	14,109	14,305
Sales offices, etc.	974	969	878	878	946
<b>City gas (1,000 m<sup>3</sup>)</b>					
Main business locations <sup>14</sup>	1,586	1,619	1,639	1,627	1,546
Sales offices, etc.	3	3	2	2	2
<b>Water (1,000 m<sup>3</sup>)</b>					
Main business locations <sup>14</sup>	266	275	204	182	161
<b>Waste substances generated (t)</b>					
Head Office area	258	229	184.9	177	198
Odawara Central Factory	135.2	246	315.3	282	213
Discovery Research Laboratories in Tsukuba	31.3	31.9	21.5	23	18
<b>Handling amount of PRTR-regulated Class I Designated Chemical Substances (kg)</b>					
Acetonitrile	5,611	5,124	6,930	3,558	5,557
Chloroform	196	218	305	344	204
Dichloromethane	1,705	2,420	2,256	3,004	2,075
N-hexane	2,801	2,722	2,492	1,983	2,697

\*14 Main business locations: Head Office area, Odawara Central Factory, Discovery Research Laboratories in Tsukuba

## Social

### Employees & Promoting Women in the Workplace (persons) (FY)

	2016	2017	2018	2019	2020
<b>Number of employees (parent company)</b>	1,727	1,753	1,761	1,793	1,806
Number of female employees	478	488	494	516	529
Ratio of female employees (%)	27.7	27.8	28.1	28.8	29.3
<b>Number of executives</b>	555	566	555	554	555
Number of female executives	65	69	72	78	84
Ratio of female executives (%)	11.7	12.2	13.0	14.1	15.1
<b>Number of managers</b>	285	319	321	329	331
Number of female managers	14	17	25	32	34
Ratio of female managers (%)	4.9	5.3	7.8	9.7	10.3
<b>Number of recruits</b>	68	74	72	79	76
Number of female recruits	24	22	25	28	33
Ratio of female recruits (%)	35.3	29.7	34.7	35.4	43.4
Average number of years of service of female employees (years)	17.3	17.4	17.3	18.1	16.7
Average number of years of service of male employees (years)	17.4	17.6	17.5	17.7	17.6
Number of employees taking parental leave for childcare					
Male	2	0	0	7	14
Female	13	28	18	22	19
Paid annual leave acquisition rate (%)	62.7	64.2	70.6	71.3	63.5
Total annual working hours (hours)	1802.92	1806.32	1804.22	1791.6	1821.96
<b>Human Resources Development (times)</b>					
Training for new employees	1	1	1	1	1
Training for newly promoted managers	2	2	2	2	2

## Governance

### (FY)

	2016	2017	2018	2019	2020
<b>Number of directors (persons)</b>	9	10	12	12	12
Number of external directors	2	3	4	4	4
Number of female directors	0	1	1	1	3
Ratio of female directors (%)	0	10	8	8	25
<b>Number of auditors (persons)</b>	4	4	4	4	4
Number of external auditors	2	2	2	2	2
Ratio of external auditors (%)	50	50	50	50	50

# Management's Discussion and Analysis

## 1. Overview of Performance

In fiscal 2020, both society and the economy were significantly impacted worldwide as countries still struggled to contain the COVID-19 pandemic. The Japanese economy similarly was affected by a decelerating global economy and ongoing effects from the COVID-19 pandemic, and there remains a lack of visibility over the economic outlook both for Japan and the remainder of the world.

Conditions for the Nippon Shinyaku Group and broader pharmaceutical industry stayed harsh due to various measures to restrict healthcare spending in Japan, including the promotion of greater use of generics and annual NHI price revisions, as well as effects from the COVID-19 pandemic.

In the functional food business, there was strong demand for functional foods due to increased health consciousness. However, conditions remained challenging due to factors including low growth in spending by thrifty households, and the cancellation of sporting events and downturn in inbound demand caused by the COVID-19 pandemic.

Under such conditions, the Nippon Shinyaku Group focused on building public trust by honing its reputation as an essential supplier in the healthcare field with a meaningful role to play in society.

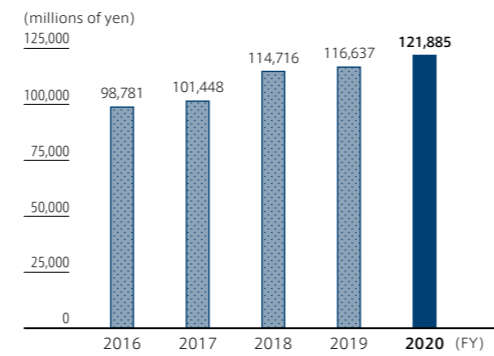
Net sales grew 4.5% to ¥121,885 million, as although the prescription pharmaceuticals business in Japan and functional food business both were affected by the COVID-19 pandemic, there were contributions from royalties on overseas sales of our original pulmonary arterial hypertension (PAH) treatment Upravi, as well as milestone payments for Upravi and higher sales of new prescription pharmaceuticals in Japan. In terms of profits, operating income increased 20.6% to ¥26,134 million as higher sales and an improved product mix led to a decline in the cost-of-sales ratio, while ordinary income increased 19.2% to ¥26,760 million, and net income attributable to owners of the parent increased 22.7% to ¥20,702 million.

## 2. Overview by Segment

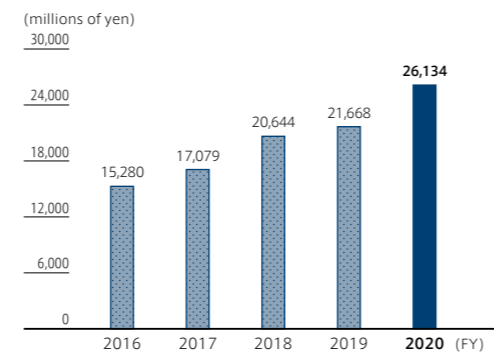
### 1 Pharmaceuticals

In fiscal 2020, the prescription pharmaceuticals business posted royalties on overseas sales of Upravi, higher sales for new products including Defitelio, a treatment for sinusoidal obstruction syndrome (hepatic veno-occlusive disease), Gazyva (CD20-positive follicular lymphoma treatment), and Upravi, and growth in co-promotion revenues. There were further contributions from milestone revenues for Upravi, and from Viltepso, the Duchenne muscular dystrophy (DMD) treatment launched in Japan in May 2020 and the U.S. that August. As a result, net sales increased 4.8% year on year to ¥106,478 million.

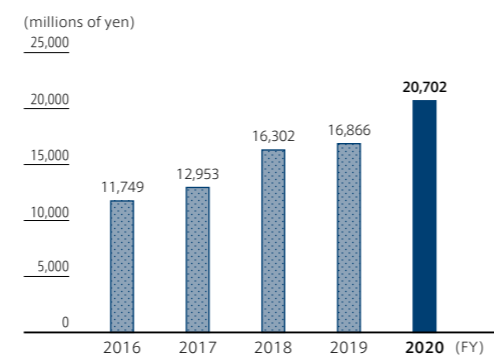
### Net sales



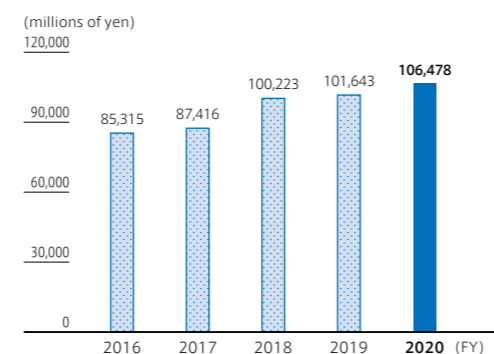
### Operating income



### Net income attributable to owners of the parent



### Pharmaceuticals



### 2 Functional Food

Net sales increased 2.8% year on year to ¥15,406 million, due to increased sales of protein preparations, preservatives and other products.

### 3. Financial Condition

#### (Assets)

Current assets totaled ¥139,090 million at the fiscal year-end, due to an increase in cash and cash equivalents and in inventories compared to the previous fiscal year-end, more than offsetting a reduction in notes and accounts receivable. Fixed assets increased to ¥57,937 million, mainly due to an increase in investment securities and long-term prepaid expenses. As a result, total assets increased by ¥22,011 million compared to the previous fiscal year-end, to ¥197,028 million.

#### (Liabilities)

Current liabilities totaled ¥31,514 million due to an increase in income taxes payable and other payables, despite a decrease in notes and accounts payable compared to the previous fiscal year-end. Long-term liabilities totaled ¥2,970 million, due to a decrease in liability for retirement benefits.

As a result, total liabilities increased by ¥5,228 million compared to the previous fiscal year-end, to ¥34,485 million.

#### (Equity)

Equity increased by ¥14,502 million compared to the previous fiscal year-end, to ¥154,535 million. Accumulated other comprehensive income increased by ¥2,261 million to ¥7,719 million. As a result, total equity increased by ¥16,782 million to ¥162,543 million.

### Cash Flows

Cash and cash equivalents as of March 31, 2021 increased by ¥13,584 million compared to the previous fiscal year-end, to ¥57,883 million.

#### (Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥21,388 million. The main cash inflows were ¥28,759 million from income before income taxes; depreciation and amortization of ¥3,550 million; and an increase of ¥1,523 million in other current liabilities. The main cash outflows were an increase in inventories of ¥5,629 million and income tax payments of ¥4,304 million.

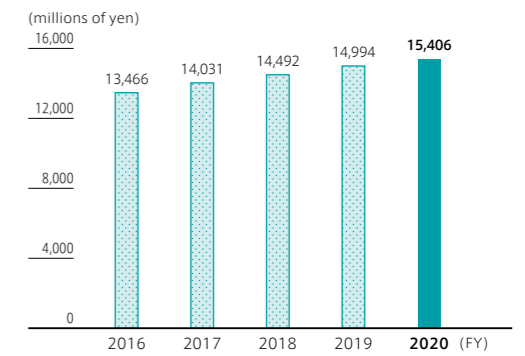
#### (Cash flows from investing activities)

Net cash used in investing activities amounted to ¥1,564 million. The main components of net cash outflow were expenditures of ¥2,168 million for property, plant and equipment and of ¥694 million for long-term prepaid expenses.

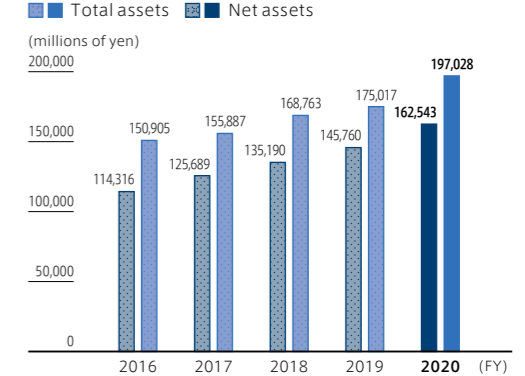
#### (Cash flows from financing activities)

Net cash used in financing activities amounted to ¥6,199 million, primarily comprising cash dividends paid.

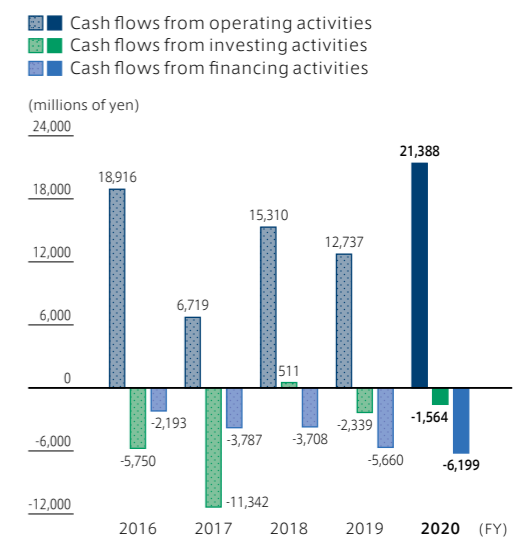
### Functional Food



### Total assets / Net assets



### Cash flows from operating activities / Cash flows from investing activities / Cash flows from financing activities



# Consolidated Financial Statements

## Consolidated Balance Sheet

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 10)	¥ 57,963	¥ 44,298	\$ 509,663
Time deposits (Note 10)	807	807	7,336
Marketable securities (Notes 3 and 10)	2,029	2,010	35,718
Notes and accounts receivables (Note 10):			
Trade notes	530	599	4,818
Trade accounts	39,267	40,923	356,972
Other	487	890	4,427
<b>Total notes and accounts receivables</b>	<b>40,285</b>	<b>42,412</b>	<b>366,227</b>
Inventories (Note 4)	35,524	29,894	322,945
Other current assets	2,481	2,502	22,554
<b>Total current assets</b>	<b>139,090</b>	<b>121,925</b>	<b>1,264,454</b>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>			
Land	7,430	7,459	67,545
Buildings and structures	28,287	27,792	257,154
Machinery, equipment, and vehicles	12,811	12,444	116,463
Tools, furniture, and fixtures	9,408	8,955	85,527
Construction in progress	451	305	4,100
<b>Total</b>	<b>58,390</b>	<b>56,957</b>	<b>530,818</b>
Accumulated depreciation	(37,083)	(36,012)	(337,118)
<b>Net property, plant, and equipment</b>	<b>21,306</b>	<b>20,944</b>	<b>193,690</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 10)	22,113	18,909	201,027
Long-term prepaid expenses	9,390	8,631	85,363
Deferred tax assets (Note 9)	1,518	1,726	13,800
Other assets	3,608	2,878	32,800
<b>Total investments and other assets</b>	<b>36,631</b>	<b>32,146</b>	<b>333,009</b>
<b>TOTAL</b>	<b>¥197,028</b>	<b>¥175,017</b>	<b>\$1,791,163</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payables (Note 10):			
Trade notes	¥ 1,787	¥ 1,777	\$ 16,245
Trade accounts	7,755	9,435	70,500
Other	7,071	4,831	64,281
<b>Total notes and accounts payables</b>	<b>16,615</b>	<b>16,045</b>	<b>151,045</b>
Income taxes payable (Note 10)	6,679	2,081	60,718
Accrued expenses	4,463	4,492	40,572
Deposits from customers	211	209	1,918
Other current liabilities	3,544	2,137	32,218
<b>Total current liabilities</b>	<b>31,514</b>	<b>24,965</b>	<b>286,490</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for retirement benefits (Note 5)	2,646	3,956	24,054
Deferred tax liabilities (Note 9)		9	
Other long-term liabilities	324	324	2,945
<b>Total long-term liabilities</b>	<b>2,970</b>	<b>4,290</b>	<b>27,000</b>
<b>EQUITY (Notes 6 and 13):</b>			
Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares	5,174	5,174	47,036
Capital surplus	4,445	4,445	40,409
Retained earnings	147,391	132,886	1,339,918
Treasury stock – at cost, 2,898,183 shares in 2021 and 2,897,768 shares in 2020	(2,476)	(2,473)	(22,509)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,911	6,929	81,009
Deferred gain on derivatives under hedge accounting	11	7	100
Foreign currency translation adjustments	(96)	(3)	(872)
Defined retirement benefit plans	(1,107)	(1,475)	(10,063)
<b>Total</b>	<b>162,254</b>	<b>145,491</b>	<b>1,475,036</b>
Noncontrolling interests	288	269	2,618
<b>Total equity</b>	<b>162,543</b>	<b>145,760</b>	<b>1,477,663</b>
<b>TOTAL</b>	<b>¥197,028</b>	<b>¥175,017</b>	<b>\$1,791,163</b>



## Consolidated Financial Statements

### Consolidated Statement of Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>NET SALES</b> (Note 14)	<b>¥ 121,885</b>	<b>¥ 116,637</b>	<b>\$ 1,108,045</b>
<b>COST AND EXPENSES:</b>			
Cost of sales	49,954	53,155	454,127
Selling, general, and administrative expenses (Notes 7 and 8)	45,796	41,813	416,327
<b>Total</b>	<b>95,750</b>	<b>94,969</b>	<b>870,454</b>
<b>Operating income</b> (Note 14)	<b>26,134</b>	<b>21,668</b>	<b>237,581</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	531	574	4,827
Interest expense	(2)	(2)	(18)
Other—net	2,095	202	19,045
<b>Other income—net</b>	<b>2,624</b>	<b>774</b>	<b>23,854</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>28,759</b>	<b>22,442</b>	<b>261,445</b>
<b>INCOME TAXES</b> (Note 9):			
Current	8,821	4,732	80,190
Deferred	(783)	821	(7,118)
<b>Total income taxes</b>	<b>8,038</b>	<b>5,553</b>	<b>73,072</b>
<b>NET INCOME</b>	<b>20,721</b>	<b>16,888</b>	<b>188,372</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>18</b>	<b>22</b>	<b>163</b>
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<b>¥ 20,702</b>	<b>¥ 16,866</b>	<b>\$ 188,200</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.p and 12):			
Basic net income	¥ 307.37	¥ 250.42	\$ 2.79
Cash dividends applicable to the year	99.00	86.00	0.90

See notes to consolidated financial statements.

### Consolidated Statement of Comprehensive Income

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>NET INCOME</b>	<b>¥ 20,721</b>	<b>¥ 16,888</b>	<b>\$ 188,372</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 11):			
Unrealized gain (loss) on available-for-sale securities	1,982	(2,510)	18,018
Deferred gains on derivatives under hedge accounting	4	12	36
Foreign currency translation adjustments	(92)	(3)	(836)
Defined retirement benefit plans	367	1,851	3,336
<b>Total other comprehensive income (loss)</b>	<b>2,261</b>	<b>(650)</b>	<b>20,554</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>¥ 22,982</b>	<b>¥ 16,237</b>	<b>\$ 208,927</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>			
Owners of the parent	¥ 22,963	¥ 16,215	\$ 208,754
Noncontrolling interests	18	22	163

See notes to consolidated financial statements.

### Consolidated Statement of Changes in Equity

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Thousands		Millions of Yen								Non-controlling Interest	Total Equity	
	Outstanding Number of Shares of Common Stock	Common Stock	Accumulated Other Comprehensive Income						Total				
			Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments		Defined Retirement Benefit Plans			
BALANCE, APRIL 1, 2019	67,354	¥ 5,174	¥ 4,445	¥ 121,677	¥ (2,469)	¥ 9,440	¥ (5)	¥ (3,326)	¥ 134,936	¥ 253	¥ 135,190		
Net income attributable to owners of the parent				16,866					16,866		16,866		
Cash dividends, ¥84.00 per share				(5,657)					(5,657)		(5,657)		
Purchase of treasury stock						(3)			(3)		(3)		
Net change during the year							(2,510)	12	¥(3)	1,851	(650)	16	(634)
BALANCE, MARCH 31, 2020	67,354	5,174	4,445	132,886	(2,473)	6,929	7	(3)	(1,475)	145,491	269	145,760	
Net income attributable to owners of the parent				20,702					20,702		20,702		
Cash dividends, ¥92.00 per share				(6,196)					(6,196)		(6,196)		
Purchase of treasury stock						(3)			(3)		(3)		
Net change during the year							1,982	4	(92)	367	2,261	18	2,280
BALANCE, MARCH 31, 2021	67,354	¥ 5,174	¥ 4,445	¥ 147,391	¥ (2,476)	¥ 8,911	¥ 11	¥ (96)	¥ (1,107)	¥ 162,254	¥ 288	¥ 162,543	

	Thousands of U.S. Dollars (Note 1)		Millions of Yen								Non-controlling Interest	Total Equity
	Common Stock	Capital Surplus	Accumulated Other Comprehensive Income						Total			
			Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				
BALANCE, MARCH 31, 2020	\$47,036	\$40,409	\$1,208,054	\$(22,481)	\$62,990	\$ 63	\$ (27)	\$(13,409)	\$1,322,645	\$2,445	\$1,325,090	
Net income attributable to owners of the parent			188,200						188,200		188,200	
Cash dividends, \$0.83 per share			(56,327)						(56,327)		(56,327)	
Purchase of treasury stock				(27)					(27)		(27)	
Net change during the year					18,018	36	(836)	3,336	20,554	163	20,727	
BALANCE, MARCH 31, 2021	\$47,036	\$40,409	\$1,339,918	\$(22,509)	\$81,009	\$100	\$(872)	\$(10,063)	\$1,475,036	\$2,618	\$1,477,663	

See notes to consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Cash Flows

Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥28,759	¥22,442	\$261,445
Adjustments for:			
Income taxes—paid	(4,304)	(6,235)	(39,127)
Depreciation and amortization	3,550	3,468	32,272
Changes in assets and liabilities:			
Decrease in trade notes and trade accounts receivables	1,724	5,033	15,672
Increase in inventories	(5,629)	(10,521)	(51,172)
Decrease (increase) in other current assets	21	(442)	190
(Decrease) increase in trade notes and trade accounts payables	(1,669)	3,227	(15,172)
Increase (decrease) in other current liabilities	1,003	(116)	9,118
Increase in asset for retirement benefits	(1,858)		(16,890)
Increase (decrease) in liability for retirement benefits	457	(1,222)	4,154
Other—net	(665)	(2,895)	(6,045)
<b>Total adjustments</b>	<b>(7,370)</b>	<b>(9,704)</b>	<b>(67,000)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>21,388</b>	<b>12,737</b>	<b>194,436</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant, and equipment	(2,168)	(1,817)	(19,709)
Purchases of investment securities	(1,102)	(62)	(10,018)
Purchases of software	(310)	(319)	(2,818)
Purchase of long-term prepaid expenses	(694)	(1,315)	(6,309)
Other—net	2,711	1,176	24,645
<b>Net cash provided by (used in) investing activities</b>	<b>(1,564)</b>	<b>(2,339)</b>	<b>(14,218)</b>
<b>FINANCING ACTIVITIES:</b>			
Cash dividends paid	(6,196)	(5,651)	(56,327)
Increase in treasury stock	(3)	(3)	(27)
Other—net		(5)	
<b>Net cash provided by (used in) financing activities</b>	<b>(6,199)</b>	<b>(5,660)</b>	<b>(56,354)</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>(40)</b>	<b>(72)</b>	<b>(363)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>13,584</b>	<b>4,665</b>	<b>123,490</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>44,298</b>	<b>39,632</b>	<b>402,709</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥57,883</b>	<b>¥44,298</b>	<b>\$526,209</b>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

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. Japanese yen figures of less than one million yen are rounded down to the nearest million, except for per share data. 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 ¥110 to \$1, the approximate rate of exchange at March 31, 2021. U.S. dollar figures of less than one thousand dollars are rounded down to the nearest thousand, except for per share data. 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, 2021 and 2020, include the accounts of the Company and its three domestic subsidiaries and one overseas subsidiary (collectively, the "Companies").

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

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

Among the consolidated subsidiaries, NS Pharma, Inc. has a fiscal year ending on December 31, and consolidated financial statements were previously prepared using the financial statement of this company as of that fiscal year-end date. Adjustments were previously made to the consolidated accounts to account for significant transactions involving the company that occur between the end of the company's fiscal year-end date and the end of the consolidated fiscal year. As the external sales started recording from the current fiscal year, NS Pharma, Inc. changed the method to a provisional settlement method on the consolidated closing date from the current fiscal year in order to grasp management information and to disclose the consolidated financial statements in more appropriate manners. As a result of this change, the

subsidiary's operating results for the 15-month period from January 1, 2020 to March 31, 2021 were included in the consolidated statement of income. The subsidiary's net sales from January 1, 2020 to March 31, 2020 were ¥612 million, operating income was ¥50 million, and income before income taxes was ¥50 million in the stand-alone financial statements.

- b. **Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and 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, for which management has the positive intent and ability to hold to maturity, are reported at amortized cost and ii) available-for-sale securities that are not classified as held-to-maturity securities, except for nonmarketable available-for-sale securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in 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 determined principally by the moving-average method. Write-downs are recorded in earnings for securities with a significant decline in value that is considered to be other than temporary.
- d. **Inventories** - Inventories held for sale in the ordinary course of business are measured at the lower of cost, determined mainly by the average cost method, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.
- e. **Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Companies is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and structures, from 8 to 10 years for machinery, equipment, and vehicles, and from 4 to 6 years for tools, furniture, and fixtures.
- f. **Long-term Prepaid Expenses** - Long-term prepaid expenses are amortized by the straight-line method principally over 5 to 20 years, based on the term of validity of contracts.
- g. **Long-Lived Assets** - The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

## Notes to Consolidated Financial Statements

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

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

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

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

**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 income tax rates to the temporary differences.

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

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

**o. Derivative Financial Instruments** - The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency exchange risks related to the procurement of merchandise from overseas suppliers. The Company does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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

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

**q. Accounting Changes and Error Corrections** - Under Accounting Standards Board of Japan ("ASBJ") Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are 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.

**r. New Accounting Pronouncements** - On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and the application is expected to have an immaterial impact on the consolidated financial statements.

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020.

The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and the application is expected to have an immaterial impact on the consolidated financial statements.

**s. Accounting Estimates of the Impact of COVID-19** - Although there are uncertain factors regarding the impact of COVID-19, the Companies assume that the impact on business performance of the Companies is limited and that the impact on accounting estimates will not be significant.

## 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Equity securities			
Government and corporate bonds	¥ 2,000	¥ 2,010	\$ 18,181
Other	29		263
Total	¥ 2,029	¥ 2,010	\$ 18,445
Noncurrent:			
Equity securities	¥ 21,451	¥ 18,317	\$ 195,009
Government and corporate bonds	662	562	6,018
Other		29	
Total	¥ 22,113	¥ 18,909	\$ 201,027

The costs and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020, were as follows:

March 31, 2021	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,909	¥ 12,542		¥ 21,451
Held-to-maturity	2,692		¥ 4	2,687

March 31, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	8,576	9,741		18,317
Held-to-maturity	2,602		4	2,598

March 31, 2021	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 80,990	\$ 114,018		\$ 195,009
Held-to-maturity	24,472		\$ 36	24,427

## 4. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products and merchandise	¥ 18,292	¥ 15,179	\$ 166,290
Work in process	6,940	4,618	63,090
Raw materials and supplies	10,291	10,096	93,554
Total	¥ 35,524	¥ 29,894	\$ 322,945



## Notes to Consolidated Financial Statements

### 5. RETIREMENT AND PENSION PLANS

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

#### 1. Defined Benefit Pension Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 25,567	¥ 29,601	\$ 232,427
Current service cost	1,053	1,141	9,572
Interest cost	142	164	1,290
Actuarial (gains) losses	82	(3,659)	745
Benefits paid	(1,611)	(1,680)	(14,645)
Balance at end of year	¥ 25,233	¥ 25,567	\$ 229,390

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥ 21,610	¥ 21,758	\$ 196,454
Expected return on plan assets	864	870	7,854
Actuarial (gains) losses	344	(1,452)	3,127
Contributions from the employer	1,989	2,112	18,081
Benefits paid	(1,601)	(1,677)	(14,554)
Balance at end of year	¥ 23,207	¥ 21,610	\$ 210,972

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Defined benefit obligation	¥ 22,586	¥ 23,075	\$ 205,327
Plan assets	(23,207)	(21,610)	(210,972)
	(621)	1,465	(5,645)
Unfunded defined benefit obligation	2,646	2,491	24,054
Net liability arising from defined benefit obligation	¥ 2,025	¥ 3,956	\$ 18,409

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Defined benefit asset	¥ (621)		\$ (5,645)
Liability for retirement benefits	2,646	¥ 3,956	24,054
Net liability arising from defined benefit obligation	¥ 2,025	¥ 3,956	\$ 18,409

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥ 1,053	¥ 1,141	\$ 9,572
Interest cost	142	164	1,290
Expected return on plan assets	(864)	(870)	(7,854)
Amortization of prior service cost	267	456	2,427
Others	46	58	418
Net periodic benefit costs	¥ 645	¥ 950	\$ 5,863

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial (gains) losses	¥ (529)	¥ (2,663)	\$ (4,809)
Total	¥ (529)	¥ (2,663)	\$ (4,809)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial losses	¥ 1,593	¥ 2,122	\$ 14,481
Total	¥ 1,593	¥ 2,122	\$ 14,481

#### (7) Plan assets

a. Components of plan assets  
Plan assets as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Domestic bonds	9.4%	14.5%	
Domestic stocks	8.3	8.0	
Foreign bonds	12.4	13.1	
Foreign stocks	5.7	5.7	
General accounts	42.1	37.8	
Alternative	17.0	13.9	
Others	5.1	7.0	
Total	100.0%	100.0%	

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

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

(8) Assumptions used for the years ended March 31, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	0.2-0.6%	0.2-0.6%
Expected rate of return on plan assets	4.0	4.0

#### 2. Defined Contribution Pension Plan

Premiums for the defined contribution pension plan were ¥103 million (\$936 thousand) and ¥89 million for the years ended March 31, 2021 and 2020, respectively.

### 6. EQUITY

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

#### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividends upon resolution at the shareholders meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts with equity under certain conditions upon resolution of the shareholders.

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

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### 7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥16,104 million (\$145,408 thousand) and ¥13,994 million for the years ended March 31, 2021 and 2020, respectively.

### 8. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2021 and 2020, were ¥1,309 million (\$11,906 thousand) and ¥1,289 million, respectively.

Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases	
	Millions of Yen	Thousands of U.S. Dollars
	2021	
Due within one year	¥ 34	\$ 309
Due after one year	41	373
Total	¥ 76	\$ 691



## Notes to Consolidated Financial Statements

### 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Liability for retirement benefits	¥1,189	¥ 1,210	\$10,809
Accrued expenses	1,155	1,117	10,500
Property, plant, and equipment	30	30	272
Supplies	1,964	1,505	17,854
License	1,257	1,272	11,427
Sales recognition for tax purposes	409		3,718
Tax loss carryforwards	558		5,072
Other	982	673	8,927
Total of tax loss carryforwards and temporary differences	7,547	5,810	68,609
Less valuation allowance for temporary differences	(294)	(295)	(2,672)
Less valuation allowance for tax loss carryforwards	(558)		(5,072)
Total valuation allowance	(853)	(295)	(7,754)
Deferred tax assets	6,127	5,514	55,700
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	3,630	2,811	33,000
Deferred gains on sales of property	956	961	8,690
Defined benefit asset	566		5,145
Other	22	24	200
Deferred tax liabilities	5,176	3,797	47,054
Net deferred tax assets	¥1,518	¥ 1,717	\$13,800

Note: Valuation allowance has increased by ¥557 million. This increase was mainly due to an increase in the valuation allowance for tax loss carryforwards of consolidated subsidiaries.

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2021, were as follows:

	Millions of Yen						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards						¥ 558	¥ 558
Less valuation allowances for tax loss carryforwards						(558)	(558)
Net deferred tax assets relating to tax loss carryforwards							

	Thousands of U.S. Dollars						
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards						\$ 5,072	\$ 5,072
Less valuation allowances for tax loss carryforwards						(5,072)	(5,072)
Net deferred tax assets relating to tax loss carryforwards							

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2021, with the corresponding figures for 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.2	0.5
Income not taxable for income tax purposes	(0.4)	(0.5)
Tax credits for research and development costs	(5.5)	(5.7)
Inhabitant tax on per capita basis	0.2	0.3
Increase (decrease) in valuation allowance	1.9	(0.1)
Other—net	1.0	(0.3)
Actual effective tax rate	27.9%	24.7%

### 10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### (1) Group policy for financial instruments

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

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

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

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

The Company's derivative transactions are comprised of specific foreign exchange forward contracts. The Company has entered into foreign exchange forward contracts, as requested by customers

or based on the judgment of the purchasing department, to hedge foreign currency exchange risk specifically associated with imported merchandise. 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 based on internal guidelines, which include monitoring payment terms and balances of major customers by the business administration and finance and accounting departments to identify the default risk of customers in advance. With respect to held-to-maturity financial investments, the Companies manage their exposure to credit risk by limiting their funding to high credit rating bonds in accordance with their internal guidelines.

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

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

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

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

##### Liquidity risk management

Liquidity risk includes 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

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2021			
Cash and cash equivalents	¥ 57,963	¥ 57,963	
Time deposits	807	807	
Notes and accounts receivables	40,285	40,285	
Marketable and investment securities	22,885	22,881	¥ (4)
Total	¥121,941	¥121,936	¥ (4)
Notes and accounts payables	¥ 16,615	¥ 16,615	
Income taxes payable	6,679	6,679	
Total	¥ 23,294	¥ 23,294	

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2020			
Cash and cash equivalents	¥ 44,298	¥ 44,298	
Time deposits	807	807	
Notes and accounts receivables	42,412	42,412	
Marketable and investment securities	20,590	20,586	¥ (4)
Total	¥ 108,108	¥ 108,104	¥ (4)
Notes and accounts payables	¥ 16,045	¥ 16,045	
Income taxes payable	2,081	2,081	
Total	¥ 18,126	¥ 18,126	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2021			
Cash and cash equivalents	\$ 526,936	\$ 526,936	
Time deposits	7,336	7,336	
Notes and accounts receivables	366,227	366,227	
Marketable and investment securities	208,045	208,009	\$ (36)
Total	\$1,108,554	\$1,108,509	\$ (36)
Notes and accounts payables	\$ 151,045	\$ 151,045	
Income taxes payable	60,718	60,718	
Total	\$ 211,763	\$ 211,763	

##### Cash and Cash Equivalents

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

##### Marketable and Investment Securities

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

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

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

##### Derivatives

Fair value information for derivatives is omitted because fair values and unrealized gains were immaterial for the years ended March 31, 2021 and 2020.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥1,258	¥329	\$11,436

## Notes to Consolidated Financial Statements

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

March 31, 2021	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 57,963			
Time deposits	807			
Notes and accounts receivables	40,285			
Marketable and investment securities:				
Held-to-maturity securities	2,030	¥ 360	¥ 300	
<b>Total</b>	<b>¥101,085</b>	<b>¥ 360</b>	<b>¥ 300</b>	

March 31, 2020	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 44,298			
Time deposits	807			
Notes and accounts receivables	42,412			
Marketable and investment securities:				
Held-to-maturity securities	2,010	¥ 290	¥ 300	
<b>Total</b>	<b>¥ 89,528</b>	<b>¥ 290</b>	<b>¥ 300</b>	

March 31, 2021	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	\$ 526,936			
Time deposits	7,336			
Notes and accounts receivables	366,227			
Marketable and investment securities:				
Held-to-maturity securities	18,454	\$ 3,272	\$ 2,727	
<b>Total</b>	<b>\$ 918,954</b>	<b>\$ 3,272</b>	<b>\$ 2,727</b>	

### 11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥4,737	¥(3,261)	\$43,063
Reclassification adjustments to profit or loss	(1,936)	(277)	(17,600)
Amount before income tax effect	2,801	(3,539)	25,463
Income tax effect	(819)	1,028	(7,445)
<b>Total</b>	<b>¥1,982</b>	<b>¥(2,510)</b>	<b>\$18,018</b>

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred gain (loss) on derivatives under hedge accounting:			
Gains arising during the year	¥ 6	¥ 17	\$ 54
<b>Total</b>	<b>¥ 4</b>	<b>¥ 12</b>	<b>\$ 36</b>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (92)	¥ (3)	\$ (836)
<b>Total</b>	<b>¥ (92)</b>	<b>¥ (3)</b>	<b>\$ (836)</b>
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥ 262	¥ 2,207	\$ 2,381
Reclassification adjustments to profit or loss	267	456	2,427
Amount before income tax effect	529	2,663	4,809
Income tax effect	(161)	(812)	(1,463)
<b>Total</b>	<b>¥ 367</b>	<b>¥ 1,851</b>	<b>\$ 3,336</b>
Total other comprehensive income (loss)	¥2,261	¥ (650)	\$20,554

### 12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2021 and 2020, is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
For the year ended March 31, 2021-				
Basic EPS				
Net income available to common shareholders	¥20,702	67,353	¥307.37	\$2.79
For the year ended March 31, 2020-				
Basic EPS				
Net income available to common shareholders	¥16,866	67,353	¥250.42	

### 13. SUBSEQUENT EVENTS

At the general shareholders meeting held on June 28, 2021, the Company's shareholders approved the payment of a year-end cash dividend of ¥50 (\$0.45) per share to holders of record at March 31, 2021, for a total of ¥3,367 million (\$30,609 thousand).

### 14. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating 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 performed in

order to decide how resources are allocated among the Companies. As such, the Companies' reportable segments consist of the 'Pharmaceuticals' industry and the 'Functional Food' industry. The 'Pharmaceuticals' industry consists of the manufacturing and sale of drugs for urological diseases, inflammation and allergies, hematologic malignancies, cardiovascular and metabolic diseases, gastrointestinal disorders, and other diseases. The 'Functional Food' industry consists of the manufacturing and sale of health food ingredients, preservatives, protein preparations, nutritional ingredients, seasonings and spices, sterilization cleaning agents, and others.

#### 2. Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment

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

#### 3. Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

	Millions of Yen				
	2021				
	Reportable Segments			Reconciliations	Consolidated
	Pharmaceuticals	Functional Food	Total		
Sales:					
Sales to external customers	¥106,478	¥ 15,406	¥ 121,885		¥ 121,885
<b>Total</b>	<b>¥106,478</b>	<b>¥ 15,406</b>	<b>¥ 121,885</b>		<b>¥ 121,885</b>
Segment profit	¥ 25,360	¥ 774	¥ 26,134		¥ 26,134
Segment assets	105,503	11,031	116,534	¥ 80,494	197,028
Other:					
Depreciation	3,393	126	3,520	30	3,550
Increase in property, plant, and equipment and intangible assets	2,458	124	2,582		2,583

	Millions of Yen				
	2020				
	Reportable Segments			Reconciliations	Consolidated
	Pharmaceuticals	Functional Food	Total		
Sales:					
Sales to external customers	¥ 101,643	¥ 14,994	¥ 116,637		¥ 116,637
<b>Total</b>	<b>¥ 101,643</b>	<b>¥ 14,994</b>	<b>¥ 116,637</b>		<b>¥ 116,637</b>
Segment profit	¥ 20,686	¥ 982	¥ 21,668		¥ 21,668
Segment assets	98,808	11,218	110,026	¥ 65,175	175,202
Other:					
Depreciation	3,313	118	3,431	37	3,468
Increase in property, plant, and equipment and intangible assets	2,340	157	2,498	2	2,500

	Thousands of U.S. Dollars				
	2021				
	Reportable Segments			Reconciliations	Consolidated
	Pharmaceuticals	Functional Food	Total		
Sales:					
Sales to external customers	\$ 967,981	\$ 140,054	\$ 1,108,045		\$ 1,108,045
<b>Total</b>	<b>\$ 967,981</b>	<b>\$ 140,054</b>	<b>\$ 1,108,045</b>		<b>\$ 1,108,045</b>
Segment profit	\$ 230,545	\$ 7,036	\$ 237,581		\$ 237,581
Segment assets	959,118	100,281	1,059,400	\$ 731,763	1,791,163
Other:					
Depreciation	30,845	1,145	32,000	272	32,272
Increase in property, plant, and equipment and intangible assets	22,345	1,127	23,472		23,481

Note: Unallocated corporate assets included in "Reconciliations" for 2021 and 2020 are ¥80,494 million (\$731,763 thousand) and ¥65,175 million, respectively, and consisted primarily of funds, such as cash equivalents, investment securities, assets for administrative functions, and deferred tax assets.

## Notes to Consolidated Financial Statements

### Related Information

#### 1. Information about Products and Services

Millions of Yen			
2021			
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥106,478	¥15,406	¥121,885

Millions of Yen			
2020			
	Pharmaceuticals	Functional Food	Total
Sales to external customers	¥101,643	¥14,994	¥116,637

Thousands of U.S. Dollars			
2021			
	Pharmaceuticals	Functional Food	Total
Sales to external customers	\$967,981	\$140,054	\$1,108,045

#### 2. Information about Geographical Areas

##### (1) Sales

Millions of Yen					
2021					
Europe					
Japan	Switzerland	Other	Other	Total	
¥90,144	¥28,795	¥342	¥2,603	¥121,885	

Millions of Yen					
2020					
Europe					
Japan	Switzerland	Other	Other	Total	
¥94,473	¥21,584	¥317	¥262	¥116,637	

Thousands of U.S. Dollars					
2021					
Europe					
Japan	Switzerland	Other	Other	Total	
\$819,490	\$261,772	\$3,109	\$23,663	\$1,108,045	

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

#### (2) Property, Plant, and Equipment

Information about geographical areas is omitted, as property, plant, and equipment located in Japan accounted for more than 90% of property, plant, and equipment presented in the consolidated balance sheet as of March 31, 2021 and 2020.

#### (3) Information about Major Customers

Millions of Yen			
2021			
Name of Customer	Sales		Related Segment Name
	Millions of Yen	Thousands of U.S. Dollars	
Actelion Pharmaceuticals Ltd.	¥28,795	\$261,772	Pharmaceuticals
Alfresa Corporation	16,029	145,718	Pharmaceuticals
MEDICEO CORPORATION	15,957	145,063	Pharmaceuticals
Suzuken Co., Ltd.	15,097	137,245	Pharmaceuticals

2020			
Name of Customer	Sales		Related Segment Name
	Millions of Yen	Thousands of U.S. Dollars	
Actelion Pharmaceuticals Ltd.	¥21,584		Pharmaceuticals
Alfresa Corporation	18,580		Pharmaceuticals
MEDICEO CORPORATION	17,526		Pharmaceuticals
Suzuken Co., Ltd.	17,326		Pharmaceuticals

## Independent Auditor's Report

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### INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the consolidated financial statements of Nippon Shinyaku Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

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

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Member of  
Deloitte Touche Tohmatsu Limited



Independent Auditor's Report

Appropriateness of revenue recognition of milestone and royalty income	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 14, "Segment information" to the consolidated financial statements, total consolidated sales of ¥121,885 million for the year ended March 31, 2021 included sales of ¥106,478 million for the Pharmaceuticals segment, or approximately 87% of the total consolidated sales, of which ¥24,338 million were related to revenues from industrial property rights.</p> <p>Nippon Shinyaku Co., Ltd. (the "Company") licenses out the technology for certain in-house developed products to contracting partners. The Company receives from contracting partners milestone income arising from the progress of development or when a certain amount of sales is reached. Royalty income is calculated by multiplying sales by a fixed rate, both of which represents a large portion of revenues from industrial property rights.</p> <p>While sales of merchandise and finished goods to pharmaceutical wholesalers are recorded automatically by transferring the order and shipping data generated on Japan Drug NETwork (JD-NET), which is a data exchange platform commonly used in the pharmaceutical industry, and the sales management system to the accounting system, milestone income is recorded in the accounting system manually based on reports from contracting partners when milestones are achieved. Royalty income is recorded in the accounting system manually based on reports from contracting partners related to net sales for the quarterly accounting period.</p> <p>Therefore, we considered milestone and royalty income to be of higher significance in our audit.</p> <p>Milestone and royalty income also have significant financial impact on the Pharmaceuticals segment's profit and could significantly affect investors' and shareholders' judgment of the Group's financial performance. For these reasons, we identified the appropriateness of revenue recognition of milestone and royalty income as a key audit matter.</p>	<p>Our audit procedures related to revenue recognition of milestone and royalty income from out-licensing of the technology for in-house developed products included the following, among others:</p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of controls related to revenue recognition of milestone and royalty income.</li> <li>We inspected contracts on the technology licensing to obtain an understanding of the underlying transactions as well as the rights and obligations of the parties involved in the contracts.</li> <li>We evaluated the reliability of the reports reflecting the progress of development reported from the contracting partners, which is the basis for determining milestone income, by comparing it with related external evidence.</li> <li>We compared the sales of the Group's in-house developed products disclosed in the financial report on the contracting partner's website with those reported from the contract partners, which are the basis for determining both milestone income arising when a certain amount of sales is reached and royalty income calculated by multiplying sales by a fixed rate.</li> <li>We compared the amount of milestone and royalty income to the bank statement.</li> <li>For recorded milestone and royalty income, we tested the accuracy of amounts denominated in foreign currencies by agreeing them to reports from contracting partners and testing the mathematical accuracy by translating those amounts into Japanese yen.</li> </ul>

Recoverability of long-term prepaid expenses related to in-licensing contracts for pharmaceuticals	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>Among the lump sum payments and milestone expenditures relating to in-licensing contracts for pharmaceuticals, those that will generate probable future revenues are recorded as long-term prepaid expenses and account for a large portion of the long-term prepaid expenses of ¥9,390 million on the consolidated balance sheet as of March 31, 2021.</p> <p>The Company has entered into in-licensing contracts with pharmaceutical manufacturers. Among the expenditures related to the in-licensing contracts for products launched and substances that are new drug candidates, those determined to generate probable future revenues and expected to be highly recoverable are recorded as long-term prepaid expenses and are amortized using the straight-line method over the contract period.</p> <p>For long-term prepaid expenses related to the in-licensing contracts that were newly recorded on the consolidated balance sheet during the current year, management determined that they would generate probable future revenues based on their assessment of the profitability of the relevant pharmaceuticals. Significant assumptions used in management's assessment of the profitability are marketability and future revenue forecasts for the drug, which are based on the drug price and the number of potential patients for pharmaceuticals to be licensed in. Management predicted the number of potential patients based on external information and estimated the drug price based on relevant prices in other countries and the ratio of prices of similar drugs in Japan against those in other countries.</p> <p>As described above, estimates of the drug price and the number of potential patients, on which assessments of in-licensing contract profitability are based, depend on forecasting the future and involve judgments made by management. For this reason, we determined that the recoverability of long-term prepaid expenses for pharmaceutical in-licensing contracts is a key audit matter.</p>	<p>Our audit procedures on the recoverability of long-term prepaid expenses for in-licensing contracts included the following, among others:</p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of controls over recording long-term prepaid expenses related to in-licensing contracts, including those controls related to the estimate of drug prices and potential patient numbers that provide the basis of the assessment of pharmaceutical in-licensing contract profitability.</li> <li>We inspected pharmaceutical in-licensing contracts to obtain an understanding of the underlying transactions as well as the rights and obligations of the parties involved in the contracts.</li> <li>We assessed the future drug marketability by considering the actual launch records in foreign markets. We also evaluated the progress of the drug development by inspecting the list of drug development approved by the Board of Directors and making inquiries of the company personnel responsible for the development to identify any suspension of the development.</li> <li>We evaluated the reasonableness of the estimated number of potential patients for the in-licensed drug, which is a significant assumption in the assessment of drug profitability, by performing an inquiry of management about their estimation method and rationale, and inspecting the underlying external data such as the number of patients for certain diseases used by management to estimate the potential patient numbers.</li> <li>We compared the drug price in other countries as well as the ratio of prices of similar drugs in Japan against those in other countries, both of which were the basis for estimating the drug price in Japan, with external public data.</li> <li>We considered whether an indication of management bias existed when management estimated future revenues, which are the basis of profitability, by comparing management's projected revenues for previous in-licensing contracts with actual results.</li> </ul>



## Independent Auditor's Report

### Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*  
June 29, 2021

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# Corporate Data / Investor Information As of March 31, 2021

## Corporate Data

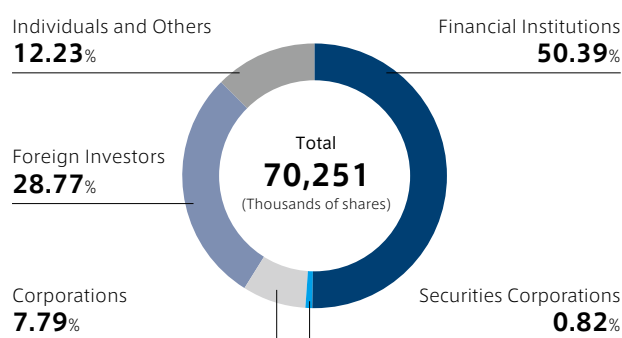
<b>Corporate Name</b>	Nippon Shinyaku Co., Ltd.	<b>Representative Directors</b>	Shigenobu Maekawa, Chairman Toru Nakai, President As of June 29, 2021
<b>Founded</b>	November 20, 1911	<b>Independent and Certified Public Accountants</b>	Deloitte Touche Tohmatsu Shijokarasuma FT Square 20, Naginataboko-cho, Shijo-dori Karasuma-higashiiru, Shimogyo-ku, Kyoto 600-8008, Japan
<b>Date of Incorporation</b>	October 1, 1919	<b>Issued and Outstanding Number of Shares</b>	70,251,484
<b>Head Office</b>	14, Nishinosho-Monguchi-cho, Kissshoin, Minami-ku, Kyoto 601-8550, Japan Phone: +81-75-321-1111 Facsimile: +81-75-321-0678 <a href="http://www.nippon-shinyaku.co.jp/english/">http://www.nippon-shinyaku.co.jp/english/</a>	<b>Number of Shareholders</b>	6,252
<b>Paid-in Capital</b>	¥5.2 billion (Listed on the First Section of the Tokyo Stock Exchange)	<b>Share Registrar</b>	Mitsubishi UFJ Trust and Banking Corporation 6-3, Fushimimachi 3-chome, Chuo-ku, Osaka 541-0044, Japan



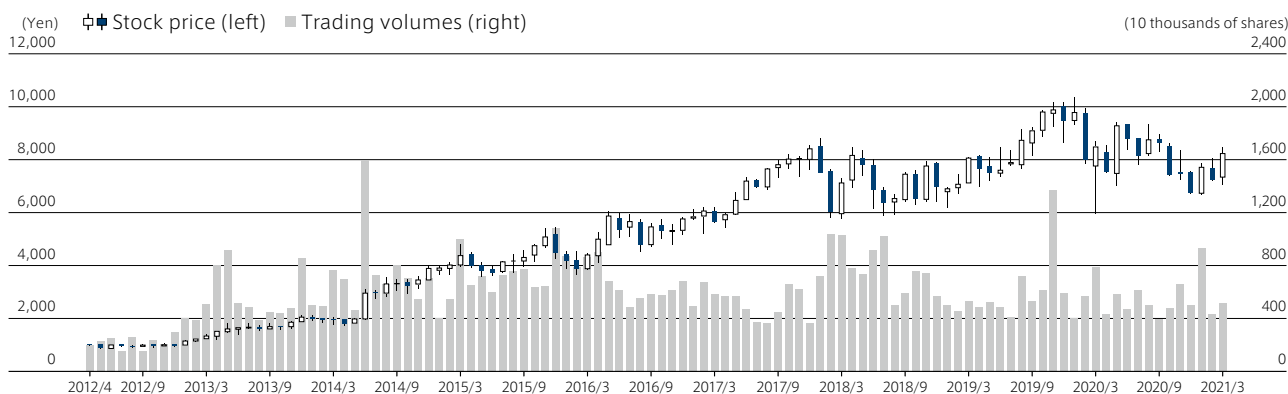
## Major Shareholders

The Master Trust Bank of Japan, Ltd. (Trust account)
Meiji Yasuda Life Insurance Company
Custody Bank of Japan (Trust account)
MUFG Bank, Ltd.
The Bank of Kyoto, Ltd.
STATE STREET BANK AND TRUST COMPANY 505001
Nippon Life Insurance Company
GOVERNMENT OF NORWAY
Tokio Marine & Nichido Fire Insurance Co., Ltd.
Custody Bank of Japan (Trust account 9)

## Distribution of Shares Issued



## Stock Price and Trading Volumes



## Network As of April 1, 2021

### Main Offices

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

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

### Domestic Subsidiaries

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

### Overseas Offices and Subsidiary

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