



Innovation and Growth

ANNUAL REPORT 2011 Year ended March 31, 2011

Corporate Slogan

Helping people lead healthier, happier lives.

Through research and development in the fields of pharmaceuticals and nutraceutical products, Nippon Shinyaku aims to help people live longer, more fruitful and more energetic lives.



Contents

Consolidated Financial Highlights	01	Corporate Governance	15
At a Glance	02	Corporate Social Responsibility	16
To Our Stakeholders	04	Board of Directors, Corporate Officers and Corporate Auditors	18
Special Feature: R&D Report	08	Financial Section	19
Special Feature: Business Update	12	Service Network	36
Manufacturing	12	Corporate Data / Investor Information	37
Marketing	13		
Functional Food Company	14		

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.

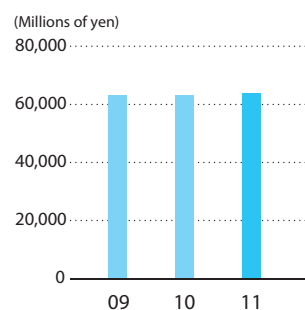
Consolidated Financial Highlights

Nippon Shinyaku Co., Ltd. Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
Net sales	¥ 63,525	¥ 62,933	¥ 63,072	\$ 765,361
Operating income	5,181	6,462	7,547	62,422
Net income	3,958	4,096	4,500	47,687
Amounts per share (in yen and U.S. dollars):				
Basic net income	¥ 58.62	¥ 60.63	¥ 66.56	\$ 0.71
Net assets per share (Note 1)	1,207.43	1,187.42	1,127.49	14.55
Cash dividends	19.00	19.00	18.00	0.23
Total assets	¥ 102,737	¥ 103,576	¥ 98,286	\$ 1,237,795
Equity	81,515	80,206	76,193	982,108
Capital investment	1,185	1,859	2,332	14,277
R&D expenses	8,967	8,441	7,853	108,036
Return on equity (ROE) (%)	4.9	5.2	5.9	4.9

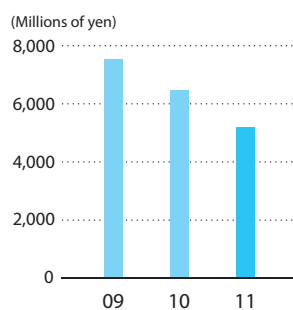
Notes: 1. Calculated on the basis of the average of the balances at the beginning and at the end of the term.

2. U.S. dollar amounts are converted from yen amounts at the rate of U.S.\$1 = ¥83, the approximate exchange rate on March 31, 2011.

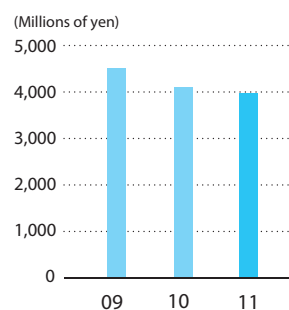
Net Sales



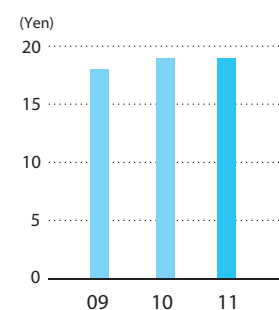
Operating Income



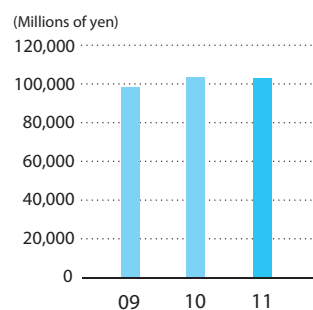
Net Income



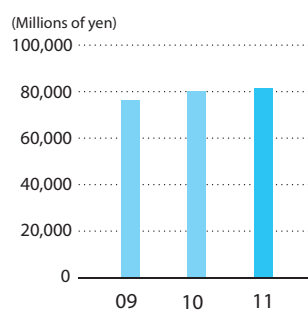
Cash Dividends per Share



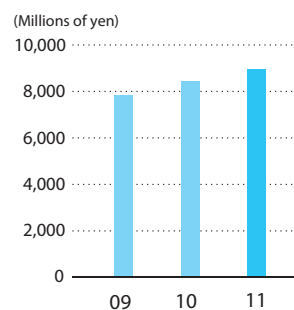
Total Assets



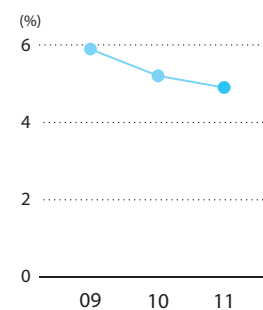
Equity



R&D Expenses



Return on Equity (ROE)

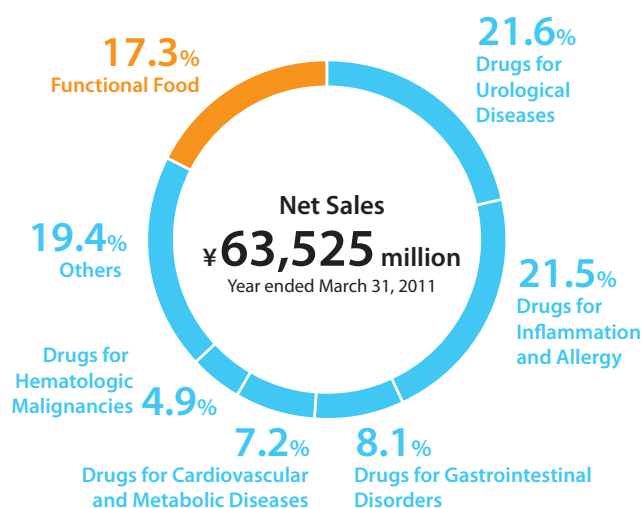


At a Glance

Pharmaceuticals

¥52,554 million (82.7%)

Our core products in this segment include drugs that treat urological diseases, inflammation, allergies, hematologic malignancies, cardiovascular and metabolic diseases and gastrointestinal disorders. We have high hopes for Vidaza®, a new and highly effective treatment for myelodysplastic syndrome that we began selling in March 2011.



Drugs for Urological Diseases



- **Eviprostat®**
(Herbal extracts)
Remedy for benign prostatic hypertrophy
- **Bladderon®**
(Flavoxate hydrochloride)
Remedy for pollakisuria
- **Estracryt**
(Estramustine sodium phosphate)
Remedy for prostate cancer
- **Cialis®**
Remedy for erectile dysfunction

Eviprostat®, a remedy 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.

Net Sales (Millions of yen)



Drugs for Inflammation and Allergy



- **Hyphen®**
(Etodolac)
Non-steroidal analgesic and anti-inflammatory agent
- **Erizas®**
Remedy for allergic rhinitis
- **Livostin®**
Remedy for allergy
- **Baynas®**
Remedy for allergic rhinitis
- **Azunol® Gargle 4%**
Gargling solution containing azulene

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 spray device that makes it possible to spray both nostrils at once.

Net Sales (Millions of yen)



Drugs for Hematologic Malignancies



- **Vidaza®**
Remedy for myelodysplastic syndromes
- **Cylocide**
(Cytarabine)
Remedy for acute leukemia and solid cancer
- **Cylocide N**
(Cytarabine)
Remedy for relapsed and refractory acute leukemia and malignant lymphoma
- **Trisenox®**
Remedy for relapsed and refractory acute promyelocytic leukemia
- **Amnolake®**
Remedy for relapsed and refractory acute promyelocytic leukemia

Vidaza®, the myelodysplastic syndrome (MDS) treatment that we launched in March 2011, is the only medicine in the world that has been shown to prolong survival in MDS patients. Its high degree of effectiveness makes it a very promising product.

Net Sales (Millions of yen)



Drugs for Cardiovascular and Metabolic Diseases



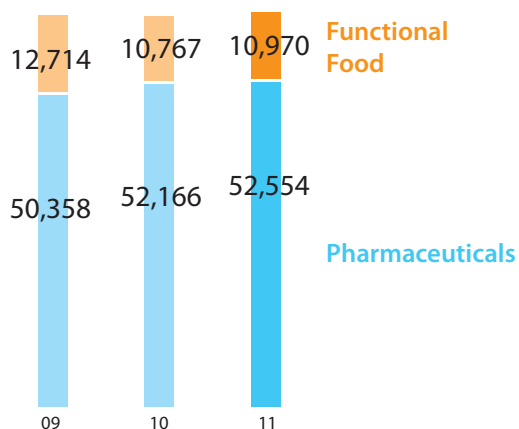
- **Selectol**
(Celiaprolol hydrochloride)
Remedy for hypertension and angina pectoris
- **Glycoran**
(Metformin hydrochloride)
Remedy for diabetes
- **Adcirca®**
Pulmonary arterial hypertension treatment agent

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. Adcirca®'s market share expanded greatly in the fiscal term ended March 2011.

Net Sales (Millions of yen)



Net Sales (Millions of yen)



Functional Food ¥10,970 million (17.3%)

Our in-house functional food company leverages the sophisticated manufacturing technology and quality know-how accumulated by our pharmaceutical operations to contribute to human health through the supply of functional foods and ingredients. With safety and reliability as our top priorities, we supply highly original and helpful functional foods and ingredients.

Drugs for Gastrointestinal Disorders



- **Gaslon N®**
(Irsogladine maleate)
Remedy for gastric ulcer and gastritis
- **Portolac®**
(Lactitol hydrate)
Remedy for hyperammonaemia

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.

Net Sales (Millions of yen)



Others Including the Proceeds from Intellectual Property Rights



- **Lunabell®**
Remedy for dysmenorrhea
- **Cephadol®**
(Difenidol hydrochloride)
Remedy for vertigo
- **Tramal®**
Remedy for cancer pain
- **Prulifloxacin**
Synthetic antibacterial agent

After Lunabell® was put on the market in July 2008 as a remedy for dysmenorrhea resulting from endometriosis, Japanese insurance programs covered its use and it achieved good market penetration. Since we obtained approval to list functional dysmenorrhea as an additional indication in December 2010, sales have been growing even more.

Net Sales (Millions of yen)



- Health food ingredients
- Preservatives
- Protein preparations
- Nutritional ingredients
- Seasonings and spices
- Sterilization cleaning agents



Despite ongoing harsh business conditions in the processed foods and health foods industries, in the fiscal year through March 2011 Nippon Shinyaku enjoyed growth in sales of health food ingredients, preservatives, and protein preparations.

Net Sales (Millions of yen)



To Our Stakeholders

We will continue to provide medicines that meet the needs of patients and professionals working on the front lines of medicine.

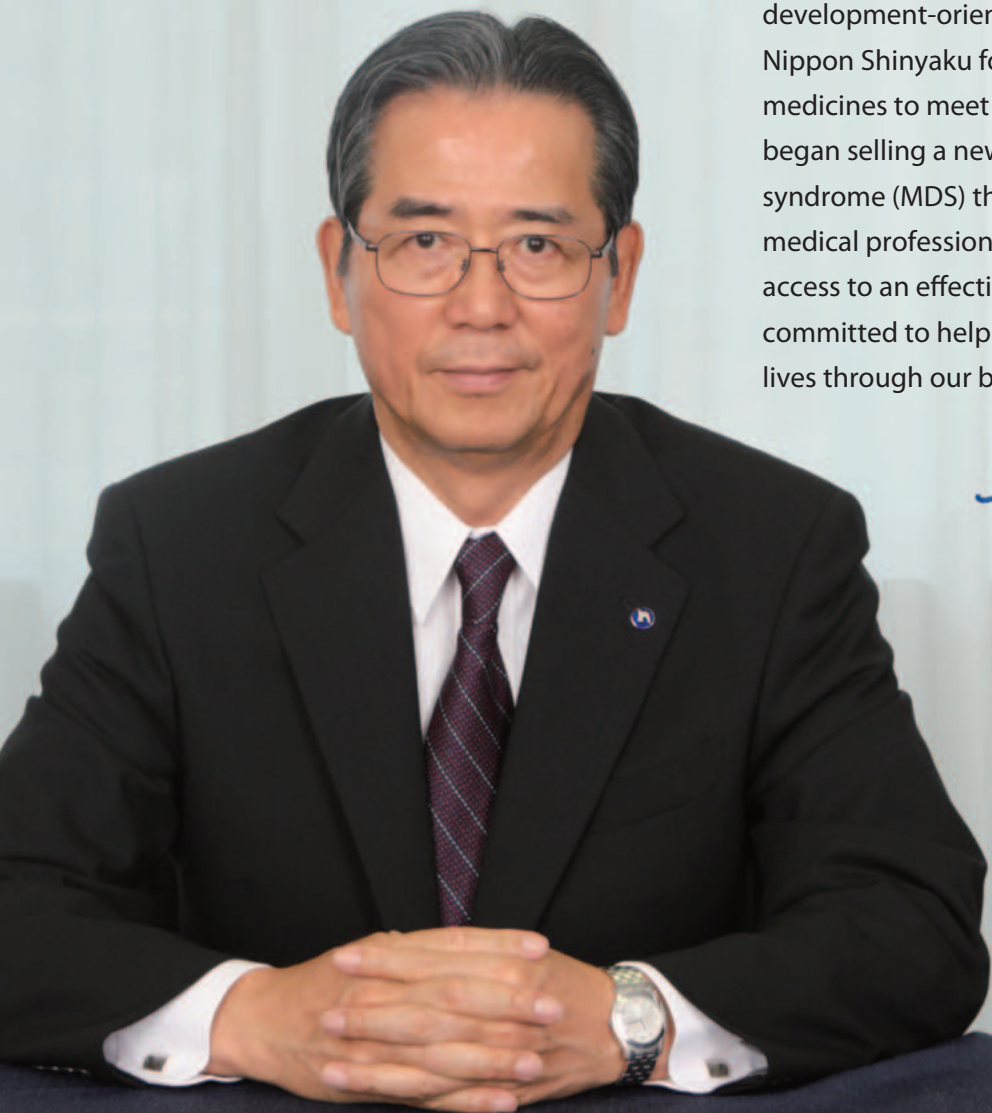
Medicines are essential to allowing people to lead healthy everyday lives. Along with progress in medical science, medicines have come to play an extremely important role in Japan, the land of longevity. Amidst the tragic losses caused by the recent Great East Japan Earthquake, we were also reminded that medical treatment and medicines can be as important as food and water.

Meanwhile, there is still strong demand for medicines to treat a variety of rare or difficult diseases. As a research and development-oriented pharmaceutical manufacturer, Nippon Shinyaku focuses on researching and developing medicines to meet a variety of needs. In March 2011, we began selling a new treatment for myelodysplastic syndrome (MDS) that was long awaited by patients and medical professionals in Japan who did not previously have access to an effective treatment. Nippon Shinyaku is committed to helping people lead healthier and happier lives through our business activities.



S. maekawa

Shigenobu Maekawa
President



Q1

Please sum up Nippon Shinyaku's business performance for the fiscal term ended March 2011.

In the fiscal term ended March 2011, Japanese corporate profits gradually recovered despite continued harsh economic conditions including a tight job market and strong yen. The fiscal year ended shortly after the Great East Japan Earthquake struck on March 11, 2011, leaving no way to predict what the future would hold. Business conditions remain harsh for the pharmaceuticals and functional food industries, as the government has continued to introduce measures to curtail medical care costs, including decreases averaging 6.5% in National Health Insurance (NHI) Drug Price Standards (effective April 2010) and a measure to promote greater use of generic drugs. In the functional food industry, a strong preference for lower-priced products remains prevalent.

Despite these challenging conditions — especially the lowering of drug prices — and the fact that Nippon Shinyaku's revenues from industrial property rights licensing, etc. declined by ¥1,873 million from the previous year, sales of new pharmaceuticals and our mainstay functional foods both increased, resulting in a 0.9% year-on-year increase in net sales, to ¥63,525 million. In addition to the decline in revenues from licensing of industrial property rights, increased research and development costs also affected profits. Operating income amounted to ¥5,181 million, down 19.8% from the previous fiscal year, while net income totaled ¥3,958 million, down 3.4%.

Looking at our pharmaceuticals segment, the NHI drug price cuts caused year-on-year shrinkage in sales of some products, including Eviprostat[®], a treatment for benign prostatic hypertrophy and Hypen[®], a non-steroidal analgesic and anti-inflammatory agent. There was also a big drop relative to the previous fiscal term in revenues from the licensing of industrial property rights, but sales of other products increased, including Cialis[®], an erectile dysfunction remedy and Lunabell[®] combination tablets for dysmenorrhea. Sales of new products, such as Adcirca[®], a treatment for pulmonary arterial hypertension, also contributed to performance. Consequently, pharmaceuticals sales rose 0.7% from the previous fiscal year to ¥52,554 million.

In an environment where both the processed foods and health foods industries face tough conditions, our functional foods business saw net sales increase by 1.9% to ¥10,970 million. Sales of seasonings and spices declined, and sales of nutritional ingredients declined slightly, but protein preparations continued their solid trend while sales of health food ingredients and preservatives increased.

Please explain Nippon Shinyaku's medium- and long-term management strategies.

Nippon Shinyaku aims to be a “company with a meaningful existence in healthcare.” We designated the five-year period from April 2009 through March 2014 as the time for implementing our fourth five-year management plan, which we call “Innovation and Growth.” Based on our business philosophy of “contributing to people’s health and prosperous lifestyles,” we want to press ahead with the implementation of innovative reforms and expand Nippon Shinyaku’s business.

Our pharmaceuticals business will focus on our areas of specialty, such as urology and hematology, as it creates and supplies high-quality pharmaceuticals that outperform competing products. Since we began implementing our current medium-term management plan, we introduced a steady stream of new products: Cialis®, Erizas®, Adcirca®, Tramal®, and Vidaza®. Going forward, we intend to further enhance our development pipeline and continue to steadily launch new products. In addition to providing stable supplies of high-quality products, we intend to further reduce costs in order to boost cost competitiveness and profitability. As part of our marketing efforts, we will continue to manage our product lineup efficiently and scientifically, increase productivity per medical representative, and maintain a good balance between new products and existing ones to make Nippon Shinyaku grow.

In our functional food business, we will continue supplying high-quality products that make the most of the sophisticated technological capabilities that we have cultivated as a pharmaceutical company. By developing products that match customers’ needs and by conducting our business efficiently and systematically, we will achieve growth based on expansion of our business activities and build a framework for earning stable profits.

Company with a Meaningful Existence in Healthcare

Pharmaceuticals Business

We target our fields of strength and supply high-quality pharmaceutical products with distinctive benefits welcomed by patients suffering from diseases.

Functional Food Business

We aim to supply high-quality products utilizing our advanced technological capabilities as a pharmaceutical company.



Q3

Where will your focus be in the next fiscal year, and what kind of business results do you expect?

Business conditions will remain harsh in both the pharmaceuticals and functional food industries. In pharmaceuticals, we will engage in efficient marketing activities centered on new products, and sharing of scientific information with medical professionals. Among our new products, we plan to achieve even greater market penetration for two that we launched last fiscal year, Vidaza® and Tramal®, as well as to increase sales of Lunabell®, Cialis®, Erizas® and Adcirca®. In our functional foods segment, we will work even harder at developing new products and expanding sales channels by strengthening our focus on key products. Our aim will be to establish a stable profit-generating base that is relatively unaffected by fluctuations in raw material prices and exchange rates.

In consideration of these factors, we are forecasting consolidated net sales of ¥66,500 million (up 4.7% from the previous fiscal term), operating income of ¥5,500 million (up 6.2%) and net income of ¥3,600 million (down 9.1%).

We do not expect to launch new products in the fiscal term through March 2012, but we will make every effort to make it a year of growth for the stream of new products that we introduced to the market in the past, and to expand overall net sales.

Numerical Targets for Fiscal Year Ending March 31, 2012

Net Sales	¥ 66.5 billion
Operating Income	¥ 5.5 billion
Net Income	¥ 3.6 billion

Q4

What are your thoughts on returns to shareholders, including your dividend policy?

We want to further enhance our product development pipeline and continuously introduce new products in order to maximize corporate value. At the same time, Nippon Shinyaku strives to fortify its business foundation by bolstering retained earnings.

Our policy regarding returns to shareholders is to maintain a consolidated payout ratio of about 30% for performance-linked dividends. However, in some cases we exclude extraordinary gains and/or losses when calculating the dividend payout ratio.

For the fiscal term ended March 2011, we paid ¥19 per share, consisting of an interim dividend of ¥9 per share and a year-end dividend of ¥10 per share. For the fiscal term through March 2012, we plan to maintain our interim dividend at ¥9 per share and our year-end dividend at ¥10 per share, for a total payout of ¥19 per share.

R&D Report

By employing a combination of original in-house research, in-licensing, and product life cycle management (PLCM), Nippon Shinyaku aims to continually enhance its development pipeline and steadily launch new products. Gradually we are seeing the fruits of these efforts, including the launch of Vidaza[®], a remedy for myelodysplastic syndrome (MDS), in March 2011.

Nippon Shinyaku's Research and Development Vision

Nippon Shinyaku's research and development division focuses on the Company's fields of specialty as it strives to supply the market with new products that offer at least one distinctive benefit in terms of efficacy, safety, or patients' quality of life (QOL). Nippon Shinyaku determined five areas of medical specialty on which to focus: urology, hematology, obstetrics and gynecology, otorhinolaryngology, and orthopedics. We work as fast as we possibly can to provide patients with the good news that they can find relief from their suffering. We do this through three avenues: in-house research aimed at developing original medicines, licensing from other companies, and product life cycle management (PLCM).

Vidaza® Product Launch

Development of a Long-Awaited New Drug

Based on a license from Celgene Corporation of the US (New Jersey), we introduced “Vidaza® 100 mg for Injection” to the Japanese market as a treatment for myelodysplastic syndrome (MDS). Vidaza® is an injectable, lyophilized preparation whose active ingredient is azacitidine, a nucleic acid analog. Nippon Shinyaku developed it for the Japanese market and began selling it in March 2011.

MDS is a group of intractable hematological disorders that often progress to leukemia. Major symptoms are general fatigue due to anemia, increased susceptibility to infections due to low white blood cell count (leukocytopenia), and bleeding tendency due to low platelet count. Patients frequently receive blood transfusions as part of their treatment, but this can cause complications including iron overload and multi-organ toxicity. The number of MDS sufferers in Japan is estimated at 9,000. Since no effective treatment was available before Vidaza® appeared on the market, the development of a new treatment was eagerly anticipated.

▶ Drug Discovery Research

The focus of our in-house research is on hematological malignancies and chronic inflammatory diseases. We are developing our original and unique products as speedily as possible, shedding light on the previously unknown causes of diseases.

▶ Licensing-in Activity

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

▶ Product Life Cycle Management (PLCM)

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.



Vidaza®'s Potential to Change MDS Treatment

Starting with North America and Europe, Vidaza® is now sold in more than 30 countries around the world. In the United States, it is used as the first-line therapy for MDS. When Vidaza® enters a cell, it is incorporated into the cell's DNA or RNA after being phosphorylated and consequently exerts a cytotoxic effect via inhibition of protein synthesis. It also inhibits DNA hypermethylation which often occurs in MDS tumor cells, resulting in the promotion of normal blood cell development. In overseas clinical trials involving high-risk MDS patients, the median overall survival of patients who received azacitidine was 24.5 months compared with 15.0 months for patients who received conventional treatments. This represents a significant extension of survival, with the two-year survival rate nearly doubled.

By providing the medical field with a new therapeutic agent for MDS, Nippon Shinyaku has given new hope to MDS patients and their families, who until now had suffered greatly in the absence of an effective treatment. We expect that this new treatment will also be a boon to all of the medical professionals involved in MDS treatment.

Development of Selexipag (NS-304)

Selexipag (NS-304) is a new, orally administered prostacyclin (PGI₂) receptor agonist with a non-prostanoid structure. Compared to previous PGI₂ analogues, it remains in the blood longer and has higher selectivity for PGI₂ receptors. In Japan, Phase II clinical trials are underway for indications of pulmonary arterial hypertension (PAH) and chronic thromboembolic pulmonary hypertension (CTEPH). Overseas, a Phase III clinical trial is underway for PAH.

PAH is a potentially deadly medical condition characterized by increased pressure in the pulmonary arteries, which can lead to heart failure. In Japan, an estimated 10,000 people suffer from PAH. To date, the most effective PAH treatment, generally given to patients with the most severe symptoms, has been intravenous administration of PGI₂. Because this treatment is very risky and burdensome for patients, everyone affected has long awaited the development of a highly effective orally administered treatment that works by the same mechanism. There is hope that in the future, PAH patients may receive three therapeutic agents concurrently from an early stage of their treatment. The three are a phosphodiesterase type 5 inhibitor (PDE5i), endothelin antagonist (ERA), and PGI₂ receptor agonist. Of the three, there has not yet been an orally administered PGI₂-based agent in common use anywhere in the world. We believe that Selexipag will prove to be the answer to this as yet unmet need.

In addition to Selexipag, Nippon Shinyaku has already launched Adcirca[®], a tadalafil preparation that is said to be the best of the PDE5i-based treatments for PAH, and we are in the process of developing Macitentan, an ERA. Going forward, Nippon Shinyaku aims to contribute to society by providing groundbreaking combination therapy for PAH using these three agents.

Pipeline

Domestic

Code No.	Generic name	Therapeutic field	Indications	Development	Phase I	Phase II	Phase III	Application	Launch Preparation
NS-315	Tramadol hydrochloride	Inflammation/allergy	Non-cancer related pain	Licensed in from Grünenthal GmbH	████████████████████				
NS-11	Acamprosate	Others	Alcohol dependence	Licensed in from Merck Serono International S.A.	████████████████████				
LY450190	Tadalafil	Urology	Urinary disorder caused by BPH	Licensed in from Eli Lilly Japan K.K.	████████████████████				
NS-304	Selexipag	Cardiovascular	Pulmonary hypertension	Co-development with Actelion	████████████████████				
ACT-064992	Macitentan	Cardiovascular	Pulmonary arterial hypertension	Licensed in from Actelion	████████████████████		Phase III (Preparation)		
NST-141		Inflammation/allergy	Pruritus associated with atopic dermatitis, etc.	Co-development with Taiho Pharmaceutical Co., Ltd.	████████████████████				
NS-24	Tramadol hydrochloride	Inflammation/allergy	Cancer pain Non-cancer related pain	Licensed in from Labopharm Inc.	██████████				

Overseas

Code No.	Generic name	Therapeutic field	Indications	Development	Phase I	Phase II	Phase III	Application	Launch Preparation
NM441	Prulifloxacin	Infectious diseases	Synthetic antibacterial	Yuhan Corporation	████████████████████				
				Optimer Pharmaceuticals, Inc.	████████████████████		Application (Preparation)		
				Lee's Pharmaceutical Holdings Limited	████████████████████		Phase III (Preparation)		
NS-304	Selexipag	Cardiovascular	Pulmonary hypertension	Actelion Pharmaceuticals Ltd.	████████████████████				
NS-187	Bafetinib	Hematologic malignancies	B cell chronic lymphocytic leukemia Advanced prostate cancer	CytRx Corporation	████████████████████				
			Chronic myelogenous leukemia		████████████████████		Phase II (Preparation)		
			Glioblastoma multiforme		████████████████████				
NS-018		Hematologic malignancies	Myelofibrosis		████████████████████		Phase II (Preparation)		

New Technologies

Genomic Drug Discovery and Nucleic Acid Drugs

Drug creation by pharmaceutical companies is set to change dramatically in the 21st century. At present, Nippon Shinyaku is actively engaged in advanced research centered on genomic drug discovery and nucleic acid drugs at Drug Discovery Laboratories in Tsukuba, Ibaraki Prefecture. At Discovery Research Laboratories in Kyoto, we focus on specific high-need medical conditions within our fields of specialty and concentrate on developing new therapeutic agents that selectively act on biomolecules related to particular conditions.



Searching for New Drug Seeds

When the human genome was unraveled, researchers were surprised to find that much of the DNA sequence did not code genes governing the production of proteins essential to the functioning of the human body. In fact, as much as 98.5% of the human genome is not concerned with such proteins. On the other hand, codes for functional ribonucleic acids (RNAs), which are closely involved in bodily functions and the onset of disease, were discovered hidden within these so-called “junk DNA” sequences. By understanding the roles of functional RNA, we hope to be able to conquer diseases that have so far been difficult to treat by using existing pharmaceuticals. Nippon Shinyaku collaborates with universities and public research institutes as we search for new drug seeds.



Research and Development of Nucleic Acid Drugs

Nucleic acid drugs act directly on genes that cause diseases, making it possible to treat illnesses that could not previously be cured using traditional low-molecular drugs or antibody drugs. Consequently, there are high hopes for nucleic acid drugs as the next generation of

bio-pharmaceuticals. Before they can be practically applied, however, there are two technological hurdles that must be overcome: the development of methods for synthesizing nucleic acids and for delivering them where they need to go. Nippon Shinyaku has succeeded in the development of an efficient and highly versatile RNA synthesis method that makes it possible to synthesize long-chain RNA linking as many as 50 to 100 nucleotide bases. Nippon Shinyaku was also a frontrunner in researching the delivery of nucleic acid drugs to target sites relevant to particular medical conditions, and we have developed technologies that enable administration of these drugs in ways that are safe for humans. One result of research using our proprietary technologies was that Nippon Shinyaku became the first entity in the world to demonstrate the cancer-controlling effect of small interfering RNA (siRNA) in cancer mouse models. By applying proprietary technologies that we have cultivated over the years, we aim to create unique nucleic acid drugs that will be useful in the treatment of illnesses for which there are as yet no effective remedies.



Nippon Shinyaku's Drug Discovery Laboratories (in Tsukuba, Ibaraki Prefecture) performs advanced research in areas like genomic drug discovery and nucleic acid drugs.

Business Update

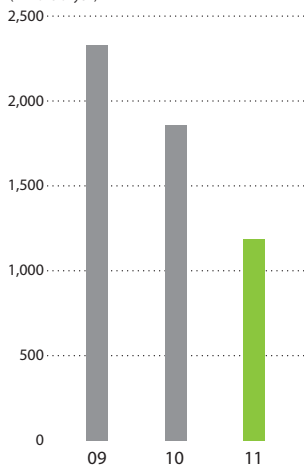
Nippon Shinyaku is pressing forward with implementation of its fourth five-year medium-term management plan, "Innovation and Growth (2009-2013)," with the aim of being a "company with a meaningful existence in healthcare." Our goals are to earn the trust of society, boost competitiveness and earning power, and maximize corporate value.

Manufacturing

Stable Supplies of High-Quality Bulk Substances and Products

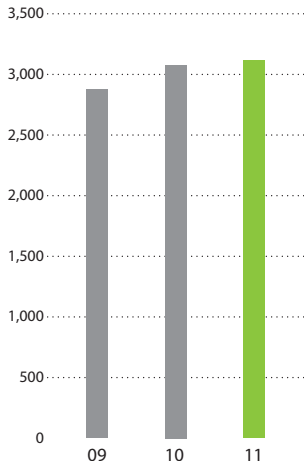
Capital Investments

(Millions of yen)



Depreciation

(Millions of yen)



Guaranteeing Credibility and Providing Stable Supplies of High-Quality Bulk Substances and Products

In order to ensure the reliability of our pharmaceutical manufacturing operations, we avoid the risk of running out of ingredients or supplies by contracting with two suppliers for each material used in our main products, and we continuously implement preventative maintenance of our facilities, including systematic replacement of aging production equipment. In addition, at our Odawara Central Factory we adopted a manufacturing execution system (MES) as well as a laboratory information management system (LIMS) for quality control, while at our Chitose Synthesis Plant we introduced a distributed control system (DCS).

Nippon Shinyaku's Business Continuity Plan (BCP)

Our Odawara Central Factory is located in western Kanagawa Prefecture, where a major earthquake (with a maximum seismic intensity of 6+ on the Japanese scale) is forecast to occur. Our Business Continuity Plan is designed to minimize damage and enable us to resume plant operations within two months after a major earthquake. Under this plan, we systematically implement preventive measures related to facilities, IT, logistics, and storage of raw materials. In addition, we are studying possibilities for creating backup systems, whether in Japan or abroad, to prepare for the possibility of an earthquake on the scale of the Great East Japan Earthquake that caused such great devastation in March 2011.

Cost Management

Our Procurement Division has reduced procurement costs by obtaining competitive bids while our Manufacturing Division has introduced measures, including staggered work schedules, that have greatly reduced overtime hours. Our Logistics Division has cut costs by outsourcing the operation of logistics bases.

In order to optimize the inventory levels of raw materials and finished products, we looked at the lead time required between raw material procurement and finished product supply. We have been trimming our inventories by establishing standards for appropriate inventory levels and revising production methods.



Marketing

Efficient and Scientific Product Management

Domestic Strategy

In recent years, Nippon Shinyaku has launched a steady stream of new products, bringing the Company to the start of a growth period. In September 2010, we introduced Tramal® capsules for the treatment of cancer pain, and in March 2011, we began selling Vidaza®, a treatment for myelodysplastic syndrome (MDS). Sales of these new products have been growing nicely. In the fiscal year through March 2012, we will focus on maximizing sales of new products, including these two latest additions to our lineup. Among our more established products, we will focus especially on those with the highest profit margins.

In order to meet our goals for these products, we will deploy a larger number of medical representatives (MRs) in the fiscal year through March 2012. The MRs will use sales force effectiveness (SFE) or a similar system to carefully focus their efforts on priority facilities and physicians. By having our MRs function efficiently, we want to grow to be a “company with a meaningful existence in healthcare.”

Global Development

As we exchange information with other companies and participate in various types of partnering conferences, we look at new products under development all over the world, and seek out and evaluate those that are compatible with Nippon Shinyaku's R&D capabilities and sales strategies.

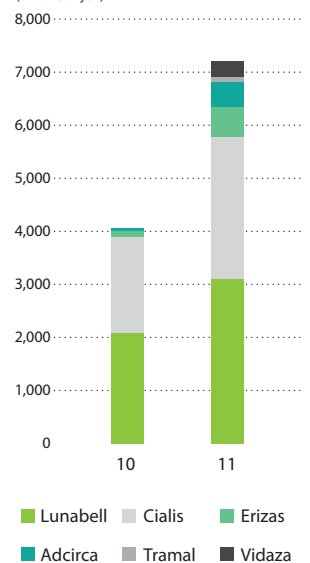
At our Düsseldorf Office and at NS Pharma, Inc. in the US, we work hard to gather the latest local information about new drugs under development and new technologies for drug development from major Western pharmaceutical and venture companies.

The Düsseldorf office and US subsidiary are also important as bases for clinical development in Europe and North America.

Nippon Shinyaku's original drug Prulifloxacin, a synthetic antibacterial agent, is marketed in Thailand as well as in many countries in Europe and South America, and Gaslon N®, a remedy for gastric ulcers and gastritis, is marketed in South Korea and China. We help expand the sales through business alliances including academic support. We have partners in the US, China, and the Middle East developing Prulifloxacin, and we expect to steadily increase the number of countries where it is sold. In addition, we have a partner that is developing Selexipag, a treatment for pulmonary arterial hypertension, for the global market.

Sales of New Products

(Millions of yen)



Functional Food Company

Expand Sales of Priority Products and Build a Basis for Stable Earnings

Market Environment

In response to consumers' growing tendency to curtail spending and choose lower-priced products, food-related companies have intensified their cost competition, resulting in deflation in the Japanese food industry.

The domestic market is shrinking due to Japan's falling birth rate, which is causing the nation's population to decline. The resulting situation — fewer people, each spending less — presents a very challenging business environment. The food industry is also feeling the effects of the Great East Japan Earthquake that rocked much of the northeastern part of the country in March 2011. As a manufacturer of functional foods, we value the strong reputation for credibility and reliability that we have earned in the processed foods and health foods industries through our many years of continuous business operation. We want to be the most reliable and best-known company in Japan, in order to expand our business and boost profitability.

Expanding Sales of Priority Products

The processed foods industry uses soy proteins, milk proteins and other protein preparations to improve the quality of food products. Although the processed food market is shrinking, it is still a very large market and we aim to increase sales by developing new, high added-value products that meet the market's needs.

We will also work hard to increase sales of preservatives that extend the shelf life of processed food products, especially those supplied to convenience stores.

The health food industry is facing tighter regulation by government authorities, but sales are sound amid increasing demand for products that help maintain health and beauty and fight the effects of aging. Nippon Shinyaku intends to meet those needs by developing health food ingredients backed by solid scientific evidence.

In the nutrition sector, growth in the number of elderly people is expected to lead to expansion of the market for liquid meals and other nutritional products. In addition to nutritional supplements for people who cannot eat normal meals, we are working on developing nutritional ingredients that will help boost immune system functioning and combat protein energy malnutrition among the elderly.

Building a Basis for Stable Earnings

Nippon Shinyaku will work to build a basis for stable earnings by increasing sales of priority products, developing highly original new products, expanding our business in growth fields, forming corporate alliances, and reviewing our operational structure while implementing cost management measures.

While giving top priority to safety and reliability, we will make use of the advanced manufacturing technologies and quality control expertise that we have acquired through the manufacture of pharmaceuticals to provide highly original functional food ingredients and contribute to people's good health.



Corporate Governance

Basic Policies and Management System

The management of Nippon Shinyaku recognizes the importance of achieving management transparency and fulfilling its obligation to be accountable to all stakeholders in order to increase corporate value by contributing to society. Effectively functioning corporate governance is essential to the fulfillment of these responsibilities, so we are working to further improve our corporate governance systems. Nippon Shinyaku is a “company with corporate auditors” consisting of seven members of the board and four corporate auditors, two of whom are outside auditors. We aim to manage the Company efficiently by having each director take responsibility for a particular area of executive oversight. Corporate auditors attend all Board of Directors meetings and any conferences where important business matters are discussed; they fulfill a supervisory function in the Company’s management.

In addition to being audited by an accounting auditor, the Company has also established an independent Internal Audit Department that audits the effectiveness of the Company’s key management systems: internal control, compliance, and risk management.

Internal Control System

Based on Japan’s Companies Act, Nippon Shinyaku’s internal control system is managed according to a system determined in line with basic policies decided by the Board of Directors. The system is designed to increase the effectiveness and efficiency of business operations as well as to ensure the

appropriateness of financial reporting.

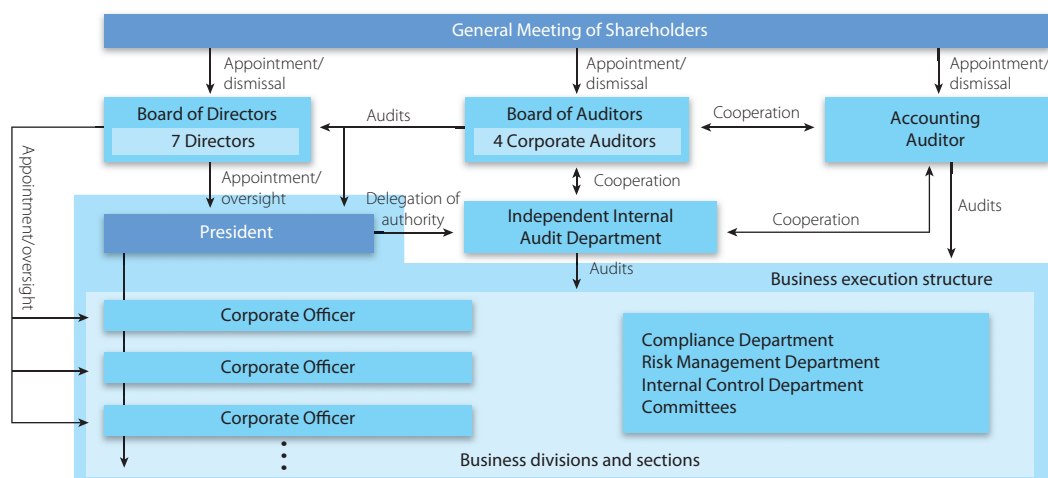
Compliance

In addition to outlining practical standards in the Nippon Shinyaku Group Charter of Business Conduct, we have appointed a compliance officer from among the directors of the Company to oversee the promotion of compliance based on systems established for each workplace. We have also set up a Compliance Department that carries out educational, training and awareness activities. Furthermore, to enable the Company to actively uncover and root out any illegal behavior on an internal basis, we established compliance hotlines to handle reports and inquiries from employees at all of our Group companies.

Risk Management

All companies face a variety of risks in the course of doing business. In order for a company to develop sustainably, it must take steps to reduce its exposure to these risks. The Nippon Shinyaku Group has established Basic Risk Management Rules that spell out which corporate sections are responsible for addressing each type of risk and outline measures for preventing and responding to various types of problems. In addition, each year the Group’s Risk Management Department conducts an assessment to determine the major categories of risk that affect the Nippon Shinyaku Group, and formulates strategies for more effectively preventing and addressing related problems.

Corporate Governance Structure



Corporate Social Responsibility

Basic CSR Policies and Promotional System

In recent years, there has been greater awareness of the importance of corporate social responsibility (CSR) in corporate activities. Society demands that corporations obey the law and fulfill many types of social responsibilities rather than simply maximizing profits.

In order to improve Nippon Shinyaku's fulfillment of its social responsibilities, the Company has established a CSR Committee. The aim of the committee, whose members also belong to the Company's Board of Directors, is to confirm that Nippon Shinyaku's business activities remain in line with social norms and expectations.

Nippon Shinyaku wants to be a "company with a meaningful existence in health care." As we work toward that goal we will keep in mind our business philosophy of "contributing to people's health and prosperous lifestyles." We believe that our corporate social responsibilities entail developing sustainably along with the rest of society by implementing our management policies of supplying high-quality products with distinctive benefits, earning society's trust, and fostering the growth of each and every employee. Our basic CSR policy is to continuously conduct our business activities in accordance with this way of thinking.

In line with our basic CSR policy, we conduct our business activities in good faith: we obey the law and our internal corporate regulations throughout the various aspects of corporate management, we maintain constant awareness of our

responsibilities to society, and we maintain a strong sense of morality. Through our various business activities, we aim to meet the expectations – including expectations for environmental preservation – of patients, trading partners, consumers, shareholders and investors, employees, and society as a whole.

Social Contributions

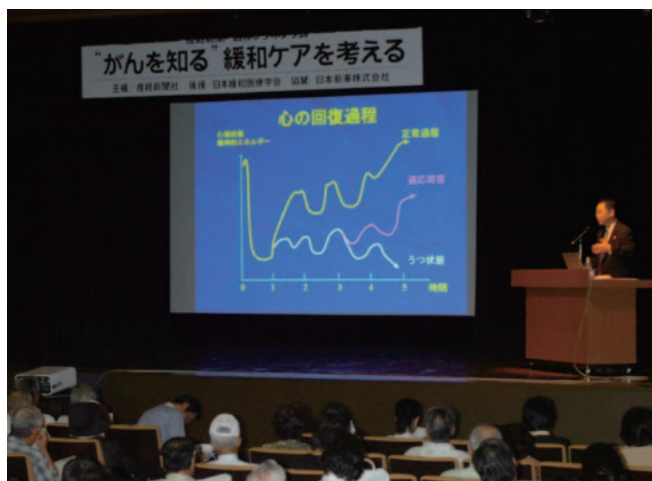
Because Nippon Shinyaku works in the health care field, one might say that our everyday business activities contribute to society. Additionally, we actively engage in a variety of other types of social contribution activities.

For Sufferers of Disease

Nippon Shinyaku engages in various educational activities related to disease. For example, we support the Yellow Ribbon drive in order to provide accurate information about menstrual pain and endometriosis. In addition to belonging to Japan's Cancer Pain Relief Consortium and supporting the Japanese Ministry of Health Labor and Welfare's Orange Balloon Project aimed at educating the public about palliative care, Nippon Shinyaku also offers public lectures to disseminate accurate information about palliative care.

For Communities and Society in General

Children are our future, and Nippon Shinyaku sponsors the Nippon Shinyaku Children's Literary Awards contest in the hope



Public lecture about palliative care for cancer patients



Anthologies of stories and pictures that won Nippon Shinyaku Children's Literary Awards

of fostering children's sound spiritual development. The contest solicits entries in two categories: stories and pictures. The best works in both categories are published in a picture book that is widely distributed to children across Japan through medical institutions, libraries, and other public institutions.

In cooperation with the Kyoto Chamber of Commerce and Industry, we provide lecturers to a program aimed at teaching elementary school students about the environment. In addition to providing the children with guidance about the importance of preserving the earth's environment, we teach them how to take medicines properly. In addition, the Nippon Shinyaku Baseball Team, which competes in the Intercity Baseball Tournament and the Amateur Baseball Japan Championship, offers baseball clinics for high school baseball players and children's baseball teams in order to raise the level of local baseball and promote interpersonal exchange.

Cultural and Sports Activities

Because Nippon Shinyaku's head office is located in the ancient capital city of Kyoto, we support Kyoto's unique culture and endeavor to communicate this rich cultural heritage to society at large. For example, we produce tenugui (functional and decorative cloths) and calendars using traditional Kyoto craftsmanship and designs, and we publish a newsletter called "Kyo," which provides various types of information about Kyoto's traditional culture and beautiful scenery.

Yamashina Botanical Research Institute preserves and

cultivates more than 3,000 species of medicinal and useful plants from around the world, including rare species threatened with extinction. The institute contributes to the preservation of biodiversity through plant breeding and cultivation research. It attracts a large number of visitors each year, and actively engages in exchange with related organizations.

Protecting the Environment

Nippon Shinyaku has devised a basic environmental policy aimed at implementing continuous environmental preservation. We established the Nippon Shinyaku Environment Committee and determined eight voluntary, Company-wide goals, including reduction of CO₂ emissions and reduction of the volume of waste that we generate. Nippon Shinyaku works systematically to meet these goals by introducing energy-efficient equipment and reducing our final waste disposal ratio.

Nippon Shinyaku's management is aware that the activities described above — taking care to preserve the earth's environment, continuously developing our pharmaceuticals and functional foods businesses, and actively engaging in other social contribution activities — constitute the fulfillment of the Company's social responsibilities. By pursuing our everyday business activities based on that awareness, we aim to meet society's expectations, earn the trust of the general public and be recognized as a company with a meaningful existence.



A Nippon Shinyaku employee teaches a class at a local school



Yamashina Botanical Research Institute

Board of Directors, Corporate Officers and Corporate Auditors



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 Division)

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

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

Tetsuyasu Yuno
(General Manager, Sales and Marketing Division)

Corporate Auditors

Yoichi Toriyama
(Standing Corporate Auditor)

Yojiro Ukai
(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 Division)

Yoshitaka Fukuda
(General Manager, Personnel Dept.)

Hirokata Harada
(General Manager, Corporate Planning Dept.)

Shigeki Sonoda
(General Manager, Odawara Central Factory)

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

Hitoshi Saito
(General Manager, Research & Development Administration Division)

Kenro Kobayashi
(General Manager, Nagoya Business Office)

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

Shouzou Sano
(General Manager, Osaka Business Office)

Financial Section

Six-Year Summary (Consolidated)	19
Management's Discussion & Analysis	20
Consolidated Balance Sheets	22
Consolidated Statements of Income	24
Consolidated Statements of Changes in Equity	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	27
Independent Auditors' Report	35

Six-Year Summary (Consolidated)

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

Management's Discussion and Analysis

Financial Strategy

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

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

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

Liquidity and Capital Resources

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

the end of the previous term.

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

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

The equity ratio was 79.3%.

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

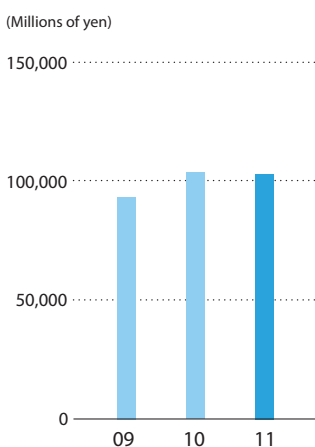
Net cash used in investing activities amounted to ¥2,844 million. The principal cash outflows were payments for capital expenditures and acquisition of license rights.

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

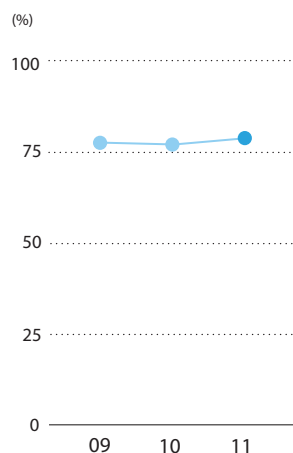
As a result, cash and cash equivalents at the end of the fiscal year decreased by ¥1,305 million from a year earlier to ¥18,142 million.

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

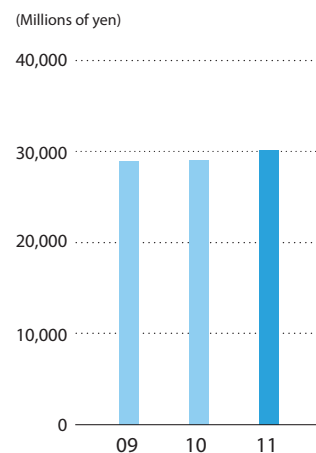
Total Assets



Equity Ratio



Cost of Sales



the funds necessary for carrying out our business activities.

Consolidated Cash Flows (Millions of yen)

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

Results of Operations

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

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

the previous fiscal year.

Earnings by segment were as follows.

(1) Pharmaceuticals

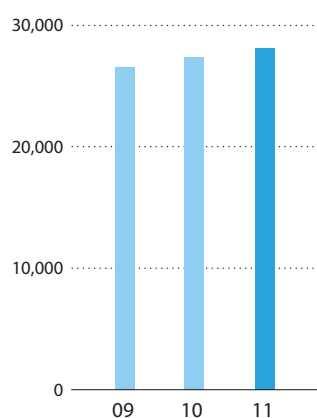
Revenue from the licensing of industrial property rights declined by ¥1,873 million, and sales of some pharmaceutical products declined, including Eviprostat®, a remedy for benign prostatic hypertrophy and Hypen®, a non-steroidal analgesic and anti-inflammatory agent. Sales of other products increased,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

(2) Functional Food

Although the processed food and health food industries continued to face difficult conditions, our functional foods business saw net sales increase by 1.9% to ¥10,970 million. Sales of seasonings and spices declined, and sales of nutritional ingredients declined slightly, but protein preparations continued their solid trend and sales of health food ingredients and preservatives increased.

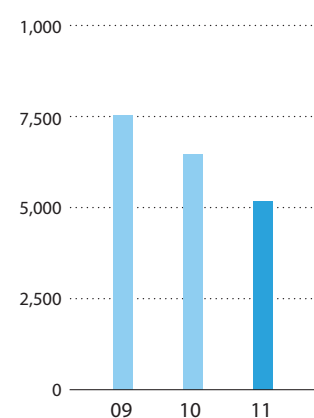
Selling, General and Administrative Expenses

(Millions of yen)



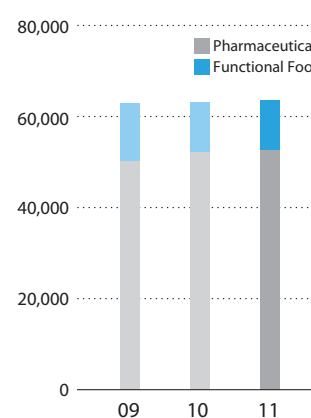
Operating Income

(Millions of yen)



Sales by Industry Segment

(Millions of yen)



Consolidated Balance Sheets

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

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

Consolidated Statements of Income

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

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

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

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

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

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

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

	Thousands					Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Minority Interests	Total Equity
						Unrealized Gain on Available-for-sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
BALANCE, APRIL 1, 2009	67,577	¥ 5,174	¥ 4,444	¥ 65,554	¥ (1,986)	¥ 3,032	¥ 1	¥ (26)	¥ 76,193	¥ 151	¥ 76,344
Net income				4,096					4,096		4,096
Cash dividends, ¥19.00 per share				(1,216)					(1,216)		(1,216)
Purchase of treasury stock	(31)				(33)				(33)		(33)
Net change during the year						1,163	2	1	1,166	13	1,179
BALANCE, MARCH 31, 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

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

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

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

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

q. New Accounting Pronouncements

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

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

3. MARKETABLE AND INVESTMENT SECURITIES

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

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

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

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

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

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

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

4. INVENTORIES

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

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

5. RETIREMENT BENEFITS

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

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

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

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

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

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

6. EQUITY

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

(a) Dividends

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

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

7. RESEARCH AND DEVELOPMENT COSTS

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

8. LEASES

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

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

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

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

Tools, furniture and fixtures:

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

Obligations under finance leases:

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

Depreciation expense and other information under finance leases:

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

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

9. INCOME TAXES

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

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

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

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

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

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

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

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

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

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

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

(3) Risk management for financial instruments

Credit risk management

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

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

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

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

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

Liquidity risk management

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

(4) Fair values of financial instruments

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

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2011			
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	
Total	¥ 56,676	¥ 56,676	
Notes and accounts payables	¥ 8,103	¥ 8,103	
Income taxes payable	598	598	
Total	¥ 8,701	¥ 8,701	
March 31, 2010			
Cash and cash equivalents	¥ 19,448	¥ 19,448	
Time deposits	80	80	
Notes and accounts receivables	24,817	24,817	
Marketable and investment securities	13,027	13,030	¥ 3
Total	¥ 57,372	¥ 57,375	¥ 3
Notes and accounts payables	¥ 8,211	¥ 8,211	
Income taxes payable	1,283	1,283	
Total	¥ 9,494	¥ 9,494	

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

Cash and cash equivalents, notes and accounts receivable

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

Marketable and investment securities

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

Notes and accounts payables, other payables, income taxes payable

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

Derivatives

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

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

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

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

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

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

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

11. COMPREHENSIVE INCOME

For the year ended March 31, 2010

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

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

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

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

12. NET INCOME PER SHARE

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

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

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

13. SUBSEQUENT EVENTS

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

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

14. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2010

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

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

1. Description of reportable segments

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

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

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

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

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

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

Related Information

1. Information about products and services

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

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

2. Information about geographical areas

(1) Sales

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

(2) Property, plant and equipment

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

3. Information about major customers

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

For the year ended March 31, 2010

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

Industry Segments

a. Sales and Operating Income

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

b. Assets, Depreciation and Capital Expenditures

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

Independent Auditors' Report



Deloitte Touche Tohmatsu LLC
 Shijokarasuma FT Square
 20, Naginataboko-cho
 Karasuma-higashiiru, Shijo-dori
 Shimogyo-ku, Kyoto 600-8008
 Japan
 Tel: +81 (75) 222 0181
 Fax: +81 (75) 231 2703
 www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

Deloitte Touche Tohmatsu LLC
 June 29, 2011

Member of
 Deloitte Touche Tohmatsu Limited

Service Network

As of July 2011

Head Office

14, Nishinosho-Monguchi-cho,
Kisshoin, Minami-ku,
Kyoto 601-8550, Japan
Phone: +81-75-321-1111
Facsimile: +81-75-321-0678
URL: <http://www.nippon-shinyaku.co.jp/>

Tokyo Branch Office & Tokyo Business Office

8-4, Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-0027, Japan
Phone: +81-3-3241-2151
Facsimile: +81-3-3241-2262

Nagoya Business Office

3-61, Shumoku-cho, Higashi-ku,
Nagoya 461-0014, Japan
Phone: +81-52-931-8576
Facsimile: +81-52-931-7839

Osaka Business Office

5-7, Doshomachi 2-chome, Chuo-ku,
Osaka 541-0045, Japan
Phone: +81-6-6203-3812
Facsimile: +81-6-6231-8367

Other Domestic Business Offices

Sapporo, Morioka, Sendai, Takasaki,
Ibaraki, Koshinetsu, Tama, Saitama,
Chiba, Yokohama, Kyoto, Kanazawa,
Kobe, Takamatsu, Okayama, Hiroshima,
Fukuoka, Kumamoto, Kagoshima

Overseas Office

Düsseldorf Office

Tonhallenstr. 10, 40211 Düsseldorf,
Germany
Phone: +49-211-350648
Facsimile: +49-211-161429

Research Laboratories

Kyoto

14, Nishinosho-Monguchi-cho,
Kisshoin, Minami-ku,
Kyoto 601-8550, Japan
Phone: +81-75-321-1111
Facsimile: +81-75-321-0678

Tsukuba

3-14-1, Sakura, Tsukuba,
Ibaraki 305-0003, Japan
Phone: +81-29-850-6216
Facsimile: +81-29-850-6217

Odawara Central Factory

676-1, Kuwabara,
Odawara 250-0861, Japan
Phone: +81-465-36-4111
Facsimile: +81-465-37-1033

Chitose Synthesis Plant & Chitose Functional Food Plant

1007-81, Izumisawa, Chitose,
Hokkaido 066-0051, Japan
Phone: +81-123-28-1212
Facsimile: +81-123-28-1211

Domestic Subsidiaries

Sioe Pharmaceutical Co., Ltd.

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

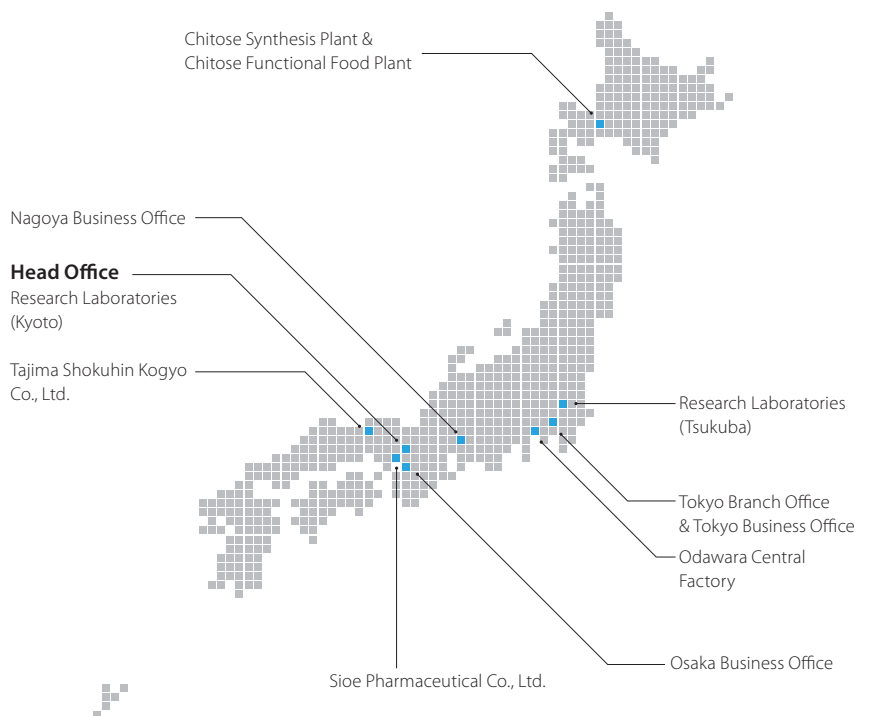
Tajima Shokuhin Kogyo Co., Ltd.

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

Overseas Subsidiary

NS Pharma, Inc.

President: Masaya Toda
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



Corporate Data

As of July 2011

Founded

November 1911

Date of Incorporation

October 1919

Paid-in Capital

¥5,174 million

Issued and Outstanding Number of Shares

70,251,484

Number of Shareholders

5,338

Independent and Certified Public Accountants

Deloitte Touche Tohmatsu

Shijokarasuma FT Square

20, Naginataboko-cho, Karasuma-higashiiru, Shijo-dori

Shimogyo-ku, Kyoto 600-8008, Japan

Share Register

Mitsubishi UFJ Trust and Banking Corporation

6-3, Fushimimachi 3-chome, Chuo-ku,

Osaka 541-0044, Japan

Major Shareholders

Meiji Yasuda Life Insurance Company

Japan Trustee Services Bank, Ltd

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Bank of Kyoto, Ltd.

PERSHING-DIV. OF DLJ SECS. CORP.

Nippon Life Insurance Company

The Master Trust Bank of Japan, Ltd.

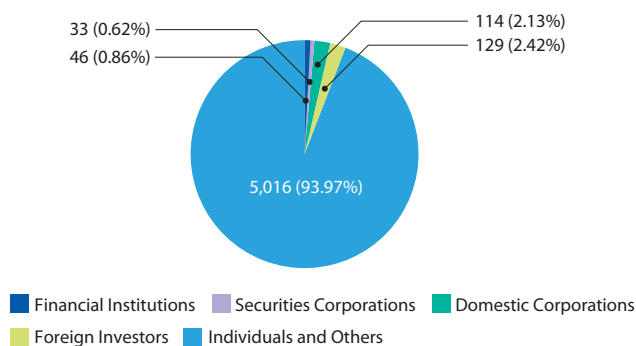
Tokio Marine & Nichido Fire Insurance Co., Ltd.

Mitsubishi Corporation

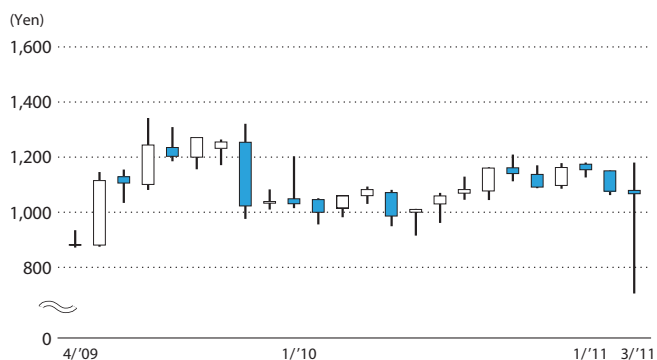
Nippon Shinyaku Employees' Stockholding

Investor Information

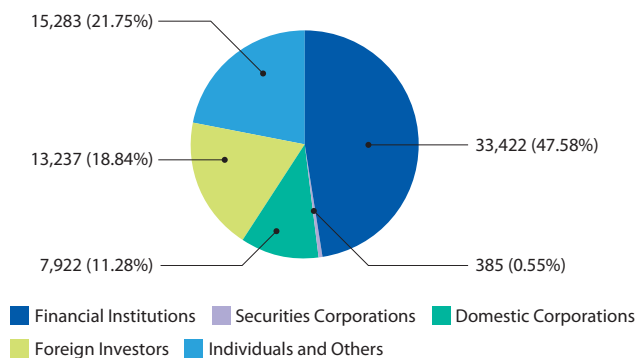
Distribution of Shareholders



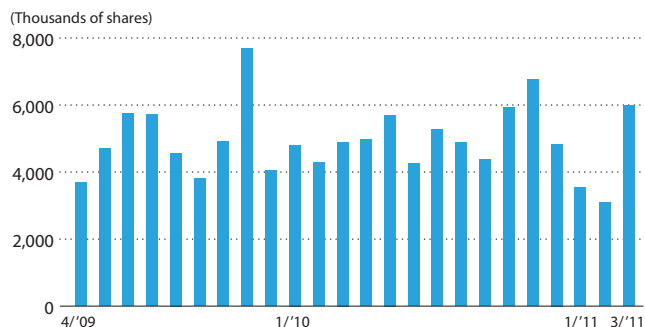
Stock Price



Distribution of Shares Issued (Thousands of shares)



Trading Volumes



 **NIPPON SHINYAKU CO., LTD.**

14, Nishinosho-Monguchi-cho, Kisshoin, Minami-ku, Kyoto
601-8550, Japan
<http://www.nippon-shinyaku.co.jp/>