Nippon Shinyaku at a Glance

Helping people lead healthier, happier lives

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

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

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- Companies Covered: Nippon Shinyaku Co., Ltd.

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### Note:

Figures presented in this report are taken from Nippon Shinyaku’s Financial Report for the year ended March 31, 2014. As figures have been rounded, totals may not exactly equal the sum of their composite statistics.

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**Pharmaceuticals**

- Zalutia®
- Bispidin®
- Zaldac®
- Labosase
- Ur's

**Functional Food**

- NS Amla extract powder
- Mangosteen aqua
- NSCP aqua
- Cialis®
- Estracyt®
- Bladderon®
- Zalutia®
- Nippon Shinyaku has provided products that help people lead healthier lives, including functional foods. We believe that our mission is to continually develop novel and unique medicines that benefit patients. In the functional food segment, we leverage our expertise in pharmaceuticals to deliver proprietary functional food ingredients that are beneficial to society and that help people live healthier lives.

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**Preservatives**

- Methyl Para Caffeate
- Ethyl Para Caffeate
- Sorbic Acid
- Dehydroacetic Acid
- Potassium Sorbate
- Sodium Benzoate

**Protein-preparations and Nutritional Ingredients**

- Methyl Fish Oil
- Shark Liver Oil
- Mackerel Liver Oil
- Anchovy Liver Oil
- Canned Egg Whole H
- Salmon Roe
- Salmon Roe Powder
- Salmon Roe Liquid
- Tuna Roe
- Turbot Roe
- Herring Roe
- Salmon Roe
- Pigeon Roe
- Anchovy Roe

**Spices and condiments**

- Salt
- Citric Acid
- Copper Oxalate
- Sodium Acetate
- Sodium Citrate

**Others**

- Selenite
- Thiamine HCl

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**We provide functional food ingredients that help people lead healthier lives, including functional foods.**

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## Consolidated Financial Highlights

### Summary of consolidated financial indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>2010/3</th>
<th>2011/3</th>
<th>2012/3</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2014/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (millions of yen)</td>
<td>1,207.43</td>
<td>1,210.37</td>
<td>1,213.37</td>
<td>1,216.37</td>
<td>1,219.37</td>
<td>1,222.37</td>
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<tr>
<td>Operating income (millions of yen)</td>
<td>67,394</td>
<td>68,961</td>
<td>70,961</td>
<td>72,961</td>
<td>74,961</td>
<td>76,961</td>
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<tr>
<td>Net income (millions of yen)</td>
<td>6,461</td>
<td>6,181</td>
<td>6,012</td>
<td>6,012</td>
<td>6,012</td>
<td>6,012</td>
</tr>
<tr>
<td>Pay-out ratio (%)</td>
<td>31.3</td>
<td>31.4</td>
<td>31.5</td>
<td>31.6</td>
<td>31.7</td>
<td>31.8</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Ratio of net worth (%)</td>
<td>85.25</td>
<td>85.25</td>
<td>85.25</td>
<td>85.25</td>
<td>85.25</td>
<td>85.25</td>
</tr>
<tr>
<td>Dividend per share (yen)</td>
<td>1,818</td>
<td>1,898</td>
<td>1,898</td>
<td>1,898</td>
<td>1,898</td>
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### Financial information per share

<table>
<thead>
<tr>
<th>Description</th>
<th>2010/3</th>
<th>2011/3</th>
<th>2012/3</th>
<th>2013/3</th>
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<th>2014/3</th>
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<tbody>
<tr>
<td>Book value per share (yen)</td>
<td>1,187</td>
<td>1,207</td>
<td>1,227</td>
<td>1,247</td>
<td>1,267</td>
<td>1,287</td>
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<tr>
<td>Earnings per share (yen)</td>
<td>58.62</td>
<td>58.62</td>
<td>58.62</td>
<td>58.62</td>
<td>58.62</td>
<td>58.62</td>
</tr>
<tr>
<td>Dividend per share (yen)</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
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</table>

### Principal financial indicators

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<thead>
<tr>
<th>Description</th>
<th>2010/3</th>
<th>2011/3</th>
<th>2012/3</th>
<th>2013/3</th>
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<tbody>
<tr>
<td>Ratio of net worth (%)</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
<td>77.1</td>
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<tr>
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<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
<td>5.4</td>
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<tr>
<td>Pay-out ratio (%)</td>
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<td>31.4</td>
<td>31.5</td>
<td>31.6</td>
<td>31.7</td>
<td>31.8</td>
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### ESG indices summary

<table>
<thead>
<tr>
<th>Description</th>
<th>2010/3</th>
<th>2011/3</th>
<th>2012/3</th>
<th>2013/3</th>
<th>2014/3</th>
<th>2014/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total energy consumption (thousands of GJ)</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td>CO2 emissions (t)</td>
<td>10,599</td>
<td>10,813</td>
<td>9,568</td>
<td>11,272</td>
<td>10,412</td>
<td>10,412</td>
</tr>
<tr>
<td>CO2 per unit of revenue (yen/t)</td>
<td>0.168</td>
<td>0.171</td>
<td>0.143</td>
<td>0.162</td>
<td>0.136</td>
<td>0.136</td>
</tr>
<tr>
<td>Number of employees (people)</td>
<td>1,818</td>
<td>1,882</td>
<td>1,882</td>
<td>1,882</td>
<td>1,882</td>
<td>1,882</td>
</tr>
</tbody>
</table>

*Summary values include drug development and research (journals not included)

**ESG indices apply to major business locations (including sales offices)
We Achieved Increased Sales and Profits and Record Highs in Terms of Both Net Sales and Profits

Shigenobu Maekawa
President

The Nippon Shinyaku Group’s business environment during the year ended March 31, 2014 proved to be quite difficult because of the headwinds against R&D-focused pharmaceutical companies, and the pharmaceutical sector in general, caused by the continuing emphasis on measures to limit medical costs, including the greater promotion of generics, coupled with Japan’s declining birthrate and aging population. Additionally, despite surging costs for imported raw materials in the functional food segment, consumers’ inclination toward low priced products remains unchanged and competition in the market has grown more intense, resulting in challenging conditions.

Amid this environment, the Nippon Shinyaku Group proactively engaged in the sales and marketing of its innovative new drug products, achieving record highs in terms of net sales, operating income, ordinary income and net income. Our new product launches included Regtect®, a remedy for myelodysplastic syndrome, Lunabell®, a dysmenorrhea remedy, Adcirca®, a treatment agent for pulmonary arterial hypertension, Tramal®, a treatment for cancer pain and chronic pain, and other drug products increased. As a result, net sales amounted to ¥63,345 million (up 25.1% year-on-year), net income of ¥5,750 million (up 16.5% year-on-year), ordinary income of ¥8,038 million (up 19.3% year-on-year), and operating income of ¥8,598 million (up 9.4% year-on-year) in the pharmaceuticals segment, sales of Vidaza, a remedy for myelodysplastic syndrome, Lunabell, a dysmenorrhea remedy, Adcirca, a treatment agent for pulmonary arterial hypertension, Tramal, a treatment for cancer pain and chronic pain, and other drug products increased. As a result, net sales amounted to ¥63,345 million (up 8.6% year-on-year).

In the pharmaceuticals segment, sales of Vidaza, a remedy for myelodysplastic syndrome, Lunabell, a dysmenorrhea remedy, Adcirca, a treatment agent for pulmonary arterial hypertension, Tramal, a treatment for cancer pain and chronic pain, and other drug products increased. As a result, net sales amounted to ¥63,345 million (up 8.6% year-on-year).

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

Speed: Speedy Action
We will always take speedy action to make certain to seize opportunities.

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

Financial Position

Assets, Debts, and Net Assets
For the year ended March 31, 2014, total assets increased by ¥4,458 million year-on-year to ¥1,118,888 million. Total debts increased by ¥801 million year-on-year to ¥25,002 million. Net assets increased by ¥3,657 million year-on-year to ¥93,186 million.

Cash Flows
For the year ended March 31, 2014, cash and cash equivalents increased by ¥1,185 million year-on-year to ¥21,129 million. Net cash from operating activities amounted to ¥6,015 million, while net cash used in investing activities amounted to ¥3,357 million. Net cash expended for financing activities amounted to ¥1,606 million.

Management Policy

Business Philosophy

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

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

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

Code of Conduct

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

Financial Position

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Helping People Lead Healthier, Happier Lives

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

Business Results for the Year Ended March 31, 2014

Record Highs Posted for Net Sales, Operating Income, Ordinary Income and Net Income
The Nippon Shinyaku Group recorded net sales of ¥76,517 million (up 9.4% year-on-year), operating income of ¥8,038 million (up 16.5% year-on-year), ordinary income of ¥8,598 million (up 9.4% year-on-year), and net income of ¥5,750 million (up 16.5% year-on-year). Net sales, operating income, ordinary income and net income each set record highs.

Net Sales of New Drug Products

<table>
<thead>
<tr>
<th>Year</th>
<th>Vidaza®</th>
<th>Lunabell®</th>
<th>Eriza®</th>
<th>Regtect®</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 14/3</td>
<td>¥19,530</td>
<td>¥30,000</td>
<td>¥20,000</td>
<td>¥15,491</td>
</tr>
<tr>
<td>March 13/3</td>
<td>¥15,491</td>
<td>¥20,000</td>
<td>¥19,530</td>
<td>¥14,530</td>
</tr>
</tbody>
</table>

Net assets increased by ¥3,657 million year-on-year to ¥93,186 million.
To Our Stakeholders

Achievements and Issues from the 4th Five-year Medium-term Management Plan (Fiscal 2009 to Fiscal 2013)

Close to fully achieving our plan for the development and market launch of new drug products

In the pharmaceuticals segment, we actively worked on new drug products and net sales of our new drug product lineup exceeded our initial plan. Our development and market launch schedule for new drug products was close to being fully achieved as planned.

Posted record highs in net sales and profits

Under the vision of innovation and growth, our company-wide efforts aimed at achieving targets enabled us to expand the R&D pipeline and build a management foundation not dependent on long-listed drugs. Thanks to these efforts, we were also able to realize record high net sales, operating income, ordinary income and net income for fiscal 2013, the final year of the plan.

Projected Business Results for the Year Ending March 31, 2015

Increased Sales and Profits

In the pharmaceuticals segment, despite impacts from NHI drug price revisions, we anticipate increased sales from further growth in our new drug product lineup, including Vidaza®, a remedy for myelodysplastic syndrome, and Lunabel®, a treatment for dyshydrosis, and contributions from Zalutia®, the new drug for urinary disorders caused by benign prostatic hypertrophy, which was launched in April 2014.

In the functional food segment, we forecast increased sales from our greater emphasis on new product development and launches as well as our strengthened initiatives toward priority products.

With the above in mind, we expect net sales of ¥84,000 million, operating income of ¥8,500 million, ordinary income of ¥9,700 million, and net income of ¥6,000 million.

Medium- and Long-Term Business Strategy

Review of the 4th Five-year Medium-term Management Plan

The 4th Five-year Medium-term Management Plan called for achieving innovation and growth and the entire company worked together toward becoming a company with a meaningful existence in healthcare.

As a result, sales of new products in the pharmaceuticals segment grew more than planned, but our existing core drugs were impacted more than initially anticipated by measures to promote the use of generics. The functional food segment also saw deflation and a drop in raw materials’ prices. Consequently, we were unable to achieve our numerical targets for the plan. Nevertheless, we were able to expand our R&D pipeline and carry out a reform to build a management base not dependent on long-listed drugs. Thanks to these achievements, we were able to realize record high net sales, operating income, ordinary income and net income for fiscal 2013, the final year of the plan.

Formulation of the 5th Five-year Medium-term Management Plan

In fiscal 2014, we drew up the 5th Five-year Medium-term Management Plan: “Aiming for New Growth — Pursuit of Originality —” based on the foundation established under the 4th Five-year Medium-term Management Plan. Under this new Medium-term Management Plan, we will work to create our own unique foundation that can respond to changes in business climate by setting ourselves apart from peers and pursuing originality.

Summary of the 5th Five-year Medium-term Management Plan

Nippon Shinyaku’s business environment is forecast to become even more challenging amid government efforts to rein in medical costs. In the pharmaceuticals segment, we will target niche domains within the five main fields of focus (urology, hematology, intractable/orphan diseases, gynecology and otolaryngology) that have unmet medical needs, concentrating management resources to expand our pipeline and increase market share.

In the functional food segment, we will capitalize on our advanced technologies as a pharmaceutical company to provide high value added products that meet market needs mainly in the three focus areas (health food ingredients, preservatives, and nutritional ingredients). Through these initiatives, we will become a company with a meaningful existence in healthcare that is trusted and appreciated by society.

Our numerical targets for fiscal 2018, the final year of the plan, are net sales of ¥110 billion and operating income of ¥11 billion.

Corporate Social Responsibility Initiatives

Executing Our Management Policy to Achieve Sustainable Growth Together with Society

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

In our CSR initiatives (see page 23), we endeavor to strike a balance between social contributions through our business activities, and social contributions outside of business. Our non-business activities include sponsorship of the Nippon Shinyaku Children’s Literary Awards contest and the Shining Future for Children Fund, which organizes a fundraising drive to provide vaccines for needy children in developing countries. We send employees to teach workshops for elementary school students in the community, are involved in initiatives to preserve and maintain Kyoto culture, and arrange for our corporate baseball team to conduct baseball clinics for youth. We also run the Nippon Shinyaku & Seitou Kurada Smiles Art Project, which creates heartwarming hospital art (see page 27).

Moving forward, we will continue our efforts to meet the expectations of stakeholders, and we welcome their continued feedback and support.
5th Five-year Medium-term Management Plan (Fiscal 2014 to Fiscal 2018)

Aiming for New Growth — Pursuit of Originality —

Overview
We will set ourselves apart from our peers and achieve growth through the launch of new products and improved profitability.

Nippon Shinyaku's business environment is expected to become even more challenging in the future given additional focus on measures to limit medical costs and Japan's declining birthrate and aging population. To achieve sustainable growth in this changing environment, we will need to clearly set ourselves apart from peers and establish our own unique foundation.

Based on our awareness of this environment and our long-term vision of becoming a company with a meaningful existence in healthcare, we will leverage our management foundation to pursue greater originality and we have established our 5th Five-year Medium-term Management Plan (fiscal 2014 to fiscal 2018) as a unique foundation aimed at unlocking new growth.

We will achieve growth by differentiating ourselves from other companies while also launching new products and improving profitability. Our ultimate goal will be to achieve net sales of ¥110 billion and operating income of ¥18 billion in fiscal 2018, the final year of our Medium-term Management Plan.

Numerical targets for fiscal 2018

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2013 results</th>
<th>Fiscal 2018 plan</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥76.5 billion</td>
<td>¥110 billion</td>
<td>8%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>¥63.1 billion</td>
<td>¥95 billion</td>
<td>8%</td>
</tr>
<tr>
<td>Functional food</td>
<td>¥13.2 billion</td>
<td>¥15 billion</td>
<td>3%</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥8.0 billion</td>
<td>¥18 billion</td>
<td>17%</td>
</tr>
<tr>
<td>Net income</td>
<td>¥5.8 billion</td>
<td>¥12 billion</td>
<td>16%</td>
</tr>
<tr>
<td><em>EPS</em>&lt;sup&gt;1&lt;/sup&gt;</td>
<td>6.3%</td>
<td>10%</td>
<td>—</td>
</tr>
<tr>
<td>ROE*&lt;sup&gt;2&lt;/sup&gt;</td>
<td>9%</td>
<td>16%</td>
<td>—</td>
</tr>
</tbody>
</table>

<sup>1</sup> ROE (Return On Equity)  
<sup>2</sup> EPS (Earnings Per Share)

R&D Strategy
We will target niche domains within the five main fields of focus that have unmet medical needs, concentrating management resources and also utilizing external resources to reinforce our drug discovery. We will expand our pipeline around the three pillars of drug discovery, in-licensing and product lifecycle management to continually develop products that will drive the next stage of our growth.

Additionally, using our long-standing fundamental technology of nucleic acid synthesis, we will aim to launch Japan’s first-ever antisense nucleic acid pharmaceutical (for the treatment of muscular dystrophy).

Marketing Strategy
By committing management resources to the main fields, we will maximize the value of pharmaceuticals and develop the three product groups (Zalutia<sup>1</sup>, Vidaza<sup>2</sup> and PAH<sup>3</sup> treatments) as growth drivers.

To this end, we will increase the number of hospital MRs treating hematology disorders or PAH, among other conditions. We will also utilize our internal certification and testing program to improve MR’s academic knowledge and enhance the quality of the information we provide.

Supply Chain Strategy
We will pursue business process efficiencies and cost management in every phase of the supply chain, from delivering a stable supply of products to procurement, manufacturing, and logistics.

Additionally, we will construct a manufacturing facility for products such as ACT-064992 and Vidaza/GA101 as part of our strategic diversification.

In the supply chain, the segment will reinforce quality management and review costs related to procurement, manufacturing and logistics to reduce cost price.

Business Strategy for Functional Food
We will supply unique materials that are of high quality and added value.

The functional food segment will be transformed into a high margin business by supplying unique materials that are of high quality and added value and contribute to healthy longevity, active lifestyles, food safety, and food waste reduction.

In terms of R&D, management resources will be committed to the research and development of the segment’s focus areas that include health food ingredients, preservatives, and nutritional ingredients. This will enable us to supply high quality and high-added-value functional food ingredients that set us apart from peers.

As for marketing, again management resources will be allocated to focus fields to maximize product value and make marketing activities which avoid price competition.

In the supply chain, the segment will reinforce quality management and review costs related to procurement, manufacturing and logistics to reduce cost price.

Business Strategy for Pharmaceuticals
We will concentrate management resources on core domains while expanding our R&D pipeline and market share.

Pharmaceuticals will focus specifically on the medical fields of urology, hematology, intractable/orphan diseases, gynecology, and otorhinolaryngology. Management resources will be committed to these areas in order to expand our R&D pipeline and market share.

Focus on core competencies: Encourage open innovation

3 pillars
- Drug discovery
- In-licensing
- Product lifecycle management

**Human Resources Management**
Based on the recognition that our people create our originality, we will strive to increase hiring and training opportunities as well as improve employee motivation.

We will increase the Nippon Shinyaku Group’s workforce from around 1,900 currently to around 2,000. This will be achieved by increasing the number of non-regular employees and keeping the number of regular employees in charge of core operations unchanged. We will actively utilize our female workers and also re-employ seniors to capitalize on their experience and technological expertise, with an eye on improving productivity.

**Value for society**
- Healthy longevity
- Active lifestyles
- Food safety
- Food waste reduction

**Focus fields**
- Health food ingredients
- Preservatives
- Nutritional ingredients

**Marketing Strategy**
By committing management resources to the main fields, we will maximize the value of pharmaceuticals and develop the three product groups (Zalutia<sup>1</sup>, Vidaza<sup>2</sup> and PAH<sup>3</sup> treatments) as growth drivers.

To this end, we will increase the number of hospital MRs covering specialty pharmaceuticals such as those to treat hematomal disorders or PAH, among other conditions. We will also utilize our internal certification and testing program to improve MR’s academic knowledge and enhance the quality of the information we provide.

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Nippon Shinyaku Launches Zalutia®, a Breakthrough New Drug for Urinary Disorders Caused by Benign Prostatic Hypertrophy

Benign prostatic hypertrophy, or BPH, negatively affects a patient’s quality of life (QOL) because of the various clinical conditions such as frequent urination. Amid calls for a new remedy to treat these different clinical conditions, Nippon Shinyaku launched Zalutia® in April 2014. This much-anticipated new drug in Nippon Shinyaku’s target field, urology, helps to improve patient QOL.

Rising Number of BPH Patients as the Population Ages

BPH is a medical condition that affects only men. The prostate, which is located below the bladder surrounding the urethra and forms part of the male reproductive system, expands as the body ages and results in various symptoms, such as a weak stream when urinating or difficulty urinating. The cause of these symptoms is not only attributed to pressure on the urethra from an enlarged prostate, but also the narrowing of the urethra caused by excessive tension on the sympathetic nerve or reduced activity of the nitric oxide nerve. A specific treatment for each clinical condition is required.

With the recent arrival of an aging society, the number of patients seen for BPH has risen exponentially from 170,000 in 1990 to 420,000 in 2011.* The number of potential patients with BPH is said to be four million.

* Statistics and Information Department, Minister’s Secretariat, Ministry of Health, Labour and Welfare: FY2011 Patient Survey

The Objective of Treatment Is Improving QOL

The primary goal of BPH treatment is to improve the patient’s QOL. Our goal is to free patients from having to wake up frequently at night to urinate, worrying about where the bathroom is when away from home, enduring long meetings, trouble urinating, or the constant urge to urinate, and help them regain a more active lifestyle.

Conventional Treatments Not Fully Effective on All BPH Patients

The method of BPH treatment, whether it is simple observation, medical treatment or surgery, depends on the condition of the patient and severity of the symptoms. Alpha-1 blockers, though they cannot shrink the enlarged prostate, are used as the drug of the first choice for BPH because they can quickly alleviate excessive tension on the sympathetic nerve, which will loosen the urethra and prostate, and allow urine to flow better.

It is said, however, about one-third of BPH patients do not obtain a sufficient treatment effect from alpha-1 blockers. Other drugs, such as 5-alpha reductase inhibitors which can shrink the enlarged prostate and plant preparations like Eviprostat®, that can reduce swelling or inflammation of the prostate, are also prescribed. Nevertheless, the existing medical treatments of BPH lack sufficient efficacy, which has required the development of a drug with a new mechanism of action.

Breakthrough New Drug Zalutia® Offers a New Choice for Patients

Zalutia® represents a new choice for patients with BPH, offering a completely different mechanism of action compared to conventional drugs because it inhibits phosphodiesterase type 5 (PDE5).

Nitric oxide that is released from the nerve endings when a man urinates produces cyclic guanosine monophosphate (cGMP), which loosen the urethra and prostate, enabling smooth urination. Zalutia®’s mechanism of action is to increase the concentration of cGMP by inhibiting PDE5 which degrades cGMP and to improve any problems in urinating. Also, cGMP dilates blood vessels and improves blood flow in the prostate and the bladder. Furthermore, Zalutia® is understood to be effective at reducing excessive activity of the afferent nerve from the bladder.

Tadalafil – PDE5 Inhibitor

Nippon Shinyaku has already commenced marketing for Cialis®, an erectile dysfunction treatment, and Adcirca®, a pulmonary arterial hypertension treatment. Both products contain the same long-acting PDE5 inhibitor called tadalafil as an active ingredient. Since PDE5 inhibitors were assigned the same grade as alpha-1 blockers in the guidelines revised in 2013, treatment guidelines in Japan left the recommendation grade of tadalafil pending because tadalafil was unapproved in 2011 when the guidelines were issued. As for evidence level, tadalafil received the same high appreciation as alpha-1 blockers.

Zalutia®’s Strong Reputation

Clinical trials carried out to date, including those in Japan, found that Zalutia® significantly improved lower urinary tract symptoms compared to placebo. Research papers in Japan and overseas have reported that Zalutia® has a very high treatment satisfaction rate among patients.

In Europe, where tadalafil is already used to treat BPH, PDE5 inhibitors were assigned the same grade as alpha-1 blockers in the guidelines revised in 2013. Treatment guidelines in Japan left the recommendation grade of tadalafil pending because tadalafil was unapproved in 2011 when the guidelines were issued. As for evidence level, tadalafil received the same high appreciation as alpha-1 blockers.

Initiatives for Ensuring Proper Drug Usage

The proper use of Zalutia® is extremely important for achieving the greatest efficacy and treating BPH effectively. This is why Nippon Shinyaku provides proper information to medical care professionals in the field to ensure the drug is used correctly by patients diagnosed with BPH.

Additionally, through our website (http://www.nippon-shinyaku.co.jp/) we provide a wide range of information, including easy-to-understand explanations about the mechanisms behind urination for patients and their families, and also share messages from specialist physicians. Going forward we will continue with these activities to raise awareness among consumers.
Market conditions remain challenging
In fiscal 2013, Japan's prescription drug market was valued at some ¥10.16 trillion on a NH price basis. However, challenging market conditions continue to persist in Japan. For example, it has been decided in the NH price system reform of 2014 that prices of long-listed drugs*1 for which generics have yet to reach a 60% share after five years from the initial listing*2 will be reduced further every time NH price revisions are made until the share reaches 60%.

Nevertheless, a number of new drugs have been released, including therapeutic agents for diabetes and osteoporosis as well as narcotic analgesic agents, as overall demand in the market has grown for pharmaceuticals to treat conditions such as cancer, osteoporosis, and rheumatoid arthritis.

Sales Conditions
Sales of new drug products have grown, resulting in increased revenues
Nippon Shinyaku is shortening its R&D lead time in order to deliver new unique and high-quality drug products to patients as soon as possible, and continues to bring new drug products to market. We are also committed to enhancing the value of our existing pharmaceuticals by modifying drug formulations and applying for additional indications, so as to accommodate the needs of both patients and medical professionals alike.

Our pharmaceuticals business saw a decline in sales for existing core drugs due to the influence of generics and competitor drugs, but overall sales increased robustly thanks to the growth of new drug product lines and approvals of additional indications for our existing pharmaceuticals.

Current fiscal year sales rose for Vidaza®, a myelodysplastic syndrome treatment, Lunabel®, combination tablets for dysmenorrhea, Adcirca®, a pulmonary arterial hypertension treatment, Tramal®, a treatment for cancer pain and chronic pain, and Regitect®, a drug for supporting maintenance of abstinence in patients with alcohol dependence. As a result, pharmaceuticals business net sales rose 8.6% year-on-year to ¥63,345 million.

Prospects for Fiscal 2014
Sales of new drug products expected to grow and result in increased revenues
Although the environment surrounding the pharmaceutical industry is becoming more challenging, we are implementing strategies with a focus on our new drug product lineup based on strategic R&D management defined in our 5th Five-year Medium-term Management Plan.

In fiscal 2014, we will focus efforts on promoting the further market penetration of our new drug product lines, including Zalutis®, a drug for urinary disorders caused by Benign Prostatic Hypertrophy (BPH) that was launched in April 2014. We will also make efforts to increase the market penetration of Regitect®, a drug for supporting maintenance of abstinence in patients with alcohol dependence, and Lunabel® Compound Tablet ULD, a treatment for dysmenorrhea that contains the smallest amount of ethyl estradiol in Japan, both released last year, following a lifting of the dosing period restrictions.*3 We expect to increase our revenues from new drug products by 35.9% year-on-year in 2014.

The growth in sales of our new drug products is expected to increase net sales of our pharmaceuticals business by 11.5% year-on-year to ¥70,600 million.

With regard to R&D, an application for new drug approval of ACT-064992 (Macitentan), a therapeutic agent for pulmonary arterial hypertension, was filed. In addition, we applied for the new drug approval of long-acting oral analogs: NS-24 (Tramadol hydrochloride). We are moving forward with phase II trials for NS-304 (Salesipep), antipruritic drug NS-141 and NS-986, a therapeutic agent for nocturia, and are aiming to commercialize these drugs as soon as possible. Additionally, an investigator-initiated early-stage and exploratory clinical trial recently began for NS-065, a therapeutic agent for Duchenne muscular dystrophy. NS-065 is the first Japanese-made nucleic acid drug*4 to enter this stage.

In this manner, we will continue to bring unique drug products to market in order to boost our competitiveness and earning power, and maximize corporate value.

*1 Long-listed drug: An original drug for which the patent has expired and generics versions are available
*2 Listing: Approved as a prescription drug covered by NHI
*3 Dosing period restriction: A rule whereby new drugs can only be administered for a 14-day period for one prescription during the first year after their listing
*4 Nucleic acid drug: A collective name given to pharmaceuticals which contain linear nucleic acid or modified nucleic acid as the active ingredient and control the functions of a specific gene

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

#### Research & Development

**Nippon Shinyaku R&D Vision**

Aiming to steadily and continually bring new drug products to market in specialty fields where we focus

We have determined five fields of medicine on which we strategically focus our medium- to long-term R&D efforts: urology, hematology, intractable/orphan diseases (pulmonary arterial hypertension, muscular dystrophy, and dependency), gynecology, and otorhinolaryngology. Targeting these specialty fields, we aim to build our development pipeline around in-house drug discovery, licensing from other companies, and product life cycle management (PLCM) in order to steadily and continually bring new drug products to market.

**In-house Drug Discovery**

With a focus on our core medical specialty of urological and hematological diseases, in-house drug discovery focuses on the development of highly competitive, unique and proprietary drugs. With a focus on our core medical specialty of urological and hematological diseases, in-house drug discovery focuses on the development of highly competitive, unique and proprietary drugs.

**Licensing**

We work actively to license in both marketed products and in-licensing development of highly competitive, unique and proprietary drugs.

**Product Life Cycle Management**

We examine possibilities for adding new indications or new formulations for our products on the market and under development, in order to maximize product value.

**Development of New Technology**

Focusing on the development of nucleic acid drugs

Nippon Shinyaku is actively engaged in the advanced research of nucleic acid drugs at its Discovery Research Laboratories in Tsukuba. Nucleic acid drugs, which directly target a specific disease-causing gene, offer great possibilities as a new treatment of diseases. We are focusing drug discovery efforts on nucleic acid drugs in order to quickly deliver these drugs to the frontlines of medicine to treat rarer and intractable diseases that have proven difficult to treat until now.

**Development of the R&D Pipeline**

**Progress being made on many development candidates**

We have seen progress on a number of development candidates since April 2013. First, we launched Zalutis®, a drug for urinary disorders caused by BPH in April 2014. We anticipate that this drug represents a new treatment option in our specialty field of urology and will contribute to improved patient QOL.

With regard to the status of applications, in May 2014 our licensor Actelion Pharmaceuticals Japan Ltd. filed an application for new drug approval of ACT-064992 (Macitentan), a therapeutic agent for pulmonary arterial hypertension that we have been jointly developing together. Also, we applied for new drug approval for NS-24 (Trazadol hydrochloride), a long acting oral analgesic, in June 2014.

As for development candidates, we began phase II clinical trials for NS-141 (our original drug), an anti-pruritic agent, in September 2013, and NS-986 (in-licensed product from Dainippon Sumitomo Pharma Co., Ltd.), a treatment for intractable pruritus, in December 2013. In addition, we began a phase II clinical trial in August 2013 for arteriosclerosis obliterans (ASO) patients as part of PLDM activities for our original drug NS-304 (Selepak®) currently under development as a therapeutic agent for pulmonary arterial hypertension.

**Pipeline: Domestic**

As of August 8, 2014

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**Pipeline: Overseas**

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**Focusing on the development of nucleic acid drugs**

Nippon Shinyaku is actively engaged in the advanced research of nucleic acid drugs at its Discovery Research Laboratories in Tsukuba.
Aiming to enhance our presence in core fields and become a pharmaceutical treatment partner

As part of our marketing strategy, the emphasis of marketing activities has been placed on our new lineup of drug products. Among these, new products such as Vidaﬁa® and Adcirca® are used by highly specialized physicians in specific fields of medicine. Our mission to ensure the proper usage of our drug products includes not only providing product information based on evidence, but also delivering related information required by medical professionals in a timely manner.

Starting in fiscal 2013 we established an in-house MR qualification test program as part of our efforts to foster a corporate culture focused on daily knowledge acquisition and continual self improvement. In the basic course held during the initial fiscal year we began testing academic knowledge on a basic level, and in fiscal 2014 we will roll out advanced (developmental) and specialty (applied knowledge) forms of this in-house certification system. Additionally, we will establish a prompt cycle where we quickly ascertain the ever changing needs of patients and medical professionals and use this information to respond to their needs. This will enable us to capture greater trust from medical professionals and society, enhance our existional value, and become a pharmaceutical treatment partner for patients and medical professionals.

Established a system that can respond promptly to the needs of medical professionals

The Marketing Division combines its marketing, academic and logistics capabilities to formulate and implement an action plan that includes marketing guidelines and product strategy. In this manner, we are implementing a robust action plan that combines measures from each department and clearly defines our actions.

In fiscal 2014, we newly established the Product Marketing Department in order to promote and implement our marketing action plan, and a product manager has been assigned to each of our four new products: Zalutia®, Vidaza®, Adcirca® and Lunabell®. Through this arrangement, we are maximizing the value of our products by enhancing promotional campaigns targeting key opinion leaders (KOLs) throughout Japan and formulating strategies for the future of the drug, based on which specific action plans are implemented.

To ensure information on the proper use of our specialized drug products such as Vidaﬁa® and Adcirca® is provided in an efficient manner, we have made changes to the structure of our marketing organization and added hospital sales offices. In MR activities, we will continue to strive for timely dissemination of information that matches the needs of medical experts as well as improve the quality and quantity of information provided.

Commitment to compliance

We are constantly mindful of compliance and make efforts to ensure compliance is practiced appropriately so that each and every one of our employees is self aware as a member of the medical professional community that has peoples’ lives in its hands. Every month we hold compliance training at all of our sales offices covering the Nippon Shinyaku Group Charter of Business Conduct, the Nippon Shinyaku Group Code of Practice, the Prescription Drug Promotion Code and the Fair Competition Code. In fiscal 2013, we disclosed data on money we have provided to medical institutions in accordance with the Transparency guidelines for relationship between corporate activities and medical institutions established by the Japan Pharmaceutical Manufacturers Association. Furthermore, as measures against counterfeit pharmaceutical drug products, we works with medical professionals by exhibiting counterfeit erectile dysfunction (ED) drugs at events co-sponsored with the Japanese Society for Sexual Medicine.

Making efforts to maximize the potential of our new drug products quickly in order to achieve continual growth

Fiscal 2013 turned out to be a very challenging year for pharmaceutical companies, as efforts to promote the use of generic drugs were further strengthened. Despite this environment, we continued to grow by focusing our marketing activities on our new drug products, such as Vidaﬁa®, the myelodysplastic syndrome treatment, and providing comprehensive information to meet the needs of both patients and medical professionals.

In fiscal 2014, which will be the first year in our 5th Five-Year Medium-term Management Plan, we launched Zalutia®, a much anticipated new drug for the urology field used to treat urinary disorders caused by benign prostatic hypertrophy. Going forward, each of our departments will work together to carry out marketing activities and achieve further growth by expanding our new drug product sales, with a focus on the three fields of urology, hematology, and pulmonary hypertension. To quickly maximize the potential of our new drug products, we will ensure the proper usage, strengthen our system for collecting information and enhance the quality of our MRs’ marketing activities in order to be a company that is continually trusted by patients and the entire medical professional community.

Leveraging our strength as a novel drug manufacturer to focus on the consignment manufacturing

We continue to implement cost reduction efforts within each division in order to enhance our profit margin. In fiscal 2013, we expanded the scope of staggered work schedules to curb personnel costs associated with overtime and also centralized shipment locations to reduce logistics costs.

Meanwhile, in addition to current drug products being manufactured for our own use, we will emphasize new drug product development and take some strategic initiatives in this area. In addition to current drug products being manufactured for our own use, we will emphasize new drug product development and take some strategic initiatives in this area.

Enhancing our stable supply system and expanding our Consignment Manufacturing Business

Our most important mission is to provide a steady stream of high quality drug products to society. In fiscal 2013, which marked the end of our 4th Five-Year Medium-term Management Plan, we established a BCP for the Odawara Central Factory and systematically implemented risk awareness strategies for the entire supply chain, as part of our efforts to ensure a stable supply of drug products.

Furthermore, in fiscal 2013 we significantly increased the number of candidates for consigned products in our Consignment Manufacturing Business thanks to highly positive assessments of our technological prowess and reliability as a novel drug manufacturer.

Fiscal 2014 represents the start of our 5th Five-Year Medium-term Management Plan. Under a new set of management targets, we will further enhance our stable product supply system by reinforcing facilities maintenance and improving production performance. At the same time we will work closely with our customers, expand our Consignment Manufacturing Business including formulation designs and manufacture of investigational new drugs, and further reduce procurement, production and logistics costs.

**Production**

Core Measures

"We boosted inventories of anti-cancer drugs and further implemented BCP activities at our Odawara Central Factory"

Because our single greatest mission is to provide stable supplies of high quality active pharmaceutical ingredients and drug products, we have sourced raw materials from two separate suppliers, ensured the stable operation of production equipment, and pursued a rigorous approach to GMP controls.

In fiscal 2012 we established a target and began building inventory of anti-cancer drugs because of their great impact on society and in fiscal 2013 we reached this target. Also, in fiscal 2013, we systematically upgraded the central monitoring equipment for controlling air conditioning and the water used in the manufacturing of our new drug product at our Odawara Central Factory in accordance with its BCP. In fiscal 2013 we were also able to supply our newly launched drug products to market without delay. In fiscal 2014, we will step up our facilities maintenance and increase our-utilisation performance in order to provide further stable supplies of drug products to market.

**Business Segment**

**Sales**

Core Measures

"Aiming to enhance our presence in core fields and become a pharmaceutical treatment partner"

As part of our marketing strategy, the emphasis of marketing activities has been placed on our new lineup of drug products. Among these, new products such as Vidaﬁa® and Adcirca® are used by highly specialized physicians in specific fields of medicine. Our mission to ensure the proper usage of our drug products includes not only providing product information based on evidence, but also delivering related information required by medical professionals in a timely manner.

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Fiscal 2014 represents the start of our 5th Five-Year Medium-term Management Plan. Under a new set of management targets, we will further enhance our stable product supply system by reinforcing facilities maintenance and improving production performance. At the same time we will work closely with our customers, expand our Consignment Manufacturing Business including formulation designs and manufacture of investigational new drugs, and further reduce procurement, production and logistics costs.
Nippon Shinyaku launched its functional food business in 1961 with the belief that “medicine and food have the same origin.” As the functional food business division of a pharmaceutical company, we are able to help people lead healthier, happier lives by providing functional food materials for processed foods and healthcare foods that are not only safe and secure, but also high quality and highly original.

**Market Conditions**

Consumers are saving more and needs for safety and security in food are rising

Japan’s processed food market continues to face challenging conditions amidst consumer’s thrifty inclinations. The increase in major retailer’s private brands has spurred competition with national brands. Additionally, there are concerns over the impacts Japan’s consumption tax hike in April 2014 will have on spending. On top of this, processed food manufacturers have suffered a blow in terms of costs from the elevated cost of various ingredients and weakening yen. Although the series of economic stimulus measures known as “Abenomics” has resulted in a positive economic outlook, more time will likely be required before the positive effects on the economy and consumer spending trickle down to the processed food industry. At the same time, processed food manufacturers now face unprecedented consumer demand for information—including information about ingredient sources for better traceability and pesticide management information—to improve safety and security of food.

To break through this challenging environment, currently processed food manufacturers are moving forward with product development that opens up new demand channels by establishing a competitive edge in terms of quality, under the key words of functionality, health consciousness, safety, ease and simplicity of preparation, authentic taste, and menu proposals.

**Sales Conditions**

Revenue increased on the back of a rise in sales of preservatives, nutritional ingredients and protein preparations

We focused on new product development and expanding sales channels by strengthening initiatives for flagship products. As a result, sales of preservatives increased thanks to “Mikaku Fine Z” although sales of health food ingredients declined due to the impact of price competition. Sales of nutrition ingredients steadily increased thanks to a hike in product prices and a larger volume of whey protein. Sales of protein preparations saw a significant increase thanks to strong growth in the volume of soy protein and product price hikes. Based on the above, sales rose 13.3% year-on-year to ¥13,172 million.

**Main Strategy**

Focus on product development and sales growth with clearly defined targets

The Functional Food Company manufactures and markets seasonings and spices, preservatives, health food ingredients, nutritional ingredients, protein preparations, sterilizers, and cleaners. These are used as auxiliary ingredients and food additives in processed foods, health foods, and nutritional foods for seniors and hospitals, and are used in keeping factories sanitary. Using a variety of techniques developed over many years through the pharmaceuticals business, these products undergo strict quality control and are well received and trusted by the food industry.

In terms of N&O, we are focused on developing functional food ingredients with high added value for the fields of nutrition and nutraceuticals* with an eye on the growing health inclination of consumers and Japan’s aging society.

In terms of sales, we have regarded preservatives, health food ingredients, nutritional ingredients, and protein preparations as our flagship products and will expand sales of these products by narrowing the focus of targets. For preservatives, we will focus on growing sales of our proprietary preparations such as “Mikaku Fine Z” and the all-new “Glycine GX-2.” For health food ingredients, we will increase sales of hyaluronic acid, collagen peptides, and mangosteen extract, while also researching and collecting various data on working mechanisms. As for nutritional ingredients, in addition to cassismates and whey protein for the medical and nursing care fields, we will increase sales in the fields of sports nutrition for training athletes as well as health foods for active seniors. As for protein preparations, our focus is on expanding sales of soy proteins.

In terms of quality assurance, in order to satisfy consumers’ increasing demands for safe and secure foods, we are reinforcing our product risk management, and performing audits across the entire supply chain from Japan to sites overseas, strengthening our quality assurance system and providing accurate product information.

In terms of production, we will pursue stable production of high quality products at our subsidiary Tajima Shokuhin Kogyo Co., Ltd. with the support of Nippon Shinyaku.

**Prospects for Fiscal 2014**

In addition to bringing new products to market and expanding sales of core products, we will also begin exporting products.

Sales for fiscal 2014 are projected to be ¥13.4 billion, a 1.7% increase year-on-year. Although hard times are expected to persist in Japan’s food industry, we will strive to expand sales of our high margin flagship products, which include health food ingredients and preservatives.

We will also bring at least one new product to market each year that fulfills the needs of users and the times in order to grow our functional food business. In addition to the domestic market, we will set up a dedicated department for product exports for markets in Asia, where economic and population growth remains strong.

**Functional Food**

**Market Conditions**

**Consumers are saving more and needs for safety and security in food are rising**

**Sales Conditions**

**Revenue increased on the back of a rise in sales of preservatives, nutritional ingredients and protein preparations**

**Main Strategy**

**Focus on product development and sales growth with clearly defined targets**

**Prospects for Fiscal 2014**

In addition to bringing new products to market and expanding sales of core products, we will also begin exporting products.

Sales for fiscal 2014 are projected to be ¥13.4 billion, a 1.7% increase year-on-year. Although hard times are expected to persist in Japan’s food industry, we will strive to expand sales of our high margin flagship products, which include health food ingredients and preservatives.

We will also bring at least one new product to market each year that fulfills the needs of users and the times in order to grow our functional food business. In addition to the domestic market, we will set up a dedicated department for product exports for markets in Asia, where economic and population growth remains strong.
CSR Management

Our Approach to Corporate Social Responsibility

The Nippon Shinyaku Group places great importance on meeting the expectations of diverse stakeholders who are connected with our business activities, in order to meet our corporate social responsibility (CSR). To realize this approach, we have established codes of conduct for each group of stakeholders.

- For Patients: In the pharmaceuticals segment, we will develop and supply pharmaceutical products that are safe and highly effective. We will improve such medicines as we learn more.
- For Users: In the functional foods segment, we will develop and supply high-quality functional food that fulfills the needs of users, transforming our advanced technology into competitive technology.
- For Shareholders and Investors: We will strive to ensure managerial transparency and return them to shareholders, while meeting the expectations of shareholders and associates through healthy and fair management practices, including timely and adequate communication of corporate information.
- For Business Partners: We will form relationships with our business partners, so that we can grow together.
- For the Environment: We will aim to ensure growth in harmony with the environment by engaging in business activities that are friendly to the global environment and improving the environment for our employees, customers, and society.
- Employee Relations: We will continue to ensure safe and comfortable working conditions, and activities promoting personal development that make each employee proud.
- For Society: As a corporate citizen, we will clearly communicate and manage business activities in a socially responsible and ethical manner.

CSR Committee of Nippon Shinyaku Group

Nippon Shinyaku Group Charter of Business Conduct (revised in July 2011)

- We will act with high ethical standards and in accordance with our business philosophy and management policy. Always being conscious of our social responsibilities, we will also achieve regulatory compliance and adhere to internal rules in fostering a relationship of trust with society.
- We, as employees of a corporation that deals with products that affect life, strive to enhance our qualifications and quality of our work and activities.
- We will maintain a safe and comfortable work environment by respecting each individual’s rights and personality.
- We will ensure business activities that are environmentally friendly, and will ensure it maintains and improves the global environment.
- We will build a trusting relationship with our stakeholders through timely and adequate communication of corporate information.
- We will implement unbiased competition that is fair and transparent, maintaining friendly and adequate relationship with the public, government, and business partners.
- We fully recognize the value of our corporate assets including information assets, and will manage these appropriately.
- We will not comply with inappropriate or unnatural requests from any local or external organizations that threaten the safety and order of civil society.
- As a member of society, we will take a positive approach in social contribution activities.
- We will comply with international rules and local regulations, as well as respect social culture and customs in our global business activities.

Framework for CSR

The Nippon Shinyaku Group operates a CSR Committee that lays out the direction of CSR initiatives and works to confirm that corporate activities meet social standards and expectations, in order to expand CSR-wide implementation of CSR initiatives under the basic CSR policy. The committee engages in inter-departmental discussions regarding the direction of CSR initiatives and important related matters raised by business partners, users, shareholders, investors, and employees. Requests and feedback that we receive through dialogue help to shape our corporate activities, in order to fulfill our responsibilities to stakeholders and earn their confidence.

Policy Regarding Dialogue with Stakeholders

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

We believe that meeting the expectations of all stakeholders as the Nippon Shinyaku Group overall will enable us to grow as a corporation and to contribute to the sustainable growth of society.

Aspiring to achieve sustainable growth together with society

To achieve the goal of creating a “Company with a meaningful existence in healthcare,” we must grow sustainably together with society and believe this represents the true meaning of the Nippon Shinyaku Group’s CSR activities. A particularly important aspect is for us to carry out CSR initiatives that meet the demands of society and the demands of business activities.

Respect for Human Rights

Nippon Shinyaku has established a framework to ensure that human rights and animal welfare are rightly considered in each stage of new drug development.

Basic research that predicts the safety and efficacy of medicines in humans follows internal rules established according to the ethical guidelines issued by the Japan government to ensure ethical consideration to the providers of human subjects, such as cells, tissue, and blood. Our ethical committee for basic research relating to humans, comprising insiders and external parties, carefully and fairly reviews the research and publicly discloses information related to these reviews.

Clinical trials to verify the efficacy and safety of medicines in humans are carried out with a strong emphasis on the human rights of patients who participate in these trials, and protecting their personal information as well as securing their safety and welfare. We adhere to legislation such as the Pharmaceutical Affairs Law and standards such as OECD in order to conduct high quality clinical trials by reviewing the ethical and scientific validity of the clinical trial through our internal review committee.

Research using animals to confirm the safety and efficacy of medicines follows internal rules that are compliant with regulations and guidelines on animal welfare. We make sure all animal testing goes proper consideration to the 3R principles through the operations of a committee for animal testing.

Ethical Considerations for R&D

Nippon Shinyaku has established a framework to ensure that human rights and animal welfare are rightly considered in each stage of new drug development.

As such, the Nippon Shinyaku Group has developed the Charter of Business Conduct, which nurtures the spirited development of new products. The charter aims to promote business activities based on highly esteemed ethics, with the ultimate goal of achieving sustainable growth together with society.

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

For Patients

We aim to provide medicines and products that are safe and effective, and in turn contribute to the sustainable growth of society.

For People

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Our support site for alcohol dependence consultations, and at the same time try to relieve any psychological messages from medical specialists, abstinence success stories, and information about treatment for alcohol dependence that includes (http://alcoholic-navi.jp/), created in March 2013, we provide a range of information helpful for resolving diseases where there is a strong desire to improve quality of life, Nippon Shinyaku is passionately committed to making unique medicines. Our job is to distribute information about ED in newspapers and in the magazine pharmaceuticals guide and information aimed at improving wellness. We also contribute to a variety of media, such as our educational advertisements on ID and in the magazine President. These contributions inform readers of accurate information on illnesses and aid in the development of pharmaceuticals in treating diseases. Nippon Shinyaku, in collaboration with the relevant department, also helps us to reflect this information in our reports to Ministry of Health, Labour and Welfare authorities and in our new drug formulations.

For those seeking reference material, the Nippon Shinyaku corporate website carries information for medical professionals and patients. Medical professionals can find pharmaceutical information including drug information sheets, interview forms, package inserts, and updated usage warnings. Patients and general readers can find a pharmacological guide and information aimed at improving wellness. We also contribute to a variety of media, such as our educational advertisements on ID and in the magazine President. These contributions inform readers of accurate information on illnesses and aid in the development of pharmaceuticals in treating diseases. Nippon Shinyaku, in collaboration with the relevant department, also helps us to reflect this information in our reports to Ministry of Health, Labour and Welfare authorities and in our new drug formulations.

To become a marketing authorization holder a company must obtain official government approval to manufacture and market new drugs. This system requires that marketing authorization holders shall appoint “three chiefs”: a marketing supervisor general, a quality assurance manager, and a post-manufacturing and sales safety management supervisor. The marketing supervisor general oversees the other two chiefs and is the official ultimately responsible for products brought to market. Nippon Shinyaku, following these regulations and appoints the three officials as a team of leaders that meets regularly to share information and ensure close, collaborative operations between all relevant departments. Nippon Shinyaku’s Quality Assurance Division works to ensure the highest possible quality in all company activities and operations. A system linking telephones and computers that routes calls to customer service representatives and provides information management and other materials.

Our support site for alcohol dependence website (http://www.ed-care-support.jp/), introduced medical institutions where individuals can receive consultations, and at the same time try to relieve any psychological resistance to seeking out help by dispelling some of the misunderstandings surrounding the issue of ED. In addition, we are actively providing information and promoting awareness about counterfeit ED drugs. We manage other websites as well, including our "Nose Care" site (http://hana783.jp/), which focuses on allergic rhinitis.

Responsing to Patient Needs
Nippon Shinyaku makes product modifications and quality improvements based on feedback received from patients and medical professionals. Examples of this include the development of products that are both easy to swallow and convenient to use. For example, we are developing and providing medicines with less bitter aftertastes for patients who experience unpleasant tastes and orally dissolving medicines without any need for water for patients who have difficulty swallowing tablets.

Measures Against Counterfeit Drugs
Counterfeit medicines can have serious health consequences and have grown into a major worldwide issue. With the spread of the Internet there has been a steady increase in the number of counterfeit products that have been imported to Japan by individuals. Nippon Shinyaku recognizes that improved counterfeit medicines represent a means to eliminate counterfeit drugs and an important aspect of its corporate social responsibility. In 2013, we worked with three companies involved in the manufacture and distribution of ED treatments to combat the counterfeit ED medicines, and since 2009 we have raised greater awareness by hosting press seminars for the media and displaying counterfeit products at academic society meetings. Additionally, information related to ED pharmaceutical counterfeiting is available through our ED Care Support website (see page 23).

We also have an anti-Counterfeiting Committee to check and inspect information related to counterfeit Nippon Shinyaku products and establish the proper countermeasures. The committee allows us to coordinate with our konsor and industry associations, and provide information for governmental institutes.
As an in-house employee recruitment system, CAST makes company initiatives biweekly. We plan on continuing these initiatives in /fiscal 2013, we established a new system for taking paid leave, preventing occupational accidents.

Nippon Shinyaku is committed to securing employee health and safety, comfortable work environments for the disabled.

Creating Employee-friendly Workplaces

As a corporate citizen and to help people lead healthier and more fulfilling lives, Nippon Shinyaku is promoting healthy lifestyles and healthy communities.

Center Support System / Growth for Back and Employment

As an employer, Nippon Shinyaku develops focused initiatives to nurture career potential and career development. The company takes specific health measures and yields the results through the development of comfortable workplaces.

Joining with Society and Local Communities

As a corporate citizen, Nippon Shinyaku is looking to acquire, with specific mention of desired skills and expertise.

Support Academy called CASA. This system is structured on the twin aspects of education and training for each level of employee, and elite

Every Employee acts as an employee scholar.

In /fiscal 2010, we introduced a framework called CAST (Career Approach System). As an in-house employee recruitment system, CAST makes company initiatives biweekly. We plan on continuing these initiatives in /fiscal 2013, we established a new system for taking paid leave, preventing occupational accidents.

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CSR Activities Report

In Partnership with Employees

Building Rewarding, Comfortable Workplaces

Individuals in a safe and supportive, productive atmosphere are able to work at their peak and creatively contribute to the further development of our company. In particular, we are making every effort to ensure that employees feel comfortable and secure in a workplace that provides a supportive environment and creates a sense of pride.

Creating Employee-Friendly Workplaces

We are continuously working to improve the work environment, such as ensuring that the workplace is comfortable and enjoyable. We are making efforts to improve the workplace by focusing on employee wellness, such as providing facilities for relaxation and exercise, and by implementing the CAST (Corporate Activity Staff Training) program.

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Material Balance in Our Business Activities

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

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

Environmental Accounting

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

Environmental Conservation Costs

<table>
<thead>
<tr>
<th>Item Description</th>
<th>FY 2012 Results</th>
<th>FY 2013 Results</th>
<th>Amount of Increase/Reduction</th>
<th>Rate of Increase/Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs within production areas</td>
<td>11,500</td>
<td>19,000</td>
<td>7,500</td>
<td>57.1%</td>
</tr>
<tr>
<td>Pollution prevention costs</td>
<td>31,320</td>
<td>28,000</td>
<td>(3,320)</td>
<td>(10.6%)</td>
</tr>
<tr>
<td>Global environmental conservation costs</td>
<td>57,130</td>
<td>59,000</td>
<td>1,870</td>
<td>3.3%</td>
</tr>
<tr>
<td>Procurement of environmental conservation services</td>
<td>15,370</td>
<td>15,370</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Waste substance costs</td>
<td>8,790</td>
<td>7,000</td>
<td>(1,790)</td>
<td>(22.9%)</td>
</tr>
<tr>
<td>Environment-related personnel expenses</td>
<td>9,000</td>
<td>8,000</td>
<td>(1,000)</td>
<td>(11.1%)</td>
</tr>
<tr>
<td>Capital and border expenses (green space expenditures, environment-related products)</td>
<td>28,000</td>
<td>26,000</td>
<td>(2,000)</td>
<td>(7.1%)</td>
</tr>
<tr>
<td>Total</td>
<td>108,000</td>
<td>108,000</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Environmental Conservation Benefits

<table>
<thead>
<tr>
<th>Item Description</th>
<th>FY 2012 Result</th>
<th>FY 2013 Result</th>
<th>Amount of Increase/Reduction</th>
<th>Rate of Increase/Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs to emissions reduction</td>
<td>13,136</td>
<td>12,172</td>
<td>(964)</td>
<td>(7.4%)</td>
</tr>
<tr>
<td>Electricity</td>
<td>13,136</td>
<td>12,172</td>
<td>(964)</td>
<td>(7.4%)</td>
</tr>
<tr>
<td>Natural gas</td>
<td>302</td>
<td>495</td>
<td>193</td>
<td>64.1%</td>
</tr>
<tr>
<td>Total</td>
<td>13,438</td>
<td>12,667</td>
<td>(771)</td>
<td>(5.7%)</td>
</tr>
</tbody>
</table>

Nippon Shinyaku has drawn up a Basic Environmental Policy to serve as a set of guidelines for its environmental conservation activities. Voluntary environmental targets have been established to help guide the entire company toward reducing environmental impacts and making contributions to society. Since establishing the 1st Nippon Shinyaku Environmental Targets Plan in fiscal 2003, we have evaluated the results of these plans and revised targets every three years. As a result, we believe we have achieved most of our environmental targets in the 3rd Nippon Shinyaku Environmental Targets Plan (2011 to fiscal 2013) (including CO2 emissions targets). Given the positive progress, we have drawn up the 4th Nippon Shinyaku Environmental Targets Plan (fiscal 2014 to fiscal 2016) in order to carry out further environmental conservation activities.

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CSR Activities Report

Reducing CO2 Emissions

Energy Conservation Efforts

Nippon Shinyaku is continuously endeavoring to conserve energy and reduce emissions of CO2. These efforts include switching boilers and air-conditioning equipment to energy efficient models when they reach the end of their life span, and reusing low and when the equipment is operated.

In fiscal 2013, in addition to across-the-board electricity conservation and energy saving activities, the Research Laboratories switched its gas refrigerator to a high-efficiency electric refrigerator.

On top of the above tangible and intangible efforts, the transfer of the Chisso Synthesis Plant and Chisso Functional Food Plant to a manufacturer of active pharmaceutical ingredients and intermediates involved a reduction in total energy usage.

In fiscal 2013 by 36,360 GJ, which marked a 13% reduction compared to fiscal 2012.

CO2 emissions for fiscal 2013 decreased by 7.6%, or 860 tons, compared to fiscal 2012 (11,272 tons). This also marked a decrease of 13%, or 137 tons, to 10,412 tons compared with the benchmark year of fiscal 1990 (10,569 tons). A gradual increase in the CO2 emission coefficient caused by a decline in the operating rate of nuclear power plants meant that the reduction in total energy usage was not effectively reflected in CO2 emissions.

-- This figure is for the business locations to which the fiscal 1990 emission amounts are applicable. 1. Emissions for the fiscal 1990, 2008, and 2012 fiscal years. 2. Total emissions were 13,136 GJ (5.5%), which included 11,578 GJ from consumption of fuel and 1,558 GJ of purchased electricity. 3. Total energy usage of main business locations excluding sales offices, etc.

Introducing Environmental Friendly Vehicles in Our Sales Fleet

Our policy is to use low-emissions models (with 4 star ratings for 75% of emission reductions based on 2001 criteria) for our fleet of sales force vehicles, and since fiscal 2008 we have been gradually phasing in high grade vehicles, low CO2 hybrid models. As of the end of fiscal 2013, 98.0% of the 755 vehicles used by our sales force were low emissions vehicles.

In addition, we stepped up our environmental preservation activities by promoting use of public transport in Tokyo. At the same time, we are promoting awareness of eco-driving throughout the Company.

Sales force hybrid vehicle

Reducing Volume of Waste

Results of Initiatives

The amount of waste generated in fiscal 2013 was 367 tons, which marked a decrease of 14 tons from fiscal 2012 following the transfer of the Chisso Synthesis Plant and Chisso Functional Food Plant. Meanwhile, we achieved zero emissions for the fourth year in succession with the final landfill waste ratio standing at 0.4%.

Also, in accord with the PCB Special Measures Act, we are stringent following storage protocol for PCB waste in the head office area and the Odawara Central Factory. In addition, in fiscal 2013 we completed the disposal of 30 tons, including early registered high pressure capacitors, at our head office area.

Proper Management of Chemical Substances

Results of Initiatives

We submit reports to the local authorities on business sites that handle more than 1 ton of Class I designated chemical substances per year based on the PRTR system under the Act on confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof.

The amount of chloroform, dichloromethane, and n-hexane handled increased by 25.6%.

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Proper Management of Chemical Substances

Results of Initiatives

We submit reports to the local authorities on business sites that handle more than 1 ton of Class I designated chemical substances per year based on the PRTR system under the Act on confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof.

The amount of chloroform, dichloromethane, and n-hexane handled increased by 25.6%.

Also, in accord with the PCB Special Measures Act, we are stringent following storage protocol for PCB waste in the head office area and the Odawara Central Factory. In addition, in fiscal 2013 we completed the disposal of 30 tons, including early registered high pressure capacitors, at our head office area.

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Corporate Governance

Corporate Governance and Internal Control

Our Approach to Corporate Governance

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

Framework for Corporate Governance

Nippon Shinyaku employs a system of auditors, with the general meeting of shareholders, Board of Directors, and Board of Auditors serving as internal bodies.

Two external directors have been elected since fiscal 2013 to further strengthen the supervisory function related to the execution of duties by directors and to further boost transparency and objectivity in management. The Board of Directors is comprised of nine directors, including two external directors, and convenes in principle once a month. The Board of Directors makes decisions and reports on important matters related to management. Each director is responsible for executing separate areas of work in order to efficiently manage the Company. The Board of Audit is comprised of four auditors including two outside auditors. These auditors attend meetings of the Board of Directors and other important meetings, in addition to reviewing documents and periodically meeting with the President, and work closely with the Internal Audit Department to provide an effective framework for audits.

Internal Control System

The internal control system is stipulated under the Companies Act and prescribes the fundamental policies of the Board of Directors, while establishing a framework to ensure the proper execution of the business. Through internal control, we strive to secure regulatory compliance and raise the effectiveness and efficiency of our business. In addition, we have Compliance Operating Rules in place to secure the proper execution of business activities and employee duties, and have assigned a dedicated department to encourage compliance, while having a system in place for internal reporting. At the same time, we have assigned a dedicated department for risk management, to variously manage risks that could have a critical impact on the management of the Company.

Since fiscal 2008, internal control reporting has been obligated under the Financial Instruments and Exchange Act, and to comply with these requirements we develop and operate a framework to secure the appropriateness of financial reporting and evaluate internal controls for financial reporting on a timely basis. Nippon Shinyaku employs Deloitte Touche Tohmatsu LLC as its accounting auditor, to help ensure the observance of proper accounting procedures and secure the transparency of management.

We operate the Internal Audit Department that reports directly to the President and is responsible for verifying that these frameworks are operating properly. The Internal Audit Department works with the Board of Audit and accounting auditor to audit the effectiveness of internal controls as well as compliance efforts and risk management.

Compliance

Framework for Compliance

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

Compliance Initiatives

Group-wide compliance initiatives are planned, formulated and implemented by the dedicated department, with input from the compliance council. In fiscal 2013, the President and compliance officer issued messages to employees in April and October to stress the need for compliance, and we implemented the training and education activities outlined below. Also, training sessions for all Nippon Shinyaku Group employees were held in order to ensure thorough compliance with the Nippon Shinyaku Group Code of Practice enacted on April 1 covering rules on the promotion of prescription drugs.

Compliance Training in Fiscal 2013

<table>
<thead>
<tr>
<th>Type of Training</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training for newly promoted managers</td>
<td>Training that focuses on teaching employees about compliance concepts and approaches, and increasing the importance of compliance.</td>
</tr>
<tr>
<td>Training for new employees (April)</td>
<td>Training that focuses on teaching new employees about compliance concepts and approaches, and increasing the importance of compliance.</td>
</tr>
<tr>
<td>Training on the Charter of Business Conduct (October to December)</td>
<td>Training that focuses on teaching employees about compliance with the Charter of Business Conduct.</td>
</tr>
</tbody>
</table>

Risk Management

Initiatives for Risk Management

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

Nippon Shinyaku positioned “information management” and “harassment” as priority areas of risks in fiscal 2013 based on a risk awareness survey conducted in fiscal 2012, and worked to strengthen the management system.

For “information management,” we formulated rules on the handling of electronic data for each division and reinforced our approach to properly managing electronic data by thoroughly complying with these rules. Additionally, as part of compliance training and e-learning, we addressed ways to deal with computer viruses and cyber terrorism and ways to prevent leakages of confidential information. We also carried out efforts to make these measures known to all.

In terms of “harassment,” as part of compliance training, new employee training and e-learning, we covered the topic of harassment and took steps to brighten employees’ awareness toward preventing harassment in the workplace. Furthermore, we expanded our Sexual Harassment Prevention Rules into the Nippon Shinyaku Group Harassment Prevention Rules, which were enacted on January 1, 2014, in order to develop a framework for dealing with all forms of harassment.

As a result of discussions with directors in charge of each division based on the achievements of activities to date and the results of the risk awareness survey conducted on managers, “information management” and “harassment” will once again be positioned as priority areas of risks in fiscal 2014 and efforts will be strengthened further.

Feedback for reporting employee

1. Decision to formally receive the reporting matter
2. If the reporting matter received, an investigator is chosen and an investigation is conducted
3. If a violation is confirmed, suitable actions are taken

Reporting employee

Compliance officer

Compliance officer

Feedback for reporting employee

Reporting employee
Corporate Governance

Framework for Risk Management
The Nippon Shinyaku Group has a control system and response procedures in place in the event of a crisis, under Basic Risk Management Rules.

If an employee has information that a risk or crisis has or may have occurred, he or she notifies the supervisor or manager, who in turn notifies the risk management department and the director in charge of risk management. If the employee determines that there is a particularly high level of urgency, he or she directly notifies the risk management department. The risk management department reports to the director in charge of risk management, and the director judges the degree of impact on business activities from the risk. If the risk is determined to have a minor impact, the supervising department for the particular risk is instructed to respond and take action.

However, if the risk is determined to have a major impact signifying a crisis, the situation is immediately reported to the President and a temporary crisis management office is assembled headed by the Company’s directors. At the same time, a working group in charge of practical response is assembled to summarize reports to the crisis management office with information that it is needed to help in decision making, and to report on proposed countermeasures. The working group also establishes a framework to enable rapid response according to instructions from the crisis management office.

The Path of Risk Notification (as of April 1, 2014)

1. First employee to identify risk
2. Director in charge of department where risk occurred
3. Supervising manager of department
4. Risk management department
5. Director in charge of risk management
6. High in urgency
7. Emergency department for the specific risk
8. Executive risk

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

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

We disclose information to the public in a timely, appropriate and fair manner as well as responsible protect and manage personal information and customer information obtained through our business activities. We are also advancing technological measures tailored to progress in IT and changes in society in order to protect the Nippon Shinyaku Group’s information assets from physical and technological risks. At the same time, as a countermeasure against human risks, we have devised various company rules and educate our employees on the importance of information security and following the rules.

In recent years, there has been an increasing frequency of cyber-attacks on government institutions and companies in Japan and abroad. Cyber terrorism, which can paralyze a company by disabling its core systems and important infrastructure, and the threat of cyber intelligence, which involves spying with ICT, have both become serious issues facing companies today. Since measures must also be taken at the individual level to address these issues, we are educating our employees on security measures, including management of electronic data, through compliance training.

In fiscal 2013, we re-assessed Nippon Shinyaku’s situation in terms of its preparedness for computer crimes and cyber terrorism, and carried out discussions or measures to protect vulnerabilities that were found. Going forward, we will continue to reinforce our information security system while placing emphasis on the preservation of balances of confidential information.

Respect for Intellectual Property Rights
In recognizing the importance of intellectual properties, the Nippon Shinyaku Group’s Patent Strategy Committee formulates global patent application strategies as well as examines and determines measures to address various issues associated with intellectual properties created during various stages, from early R&D to post-marketing.

To ensure the freedom of our business activities, we properly secure intellectual property rights, including patents and trademarks, related to our proprietary drugs and functional foods. Our basic stance is now to also respect the intellectual property rights of third parties, which we ensure by carefully managing intellectual property risk through the examination of rights and other means.

Comments from External Directors
With globalization advancing, Nippon Shinyaku has expanded its presence internationally through its commitment to originality and ingenuity. Nevertheless, I believe that simply doing things the way they have always been done will not enable us to unlock further growth and development in the future. We will need to identify what to change and what to maintain, carry out measures and implement a positive reform program. An organization is nothing without its people, so we will need to have clear vision for the growth of this organization.

In recognition of the importance of intellectual properties, the Nippon Shinyaku Group’s Patent Strategy Committee formulates global patent application strategies as well as examines and determines measures to address various issues associated with intellectual properties created during various stages, from early R&D to post-marketing.

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They say that robust internal controls are a prerequisite for the sound growth of any company. An efficient organization tends to focus on its own set of norms and rules, and so I believe the role of an external director is to encourage such an organization to incorporate third party input and follow a more universal set of norms and rules. I am constantly aware of the size of this role when pursuing my duties. Additionally, the environment surrounding pharmaceutical companies is growing ever more difficult, I hear, because of the expanded use of generic and changes in the NIH drug price scheme, which poses novel drug development. It is my great joy to be part of a growing business within these times of change.

Going forward, I hope to capitalize on my expertise and experience as an attorney to help support the growth and sound management of Nippon Shinyaku for the benefit of its shareholders.
Financial Section

2. Financial Condition

An increase in inventory assets compared to the previous fiscal year end caused current assets to rise ¥1,751 million. Fixed assets increased by ¥706 million due to an increase in investment securities, despite a decrease in tangible fixed assets compared to the previous fiscal year end. As a result, total assets increased by ¥4,458 million compared to the previous fiscal year end to ¥118,188 million. Current liabilities decreased by ¥420 million compared to the previous fiscal year end because of a decrease in accrued liabilities, despite an increase in notes and accounts payable–trade. Long-term liabilities increased by ¥1,221 million compared to the previous fiscal year end, attributed to an increase in liabilities for retirement benefits. As a result, total liabilities increased by ¥801 million compared to the previous fiscal year end to ¥93,186 million.

The equity ratio was 78.7%. Net cash provided by operating activities amounted to ¥9,015 million. The main cash inflows were income before income taxes of ¥9,586 million, depreciation costs of ¥2,704 million, and an increase in trade payables of ¥1,071 million, while the main outflows were the amount of income tax paid ¥2,654 million and an increase in inventory assets of ¥2,466 million. Net cash used in investing activities amounted to ¥7,357 million. The main cash outflows were expenditures of ¥7,243 million for the acquisition of license rights and ¥1,121 million for tangible fixed assets.

Net cash used in financing activities amounted to ¥1,606 million, primarily comprising cash payment of dividends. As a result, cash and cash equivalents as of March 31, 2014 increased by ¥1,185 million compared to the previous fiscal year end to ¥21,229 million.

3. Summary of Consolidated Business Results

(1) Pharmaceuticals
In the pharmaceuticals segment, sales of Vidaza®, a remedy for myelodysplastic syndrome, Lunabel®, a dysmenorrhea remedy, Adcirca®, a treatment agent for pulmonary arterial hypertension, and Tranvia®, a cancer pain and chronic pain treatment, all increased. As a result, net sales in the pharmaceuticals segment increased 8.6% year-on-year to ¥63,345 million.

(2) Functional Food
In the functional food segment, sales of health food ingredients decreased somewhat, but sales of preservatives, protein preparations and nutritional ingredients all increased. As a result, net sales in the functional food segment increased 13.3% year-on-year to ¥13,712 million.

Business Risks

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

1. Regulatory Control Risks
The core pharmaceuticals and functional food businesses of the Nippon Shinyaku Group are strictly regulated under the Pharmaceutical Affairs Act and Food Sanitation Act. In the event that regulatory changes require the Group to recall or cease the sale of products, which could impact our business results.

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

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

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

5. Manufacturing and Procurement Risks
The Nippon Shinyaku Group is improving its production efficiency by concentrating its manufacturing facilities. At the same time, if operations at manufacturing facilities cease due to a natural disaster or other circumstance, it could interrupt the supply of products and impact our business results. In addition, we procure certain products and important ingredients from specific suppliers. If the supply is interrupted, it could impact our business results.
### Consolidated Balance Sheet

**Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries**  
March 31, 2014

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2014</th>
<th>2013</th>
<th>2014 (Note 1)</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 10)</td>
<td>¥ 21,229</td>
<td>¥ 20,044</td>
<td>¥ 206,106</td>
<td>USD 2,592</td>
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<tr>
<td>Time deposits (Note 10)</td>
<td>267</td>
<td>242</td>
<td></td>
<td></td>
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<tr>
<td>Notes and accounts receivables (Note 10):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade notes</td>
<td>328</td>
<td>279</td>
<td>3,184</td>
<td></td>
</tr>
<tr>
<td>Trade accounts</td>
<td>33,608</td>
<td>33,952</td>
<td>328,233</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>280</td>
<td>234</td>
<td>2,718</td>
<td></td>
</tr>
<tr>
<td>Total notes and accounts receivables</td>
<td>34,617</td>
<td>34,501</td>
<td>334,145</td>
<td></td>
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<tr>
<td>Inventories (Note 4)</td>
<td>15,733</td>
<td>13,206</td>
<td>152,747</td>
<td></td>
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<tr>
<td>Deferred tax assets (Note 9)</td>
<td>1,678</td>
<td>1,637</td>
<td>16,291</td>
<td></td>
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<tr>
<td>Other current assets</td>
<td>1,357</td>
<td>1,239</td>
<td>13,174</td>
<td></td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>74,683</td>
<td>70,932</td>
<td>725,077</td>
<td></td>
</tr>
<tr>
<td><strong>PROPERTY, PLANT, AND EQUIPMENT:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>7,413</td>
<td>7,888</td>
<td>72,165</td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>23,742</td>
<td>26,213</td>
<td>230,504</td>
<td></td>
</tr>
<tr>
<td>Machinery, equipment, and vehicles</td>
<td>10,615</td>
<td>12,505</td>
<td>103,068</td>
<td></td>
</tr>
<tr>
<td>Tools, furniture, and fixtures</td>
<td>8,784</td>
<td>9,138</td>
<td>85,281</td>
<td></td>
</tr>
<tr>
<td>Construction in progress</td>
<td>104</td>
<td>62</td>
<td>1,009</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>36,680</td>
<td>38,872</td>
<td>349,058</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation:</td>
<td>(35,009) (38,672) (339,893)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net property, plant, and equipment</strong></td>
<td>15,670</td>
<td>17,138</td>
<td>152,135</td>
<td></td>
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<tr>
<td><strong>INVESTMENTS AND OTHER ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities (Notes 3 and 10)</td>
<td>16,063</td>
<td>13,873</td>
<td>155,951</td>
<td></td>
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<tr>
<td>Long-term prepaid expenses</td>
<td>7,981</td>
<td>8,820</td>
<td>77,485</td>
<td></td>
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<tr>
<td>Deferred tax assets (Note 9)</td>
<td>66</td>
<td>62</td>
<td>562</td>
<td></td>
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<tr>
<td>Other assets</td>
<td>3,729</td>
<td>2,895</td>
<td>36,203</td>
<td></td>
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<tr>
<td><strong>Total investments and other assets</strong></td>
<td>27,634</td>
<td>25,659</td>
<td>270,233</td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>¥ 118,188</td>
<td>¥ 113,730</td>
<td>¥ 1,147,456</td>
<td></td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.

<table>
<thead>
<tr>
<th>LIABILITIES AND EQUITY</th>
<th>2014</th>
<th>2013</th>
<th>2014 (Note 1)</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and accounts payables (Note 10):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade notes</td>
<td>¥ 1,772</td>
<td>¥ 1,682</td>
<td>¥ 17,203</td>
<td>USD 2,992</td>
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<td>Trade accounts</td>
<td>4,326</td>
<td>3,945</td>
<td>42,000</td>
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<tr>
<td>Other</td>
<td>2,784</td>
<td>3,061</td>
<td>27,029</td>
<td></td>
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<tr>
<td><strong>Total notes and accounts payables</strong></td>
<td>8,883</td>
<td>8,688</td>
<td>86,242</td>
<td></td>
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<tr>
<td>Income taxes payable (Note 10)</td>
<td>1,537</td>
<td>1,665</td>
<td>14,922</td>
<td></td>
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<tr>
<td>Accrued expenses</td>
<td>1,728</td>
<td>1,567</td>
<td>18,300</td>
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<tr>
<td>Deposits from customers</td>
<td>279</td>
<td>315</td>
<td>2,708</td>
<td></td>
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<tr>
<td>Other current liabilities</td>
<td>816</td>
<td>2,019</td>
<td>7,922</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>15,257</td>
<td>15,677</td>
<td>148,126</td>
<td></td>
</tr>
<tr>
<td><strong>LONG-TERM LIABILITIES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability for retirement benefits (Note 5)</td>
<td>8,657</td>
<td>7,418</td>
<td>85,990</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liability (Note 9)</td>
<td>510</td>
<td>715</td>
<td>4,951</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>376</td>
<td>389</td>
<td>3,650</td>
<td></td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>9,744</td>
<td>8,523</td>
<td>94,601</td>
<td></td>
</tr>
<tr>
<td><strong>EQUITY</strong> (Notes 6 and 13):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, authorized, 200,000,000 shares; issued 70,251,484 shares</td>
<td>5,174</td>
<td>5,174</td>
<td>50,233</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>4,446</td>
<td>4,446</td>
<td>43,153</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>81,100</td>
<td>76,819</td>
<td>787,427</td>
<td></td>
</tr>
<tr>
<td>Treasury stock - at cost, 2,820,656 shares in 2014 and 2,774,507 shares in 2013</td>
<td>(2,170) (2,092) (21,116)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>5,841</td>
<td>4,989</td>
<td>56,708</td>
<td></td>
</tr>
<tr>
<td>Deferred gain on derivatives under hedge accounting</td>
<td></td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(6)</td>
<td>(40)</td>
<td>(38)</td>
<td></td>
</tr>
<tr>
<td>Defined retirement benefit plans</td>
<td>(1,406)</td>
<td>(1,356)</td>
<td>(13,650)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>92,982</td>
<td>89,210</td>
<td>902,737</td>
<td></td>
</tr>
<tr>
<td>Minority interests</td>
<td>204</td>
<td>198</td>
<td>1,980</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>93,186</td>
<td>89,408</td>
<td>904,718</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>¥ 118,188</td>
<td>¥ 113,730</td>
<td>¥ 1,147,456</td>
<td></td>
</tr>
</tbody>
</table>
# Consolidated Financial Statements

## Consolidated Statement of Income

**Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries**

**Year Ended March 31, 2014**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET SALES</strong> (Note 14)</td>
<td>¥ 76,517</td>
<td>¥ 60,941</td>
<td>¥ 742,883</td>
</tr>
<tr>
<td><strong>COST AND EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>39,033</td>
<td>34,775</td>
<td>376,961</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses (Note 7 and 8)</td>
<td>29,445</td>
<td>28,263</td>
<td>285,873</td>
</tr>
<tr>
<td>Total</td>
<td>68,479</td>
<td>63,040</td>
<td>664,844</td>
</tr>
<tr>
<td>Operating income (Note 14)</td>
<td>8,038</td>
<td>6,901</td>
<td>76,517</td>
</tr>
<tr>
<td><strong>OTHER INCOME (EXPENSES):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>323</td>
<td>287</td>
<td>3,115</td>
</tr>
<tr>
<td>Deferred (loss) gain on derivatives under hedge accounting</td>
<td>23</td>
<td>10</td>
<td>242</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>63,040</td>
<td>63,040</td>
<td>76,517</td>
</tr>
<tr>
<td>Other income - net</td>
<td>¥ 559</td>
<td>¥ 385</td>
<td>¥ 5,427</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET INCOME BEFORE MINORITY INTERESTS</strong></td>
<td>¥ 8,038</td>
<td>¥ 6,901</td>
<td>¥ 76,517</td>
</tr>
<tr>
<td>Income taxes (Note 9)</td>
<td>8,598</td>
<td>7,286</td>
<td>8,038</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>¥ 8,038</td>
<td>¥ 6,901</td>
<td>¥ 76,517</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Comprehensive Income

**Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries**

**Year Ended March 31, 2014**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME BEFORE MINORITY INTERESTS</strong></td>
<td>¥ 8,038</td>
<td>¥ 6,901</td>
<td>¥ 76,517</td>
</tr>
<tr>
<td><strong>OTHER COMPREHENSIVE INCOME</strong> (Note 11):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale securities</td>
<td>852</td>
<td>1,060</td>
<td>8,271</td>
</tr>
<tr>
<td>Deferred (loss) gain on derivatives under hedge accounting</td>
<td>3</td>
<td>29</td>
<td>242</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>25</td>
<td>10</td>
<td>242</td>
</tr>
<tr>
<td><strong>TOTAL OTHER COMPREHENSIVE income</strong></td>
<td>8,598</td>
<td>7,286</td>
<td>8,485</td>
</tr>
<tr>
<td><strong>COMPREHENSIVE INCOME</strong></td>
<td>¥ 8,038</td>
<td>¥ 6,901</td>
<td>¥ 76,517</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Changes in Equity

**Nippon Shinyaku Co., Ltd. and Consolidated Subsidiaries**

**Year Ended March 31, 2014**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BALANCE, MARCH 31, 2014</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of outstanding shares of common stock</td>
<td>67,493</td>
<td>67,476</td>
<td>67,476</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>¥22.00 per share</td>
<td>¥20.00 per share</td>
<td>¥20.00 per share</td>
</tr>
<tr>
<td><strong>BALANCE, APRIL 1, 2012</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>¥ 6,625</td>
<td>¥ 6,322</td>
<td>¥ 64,407</td>
</tr>
<tr>
<td>Minority interests</td>
<td>¥ 0</td>
<td>¥ 0</td>
<td>¥ 87</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.

## Footnotes

See notes to consolidated financial statements.
Consolidated Statements

Consolidated Statement of Cash Flows
Year Ended March 31, 2014

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income taxes and minority interests</td>
<td>¥ 3,596</td>
<td>¥ 2,786</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(3,894)</td>
<td>(3,341)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,754</td>
<td>2,750</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Decrease) increase in trade notes and trade accounts receivables</td>
<td>129</td>
<td>(2,278)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(2,466)</td>
<td>(1,341)</td>
</tr>
<tr>
<td>Increase in other current assets</td>
<td>(117)</td>
<td>(527)</td>
</tr>
<tr>
<td>Increase in trade notes and trade accounts payables</td>
<td>5,071</td>
<td>8</td>
</tr>
<tr>
<td>Decrease in inventory</td>
<td>(43)</td>
<td>(91)</td>
</tr>
<tr>
<td>(Decrease) increase in liability for retirement benefits</td>
<td>(759)</td>
<td>82</td>
</tr>
<tr>
<td>Other - net</td>
<td>(480)</td>
<td>237</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>(2,582)</td>
<td>(3,518)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>6,015</td>
<td>3,767</td>
</tr>
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</table>

INVESTING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>¥ (1,121)</td>
<td>¥ (1,028)</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(964)</td>
<td>(194)</td>
</tr>
<tr>
<td>Proceeds from redemption and sales of investment securities</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Purchases of software</td>
<td>(192)</td>
<td>(358)</td>
</tr>
<tr>
<td>Acquisition of license rights</td>
<td>(1,240)</td>
<td>(675)</td>
</tr>
<tr>
<td>Other - net</td>
<td>54</td>
<td>131</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(3,357)</td>
<td>(2,639)</td>
</tr>
</tbody>
</table>

FINANCING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends paid</td>
<td>(1,484)</td>
<td>(1,355)</td>
</tr>
<tr>
<td>Increase in treasury stock</td>
<td>(82)</td>
<td>(18)</td>
</tr>
<tr>
<td>Other - net</td>
<td>190</td>
<td>146</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(1,606)</td>
<td>(1,413)</td>
</tr>
</tbody>
</table>

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>133</td>
<td>51</td>
<td>1,291</td>
</tr>
</tbody>
</table>

NET INCREASE IN CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,185</td>
<td>379</td>
<td>11,504</td>
</tr>
</tbody>
</table>

CASH AND CASH EQUIVALENTS, BEGINNING-OF-YEAR

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 20,044</td>
<td>¥ 19,665</td>
<td></td>
</tr>
</tbody>
</table>

CASH AND CASH EQUIVALENTS, END-OF-YEAR

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ 20,044</td>
<td>¥ 19,665</td>
<td>206,106</td>
</tr>
</tbody>
</table>

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2014 and 2013, include the accounts of the Company and its significant two-domestic and one overseas subsidiaries (together, the “Companies”). Consolidation of the remaining subsidiary would not have a material effect on the accompanying consolidated financial statements.

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

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. Investment Securities

Investment securities are classified and accounted for, depending on management’s intent, as follows: (i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost; and (ii) available-for-sale securities that are not classified as held-to-maturity securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, are reported as a separate component of equity. Realized gains and losses on available-for-sale securities are included in earnings and are calculated by using the moving-average method to determine the cost of securities sold. Nonmarketable available-for-sale securities are stated at cost, cost being determined principally by the moving-average method.

Write-downs are recorded in earnings for securities with a significant decline in value that is considered to be other than temporary.

d. Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost, determined by the average cost method, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

e. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is principally computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 10 to 50 years for buildings and structures; from eight to 10 years for machinery, equipment, and vehicles; and from four to six years for tools, furniture, and fixtures.
I. 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 related to an asset retirement obligation is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposal.

f. Long-lived Assets
g. Retirement and Pension Plans
(a) Under the revised accounting standard, actuarial gains and losses are recognized in profit or loss. Those amounts are recognized in profit or loss over a period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods are not recognized in the current period. The differences between the amounts in the current period shall be treated as reclassification adjustments (see Note 2).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefits to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥8,857 million ($85,990 thousand or ¥1,230 million ($1,230 thousand) as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥1,406 million ($13,650 thousand).

h. Asset Retirement Obligations
In March 2008, the ASBJ issued 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 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

j. Leases
In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued. 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 finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases that 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.

k. Bonuses to Directors and Audit & Supervisory Board Members
Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

l. Income Taxes
The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

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

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

o. Derivative Financial Instruments
The Company uses foreign currency forward contracts as a means of hedging exposure to foreign currency risks related to the procurement of merchandise from overseas suppliers. The Company does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.
Notes to Consolidated Financial Statements

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

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

q. Accounting Changes and Error Corrections
In December 2009, the ASBJ issued ASBJ Statement No. 24, “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 following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change and the period affected. (4) Corrections of Prior-Period Errors - When the prior period financial statements is discovered, those financial statements are restated.

r. New Accounting Pronouncements
Accounting Standard for Retirement Benefits
On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

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

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

(b) Treatment in the statement of income and
the statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees.

However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing
expected benefit to periods and relating to the
discount rate and expected future salary increases
The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above effective for the beginning of annual periods beginning on or after April 1, 2014, for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retroactive application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

3. INVESTMENT SECURITIES
Investment securities as of March 31, 2014 and 2013, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td></td>
<td>Equity securities</td>
<td>16,063 $87,517</td>
</tr>
<tr>
<td></td>
<td>13,075 $69,134</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16,063 $87,517</td>
<td>13,075 $69,134</td>
</tr>
</tbody>
</table>

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Equity securities</td>
<td>6,958 $38,769</td>
<td>6,772 $37,097</td>
</tr>
<tr>
<td></td>
<td>15,730 $90,745</td>
<td></td>
</tr>
</tbody>
</table>

4. INVENTORIES
Inventories at March 31, 2014 and 2013, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Finished products and raw materials</td>
<td>9,903 $56,783</td>
<td>8,819 $49,073</td>
</tr>
<tr>
<td>Work in process</td>
<td>1,643 $9,516</td>
<td>1,842 $10,564</td>
</tr>
<tr>
<td>Raw materials</td>
<td>4,106 $23,814</td>
<td>3,454 $20,185</td>
</tr>
<tr>
<td>Total</td>
<td>16,573 $99,113</td>
<td>13,965 $80,912</td>
</tr>
</tbody>
</table>

5. RETIREMENT BENEFITS
Year Ended March 31, 2014
1. Defined Benefit Pension Plan
(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>26,554 $146,890</td>
<td></td>
</tr>
<tr>
<td>Current service cost</td>
<td>872 $4,844</td>
<td></td>
</tr>
<tr>
<td>Interest cost</td>
<td>526 $3,133</td>
<td></td>
</tr>
<tr>
<td>Actuarial gains</td>
<td>850 $4,513</td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,333) $7,841</td>
<td></td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>22,709 $140,591</td>
<td></td>
</tr>
</tbody>
</table>

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>15,140 $85,990</td>
<td></td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>602 $3,444</td>
<td></td>
</tr>
<tr>
<td>Contributions from the employer</td>
<td>1,621 $10,111</td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(940) $5,611</td>
<td></td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>16,791 $106,584</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Total of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded defined benefit obligation</td>
<td>16,911 $102,464</td>
<td></td>
</tr>
<tr>
<td>Plan assets</td>
<td>(16,911) $102,464</td>
<td></td>
</tr>
<tr>
<td>Unfunded defined benefit obligation</td>
<td>5,994 $37,530</td>
<td></td>
</tr>
<tr>
<td>Net liability arising from defined benefit obligation</td>
<td>8,007 $55,000</td>
<td></td>
</tr>
</tbody>
</table>

Liability for retirement benefits | 8,007 $55,000 |
| Net liability arising from defined benefit obligation | 8,007 $55,000 |
Notes to Consolidated Financial Statements

2. Defined Contribution Pension Plan

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected benefit obligation</td>
<td>26,054</td>
<td>$2,504</td>
</tr>
<tr>
<td>Interest cost</td>
<td>518</td>
<td>6</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(516)</td>
<td>(6)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>46</td>
<td>5</td>
</tr>
<tr>
<td>Recognized actuarial loss</td>
<td>691</td>
<td>7</td>
</tr>
<tr>
<td>Premiums for defined contribution pension plan and other</td>
<td>62</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>2,568</td>
<td>$2,198</td>
</tr>
</tbody>
</table>

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>862</td>
<td>$86</td>
</tr>
<tr>
<td>Interest cost</td>
<td>518</td>
<td>6</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(516)</td>
<td>(6)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>46</td>
<td>5</td>
</tr>
<tr>
<td>Recognized actuarial loss</td>
<td>691</td>
<td>7</td>
</tr>
<tr>
<td>Premiums for defined contribution pension plan and other</td>
<td>62</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>1,084</td>
<td>$929</td>
</tr>
</tbody>
</table>

Assumptions used for the year ended March 31, 2013, were set forth as follows:

- Discount rate: 2.5%
- Expected rate of return on plan assets: 4.0%
- Amortization period of prior service cost: 15 years
- Recognition period of actuarial gain/loss: 15 years

6. Plan assets

a. Components of plan assets

Plan assets consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic bonds</td>
<td>23.3%</td>
<td>$23,113</td>
</tr>
<tr>
<td>Home shares</td>
<td>16.3</td>
<td>16,248</td>
</tr>
<tr>
<td>Foreign bonds</td>
<td>13.8</td>
<td>13,744</td>
</tr>
<tr>
<td>Foreign shares</td>
<td>13.6</td>
<td>13,592</td>
</tr>
<tr>
<td>General accounts</td>
<td>29.6</td>
<td>29,249</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
<td>3,213</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

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

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

7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were $9,530 million (3,524,500 Yen) for the years ended March 31, 2014 and 2013, respectively.

8. LEASES

The Company leases certain vehicles, computer equipment, office space, and other assets.

Total rental expenses for the years ended March 31, 2014 and 2013, were ¥1,240 million ($1,032,000 thousand) and ¥1,227 million, respectively.

Future minimum payments under non-cancelable operating leases were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within one year</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td>Due after one year</td>
<td>11</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>135</td>
</tr>
</tbody>
</table>

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 rates of approximately 38% for the years ended March 31, 2014 and 2013.

The overseas subsidiary is subject to the income tax of the country in which it operates.

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:
Notes to Consolidated Financial Statements

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, 2014 and 2013, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal effective statutory rate</th>
<th>Actual effective tax rate</th>
<th>Effect of tax rate reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>38.0%</td>
<td>38.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2013</td>
<td>38.0%</td>
<td>38.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38% to 30%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥90 million ($737 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then by ¥90 million ($737 thousand).

(10) Financial Instruments and Related Disclosures

(a) Fair values of financial instruments

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash and cash equivalents</th>
<th>Notes and accounts receivables</th>
<th>Notes and accounts payables</th>
<th>Income taxes payable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2014</td>
<td>¥ 21,329</td>
<td>¥ 14,317</td>
<td>¥ 8,885</td>
<td>¥ 1,537</td>
<td>¥ 35,049</td>
</tr>
</tbody>
</table>

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

(11) Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Unrealized gain on available-for-sale securities</th>
<th>Gain arising during the year</th>
<th>Amount before income tax effect</th>
<th>Income tax effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>¥ 1,285</td>
<td>¥ 2,599</td>
<td>¥ 3,884</td>
<td>¥ 1,247</td>
<td>¥ 5,131</td>
</tr>
<tr>
<td>2013</td>
<td>¥ 1,285</td>
<td>¥ 2,599</td>
<td>¥ 3,884</td>
<td>¥ 1,247</td>
<td>¥ 5,131</td>
</tr>
<tr>
<td>2014</td>
<td>¥ 1,285</td>
<td>¥ 2,599</td>
<td>¥ 3,884</td>
<td>¥ 1,247</td>
<td>¥ 5,131</td>
</tr>
<tr>
<td>2013</td>
<td>¥ 1,285</td>
<td>¥ 2,599</td>
<td>¥ 3,884</td>
<td>¥ 1,247</td>
<td>¥ 5,131</td>
</tr>
</tbody>
</table>

Due in One Year or Less

<table>
<thead>
<tr>
<th>Category</th>
<th>Fair Value</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and accounts payables</td>
<td>¥ 8,089</td>
<td>¥ 8,089</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>¥ 1,665</td>
<td>¥ 1,665</td>
</tr>
<tr>
<td>Total</td>
<td>¥ 9,755</td>
<td>¥ 9,755</td>
</tr>
</tbody>
</table>
Corporate Data/Investor Information

As of March 31, 2014

Corporate Data

Corporate Name
Nippon Shinyaku Co., Ltd.

Head Office
14, Nishinosho-Mangusho-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/english/

Founded
November 20, 1911

Date of Incorporation
October 1, 1919

Paid-in Capital
¥5,174 million

Representative Director
Shigenobu Maekawa

President

Employees
1,899

Issued and Outstanding Number of Shares
70,251,484

Number of Shareholders
4,642

Corporate Data/Investor Information

Distribution of Shareholders

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Corporations</td>
<td>6,300 (92.35%)</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>2,039 (3.05%)</td>
</tr>
<tr>
<td>Foreign Investors</td>
<td>176 (2.59%)</td>
</tr>
</tbody>
</table>

Total
4,642

Distribution of Shares Issued

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions</td>
<td>32,115 (45.71%)</td>
</tr>
<tr>
<td>Foreign Investors</td>
<td>7,036 (10.02%)</td>
</tr>
<tr>
<td>Securities Corporations</td>
<td>425 (0.61%)</td>
</tr>
</tbody>
</table>

Total
70,251

Stock Price (Yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>13/4</td>
<td>10,000</td>
<td>8,000</td>
</tr>
<tr>
<td>13/5</td>
<td>6,000</td>
<td>4,000</td>
</tr>
<tr>
<td>13/6</td>
<td>2,000</td>
<td>1,000</td>
</tr>
<tr>
<td>13/7</td>
<td>1,800</td>
<td>1,600</td>
</tr>
<tr>
<td>13/8</td>
<td>1,400</td>
<td>1,200</td>
</tr>
<tr>
<td>13/9</td>
<td>1,200</td>
<td>1,000</td>
</tr>
<tr>
<td>13/10</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>13/11</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>13/12</td>
<td>1,200</td>
<td></td>
</tr>
</tbody>
</table>

Trading Volumes (Thousands of shares)

<table>
<thead>
<tr>
<th>Year</th>
<th>10/80</th>
</tr>
</thead>
<tbody>
<tr>
<td>13/4</td>
<td>6,800</td>
</tr>
<tr>
<td>13/5</td>
<td>4,800</td>
</tr>
<tr>
<td>13/6</td>
<td>2,800</td>
</tr>
<tr>
<td>13/7</td>
<td>1,800</td>
</tr>
<tr>
<td>13/8</td>
<td>1,200</td>
</tr>
<tr>
<td>13/9</td>
<td>1,200</td>
</tr>
<tr>
<td>13/10</td>
<td>1,200</td>
</tr>
<tr>
<td>13/11</td>
<td>1,200</td>
</tr>
<tr>
<td>13/12</td>
<td>1,200</td>
</tr>
<tr>
<td>14/1</td>
<td>1,200</td>
</tr>
<tr>
<td>14/2</td>
<td>1,200</td>
</tr>
<tr>
<td>14/3</td>
<td>1,200</td>
</tr>
<tr>
<td>14/4</td>
<td>1,200</td>
</tr>
<tr>
<td>14/5</td>
<td>1,200</td>
</tr>
</tbody>
</table>