KISSEI

Annual Report 2011

About Kissei

Guided by its management philosophy, the Kissei Group is aiming to make significant contributions to society. The Group promotes management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment. The management vision underpinning its core pharmaceutical business challenges Kissei Pharmaceutical Co., Ltd., to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products. To this end, Kissei is proactively pushing forward with measures to construct a total marketing system, including to promote R&D activities from the patient's perspective, to manufacture the highest quality pharmaceuticals, to provide and collect drug information necessary for the optimum use of its products, and to realize highly efficient operations. In addition, each Group company assists in our pharmaceutical business and leverages its technologies to help develop our operations both domestically and internationally.

The pharmaceutical business is seeing higher sales of Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH); Glufast®, a rapid onset and short acting insulin secretagogue; and Salagen®, a therapeutic agent for patients with dry mouth. Further, launched in May 2010, Epoetin Alfa BS Injection [JCR], a treatment for renal anemia jointly developed with JCR Pharmaceuticals Co., Ltd., is extending its market presence. Overseas, we are using partner companies to steadily increase sales and the countries where such proprietary Kissei products as silodosin (brand name in Japan: Urief®) and mitiglinide (brand name in Japan: Glufast®) are sold. Also, given the progress of development initiatives in regions where our products are not yet sold, we will continue considering out-licensing to enable overseas rollouts of new drug discovery themes.

Contents

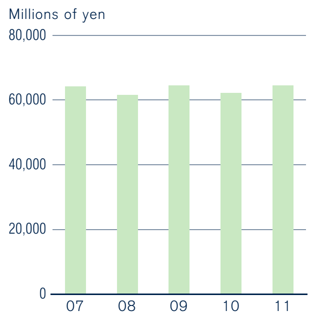
Financial Highlights

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
Years ended March 31

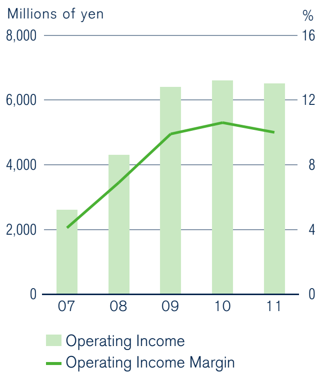
	Millions of yen, except per share data						Thousands of U.S. dollars, except per share data[1]
	2006	2007	2008	2009	2010	**2011**	**2011**
For the Year:							
Net Sales	¥64,008	¥64,216	¥61,481	¥64,536	¥62,179	¥64,394	$775,831
R&D Expenses	10,574	10,473	11,361	11,557	10,786	12,037	145,024
Capital Investment	2,284	3,954	2,460	1,414	2,037	1,322	15,927
Operating Income	1,877	2,646	4,270	6,393	6,585	6,464	77,880
Net Income	2,045	1,570	2,326	2,061	4,371	4,004	48,241
At Year-End:							
Total Assets	¥174,115	¥163,584	¥150,566	¥140,181	¥147,022	¥146,249	$1,762,036
Total Net Assets	124,260	123,232	118,775	118,415	124,221	123,932	1,493,157
Per Share (Yen and U.S. Dollars):							
Net Income[2]:							
Primary	¥37.3	¥28.9	¥42.9	¥38.0	¥80.5	¥73.8	$0.889
Fully-Diluted	33.5	27.1	40.2	37.2	—	—	—
Cash Dividends	24.0	28.0	28.0	30.0	32.0	34.0	0.410
Key Ratios (%):							
Operating Income Margin	2.9	4.1	6.9	9.9	10.6	10.0	
Return on Assets (ROA)	1.2	0.9	1.5	1.4	3.0	4.7	
Return on Equity (ROE)	1.7	1.3	1.9	1.7	3.6	3.2	
Shareholders' Equity Ratio	71.4	75.3	78.8	84.4	84.4	84.6	
Number of Employees	1,759	1,777	1,844	1,870	1,920	1,911	

1 U.S. dollar amounts are translated at the rate of ¥83=U.S.$1, the approximate effective rate of exchange at March 31, 2011.
2 Net income per share is computed based on the weighted average number of shares of common stock after subtracting the weighted average number of shares of treasury stock for the year.

Net Sales

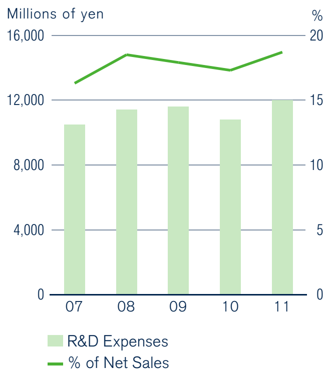


Operating Income / Operating Income Margin



Net Income / ROE

R&D Expenses



A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

REVIEW OF OPERATIONS

Overview of Operations in the Year Under Review

We respectfully extend our sympathies to those suffering as a result of the Great East Japan Earthquake on March 11, 2011, and hope for rapid restoration of the disaster area. As for Kissei, both plants in Nagano Prefecture, in Matsumoto City and Shiojiri City, are operating as normal. Also, sales bases in the area affected by the earthquake did not suffer any significant physical damage.

In fiscal 2011, the year ended March 31, 2011, Japan's economy improved modestly as a pick-up in the business climate overseas counteracted stagnation that accompanied further strengthening of the yen and a temporary softening of exports, which had been a driver of economic recovery. However, as well as inflicting direct damage, the recent earthquake seriously affected supply chains in the manufacturing industry. Moreover, the possible effect on economic activities of power supply shortages is a cause for concern.

In the pharmaceutical industry, business conditions remained tough due to the Japanese government's continued policy of encouraging the use of generic drugs as a way of reducing medical treatment costs. Further, although April 2010 National Health Insurance (NHI) price revisions included the trial introduction of premiums for the development of new drugs or the elimination of off-label drug use, the NHI price revisions also included further reductions in the prices of long-listed drugs, or off-patent drugs for which generics are available. And, competition continued to be fierce in the information services, merchandising, and construction industries due to stagnant domestic demand, reflecting curbed IT investment and capital investment among companies and slumping consumer spending.

Amid these conditions, our business results for fiscal 2011 were as seen in the table to the right.

Consolidated Performance

	Millions of yen		%
	Results for year ended March 2010	Results for year ended March 2011	Change
Net Sales	¥62,179	¥64,394	3.6
Operating Income	6,585	6,464	–1.8
Net Income	4,371	4,004	–8.4

In the pharmaceutical business, net sales were up 3.1% year on year, to ¥55,354 million. Although existing product sales declined due to the lowering of NHI prices, sales of Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH); Glufast®, a rapid onset and short acting insulin secretagogue; and Salagen®, a therapeutic agent for patients with dry mouth, continued to grow. Licensing fee royalties also increased. In addition, in May 2010 we launched Epoetin Alfa BS Injection [JCR], a treatment for renal anemia jointly developed with JCR Pharmaceuticals Co., Ltd. Further, our European licensing partner for silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with BPH, Recordati, of Italy, launched silodosin as UROREC® in Germany in June 2010. Since then, Recordati has been preparing for and proceeding with a series of launches in European countries. In China, September 2010 saw Eisai Co., Ltd., launch mitiglinide (brand name in Japan: Glufast®), a rapid onset and short acting insulin secretagogue for which Kissei granted the company exclusive development and marketing rights in China.

In other businesses, net sales increased 6.7% year on year, to ¥9,040 million, thanks to higher revenues from construction projects, which absorbed lower revenues from information services and merchandising.

As for income, operating income declined. Negative factors included a significant increase in selling, general and administrative expenses arising from proactive research and development (R&D). Moreover, although other businesses saw revenues grow, their cost of sales as a percentage of net sales and selling, general and administrative expenses were up. These factors offset positive factors in the pharmaceutical business such as higher revenues and lower cost of sales as a percentage of net sales. Also, the adoption of accounting standards for asset retirement obligations and recognition of valuation loss on investments in securities negatively affected net income.

In R&D, in April 2010 we concluded an exclusive licensing agreement for Japan to develop and market a treatment for benign prostatic hypertrophy ("Genetically Engineered Proaerolysin," development code: PRX302), which Protox Therapeutics Inc., of Canada, is currently developing. In the same month, we filed a New Drug Application (NDA) for a rapid-acting insulin secretagogue and an improving agent for postprandial hyperglycemia (Glufast® and alpha-glucosidase inhibitor combination tablet, development code: KMV-0207). Having received approval for the production and sales of KMV-0207 on April 22, 2011, we are proceeding with preparations to begin selling it as Glubes® Combination Tablet after NHI price listing. Also, in September 2010 we concluded an exclusive licensing agreement for Japan to develop and market a treatment for hyperphosphatemia in dialysis patients (iron-oxyhydroxide, development code: PA21), which Vifor Pharma Ltd., of Switzerland, is currently developing. Including these newly introduced themes, we will advance R&D of respective themes. Further, in light of trial results, we ceased development of a therapeutic agent for overactive bladder (development code: KUC-7483), which had been undergoing phase III clinical trials.

OUTLOOK FOR THE CURRENT FISCAL YEAR

In Japan's pharmaceutical market, competition is becoming increasingly fierce because the Japanese government is vigorously advancing a policy of encouraging the use of generic drugs as a way of reducing medical treatment costs.

Other businesses are also likely to continue facing challenging conditions in their industries given that the Great East Japan Earthquake has added uncertainty to a business climate that had been showing the first signs of recovery.

In response to these conditions, the Kissei Group is focused on establishing a management organization able to realize group synergies, reaping the benefits of investments in R&D, and improving profitability with a view to investing in further achievements.

At the present juncture, our performance forecast for the year ending March 31, 2012, is as follows.

Consolidated Performance Forecast

	Millions of yen		%
	Forecast for year ending March 2012	Results for year ended March 2011	Change
Net Sales	¥64,600	¥64,394	0.3
Operating Income	6,500	6,464	0.6
Net Income	4,600	4,004	14.9

Net Sales

In the pharmaceutical business, although licensing fee royalties are likely to decline, we aim to raise revenues slightly by continuing to cultivate new products. These efforts will include Glubes® Combination Tablet, which we will launch in the current fiscal year. As for other businesses, we expect that worsening business conditions will lead to lower revenues.

Income

In the pharmaceutical business, we expect higher revenues and lower cost of sales as a percentage of net sales will cover continued investment in R&D and product cultivation, thereby increasing gross profit. Therefore, we anticipate increases in operating income and net income. Other businesses are likely to record declines in earnings due to lower revenues. Further, we do not anticipate any noteworthy other income or expenses.

MAIN PHARMACEUTICAL PRODUCTS

(Generic name in parentheses)

Urief® (silodosin): dysuria associated with benign prostatic hyperplasia (BPH)
Glufast® (mitiglinide): type 2 diabetes
Salagen® (pilocarpine): dry mouth
Epoetin Alfa BS Injection [JCR] (epoetin kappa): renal anemia
Bezatol® (bezafibrate): hyperlipidemia
Utemerin® (ritodrine HCl): threatened abortion and premature labor
Xanbon® (ozagrel Na): acute cerebral thrombosis, etc.
Rizaben® Eye Drops (tranilast): allergic conjunctivitis
Rizaben® (tranilast): allergy, hypertrophic scar, etc.
Domenan® (ozagrel HCl): bronchial asthma

MAIN NUTRITIONAL FOODS

Yumegohan: for patients with renal disease
New Throking-i: for seniors
Cupagalorie: energy supplement

A Message from the President (Continued)

MANAGEMENT STRATEGY

Business conditions in the pharmaceutical industry are in the throes of dramatic change. In Japan, North America, and Europe, competition is becoming fiercer in the market for pharmaceutical medical treatments as governments respond to lackluster economies and rising medical treatment costs by promoting policies aimed at curbing the cost of medical treatment. In contrast, such emerging markets as China and India are likely to grow rapidly as access to medical treatment improves. Further, competition over new drug development is becoming more heated than ever due to a shortage of “seed” compounds and the introduction of stricter rules from R&D through to approval. Among pharmaceutical companies, these conditions have spurred an increase in mergers and acquisitions (M&As) aimed at expanding sales channels and securing R&D technology or themes.

Against the backdrop of these business conditions, we launched our new medium-term management plan, CORE 3 (please see page 5), covering the three years from April 2011. This new plan calls on Kissei to increase sales in core marketing areas while growing earnings in the Japanese market and overseas markets. At the same time, we intend to actively deploy resources to core R&D areas. As well as accelerating new drug discovery and development and leading to the marketing of products that will become new earnings mainstays comparable with Urief® and Glufast®, these efforts will strengthen core areas, thereby further cementing the Company’s business foundation.

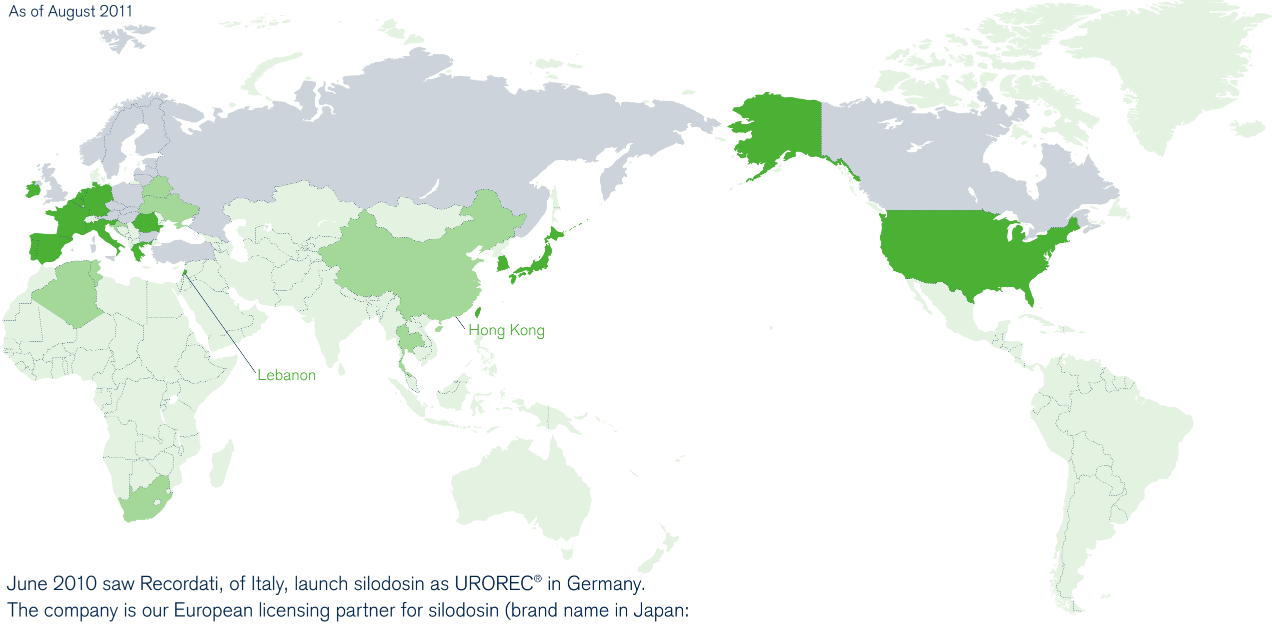
In fiscal 2012—the first year of the medium-term management plan—our priority strategies are to grow sales in the Japanese market and restructure earnings, enter or increase presence in markets worldwide, and accelerate new drug discovery and development. In addition, we intend to develop corporate governance systems and manage our business based on corporate social responsibility in order to maximize corporate value and remain a company that stakeholders trust.

As we pursue these goals, we would like to ask for the continued understanding and support of our stakeholders.

June 2011

Mutsuo Kanzawa
President and Chief Executive Officer

THE OVERSEAS DEVELOPMENT OF SILODOSIN
As of August 2011



June 2010 saw Recordati, of Italy, launch silodosin as UROREC® in Germany. The company is our European licensing partner for silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with BPH. Since then, focusing on Europe, the number of countries where silodosin is sold has increased steadily. At present, including Japan and the United States it is marketed in 15 countries worldwide.

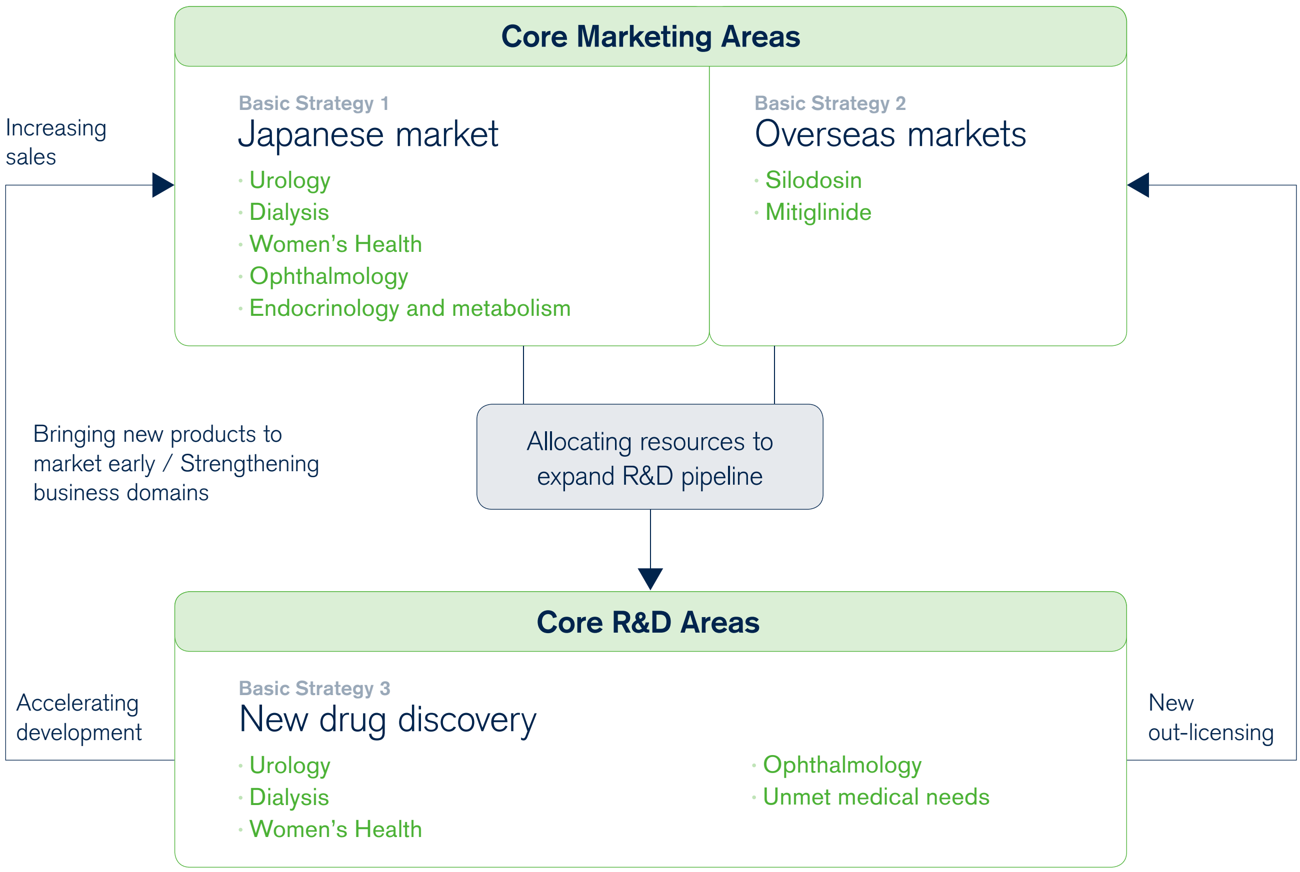
- Launched: Japan, U.S, South Korea, Taiwan, Lebanon, Germany, Ireland, Spain, France, Portugal, Romania, Belgium, Italy, Greece and the Netherlands
- Approval acquired but not yet launched: 17 of the 27 EU member countries (already launched in the other 10) and six other countries: Iceland, Norway, Liechtenstein, Russia, Turkey, and Canada
- Filed an NDA but not yet approved: China, Hong Kong, Singapore, Thailand, South Africa, Tunisia, Algeria, Ukraine, Belarus and and Croatia

New Three-Year Medium-Term Management Plan

We have launched our new medium-term management plan, CORE 3, covering the three years from April 2011. As an R&D-oriented pharmaceutical company, Kissei aims to increase profitability, build a strategic R&D pipeline, and become an organization that can create new drugs continually by pursuing the following basic strategies set out in the new medium-term management plan.

Basic Strategies

1. Strengthen promotions and conduct life-cycle management in order to foster new drugs (Urief®, Glufast®, Glubes® Combination Tablet, Epoetin Alfa BS Injection [JCR], Salagen®) and increase profitability in the Japanese market for pharmaceutical medical treatments
2. Increase sales and countries where products are sold for North America, Europe, and emerging markets based on alliances with partner companies
3. Build an R&D pipeline that will support next-generation growth by stepping up R&D and licensing in core areas and the unmet medical needs area
4. Maintain good relationships with stakeholders and comply with social norms while cultivating a corporate culture in which jobs are rewarding and personnel are ambitious and work toward personal fulfillment



Research and Development

Kissei's management vision is to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative drug products. In order to realize this vision, the Group is identifying R&D core areas in its core pharmaceutical business, investing in them actively, and thereby accelerating drug discovery and development. Also, aiming to enter new markets and increase our presence in existing markets worldwide, we are advancing international rollouts by licensing proprietary Kissei products.

For an overview of R&D initiatives in the pharmaceutical business in the fiscal year under review, please see "REVIEW OF OPERATIONS" in "A Message from the President" on page 3 of this report.

In other businesses, we are creating platforms from which we can expand operations by actively investing in a range of areas, such as research on the latest IT for software development.

R&D expenses in the fiscal year under review totaled ¥12,037 million, or 18.7% of net sales.

Pharmaceutical Business

By stepping up R&D and licensing in core areas as well as in the unmet medical needs area, we have progressed toward building an R&D pipeline that will support next-generation growth. Total R&D expenses in this business sector for the fiscal year under review were ¥11,957 million.

Other Businesses

Aiming to develop business globally, we have established a development system for medical software and other package software, and are advancing initiatives to develop next-generation technologies. Total R&D expenses in this business sector for the fiscal year under review were ¥79 million.

R&D Pipeline (In-House)
As of August 2011

Development Stage	Product Name / Generic Name / Development Code	Development Classification	Therapeutic Target
Phase III	Glufast® / Mitiglinide	Kissei	Type 2 diabetes mellitus - Combination medication with biguanides or DPP-4 (Dipeptidyl peptidase-4) inhibitors -
Phase II	KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Product mimetic of TRH action -
	Silodosin / KSO-0400	Kissei	Dysuria associated with benign prostatic hyperplasia - Alfa 1A antagonist - - Once-daily formulation -
	Ozagrel / KCT-0809	Co-development / Teika (Japan)	Dry-eye - Restoration of corneal and conjunctival epithelium disorder -
	KLH-2109	Kissei	Endometriosis / uterine fibroids - GnRH antagonist -
Phase II Preparation	Urief® / Silodosin	Kissei	Urolithiasis - Alfa 1A antagonist - - Additional indication -
Phase I / II	YS110	In-licensed / Y's AC, University of Tokyo, JST (Japan)	Malignant mesothelioma - Humanized anti-CD26 monoclonal antibody -
Phase I	PA21	In-licensed / Vifor Pharma (Switzerland)	Hyperphosphatemia in hemodialysis patients - Phosphate binder-

R&D Pipeline (Out-Licensing)
As of August 2011

Development Stage	Generic Name / Development Code	Development Company	Territory	Therapeutic Target
NDA	Mitiglinide	Eisai (Japan)	ASEAN (10 countries)[1]	Type 2 diabetes
	Silodosin	Daiichi Sankyo (Japan)	China	Dysuria associated with benign prostatic hyperplasia
		Eisai (Japan)	ASEAN (10 countries)[2], India, Sri Lanka	
Phase III	Mitiglinide	USV (India)	India	Type 2 diabetes
Phase II	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	Status asthmatics / Threatened premature labor
Phase I	KGA-3235	GlaxoSmithKline (U.K.)	Worldwide, except for Japan, South Korea, China and Taiwan	Type 2 diabetes
	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	COPD

1 Launched in Thailand, Approved in Philippines, NDA in 2 countries, and NDA preparation in 5 countries
2 NDA in 2 ASEAN countries

Corporate Governance

OUR BASIC APPROACH TO CORPORATE GOVERNANCE

One of the core management challenges of the Company is to strengthen its system of corporate governance in order to raise corporate value and ensure consistent growth as a company with a clear raison d'etre.

BODIES AND INTERNAL CONTROL SYSTEM

Overview of Bodies

Kissei's Board of Directors sets basic strategies for the Company and makes decisions on all important matters while also providing oversight of business execution. In principle, the Board of Directors convenes once a month to engage in active debate over operations, with priority on making prompt business decisions and increasing the transparency of operations. There are no external Board members.

The Company has adopted a corporate auditor system. It has two in-house and two external auditors. Corporate auditors state opinions at meetings of the Board of Directors. One external auditor is a licensed attorney, while the other is a certified public accountant. Consequently, they are able to provide expertise and a specialist perspective on operations. Further, the two external auditors have no special interests in the Company.

Internal Control System and Risk Management Structure

The Company operates under the management philosophy of "contributing to society through high-quality, innovative pharmaceutical products," and "serving society through our employees." The Kissei Code of Conduct guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales activities, all of which are fundamental to our business as a company involved in life sciences. In addition, Kissei has established the Compliance Committee to provide advice to the Board of Directors to help ensure that all laws and regulations are followed both in letter and spirit. The Compliance Program is conducted on a regular basis, and as part of this program the Kissei Pharmaceutical's Compliance Program Manual is continually updated with employees receiving regular instruction on compliance-related issues. In May 2006, Kissei also created the Basic Policy on Internal Controls, in which every employee is trained. Based on this basic policy, in addition to maintaining all Company rules, the Risk Management Committee—which is an advisory body to the Board of Directors—was established, and risk management and other internal systems are consequently promoted.

Internal Audits

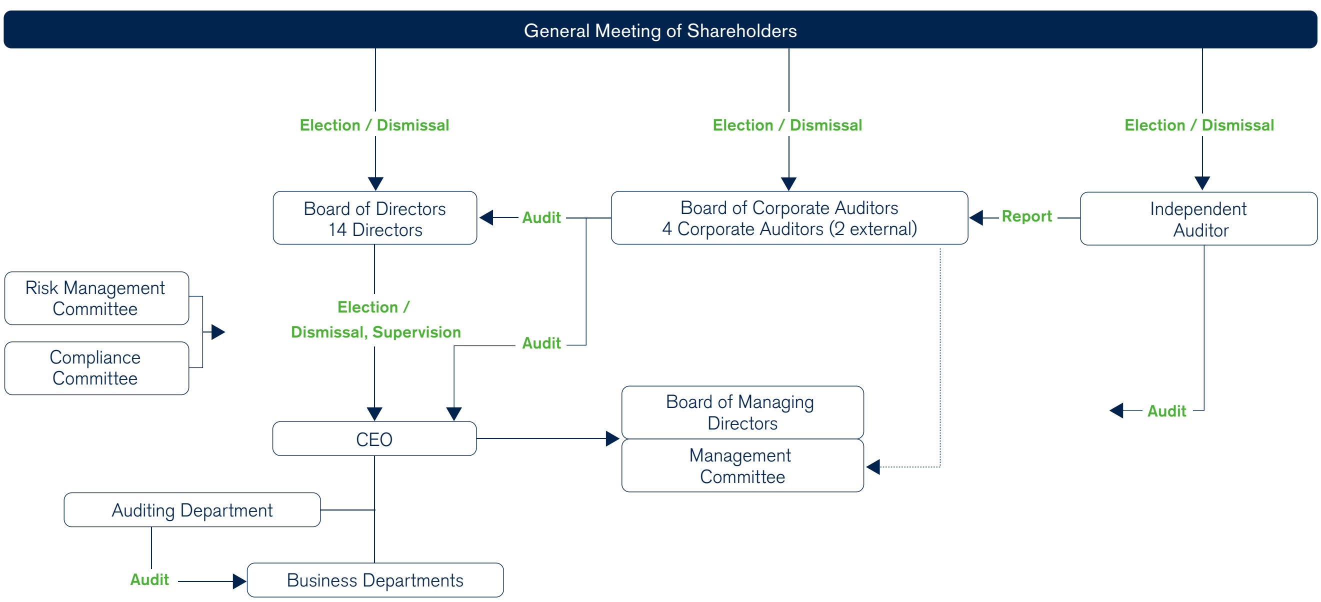
Kissei has established the Auditing Department, an independent body that reports directly to the president. This six-member body conducts internal audits for each department and all internal systems in the Company based on the yearly auditing plan, ensuring that all departments carry out business activities in an appropriate manner.

The Board of Corporate Auditors and the Auditing Department discuss the auditing systems and auditing plan at the beginning of each fiscal period. In addition, they meet each month to exchange opinions on the status of the audits being implemented.

External Auditors

The two external auditors have no special interests in the Company. External auditors are expected to participate in the management of the Company from an objective and neutral perspective, and this is recognized as ensuring a high level of management transparency.

Diagram of Corporate Governance Bodies and Internal Control System



Corporate Governance (Continued)

Independent Auditor

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with members of the Board of Directors, finance officers, and the Board of Corporate Auditors, which aids the strengthening and maintenance of the corporate governance structure. The three certified public accountants that execute the independent audit of the Company are employees of Ernst & Young ShinNihon LLC. Also, the Company has deployed four certified public accountants to assist the independent auditors and a further 13 employees to carry out audit-related duties.

Kissei Basic Policy on Internal Controls (Summary)

A meeting of the Board of Directors held in May 2006 approved a resolution to create a Basic Policy on Internal Controls. The details are as follows.

In the Basic Policy to Maintain Internal Control Systems, Kissei declares its intent to utilize the collective power of all its corporate officers and employees in order to continually improve corporate value and to fulfill its corporate social responsibilities, which are founded on its management philosophy. Based on article 362, paragraph 5 of the Companies Act, this basic policy defines policies for all activities to establish and maintain the Company's internal control systems.

1. Systems to ensure that directors and employees comply with laws and regulations as well as the Company's articles of incorporation when executing their duties
   - In accordance with the Kissei Code of Conduct, a precondition of all Company activities shall be absolute compliance with corporate ethics as well as laws and regulations.
   - The Board of Directors shall appoint a director responsible for compliance, and in addition to having overall responsibility for the Compliance Promotion Department, shall establish the Compliance Committee to act as an advisory body to the Board of Directors.

2. Systems for the storage and management of information relating to the directors' execution of duties
   - The Board of Directors shall establish and maintain systems to appropriately store and manage information relating to the execution of duties by directors and departmental officers.
   - The director responsible for legal affairs shall establish regulations relating to document management and storage and maintain them, together with related materials and other information, in an appropriate storage medium with search functionality.

3. Systems for regulations pertaining to risk management and related systems
   - The Board of Directors shall define the risk management and other necessary internal regulations and establish and maintain systems to fully ascertain and manage risks relating to the execution of duties.

4. Systems to ensure directors execute their duties efficiently
   - The Company shall establish and maintain systems to increase the efficiency with which directors execute their duties, construct internal organizations aiming to achieve cooperation and control, clearly allocate duties based on internal regulations, establish limits on authority and decision-making rules, and ensure duties are executed appropriately and efficiently.

5. Systems to ensure the appropriate execution of duties within the corporate group
   - As prescribed by the Kissei Group Code of Conduct, Group companies will aim to foster an awareness among all their directors and employees of the importance of legal compliance.
   - The Board of Directors shall establish and maintain administrative rules for affiliates, and for predetermined items shall require a request for approval and notification to the Affiliates Management Department prior to resolution by the Board of Directors, and when necessary each Group company shall acquire prior approval for a resolution from the Company's Board of Directors.

6. Items for systems relating to Company employees who assist the corporate auditors and the independence of these employees
   - If a corporate auditor requests that a Company employee assists them in carrying out their duties, then, following discussions with other corporate auditors, the employee shall be deployed to the Auditing Department as an assistant to the corporate auditors.

7. Systems to ensure reporting to the corporate auditors and the Board of Corporate Auditors by directors and employees, and other systems to enable the corporate auditors to carry out their duties effectively
   - Each responsible director or departmental officer shall report those items to the corporate auditors that were decided must be reported following discussions between the corporate auditors and the Board of Directors.

Corporate Social Responsibility

CSR

The Kissei's management philosophy is "contributing to society through high-quality, innovative pharmaceutical products" and "serving society through our employees." This philosophy has served as the starting point for our CSR-centered management since the Company was founded. In addition to maintaining systems to promote CSR throughout the Group, we are further broadening the scope of our CSR initiatives.

Compliance Initiatives

All of our employees are expected to act in accordance with societal and corporate ethics. The Company believes this action enhances the brand power and image of our products and improves both our corporate value and trust our stakeholders hold in us.

The Company has formulated the Kissei Code of Conduct and published the Kissei Pharmaceutical's Compliance Program Manual as specific guidelines that expand on the basic principles for employee behavior developed from the perspective of promoting CSR as a responsible corporate citizen. The Kissei Pharmaceutical's Compliance Program Manual is distributed to all Kissei Group employees to provide practical guidance on compliance matters. Kissei has established a helpline outside the regular corporate organization as an additional consultation and contact system for compliance issues, such as compliance violations, sexual harassment, and misuses of power. Kissei also carries out compliance training for all employees to ensure that the importance of compliance with legal regulations and corporate ethics is thoroughly understood, and that each individual's role and responsibility regarding compliance is clear. In addition to various training programs for directors and division managers, newly appointed managers, and new employees, compliance training is also carried out by division and section to directly address operational issues.

Consideration for Society

We place great importance on our relationships with local communities and society at large. We have continued to actively participate in and contribute to the lives of the people in our local communities through involvement in cultural, health, welfare, environmental, and sports activities, as well as medical treatment. One example is the Saito Kinen Festival, a global music festival held each fall in Matsumoto City, Nagano Prefecture, of which we are the main sponsor. We also sponsor the Japan Football League by supplying uniforms to the Matsumoto Yamaga Football Club. Additionally, we have established the Kanzawa Medical Research Foundation and sponsor multifaceted research into the causes, prevention, diagnosis, and treatment of a range of conditions affecting women of reproductive age, particularly in the perinatal period, as well as conditions affecting middle-aged and elderly women. Our goal is to contribute to the improved health and welfare of the people around the world by helping to develop both new medical treatments and the medical profession itself.

Furthermore, as a first step in providing high-quality medical care for local communities, the Company holds sponsored courses on serious nerve diseases at the Shinshu University School of Medicine. The Company also contributes to the development of the field of medicine and local communities through other ongoing, suitable donations.

Consideration for Customers

We established the Product Customer Service Center to respond to inquiries from doctors, pharmacists, and other health care professionals, as well as from patients and their families.

We also introduced the Safety Information Providing System to enable our medical representatives (MRs)—essentially product information specialists—to use their notebook PCs for on-demand access to medical information. This allows MRs to quickly respond on-site to inquiries from medical staff regarding side effects and other questions about our pharmaceuticals.

Consideration for Employees

Our fundamental philosophy toward our employees is based on our vision of "mutually respecting an individual's philosophy and sense of values, and providing a stimulating working environment to help build a dynamic and creative company."

We strive to maintain an ideal workplace through appropriate workplace systems. The work systems we have introduced, for example, enable employees to choose a way of working best suited to the individual's capabilities and life plan. In many divisions and departments, we have introduced various flexible work hour systems like a deemed working hour system and flextime. Our goal is to create a working environment that allows all of our employees to fully utilize their abilities.

In preparation for the occurrence of a major earthquake, flood, or other widespread natural disaster, Kissei introduced a "Safety Confirmation System" as a means of maintaining contact between the Company and employees. This system can also be used by employees and the families of employees in the stricken area to quickly confirm the safety of one another. Kissei has also been recognized for its maternity leave and nursing-care leave programs, and was awarded certification as a standards-compliant general business owner (*Kurumin*) in accordance with the Next Generation Education and Support Promotion Act.

Consideration for the Environment

Our basic environment policy is based on the following fundamental Company goal: As a drug discovery and R&D-oriented company that aims to ensure the future health of people around the world, we will actively work to preserve the environment as part of our corporate social responsibilities and contribute to realizing an affluent and comfortable society. Based on this basic environment policy, we strive to minimize the adverse impact of all our activities on the environment and to contribute to environmental protection.

Kissei's environmental management promotes ISO 14001-compliant environmental management systems as a basic policy, and we have received ISO 14001 accreditation for environment management systems at all of our facilities. Each facility has a designated person responsible for environmental management, to promote environmental protection activities.

Financial Review

FINANCIAL POSITION

At the end of the fiscal year under review, ended March 31, 2011, total assets stood at ¥146,249 million, edging down 0.5%, or ¥773 million, from the previous fiscal year-end. Total current assets amounted to ¥89,852 million, an increase of ¥4,212 million, primarily attributable to increases in marketable securities and work-in-process, which offset lower prepaid expenses included in other current assets. Total non-current assets declined ¥4,986 million, to ¥56,396 million, mainly reflecting a decrease due to depreciation and a decrease in the market value of investments in securities.

Total liabilities amounted to ¥22,316 million at fiscal year-end, down 2.1%, or ¥485 million, from the previous fiscal year-end. Total current liabilities stood at ¥15,907 million, a decline of ¥207 million. This was mainly because increases in payables and advances included in other current assets counteracted lower income taxes payable. Total long-term liabilities were down ¥278 million, to ¥6,409 million, principally due to lower long-term payables included in other long-term liabilities, absorbing an increase in long-term debt.

Total net assets amounted to ¥123,932 million at fiscal year-end, edging down 0.2%, or ¥289 million, from the previous fiscal year-end. This mainly resulted from a decrease in unrealized holding gains on securities, which cancelled higher retained earnings.

As a result, the shareholders' equity ratio was 84.6%, up slightly from 84.4% at the previous fiscal year-end.

FINANCIAL RESULTS

Net sales increased 3.6% year on year, to ¥64,394 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were up 3.1% year on year, or ¥1,646 million, to ¥55,354 million. This increase was attributable to the continuing increases in revenues from Urief®, Glufast®, and Salagen®; higher licensing fee royalties received; and the May 2010 launch of Epoetin Alfa BS Injection [JCR], a treatment for renal anemia jointly developed with JCR Pharmaceuticals, which compensated for the effect on existing products of National Health Insurance (NHI) price revisions and the effect of generic drugs. In other businesses, segment sales rose 6.7% year on year, or ¥569 million, to ¥9,040 million, as higher revenues from construction projects offset lower revenues from information services and merchandising.

Cost of sales as a percentage of net sales edged down 0.1 percentage point due to a decrease of 0.5 percentage point in the cost of sales as a percentage of segment sales in the pharmaceutical business—because change in the breakdown of segment sales and an increase in licensing fee royalties received compensated for the negative effect of NHI price revisions—which offset an increase of 1.4 percentage points in the cost of sales as a percentage of segment sales in other businesses. As a result, gross profit was up 3.7% year on year, or ¥1,477 million, to ¥41,896 million.

In selling, general and administrative expenses, R&D expenses rose due to higher license-related expenses and the effect of carrying over clinical trial research expenses from the previous fiscal year. As a result, operating income decreased 1.8% year on year, or ¥121 million, to ¥6,464 million.

In other income (expenses), the Company recorded gain on sales of investments in securities. However, the Company posted a loss on evaluation of securities for the fiscal year, compared with a gain on evaluation of securities for the previous fiscal year. Further, loss on devaluation of investments in securities for the fiscal year was significantly higher than for the previous fiscal year. The net result of these factors added ¥162 million to expenses, and as a consequence the Company recorded other expenses of ¥131 million.

As a result, income before income taxes and minority interests declined 4.3% year on year, or ¥284 million, to ¥6,333 million, and net income decreased 8.4% year on year, or ¥367 million, to ¥4,004 million.

BASIC POLICY ON THE DISTRIBUTION OF PROFITS / DIVIDENDS FOR THE FISCAL YEAR UNDER REVIEW AND THE CURRENT FISCAL YEAR

The Company aims to secure a solid management base while providing stable, consistent returns to shareholders through cash dividends. The Company considers working to make efficient use of capital while paying fair dividends to shareholders in accordance with profit levels to be a key management issue.

The Company's basic dividend policy is to make twice-yearly dividend payments, comprised of interim and year-end cash dividends. The Board of Directors decides the amount of interim dividends, while the General Meeting of Shareholders decides the amount of year-end dividends. Also, the Company's articles of incorporation stipulate that a resolution of the Board of Directors enables the payment of interim dividends with record dates of September 30 each year.

Giving first priority to increasing shareholder value, the Company will acquire and dispose of treasury stock, based on resolutions of the Board of Directors, flexibly and as necessary in light of operational developments.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and the challenges of increasing globalization. At the same time, the Company will actively invest in R&D to develop drugs that patients need. The Company believes this policy will not only contribute to future profits but also enable the Company to distribute profits to its shareholders appropriately.

For the fiscal year under review, the Company paid a year-end cash dividend of ¥17.0 per share, which when combined with an interim cash dividend of ¥17.0 per share gave a full-year cash dividend of ¥34.0 per share. For the current fiscal year, ending March 31, 2012, the Group plans to pay an interim cash dividend of ¥18.0 per share and a year-end cash dividend of ¥18.0 per share, giving a full-year cash dividend of ¥36.0 per share.

Further, to facilitate the implementation of flexible capital measures that reflect changes in business conditions, a meeting of the Board of Directors convened on May 10, 2011, approved a resolution to acquire up to a maximum of 2.8 million shares of the Company's common stock at up to a maximum acquisition price of ¥5 billion between May 11, 2011, and March 30, 2012.

Risk Factors

The following risk factors could potentially affect the Kissei Group's operating results and financial position. Forward-looking statements are based on the judgments the Group has made from consolidated financial statements for the end of the current fiscal year under review.

1. R&D

The process of developing pharmaceuticals—from the R&D stage to approval and sales—requires large investments of both time and funds. When developing new drugs, the chances of discovering beneficial indications are limited. In addition, the Company can guarantee neither that a new drug undergoing development or an additional indication will have its intended benefit nor predict when the drugs will be approved.

2. GOVERNMENT POLICY

The prices of pharmaceuticals in Japan are set based on the government's NHI drug price. Generally, the prices are revised biannually. There may be revisions or other changes to the medical insurance system in Japan that go beyond the Company's forecast, such as the introduction of diagnosis procedure combinations or the promotion of generic drugs, which would negatively impact the Company's operating results and financial position.

3. COMPETITION WITH OTHER COMPANIES' PRODUCTS

The Group faces competition from companies selling products with the same application as its own. In addition, once a patent expires, price competition with generic products of the same composition intensifies. This competition could have a serious impact on the sales of existing drugs.

4. UNEXPECTED SIDE-EFFECT RISKS

There is a risk that a pharmaceutical may produce an unexpected side effect that was undiscovered at the R&D stage. If unforeseen side effects or serious adverse events occur, the use of a drug may be limited, or sales of the drug may be terminated completely.

5. MANUFACTURING AND PROCUREMENT

Malfunctions with production equipment or the inability to procure raw materials in a timely fashion could delay or shut down drug manufacturing. In addition, a quality problem may cause a drug to be recalled, which would negatively impact the Company's operating results and financial position.

6. INTELLECTUAL PROPERTY RISKS

In the event that the Kissei Group is unable to appropriately protect its intellectual property, a third party may be able to use the Kissei Group's technology, which would undermine its competitive superiority in the market.

7. LEGAL RISKS

At present, there are no outstanding legal problems affecting the Kissei Group's management. There is the possibility, however, that in the course of its business activities, the Kissei Group could face lawsuits in the future both at home and abroad regarding patent, product liability, environment, and labor matters.

8. ENVIRONMENTAL CONSERVATION

Pharmaceutical chemical substances used in research and manufacturing processing could have an impact on the environment. Every department and work site in the Group is working diligently to follow stringent substance management rules and protect the environment. However, if chemical substances were found to have polluted areas around a work site, legal action may be taken against the work site, and the Company may be faced with large costs to restore the environment, which would negatively impact the Company's operating results and financial position.

9. INFORMATION MANAGEMENT

The Group is paying close attention to the need to protect information by establishing strict rules for the management of personal and confidential information as well as providing education on this issue to employees. However, if an unexpected incident occurred in which information was improperly disclosed, the Group's image may be tarnished, which would negatively impact the Company's operating results and financial position.

Besides the risk factors mentioned above, there are various other risks faced by the Group.

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2010	2011	2011
Current Assets:			
Cash on hand and in banks (Notes 4 and 5)	¥ 22,645	¥ 23,116	$ 278,506
Notes and accounts receivable (Note 5)	22,063	23,013	277,265
Marketable securities (Notes 4, 5 and 6)	26,097	27,501	331,337
Inventories (Note 7)	8,530	11,011	132,663
Deferred tax assets—current (Note 9)	2,412	2,328	28,048
Other current assets	3,906	2,900	34,940
Allowance for doubtful accounts	(13)	(17)	(205)
Total current assets	85,640	89,852	1,082,554
Property, Plant and Equipment:			
Buildings and structures	35,808	36,272	437,012
Less: accumulated depreciation	(23,654)	(24,652)	(297,012)
Buildings and structures, net	12,154	11,620	140,000
Land	13,368	13,367	161,048
Construction in progress	24	72	867
Other	13,625	13,738	165,518
Less: accumulated depreciation	(11,344)	(11,701)	(140,976)
Other, net	2,281	2,037	24,542
Total property, plant and equipment	27,827	27,096	326,458
Intangible Assets:			
Software for internal use	1,469	1,188	14,313
Other	342	190	2,289
Total intangible assets	1,811	1,378	16,602
Investments and Other Assets:			
Investments in securities (Notes 5 and 6)	29,611	24,434	294,386
Leasehold deposits and guarantee deposits	434	414	4,988
Deferred tax assets—non-current (Note 9)	405	2,171	26,157
Other	1,294	903	10,880
Total investments and other assets	31,744	27,922	336,410
Total assets	¥147,022	¥146,249	$1,762,036

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2011	Thousands of U.S. dollars (Note 3) 2011
Current Liabilities:			
Notes and accounts payables	¥ 5,624	¥ 5,228	$ 62,988
Short-term bank loans (Note 8)	2,070	2,204	26,554
Current portion of long-term debt (Note 8)	143	122	1,470
Income taxes payable (Note 9)	2,300	1,104	13,301
Accrued bonuses to employees	2,046	2,128	25,639
Accrued bonuses to directors and corporate auditors	30	26	313
Reserve for sales returns	62	68	819
Reserve for sales rebates	425	463	5,578
Reserve for sales promotion expenses	183	238	2,868
Other current liabilities	3,231	4,326	52,120
Total current liabilities	16,114	15,907	191,650
Long-Term Liabilities:			
Long-term debt (Note 8)	1,295	1,769	21,313
Deferred tax liabilities—non-current (Note 9)	168	—	—
Accrued retirement benefits to employees (Note 10)	3,719	3,830	46,145
Accrued retirement benefits to directors and corporate auditors	115	118	1,422
Asset retirement obligations	—	114	1,373
Other long-term liabilities	1,390	578	6,964
Total long-term liabilities	6,687	6,409	77,217
Total liabilities	22,801	22,316	268,867
Commitments and Contingent Liabilities (Note 12)			
Net Assets:			
Shareholders' equity:			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 56,911,185 shares and 56,911,185 shares at March 31, 2010 and 2011, respectively	24,357	24,357	293,458
Additional paid-in capital	24,254	24,254	292,217
Retained earnings	75,583	77,796	937,301
Treasury stock (2,635,681 shares and 2,637,549 shares at March 31, 2010 and 2011)	(4,336)	(4,339)	(52,277)
Total shareholders' equity	119,858	122,068	1,470,699
Accumulated other comprehensive income: Unrealized holding gains on securities	4,182	1,678	20,217
Total accumulated other comprehensive income	4,182	1,678	20,217
Minority interests in consolidated subsidiaries	181	186	2,241
Total net assets	124,221	123,932	1,493,157
Total liabilities and net assets	¥147,022	¥146,249	$1,762,036

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2009, 2010 and 2011

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2009	2010	**2011**	**2011**
Net Sales	¥64,536	¥62,179	¥64,394	$775,831
Cost of Sales	23,720	21,760	22,498	271,060
Gross profit	40,816	40,419	41,896	504,771
Selling, General and Administrative Expenses (Note 15)	34,423	33,834	35,432	426,892
Operating income	6,393	6,585	6,464	77,880
Other Income (Expenses):				
Interest and dividend income	784	653	692	8,337
Interest expense	(106)	(47)	(58)	(699)
Loss on sales or disposal of properties	(22)	(139)	(36)	(434)
Loss on sales of securities	—	(14)	—	—
Loss from investments in partnerships	(242)	(184)	(155)	(1,867)
Gain on sales of property, plant and equipment	81	3	2	24
Gain (loss) on sales of investments in securities	—	(93)	341	4,108
Income from out-of-court settlement	—	66	190	2,289
Gain (loss) on evaluation of securities	(683)	174	(44)	(530)
Loss on devaluation of investments in securities	(2,863)	(79)	(989)	(11,916)
Loss on devaluation of inventories	(12)	—	—	—
Loss on extinguishment of tie-in shares	—	(35)	—	—
Impairment loss (Note 16)	—	(329)	(2)	(24)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	(110)	(1,325)
Other, net	29	56	38	459
	(3,034)	32	(131)	(1,578)
Income before income taxes and minority interests	3,359	6,617	6,333	76,301
Income Taxes (Note 9):				
Current	1,290	2,784	2,417	29,120
Deferred	(5)	(553)	(93)	(1,120)
	1,285	2,231	2,324	28,000
Income before Minority Interests	—	—	4,009	48,301
Minority Interests	(12)	(15)	(5)	(60)
Net income	¥ 2,061	¥ 4,371	¥ 4,004	$ 48,241

	Yen			U.S. dollars (Note 3)
Per Share:				
Net income:				
Primary	¥38.0	¥80.5	¥73.8	$0.889
Fully-diluted	37.2	—	—	—
Cash dividends	30.0	32.0	34.0	0.410

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2009	2010	**2011**	**2011**
Income before Minority Interests	¥—	¥—	¥ 4,009	$ 48,301
Other Comprehensive Income				
Unrealized holding gains on securities	—	—	(2,504)	(30,168)
Total other comprehensive income (Note 11)	—	—	(2,504)	(30,168)
Comprehensive income	¥—	¥—	¥ 1,505	$ 18,133
Comprehensive income attributable to:				
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥—	¥—	¥ 1,500	$ 18,073
Minority interests	—	—	5	60

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2009, 2010 and 2011

		Millions of yen						
		Shareholders' equity				Accumulated other comprehen-sive income		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	56,838,791	¥24,271	¥24,165	¥72,408	¥(4,208)	¥1,986	¥154	¥118,775
Net income for the year	—	—	—	2,061	—	—	—	2,061
Cash dividends paid	—	—	—	(1,574)	—	—	—	(1,574)
Execution of convertible bonds	72,394	85	85	—	—	—	—	171
Treasury stock purchased (43,325 shares)	—	—	—	—	(102)	—	—	(102)
Unrealized holding gains on securities	—	—	—	—	—	(941)	—	(941)
Gain on sales of treasury stock (5,592 shares)	—	—	4	—	9	—	—	13
Increase in minority interests	—	—	—	—	—	—	12	12
Balance at March 31, 2009	56,911,185	24,357	24,254	72,895	(4,301)	1,045	166	118,415
Net income for the year	—	—	—	4,371	—	—	—	4,371
Cash dividends paid	—	—	—	(1,683)	—	—	—	(1,683)
Treasury stock purchased (18,956 shares)	—	—	—	—	(37)	—	—	(37)
Unrealized holding gains on securities	—	—	—	—	—	3,137	—	3,137
Gain on sales of treasury stock (857 shares)	—	—	0	—	2	—	—	3
Increase in minority interests	—	—	—	—	—	—	15	15
Balance at March 31, 2010	56,911,185	24,357	24,254	75,583	(4,336)	4,182	181	124,221
Net income for the year	—	—	—	4,004	—	—	—	4,004
Cash dividends paid	—	—	—	(1,791)	—	—	—	(1,791)
Treasury stock purchased (18,956 shares)	—	—	—	—	(3)	—	—	(3)
Unrealized holding gains on securities	—	—	—	—	—	(2,504)	—	(2,504)
Gain on sales of treasury stock (857 shares)	—	—	0	—	0	—	—	0
Increase in minority interests	—	—	—	—	—	—	5	5
Balance at March 31, 2011	56,911,185	¥24,357	¥24,254	¥77,796	¥(4,339)	¥1,678	¥186	¥123,932

		Thousands of U.S. dollars (Note 3)						
		Shareholders' equity				Accumulated other comprehen-sive income		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2010	56,911,185	$293,458	$292,217	$910,639	$(52,241)	$50,385	$2,181	$1,496,639
Net income for the year	—	—	—	48,241	—	—	—	48,241
Cash dividends paid	—	—	—	(21,579)	—	—	—	(21,579)
Treasury stock purchased (18,956 shares)	—	—	—	—	(36)	—	—	(36)
Unrealized holding gains on securities	—	—	—	—	—	(30,168)	—	(30,168)
Gain on sale of treasury stock (857 shares)	—	—	0	—	0	—	—	0
Increase in minority interests	—	—	—	—	—	—	60	60
Balance at March 31, 2011	56,911,185	$293,458	$292,217	$937,301	$(52,277)	$20,217	$2,241	$1,493,157

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2009, 2010 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2009	2010	2011	2011
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 3,359	¥ 6,617	¥ 6,333	$ 76,301
Depreciation and amortization	3,710	3,234	2,810	33,855
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	—	110	1,325
Increase (decrease) in allowance reserves	(1,501)	349	297	3,578
Impairment loss	—	329	2	24
Interest and dividend income	(784)	(653)	(692)	(8,337)
Interest expense	106	47	58	699
Foreign exchange loss	0	2	4	48
Loss on sales of securities	—	14	—	—
(Gain) loss on evaluation of securities	683	(174)	44	530
Gain on sales of property, plant and equipment	(81)	(3)	(2)	(24)
Loss on devaluation of investments in securities	2,863	79	989	11,916
Income from out-of-court settlement	—	(66)	(190)	(2,289)
Loss on extinguishment of tie-in shares	—	35	—	—
Loss on sale or disposal of properties	19	139	36	434
(Gain) loss on sales of investments in securities	—	93	(341)	(4,108)
Decrease (increase) in notes and accounts receivable	335	1,012	(950)	(11,446)
(Increase) decrease in inventories	(204)	1,813	(2,481)	(29,892)
(Increase) decrease in other current assets	458	(314)	1,022	12,313
Increase (decrease) in notes and accounts payable	1,346	(76)	(395)	(4,759)
Increase (decrease) in other current liabilities	881	(1,640)	1,564	18,843
Increase (decrease) in other long-term liabilities	1,378	(0)	(862)	(10,386)
Other	293	220	158	1,905
Sub total	12,861	11,057	7,514	90,530
Receipt of interest and dividends	724	621	654	7,880
Payment of interest	(105)	(47)	(59)	(711)
Out-of-court settlement received	—	66	190	2,289
Payment of income taxes	(1,901)	(1,002)	(3,610)	(43,494)
Net cash provided by operating activities	11,579	10,695	4,689	56,494
Cash Flows from Investing Activities:				
Time deposits received	(90)	(105)	(113)	(1,361)
Time deposits paid	87	122	113	1,361
Reduction of investments in specified trusts	31	—	41	494
Proceeds from sales of marketable securities	0	476	—	—
Acquisition of property and equipment	(1,016)	(1,789)	(1,728)	(20,819)
Proceeds from sales of property and equipment	121	46	12	145
Proceeds from subsidies received from the government	160	160	160	1,928
Acquisition of intangible assets	(196)	(502)	(284)	(3,422)
Acquisition of investments in securities	(827)	(1,806)	(896)	(10,795)
Proceeds from sales of investments in securities	42	379	610	7,349
Payments for loans	(254)	(308)	(229)	(2,759)
Collection of loans	296	401	399	4,807
Long-term advance payment costs	(11)	(26)	(10)	(120)
Other	2	(89)	(16)	(194)
Net cash used in investing activities	(1,655)	(3,041)	(1,941)	(23,386)
Cash Flows from Financing Activities:				
Short-term bank loans received	800	410	430	5,181
Repayment of short-term bank loans	(730)	(745)	(296)	(3,566)
Long-term debt received	501	604	596	7,181
Repayment of long-term debt	(63)	(70)	(144)	(1,735)
Repayment of finance lease obligation	(109)	(85)	(63)	(759)
Cash dividends paid by the Company	(1,574)	(1,683)	(1,791)	(21,578)
Payments on redemption of convertible notes	(11,920)	—	—	—
Treasury stock purchased	(102)	(37)	(3)	(37)
Treasury stock sale	13	2	0	0
Net cash used in financing activities	(13,184)	(1,604)	(1,271)	(15,313)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0)	(1)	(4)	(48)
Increase (Decrease) in Cash and Cash Equivalents	(3,261)	6,049	1,473	17,747
Cash and Cash Equivalents at Beginning of Year (Note 4)	45,874	42,613	48,681	586,518
Receipts of Cash and Cash Equivalents from Merger	—	19	—	—
Cash and Cash Equivalents at End of Year (Note 4)	¥42,613	¥48,681	¥50,154	$604,265

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 1
Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. (the Company) and its subsidiaries (the Companies) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instrument and Exchange Law.

Note 2
Summary of Significant Accounting Policies

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended March 31, 2010 and 2011 were six, respectively, of which three were consolidated in the respective years. The subsidiaries which have been consolidated with the Company are listed below:

Name of subsidiaries	Equity ownership, percentage	Paid-in capital, Millions of yen
Kissei Shoji Co., Ltd.	100%	¥ 50
Kissei Comtec Co., Ltd.	84%	¥334
Hashiba Technos Co., Ltd.	100%	¥ 45

(2) Consolidation and Elimination

In preparing the accompanying consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits between the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

In eliminating investments in the common stock of the consolidated subsidiaries against the underlying equity in the net assets of the subsidiaries, differences between the cost of the investments and the underlying equity in net assets were not recognized for the three years ended March 31, 2011.

(3) Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are carried at cost, cost being determined by the moving average method, as there would be no significant effect on consolidated net income if they were accounted for by the equity method.

(4) Valuation of Securities

Held-to-maturity debt securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. The cost of securities sold is primarily determined by the moving average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving average method.

Short-term investments in specified trusts are stated at market value.

(5) Inventory Valuation

Inventories are mainly valued at cost using the gross average method (the amount of Balance sheet is from the calculation of written-off based on its profitability).

(6) Method of Depreciation of Significant Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures.

Depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) acquired on or after April 1, 1998 is computed on the straight-line method.

(ii) Intangible assets (excluding lease assets)

Depreciation is computed on the straight-line method over certain periods.

Software costs for internal use are amortized over their expected useful lives (mainly 5 years) on a straight-line basis.

(iii) Lease assets

Lease assets are depreciated by the straight-line method with the useful life being the lease period and the residual value being zero.

(7) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions).

Consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services are not included in the respective revenue, cost or expenses in the accompanying consolidated statements of income.

(8) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated at the current exchange rate prevailing on the respective balance sheet dates and the resulting exchange gains or losses are recognized in the determination of net income for the relevant period.

Investments in unconsolidated subsidiaries denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

(9) Income Taxes

Income taxes of the Companies consist of corporate income tax, local inhabitants taxes and enterprise tax.

The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the basis of assets and liabilities.

(10) Allowances, Accrued Bonuses to Employees and Reserves for Certain Expenses

(i) Allowance for doubtful accounts

The Companies provide an “Allowance for doubtful accounts” based on the percentage of their own actual bad debt loss history against the balance of total receivables in addition to the amount of uncollectible receivables estimated on an individual basis.

Notes to the Consolidated Financial Statements (Continued)

(ii) Accrued bonuses to employees
"Accrued bonuses to employees" is provided for based on estimated amounts which the Companies should pay to employees in summer, for their services rendered during the six-month period ended on the balance sheet dates.
(iii) Accrued bonuses to directors and corporate auditors
To prepare for payments of bonuses to directors and corporate auditors, the Company recorded an allowance based on forecast payments in the fiscal year under review.
(iv) Reserve for sales returns
"Reserve for sales returns" is computed based on the percentage of the Companies' own actual return history in the preceding two years.
(v) Reserve for sales rebates
"Reserve for sales rebates" is provided for in an amount equivalent to the expected amount payable by the Companies to dealers in respect of the balance of accounts receivable at the balance sheet date. In estimating the amount of rebates, the Companies apply the actual rebate rates allowed in the six-month period preceding the balance sheet dates.
(vi) Reserve for sales promotion expenses
"Reserve for sales promotion expenses" is provided for in an amount which the Companies expect to pay in relation to dealers' inventories at the balance sheet dates. In estimating the amount of sales promotion expenses, the Companies apply the rate of such expenses against dealers' inventories based on the experience in the six-month period preceding the balance sheet dates.
(vii) Accrued retirement benefits to employees
To account for retirement benefits to employees, the Companies recognize accrued benefits on a consolidated basis at the end of the fiscal year based on the value of the projected benefit obligation and the estimated fair value of the plan assets.

Prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

Unrecognized net actuarial gains or losses are amortized from the following year on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).
(viii) Accrued retirement benefits to directors and corporate auditors were provided for an amount equal to the liability the Companies would have to pay if all directors and corporate auditors resigned at the balance sheet date.

(11) Net Income and Dividends per Share
Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each fiscal year appropriately adjusted for subsequent free distribution of shares (stock splits).

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

Fully-diluted net income per share is computed based on the assumption that the convertible notes were fully converted into common stock on the date of issue or at the beginning of the respective years subsequent to the issue, with appropriate adjustments for related interest expenses (net of tax).

(12) Reclassification of Accounts
Prior years' amounts have been reclassified to conform with the current year's presentation.

(13) Research and Development Expenses
Research and development expenses are recognized as an expense when incurred in accordance with the Japanese accounting standards.

(14) Application of "Accounting Standard for Asset Retirement Obligations"
Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008). The effect of this change on operating income, and net income was not material.

(15) Change in Presentation
(Consolidated Statements of Income)
Effective from the fiscal year ended March 31, 2011, the Companies have adopted the rules stipulated in Cabinet Office Ordinances Revising Some Portions of the Regulations for Financial Statements (Cabinet Office Ordinances No.5, March 24, 2009) in line with "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, December 26, 2008). The Companies newly reported "Income before minority interests."

Note 3
United States Dollar Amounts
The Companies maintain their accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥83=U.S.$1, the approximate effective rate of exchange at March 31, 2011. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥83=U.S.$1 or at any other rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Cash on hand and in banks	¥22,645	¥23,116	$278,506
Marketable securities	26,097	27,501	331,337
Time deposits with original maturities of over three months	(61)	(61)	(735)
Marketable securities with maturities of over three months	—	(402)	(4,843)
Cash and cash equivalents	¥48,681	¥50,154	$604,265

Note 5
Financial Instruments

Overview

(1) Policy for financial instruments

The Companies manage temporary cash surpluses through low-risk financial assets. Further, the Companies raise short-term capital through bank borrowings. The Companies use derivatives for the purpose of reducing risk and do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—notes and accounts receivable—are exposed to credit risk in relation to customers. In accordance with the internal policies for managing credit risk of the Companies arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Companies have business relationships.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2010 and 2011 and unrealized gains (losses) are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to *2 below).

	Millions of yen		
As of March 31, 2010	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	¥22,645	¥22,645	¥—
Notes and accounts receivable	22,063	22,063	—
Marketable securities and investments in securities	52,386	52,386	—
Total assets	¥97,094	¥97,094	¥—
Derivatives	¥ —	¥ —	¥—

	Millions of yen		
As of March 31, 2011	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	¥23,116	¥23,116	¥—
Notes and accounts receivable	23,013	23,013	—
Marketable securities and investments in securities	49,544	49,544	—
Total assets	¥95,673	¥95,673	¥—
Derivatives	¥ —	¥ —	¥—

As of March 31, 2011	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	$ 278,506	$ 278,506	$—
Notes and accounts receivable	277,265	277,265	—
Marketable securities and investments in securities	596,916	596,916	—
Total assets	$1,152,687	$1,152,687	$—
Derivatives	$ —	$ —	$—

*1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash on hand and in banks and notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investments in securities

The fair value of stocks is based on quoted market prices. For information on securities classified by holding purpose, please refer to Note 6 Securities.

*2: Financial instruments for which it is extremely difficult to determine the fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Unlisted stocks	¥1,759	¥1,011	$12,181
Investments in partnerships	922	739	8,904
Investments in unconsolidated subsidiaries	641	641	7,723

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2010 and 2011 are as follows:

As of March 31, 2010	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥22,645	¥ —	¥ —	¥—
Notes and accounts receivable	22,063	—	—	—
Marketable securities and investments in securities	26,097	666	753	274
Total	¥70,805	¥666	¥753	¥274

As of March 31, 2011	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥23,116	¥ —	¥ —	¥—
Notes and accounts receivable	23,013	—	—	—
Marketable securities and investments in securities	27,501	383	878	—
Total	¥73,630	¥383	¥878	¥—

As of March 31, 2011	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	$278,506	$ —	$ —	$—
Notes and accounts receivable	277,265	—	—	—
Marketable securities and investments in securities	331,337	4,614	10,578	—
Total	$887,108	$4,614	$10,578	$—

Note 6
Securities

The acquisition cost, carrying amount, and gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2010 and 2011 are as follows:

	Millions of yen			
	2010			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,383	¥24,514	¥8,072	¥ 941
Corporate debt securities	1,199	1,178	6	27
Other	26,739	26,694	5	50
	¥45,321	¥52,386	¥8,083	¥1,018

	Millions of yen			
	2011			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,522	¥20,401	¥4,930	¥2,051
Corporate debt securities	1,199	1,181	7	25
Other	28,039	27,962	3	79
	¥46,760	¥49,544	¥4,940	¥2,155

	Thousands of U.S. dollars			
	2011			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$211,108	$245,795	$59,398	$24,711
Corporate debt securities	14,446	14,229	84	301
Other	337,819	336,892	36	952
	$563,373	$596,916	$59,518	$25,964

Sales of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Sales proceeds	¥765	¥436	$5,253
Gross realized gains	9	341	4,108
Gross realized losses	120	—	—

Note 7
Inventories

Inventories at March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Merchandise	¥1,501	¥ 2,380	$ 28,675
Finished goods	1,913	1,541	18,566
Work-in-process	1,675	2,878	34,675
Raw materials	3,380	4,004	48,241
Supplies	61	208	2,506
	¥8,530	¥11,011	$132,663

Note 8
Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2010 and 2011 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2010 and 2011 bore interest at an average annual rate of 1.23% and 1.22%, respectively.

Long-term debt of the Companies at March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.61% due from 2010 to 2027	¥1,438	¥1,891	$22,783
Less: current maturities due within one year	(143)	(122)	(1,470)
	¥1,295	¥1,769	$21,313

The aggregate annual maturities of long-term loans outstanding at March 31, 2011 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 222	$ 2,675
2013	102	1,229
2014	92	1,108
2015 and thereafter	1,353	16,301
	¥1,769	$21,313

Note 9
Income Taxes

Reconciliation of the actual tax rate for the years ended March 31, 2009, 2010 and 2011 are as follows:

	2009	2010	2011
Effective statutory tax rate	40.4%	40.4%	40.4%
Adjustments:			
Entertainment expenses and other non-deductibles	10.0	5.5	5.9
Dividend income not taxable	(3.3)	(1.7)	(1.9)
Tax benefits due to research and development expenses	(8.3)	(11.4)	(11.7)
Per capital levy of local inhabitants taxes	2.1	1.1	1.2
Valuation allowance	(3.6)	0.8	2.2
Other	1.0	(1.0)	0.6
Actual tax rate	38.3%	33.7%	36.7%

Deferred tax assets (both current and non-current) at March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax assets:			
Accrued retirement benefits to employees	¥ 1,503	¥ 1,547	$ 18,639
Prepaid research and development expenses	1,286	1,503	18,108
Accrued bonuses to employees	827	860	10,361
Write-down of securities	195	651	7,843
Inventory assets	561	459	5,530
Payment of retirement benefits to directors and corporate auditors	603	256	3,084
Reserve for sales rebates	172	187	2,253
Accrued enterprise tax	229	139	1,675
Other	1,112	1,213	14,615
	6,488	6,815	82,108
Valuation allowance	(988)	(1,210)	(14,578)
	¥ 5,500	¥ 5,605	$ 67,530
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(2,837)	¥(1,080)	$(13,012)
Other	(14)	(26)	(313)
Deferred tax assets, net	¥ 2,649	¥ 4,499	$ 54,205

Note 10
Retirement Benefit Plans

Employees of the Companies are, under most circumstances, entitled to receive either a lump-sum payment, a pension or a combination thereof, at amounts which are determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

Reconciliation of projected benefit obligations, plan assets, funded status of the retirement benefit plans and net liability recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Projected benefit obligations	¥13,531	¥14,219	$ 171,313
Fair value of plan assets	(9,366)	(9,655)	(116,325)
Funded status of the plans	4,165	4,564	54,988
Unrecognized net actuarial difference	(2,178)	(2,167)	(26,108)
Unamortized prior service cost	1,732	1,433	17,265
Net liability recognized	¥ 3,719	¥ 3,830	$ 46,145

The net periodic retirement benefit cost for the years ended March 31, 2009, 2010 and 2011 included the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	**2011**	**2011**
Service cost	¥ 677	¥ 666	¥ 683	$ 8,229
Interest cost	311	321	336	4,048
Expected return on plan assets	(226)	(205)	(234)	(2,819)
Amortization of difference caused from actuarial calculation	379	506	444	5,349
Amortization of prior service cost	(299)	(299)	(299)	(3,602)
Additional payment of retirement costs	28	7	27	325
	¥ 870	¥ 996	¥ 957	$11,530

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers the employees of the Companies was 2.5% as of March 31, 2009, 2010 and 2011. The rate of expected return on plan assets was 2.5% as of March 31, 2009, 2010 and 2011. Attribution of retirement benefits to each year of service of the employees is based on the “benefit / years-of-service” approach, whereby the same amount of benefits is attributed to each year.

Note 11
Other Comprehensive Income

The following table presents components of other comprehensive income for the year ended March 31,2010:

As of March 31, 2010	Millions of yen
Unrealized holding gains on securities	¥3,137
Total other comprehensive income	3,137
Comprehensive income attributable to:	
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥7,508
Minority interests	15

Note 12
Commitments and Contingent Liabilities

Contingent Liabilities

The Companies had contingent liabilities arising from notes receivable endorsed in the ordinary course of business in amount of ¥41 million ($494 thousand) at March 31, 2011.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥17 million ($205 thousand) at March 31, 2011.

Note 13
Segment Information

Effective from the fiscal year ended March 31, 2011, the Companies have adopted new accounting standards for disclosures about segments of an enterprise and related information. The effect of this change was not material.

Notes to the Consolidated Financial Statements (Continued)

(1) Overview of business segments

The business segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess their performance.

As Companies' primary business is the pharmaceutical business, its one business segment is the ethical pharmaceuticals segment.

(2) Method of calculating sales and profit (loss), identifiable assets / liabilities and other items by business segment

The accounting procedure for business segments reported is that same as that described in Note 2 Summary of Significant Accounting Policies.

Profit by business segment reported is calculated based on operating income.

Intersegment sales are recognized based on the price in arms-lengths transaction.

(3) Information on sales and profit (loss), identifiable assets / liabilities and other items by business segment

	Millions of yen			
	2010			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to outside customers	¥ 53,708	¥ 53,708	¥ 8,471	¥ 62,179
Intersegment sales and transfers	1	1	5,378	5,379
Total	¥ 53,709	¥ 53,709	¥13,849	¥ 67,558
Segment profit	¥ 6,100	¥ 6,100	¥ 383	¥ 6,483
Segment assets	¥140,313	¥140,313	¥ 9,058	¥149,371
Other items				
Depreciation	¥ 2,962	¥ 2,962	¥ 453	¥ 3,415
Increase of property, plant and equipment and intangible assets	2,414	2,414	203	2,617

* The Other segment is not a reporting segment, which includes sales of materials and other goods, information solution services, construction subcontracting, facilities and equipment management.

	Millions of yen			
	2011			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to outside customers	¥ 55,354	¥ 55,354	¥ 9,040	¥ 64,394
Intersegment sales and transfers	2	2	4,161	4,163
Total	¥ 55,356	¥ 55,356	¥13,201	¥ 68,557
Segment profit	¥ 6,221	¥ 6,221	¥ 118	¥ 6,339
Segment assets	¥138,937	¥138,937	¥ 9,010	¥147,947
Other items				
Depreciation	¥ 2,535	¥ 2,535	¥ 412	¥ 2,947
Increase of property, plant and equipment and intangible assets	1,508	1,508	411	1,919

* The Other segment is not a reporting segment, which includes sales of materials and other goods, information solution services, construction subcontracting, facilities and equipment management.

	Thousands of U.S. dollars			
	2011			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to outside customers	$ 666,916	$ 666,916	$108,915	$ 775,831
Intersegment sales and transfers	24	24	50,133	50,157
Total	$ 666,940	$ 666,940	$159,048	$ 825,988
Segment profit	$ 74,952	$ 74,952	$ 1,422	$ 76,374
Segment assets	$1,673,940	$1,673,940	$108,554	$1,782,494
Other items				
Depreciation	$ 30,542	$ 30,542	$ 4,964	$ 35,506
Increase of property, plant and equipment and intangible assets	18,169	18,169	4,952	23,121

* The Other segment is not a reporting segment, which includes sales of materials and other goods, information solution services, construction subcontracting, facilities and equipment management.

(4) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Net sales			
Total of business segments	¥ 53,709	¥ 55,356	$ 666,940
Other business sales	13,849	13,201	159,048
Elimination of intersegment transactions	(5,379)	(4,163)	(50,157)
Reported on consolidated financial statements	¥ 62,179	¥ 64,394	$ 775,831
Segment profit			
Total of business segments	¥ 6,100	¥ 6,221	$ 74,952
Other business profit	383	118	1,422
Elimination of intersegment transactions	73	53	639
Adjustments to depreciable assets	28	63	759
Other adjustments	1	9	108
Reported on consolidated financial statements	¥ 6,585	¥ 6,464	$ 77,880
Segment assets			
Total of business segments	¥140,313	¥138,937	$1,673,940
Assets classified as "other"	9,058	9,010	108,554
Elimination of intersegment transactions	(2,349)	(1,698)	(20,458)
Reported on consolidated financial statements	¥147,022	¥146,249	$1,762,036

(5) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Depreciation			
Total of business segments	¥2,962	¥2,535	$30,542
Other segments	453	412	4,964
Adjustments	(181)	(137)	(1,651)
Reported on consolidated financial statements	¥3,234	¥2,810	$33,855
Increase of property, plant and equipment and intangible assets			
Total of business segments	¥2,414	¥1,508	$18,169
Other segments	203	411	4,952
Adjustments	(44)	(198)	(2,386)
Reported on consolidated financial statements	¥2,573	¥1,721	$20,735

Note 14
Business Transactions with Parties Related to the Company

Fiscal 2010 (April 1, 2009–March 31, 2010)

Executives, main individual stockholders, etc.

No corresponding items

Fiscal 2011 (April 1, 2010–March 31, 2011)

Executives, main individual stockholders, etc.

No corresponding items

Notes to the Consolidated Financial Statements (Continued)

Note 15
Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2009, 2010 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	**2011**	**2011**
Advertising and sales promotion expenses	¥ 3,668	¥ 3,897	¥ 4,097	$ 49,361
Payroll costs	8,753	8,939	9,148	110,217
Research and development expenses	11,557	10,786	12,037	145,024
Traveling expenses	1,938	1,792	1,848	22,265
Depreciation	1,494	1,381	1,196	14,410
Other	7,013	7,039	7,106	85,615
	¥34,423	¥33,834	¥35,432	$426,892

Note 16
Impairment Loss

The main contents of impairment loss for the years ended March 31, 2009, 2010 and 2011 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2010	**2011**	**2011**
Buildings and structures	¥ —	¥313	¥1	$12
Land	—	16	1	12
	¥ —	¥329	¥2	$24

The Companies base its grouping for assessing impairment losses on minimum cash-generating unit. However, the Companies determine whether an asset is impaired on an individual asset basis when the asset is deemed idle or if it is scheduled to be disposed of.

Further, the recoverable amount of assets scheduled for demolition is stated as zero. The recoverable amount of an asset is estimated based on the net amount that asset could be sold (net selling amount) for land and buildings, the net selling amount is estimated by appraisal amount based on real estate appraisal standards.

Note 17
Subsequent Events

Resolution on acquisition of treasury stock

The acquisition of treasury stock was approved at a meeting of the Company's Board of Directors held on May 10, 2011 to facilitate the implementation of flexible capital measures that reflect changes in business conditions.

Type of shares acquired: Common stock of the Company

Number of shares: Limited to 2,800,000 shares

Cost of shares acquisitions: Limited to ¥5,000 million (US$60,241 thousand)

Period of acquisitions: From May 11, 2011 to March 30, 2012

Report of Independent Auditors

ERNST & YOUNG

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel.: +81 3 3503 1100
Fax: +81 3 3503 1197

Report of Independent Auditors

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kissei Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 29, 2010

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Board of Directors

As of June 29, 2011

President and Chief Executive Officer:
Mutsuo Kanzawa

Executive Vice President:
Yukiyoshi Ajisawa

Executive Managing Directors:
Keiichiro Yanagisawa
Seiichiro Furihata

Managing Directors:
Sukio Adachi
Masuo Akahane

Directors:
Imao Mikoshiba
Hiroe Sato
Nobuo Shibata
Masaki Morozumi
Yasunori Nakata
Yoshio Furihata
Yasuhiro Omori
Masayuki Isaji

Auditors:
Tetsuo Yabana
Makoto Yonekubo
Hiroshi Ueno
Kando Nakagawa

Corporate Data

As of June 29, 2011

Head Office:
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Telephone: +81-263-25-9081

Tokyo Head Office:
8-9, Nihonbashi-Muromachi 1-chome, Chuo-ku,
Tokyo 103-0022, Japan
Telephone: +81-3-3279-2761

Tokyo Head Office (Koishikawa):
1-3, Koishikawa 3-chome, Bunkyo-ku, Tokyo 112-0002, Japan
Telephone: +81-3-5684-3530

Date of Establishment:
August 9, 1946

Capital:
¥24,357 million (As of March 31, 2011)

Number of Employees:
1,571 (Non-consolidated) (As of March 31, 2011)

Central Research Laboratories:
Azumino City, Nagano

Toxicological Laboratories:
Azumino City, Nagano

Joetsu Chemical Laboratories:
Joetsu City, Niigata

Pharmaceutical Laboratories:
Azumino City, Nagano

Plants:
Matsumoto City, Shiojiri City

Distribution Center:
Shiojiri City

Information Center:
Matsumoto City

Nutritional Business Center:
Shiojiri City

Branches:
Sapporo, Sendai, Kan-etsu, Tokyo, Yokohama, Matsumoto, Nagoya, Kyoto, Osaka, Takamatsu, Hiroshima, Fukuoka

Offices:
Hakodate, Asahikawa, Yamagata, Morioka, Akita, Aomori, Koriyama-first • second, Saitama-third • fourth, Takasaki, Utsunomiya, Mito • Tsukuba, Niigata-first • second, Jonan, Tama-first • second, Chiba-first • second, Matsudo, Atsugi-first • second, Yamanashi, Okazaki, Gifu, Mie, Shizuoka, Hamamatsu, Shiga, Kanazawa, Toyama, Kita Osaka, Nara, Sakai, Wakayama, Kobe-first • second, Himeji, Takamatsu-third, Fukuyama, Yamaguchi, Okayama, Yonago, Kitakyushu, Oita, Nagasaki, Kumamoto, Kagoshima, Miyazaki, Okinawa

Subsidiaries:
Consolidated Subsidiaries
Kissei Shoji Co., Ltd.
Kissei Comtec Co., Ltd.
Hashiba Technos Co., Ltd.
Non-consolidated Subsidiaries
Kissei America, Inc.
Mitsui Kanko Co., Ltd.
Planet Computer Technology (BeiJing) Co., Ltd.

Investor Information

As of March 31, 2011

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

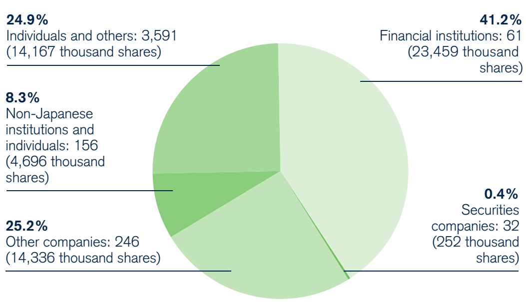
4,086 (Year-on-year change: 926 increase)

Principal Shareholders:

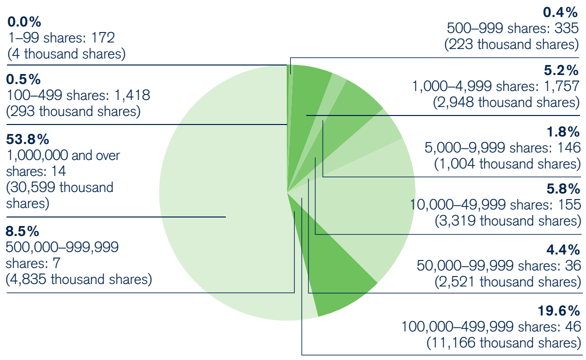
	Number of shares held (Hundreds)	Voting right (%)
The Dai-ichi Mutual Life Insurance Company	34,180	6.3
Kanzawa Limited	31,783	5.9
Kunio Kanzawa	27,031	5.0
The Hachijuni Bank, Ltd.	26,709	4.9
Mizuho Bank, Ltd.	26,706	4.9
Japan Trustee Services Bank, Ltd. (Trust account)	25,141	4.6
Japan Trustee Services Bank, Ltd. (Trust account 9)	21,020	3.9
The Master Trust Bank of Japan, Ltd. (Trust account)	20,535	3.8
Trust & Custody Services Bank, Ltd. (Pension trust account)	16,190	3.0
Mutsuo Kanzawa	15,082	2.8

Notes: 1. The Company holds 2,637,549 shares of treasury stock but is not included in the above list of major shareholders. Further, the calculation of voting right percentages is based on total shares issued net of treasury stock.
2. In April 2010, the Company lowered the unit of investment for shareholders and changed the unit amount of stocks from 1,000 shares to 100 shares.

Composition of Shareholders:
By Category



By Number of Shares Held



KISSEI PHARMACEUTICAL CO., LTD.

19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
URL: http://www.kissei.co.jp/

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SGS-COC-003473
© 1996 Forest Stewardship Council
FSC

PRINTED WITH SOY INK
Trademark of American Soybean Association

Waterless Printing Naturally

In consideration of environmental concerns, this report is printed on FSC-certified paper using the waterless printing process and soy ink.

Printed in Japan