KISSEI

ANNUAL REPORT 2012

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 domestic sales of Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH); and Salagen®, a therapeutic agent for patients with dry mouth, as well as Epoetin Alfa BS Injection [JCR], a treatment for renal anemia launched in May 2010. Further, in July 2011, we launched Glubes® Combination Tablet, an improving agent for postprandial hyperglycemia that is a combination of Kissei priority drugs mitiglinide (brand name in Japan: Glufast®) and voglibose (brand name in Japan: Basen®). Overseas, we are advancing out-licensing activities for new drug discovery themes, and silodosin (brand name in Japan: Urief®) is being sold in more countries and is seeing higher sales due to the efforts of licensing partners.

The Company is constantly striving to develop new drugs and therefore focuses management resources into its drug discover efforts. In fiscal 2012, the year ended March 31, 2012, the Company commenced clinical trials for two new drug discovery themes. Going forward, we will continue to strengthen our R&D capabilities and work to contribute to the health of people around the world through innovative drug products.

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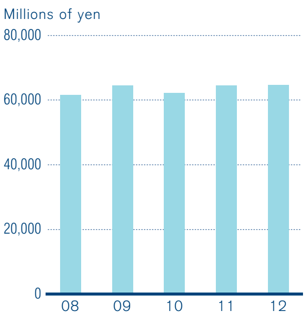
FINANCIAL HIGHLIGHTS

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

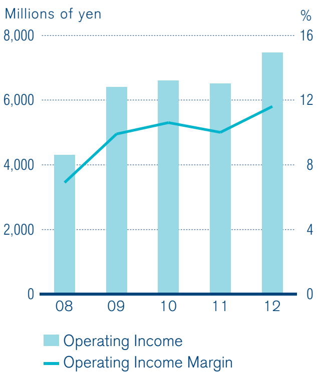
	Millions of yen, except per share data						Thousands of U.S. dollars, except per share data[1]
	2007	2008	2009	2010	2011	**2012**	**2012**
For the Year:							
Net Sales	¥64,216	¥61,481	¥64,536	¥62,179	¥64,394	**¥64,619**	**$788,037**
R&D Expenses	10,473	11,361	11,557	10,786	12,037	**10,043**	**122,476**
Capital Investment	3,954	2,460	1,414	2,037	1,322	**1,893**	**23,085**
Operating Income	2,646	4,270	6,393	6,585	6,464	**7,466**	**91,049**
Net Income	1,570	2,326	2,061	4,371	4,004	**4,770**	**58,171**
At Year-End:							
Total Assets	¥163,584	¥150,566	¥140,181	¥147,022	¥146,249	**¥144,385**	**$1,760,793**
Total Net Assets	123,232	118,775	118,415	124,221	123,932	**123,386**	**1,504,707**
Per Share (Yen and U.S. Dollars):							
Net Income[2]:							
Primary	¥28.9	¥42.9	¥38.0	¥80.5	¥73.8	**¥91.4**	**$1.115**
Fully-Diluted	27.1	40.2	37.2	—	—	**—**	**—**
Cash Dividends	28.0	28.0	30.0	32.0	34.0	**36.0**	**0.439**
Key Ratios (%):							
Operating Income Margin	4.1	6.9	9.9	10.6	10.0	**11.6**	
Return on Assets (ROA)	0.9	1.5	1.4	3.0	4.7	**5.7**	
Return on Equity (ROE)	1.3	1.9	1.7	3.6	3.2	**3.9**	
Shareholders' Equity Ratio	75.3	78.8	84.4	84.4	84.6	**85.3**	
Number of Employees	1,777	1,844	1,870	1,920	1,911	**1,893**	

1 U.S. dollar amounts are translated at the rate of ¥82=U.S.$1, the approximate effective rate of exchange at March 31, 2012.
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.

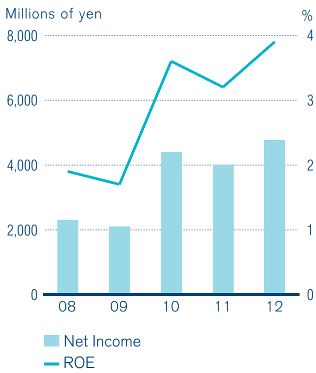
Net Sales



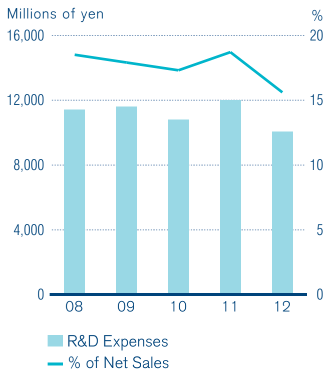
Operating Income / Operating Income Margin



Net Income / ROE



R&D Expenses



Mutsuo Kanzawa
President and Chief Executive Officer

REVIEW OF OPERATIONS

Overview of Operations in the Year Under Review

In fiscal 2012, the year ended March 31, 2012, uncertainty about the economic outlook for Japan persisted. This uncertainty resulted from the global economic downturn—due to Europe's deepening debt problems and a stagnating U.S. economy—and the prolonged strength of the yen, which counteracted signs of a steady pick-up in economic activities from the sluggishness that followed the Great East Japan Earthquake.

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. Moreover, competition among companies intensified in Japan and overseas. Further, competition remained fierce in the information services, merchandising, and construction industries because of stagnant domestic demand. This reflected concern over economic deterioration due to deceleration of economies overseas and yen appreciation, cautious IT investment and capital investment among companies, and continued flat consumer spending.

Amid these conditions, our business results for fiscal 2012 were as seen in the following table.

Consolidated Performance

	Millions of yen		%
	Results for year ended March 2011	Results for year ended March 2012	Change
Net Sales	¥64,394	¥64,619	0.3
Operating Income	6,464	7,466	15.5
Net Income	4,004	4,770	19.1

In the pharmaceutical business, net sales edged up 0.3% year on year, to ¥55,503 million. We launched Glubes® Combination Tablet, a rapid-acting insulin secretagogue and an improving agent for post-prandial hyperglycemia (mitiglinide (brand name in Japan: Glufast®) and voglibose (brand name in Japan: Basen®) combination tablet, development code: KMV-0207) on July 22, after receiving approval for manufacture and marketing in April 2011 and subsequent National Health Insurance (NHI) price listing. In addition, we concentrated efforts on cultivating such new products as a treatment of renal anemia, Epoetin Alfa BS Injection [JCR], launched in May 2010. At the same time, we actively provided medical specialists with information on our existing products. However, we saw licensing fee royalties decline, centered on milestone revenue from the licensing of R&D themes. Meanwhile, export sales are rising steadily because in fiscal 2012 our European licensing partner for silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with BPH, Recordati, of Italy, continued preparing for and proceeding with a series of launches in European countries, which began with launching silodosin as UROREC® in Germany in June 2010. Also, Kissei concluded an agreement with Pfizer Japan Inc. by which from April 1, 2012, it assumed from Kissei the marketing of the Parkinson's disease treatment Cabaser®, which Pfizer Japan manufactures.

In other businesses, net sales were up 0.8% year on year, to ¥9,116 million, thanks to higher revenues from information services and merchandising, which offset a decline in revenues from construction projects.

As for income, operating income rose because lower selling, general and administrative expenses, mainly R&D expenses, counteracted higher cost of sales as a percentage of net sales due to the decline in licensing fee royalties in the pharmaceutical business. Further, net income was up due to a decrease in such other expenses as loss on devaluation of investments in securities recognized in the previous fiscal year. In addition, deferred income taxes rose due to a reversal of deferred tax assets, which accompanied a lowering of the effective tax rate as a result of an amendment of the tax system in fiscal 2012.

In R&D, we continue to focus on advancing respective themes forward into their next development stage. Further, in August 2011, Kissei concluded a licensing agreement for Japan to develop and market Dexrazoxane (brand name, development code: KDX-0811) for the treatment of anthracycline extravasation with SpePharm Holding B.V. of the Netherlands. The Ministry of Health, Labour and Welfare, through its "Study Group on Unapproved and Off-label Drugs of High Medical Need," evaluated Dexrazoxane as an agent for which there is significant medical need and therefore sought companies to develop it. Accordingly, we began clinical trials from December.

OUTLOOK FOR THE CURRENT FISCAL YEAR

In Japan's pharmaceutical market, business conditions will likely remain tough due to the implementation of NHI price revisions in April 2012 and the stepping up of the Japanese government's policy of promoting the use of generic drugs in relation to revisions to medical treatment fees. Other businesses are also likely to continue facing challenging conditions in their industries due to heightening uncertainty about the economic outlook.

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.

Consolidated Performance Forecast

	Millions of yen		%
	Forecast for year ending March 2013	Results for year ended March 2012	Change
Net Sales	¥61,300	¥64,619	(5.1)
Operating Income	5,700	7,466	(23.6)
Net Income	4,200	4,770	(11.9)

Net Sales

In the pharmaceutical business, although we will continue cultivating Urief®, Glubes®, and Epoetin Alfa BS Injection [JCR], we expect revenues to decline due to the April 2012 NHI price revisions and the transfer of the marketing of Cabaser®. As for other businesses, we also expect that worsening business conditions will lead to lower revenues.

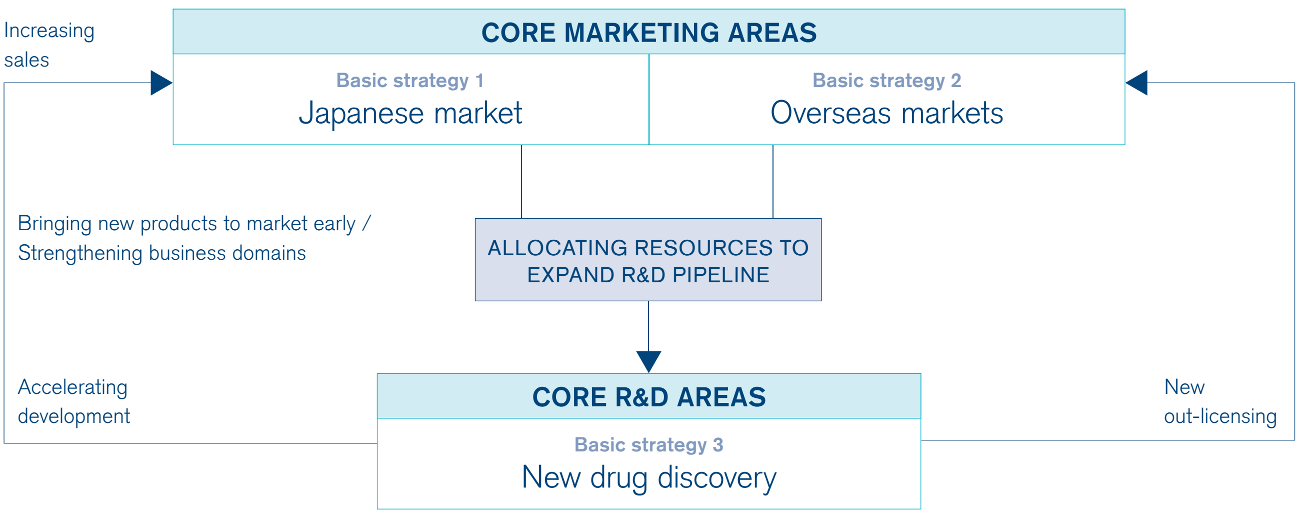
Income

In the pharmaceutical business, we anticipate decreases in operating income and net income as a result of continued investment in R&D and product cultivation and lower revenues. Other businesses are also likely to record declines in earnings due to lower revenues. Further, we do not anticipate any noteworthy other income or expenses.

MANAGEMENT STRATEGY

Kissei is an R&D-oriented pharmaceutical company. As such, we aim 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 our medium-term management plan, CORE 3.

"CORE 3" Medium-Term Management Plan



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 licensing 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

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 take on these challenges, we would like to ask for the continued understanding and support of our stakeholders.

June 2012

Mutsuo Kanzawa
President and Chief Executive Officer

MAIN PHARMACEUTICAL PRODUCTS

(Generic name in parentheses)

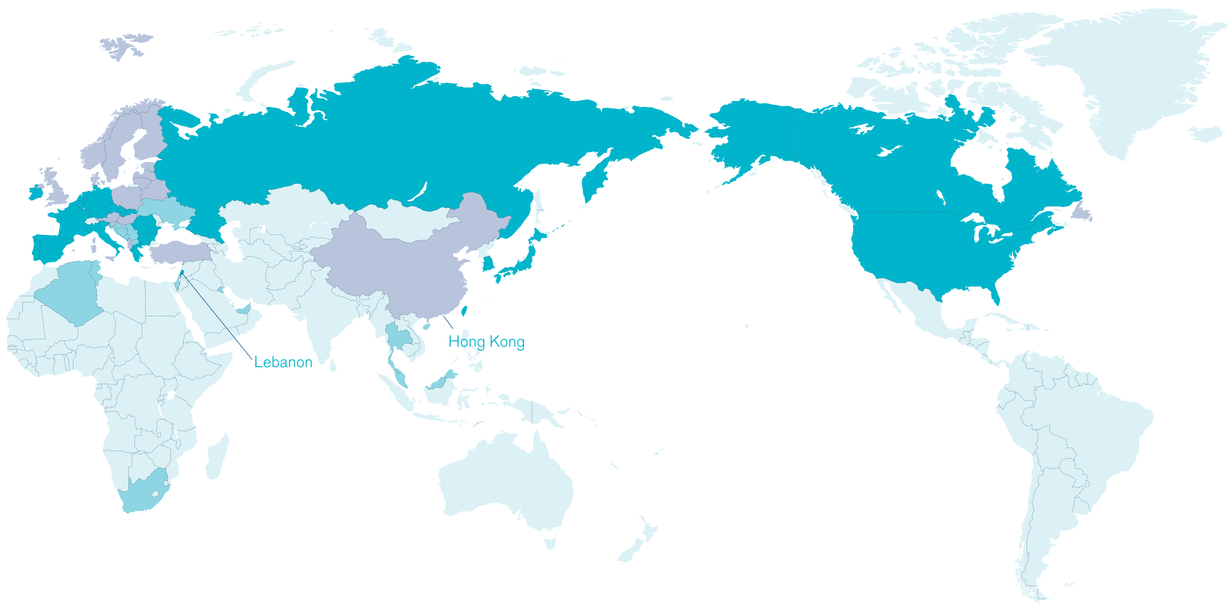
Urief® (silodosin): dysuria associated with benign prostatic hyperplasia (BPH)
Glufast® (mitiglinide): type 2 diabetes
Glubes® (mitiglinide/voglibose): type 2 diabetes
Salagen® (pilocarpine): dry mouth
Epoetin Alfa BS Injection [JCR] (epoetin kappa): renal anemia
Bezatol® (bezafibrate): hyperlipidemia
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

THE OVERSEAS DEVELOPMENT OF SILODOSIN

As of June 2012



Launched: Japan, the U.S., Canada, South Korea, Taiwan, Lebanon, Germany, Ireland, Spain, France, Portugal, Romania, Belgium, Italy, Greece, the Netherlands, Russia, Czech Republic, Slovakia and Bulgaria

Approval acquired but not yet launched: 14 of the 27 EU member countries (already launched in the other 13) and seven other countries: Liechtenstein, Norway, Iceland, Turkey, Belarus, Albania and China

Filed an NDA but not yet approved: Hong Kong, Singapore, Thailand, Malaysia, South Africa, Tunisia, Algeria, Kuwait, Israel, Ukraine, Croatia, Bosnia-Herzegovina, Serbia, Bahrain, Montenegro, Macedonia, Kosovo and United Arab Emirates

Silodosin, a treatment for dysuria, has earned a strong reputation around the world for its superior ability to relieve symptoms shortly after application. This drug was launched in the United States in April 2009 by licensing partner Watson Pharmaceuticals, Inc., under the brand name Rapaflo®. In fall 2011, this company received additional licensing rights to develop and sell this drug in 16 countries throughout Central and South America. Further, the drug was introduced into Germany in June 2010 under the brand name UROREC® by licensing partner Recordati, of Italy. Recordati has since worked to gradually expand the range of countries in which this drug is sold, focusing primarily on Europe, and the drug has seen sales growth accordingly. Silodosin has now been launched in 20 countries, including Japan, and is thus contributing to improving the quality of life of patients around the world.

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 pages 2 and 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 ¥10,043 million, or 15.5% 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 ¥9,958 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 ¥85 million.

R&D Pipeline (In-House)
As of June 2012

Development Stage	Product Name / Generic Name / Development Code	Development Classification	Therapeutic Target
Phase III	Glufast® / Mitiglinide	Kissei	Type 2 diabetes mellitus - Combination medication with DPP-4 (Dipeptidyl peptidase-4) inhibitors or biguanides - - Additional indication -
Phase II	KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Product mimetic of TRH action -
	Ozagrel / KCT-0809	Kissei / Co-development with Teika (Japan)	Dry-eye - Restoration of corneal and conjunctival epithelium -
	KLH-2109	Kissei	Endometriosis / uterine fibroids - GnRH antagonist -
	Urief® / Silodosin	Kissei	Urolithiasis - Alpha 1A antagonist - - Additional indication -
	PA21	In-licensed / Vifor Pharma (Switzerland)	Hyperphosphatemia in hemodialysis patients - Phosphate binder-
	KWA-0711	Kissei	Chronic idiopathic constipation - Inhibitor of water absorption in the gastrointestinal tract -
Phase I / II	YS110	In-licensed / Y's AC, University of Tokyo, JST (Japan)	Malignant mesothelioma - Humanized anti-CD26 monoclonal antibody -
	Dexrazoxane / KDX-0811	In-licensed / SpePharm Holding B.V. (the Netherlands)	Anthracycline extravasation - Catalytic inhibitor of topoisomerase II -
Phase I	Salagen® / Pilocarpine	Kissei	Dry mouth - Additional dosage form: Granule form -
	KUX-1151	Kissei	Gout and hyperuricemia - Decrease formation of uric acid - - Uricosuric effect -

R&D Pipeline (Out-Licensing)
As of June 2012

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

1 Launched in Thailand, approved in the Philippines and NDA in 1 country
2 NDA in 3 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.

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

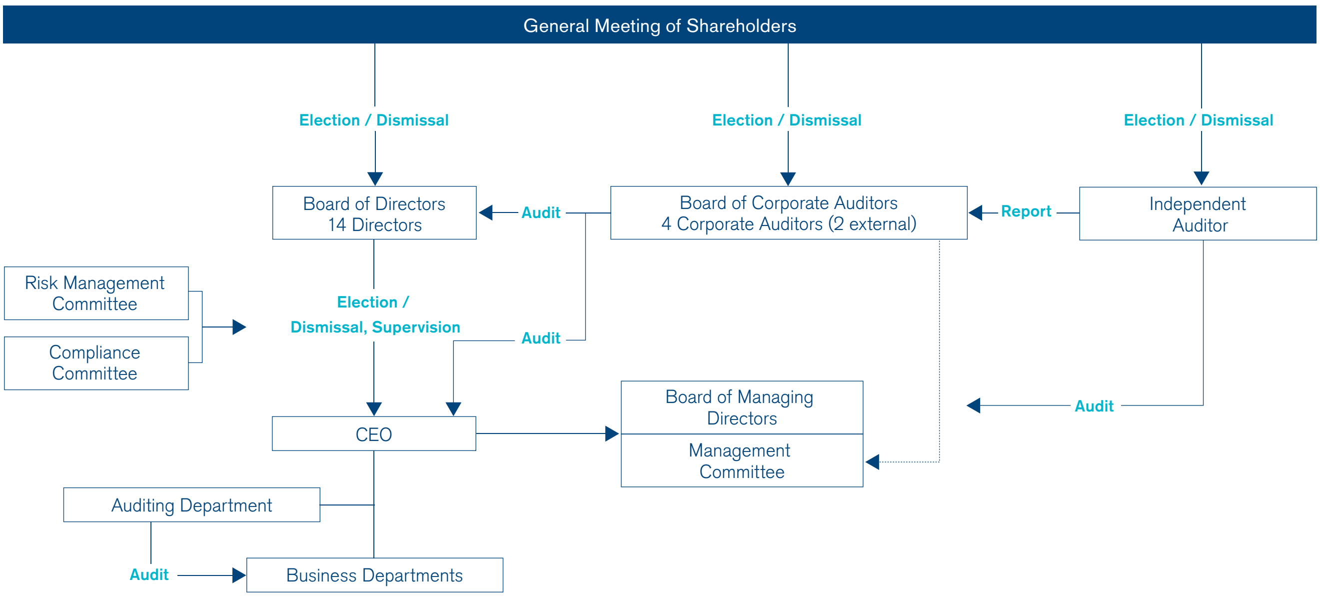
Kissei has established the Auditing Department, an independent body that reports directly to the president. This five-member body conducts internal audits for each department and all internal systems in the Company based on the yearly auditing plan, ensuring that all departments carry out business activities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



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 two certified public accountants that execute the audit of the Company are partners of Ernst & Young ShinNihon LLC. Also, six certified public accountants engage in assisting the audit and further nine 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 the 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 the 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 also carries out compliance training for all employees and has also established a helpline as an additional consultation and contact system for compliance issues, such as compliance violations, sexual harassment, and misuses of power.

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.

Shared among the employees of the Company and the Group is the wish that those affected by the Great East Japan Earthquake, which occurred on March 11, 2011, and devastated East Japan and the northern regions of Nagano Prefecture (particularly Sakae-mura), will be able to return to their former lives and that the damage in these areas will be repaired as quickly as possible. To help lend speed to the recovery effort, we have collected monetary contributions from employees and donated these to the Japanese Red Cross Society.

One example of the Company's social contribution activities is the Saito Kinen Festival, a global music festival held each fall in Matsumoto City, Nagano Prefecture, of which we are the main sponsor. As for initiatives in the medical field, 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 and also holds drug discovery courses in collaboration with the university.

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.

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.

Kissei is recognized for its efforts to develop an employment environment that is conducive to employees striving to balance their home life with their work life, such as those raising children, and was awarded certification as a standards-compliant general business owner 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.

In accordance with this policy, we are working to reduce energy usage and CO_2 emissions throughout the organization. Through these efforts, we have successfully reduced energy by 0.9% in comparison to fiscal 2010's levels and have also lowered CO_2 emissions by 1.4% in comparison to the same levels. Further, with the aim of preventing global warming and reducing energy usage, Kissei encourages its employees to practice "Cool Biz," dressing cooler in the summer to alleviate the need for air conditioning, during the six-month period from May to October and "Warm Biz," likewise dressing warmer in the winter to reduce heater usage, during the five-month period from November to March.

Moreover, 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, 2012, total assets stood at ¥144,385 million, down ¥1,864 million from the previous fiscal year-end. Total current assets decreased ¥3,063 million, to ¥86,789 million, due to declines in cash on hand and in banks, marketable securities, and inventories, which offset a rise in notes and accounts receivable. Total non-current assets increased ¥1,199 million, to ¥57,596 million, following rises in investments in securities due to higher market values as well as in long-term prepaid expenses, which outweighed declines related to depreciation.

Total liabilities amounted to ¥20,999 million at fiscal year-end, down ¥1,317 million from the previous fiscal year-end. Total current liabilities stood at ¥14,662 million, down ¥1,245 million, mainly due to decreases in notes and accounts payable, and payables and advances included in other current liabilities, which counteracted the rise in income taxes payable. Total long-term liabilities were down ¥72 million, to ¥6,337 million, principally due to lower long-term debt, which absorbed an increase in accrued retirement benefits to employees.

Total net assets amounted to ¥123,386 million at fiscal year-end, declining ¥546 million from the previous fiscal year-end. This was primarily due to a decrease in total shareholders' equity following the acquisition of treasury stock, which cancelled higher retained earnings and unrealized holding gains on securities.

As a result, the shareholders' equity ratio was 85.3%, up from 84.6% at the previous fiscal year-end.

FINANCIAL RESULTS

Net sales increased 0.3% year on year, to ¥64,619 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were up 0.3%, or ¥149 million, to ¥55,503 million. In this segment, sales of existing products declined due to the effects of competition from generic drugs. However, revenues from Urief® and Epoetin Alfa BS Injection [JCR] were up, as were exports of drug substances. In addition, Glubes® Combination Tablet, an improving agent for postprandial hyperglycemia that was launched in July 2011, also contributed to higher sales. In other businesses, segment sales were up 0.8%, or ¥76 million, to ¥9,116 million. This increase can be largely attributed to higher revenues from information services and merchandising, which offset lower revenues from construction projects.

Cost of sales as a percentage of net sales showed an overall increase of 0.5 percentage point. In the pharmaceutical business, this ratio was up 0.7 percentage point due to changes in the breakdown of segment sales and a decrease in licensing fee royalties received, while it was down 1.1 percentage points in other businesses following a lower percentage of sales from construction projects. As a result, gross profit was down 0.3% year on year, or ¥125 million, to ¥41,771 million.

In selling, general and administrative expenses, R&D expenses decreased due to lower license-related expenses as well as a decline in prepaid expenses associated with R&D outsourcing. Accordingly, operating income increased 15.5% year on year, or ¥1,002 million, to ¥7,466 million.

In other income (expenses), the Company posted a gain on evaluation of securities for the fiscal year under review, compared with the loss on evaluation of securities recorded in the previous fiscal year. Further, gain on sales of investments in securities was not recorded and loss on devaluation of investments in securities decreased. As a result, other income was ¥608 million, compared with other expenses of ¥131 million in the previous fiscal year.

Due to the above, income before income taxes and minority interests rose 27.5% year on year, or ¥1,741 million, to ¥8,074 million, and net income increased 19.1%, or ¥766 million, to ¥4,770 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. In the fiscal year under review, the Company acquired 2.8 million shares of treasury stock.

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 ¥18.0 per share, which when combined with an interim cash dividend of ¥18.0 per share gave a full-year cash dividend of ¥36.0 per share.

For the current fiscal year, ending March 31, 2013, the Group plans to pay an interim cash dividend of ¥19.0 per share and a year-end cash dividend of ¥19.0 per share, giving a full-year cash dividend of ¥38.0 per share.

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2012	2011	2012
Current Assets:			
Cash on hand and in banks (Notes 4 and 5)	¥ 19,234	¥ 23,116	$ 234,561
Notes and accounts receivable (Note 5)	26,059	23,013	317,793
Marketable securities (Notes 4, 5 and 6)	26,600	27,501	324,390
Inventories (Note 7)	9,964	11,011	121,512
Deferred tax assets—current (Note 9)	2,005	2,328	24,451
Other current assets	2,929	2,900	35,720
Allowance for doubtful accounts	(2)	(17)	(24)
Total current assets	86,789	89,852	1,058,403
Property, Plant and Equipment:			
Buildings and structures	36,650	36,272	446,951
Less: accumulated depreciation	(25,473)	(24,652)	(310,646)
Buildings and structures, net	11,177	11,620	136,305
Land	13,192	13,367	160,878
Construction in progress	41	72	500
Other	14,267	13,738	173,988
Less: accumulated depreciation	(11,872)	(11,701)	(144,781)
Other, net	2,395	2,037	29,207
Total property, plant and equipment	26,805	27,096	326,890
Intangible Assets:			
Software for internal use	881	1,188	10,744
Other	71	191	866
Total intangible assets	952	1,379	11,610
Investments and Other Assets:			
Investments in securities (Notes 5 and 6)	26,394	24,434	321,878
Leasehold deposits and guarantee deposits	402	414	4,902
Deferred tax assets—non-current (Note 9)	1,465	2,171	17,866
Other	1,578	903	19,244
Total investments and other assets	29,839	27,922	363,890
Total assets	¥144,385	¥146,249	$1,760,793

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 3) 2012
Current Liabilities:			
Notes and accounts payable	¥ 4,499	¥ 5,228	$ 54,866
Short-term bank loans (Note 8)	1,880	2,204	22,927
Current portion of long-term debt (Note 8)	222	122	2,707
Income taxes payable (Note 9)	1,723	1,104	21,012
Accrued bonuses to employees	2,016	2,128	24,585
Accrued bonuses to directors and corporate auditors	23	26	280
Reserve for sales returns	17	68	207
Reserve for sales rebates	448	463	5,463
Reserve for sales promotion expenses	224	238	2,732
Other current liabilities	3,610	4,326	44,024
Total current liabilities	14,662	15,907	178,805
Long-Term Liabilities:			
Long-term debt (Note 8)	1,547	1,769	18,866
Accrued retirement benefits to employees (Note 10)	3,990	3,830	48,659
Accrued retirement benefits to directors and corporate auditors	131	118	1,598
Asset retirement obligations	99	114	1,207
Other long-term liabilities	570	578	6,951
Total long-term liabilities	6,337	6,409	77,281
Total liabilities	20,999	22,316	256,086
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, 2011 and 2012, respectively	24,357	24,357	297,037
Additional paid-in capital	24,254	24,254	295,780
Retained earnings	80,717	77,796	984,354
Treasury stock (2,637,549 shares and 5,438,203 shares at March 31, 2011 and 2012)	(8,680)	(4,339)	(105,854)
Total shareholders' equity	120,648	122,068	1,471,317
Accumulated other comprehensive income:			
Unrealized holding gains on securities	2,536	1,678	30,927
Total accumulated other comprehensive income	2,536	1,678	30,927
Minority interests in consolidated subsidiaries	202	186	2,463
Total net assets	123,386	123,932	1,504,707
Total liabilities and net assets	¥144,385	¥146,249	$1,760,793

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2011 and 2012

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	**2012**
Net Sales	¥64,619	¥64,394	$788,037
Cost of Sales	22,848	22,498	278,634
Gross profit	41,771	41,896	509,403
Selling, General and Administrative Expenses (Note 15)	34,305	35,432	418,354
Operating income	7,466	6,464	91,049
Other Income (Expenses):			
Interest and dividend income	673	692	8,207
Interest expense	(42)	(58)	(512)
Loss on sales or disposal of properties	(47)	(36)	(573)
Loss from investments in partnerships	(0)	(155)	(0)
Gain on sales of property, plant and equipment	77	2	939
Gain (loss) on sales of investments in securities	—	341	—
Income from out-of-court settlement	—	190	—
Gain (loss) on evaluation of securities	175	(44)	2,134
Loss on devaluation of investments in securities	(120)	(989)	(1,463)
Impairment loss (Note 16)	(162)	(2)	(1,976)
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(110)	—
Other, net	54	38	659
	608	(131)	7,415
Income before income taxes and minority interests	8,074	6,333	98,464
Income Taxes (Note 9):			
Current	2,514	2,417	30,659
Deferred	774	(93)	9,439
	3,288	2,324	40,098
Income before Minority Interests	4,786	4,009	58,366
Minority Interests	(16)	(5)	(195)
Net income	¥ 4,770	¥ 4,004	$ 58,171

	Yen		U.S. dollars (Note 3)
Per Share:			
Net income:			
Primary	¥91.4	¥73.8	$1,115
Fully-diluted	—	—	—
Cash dividends	36.0	34.0	0.439

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)
	2012	2011	**2012**
Income before Minority Interests	¥4,786	¥ 4,009	$58,366
Other Comprehensive Income			
Unrealized holding gains on securities	857	(2,504)	10,451
Total other comprehensive income (Note 11)	857	(2,504)	10,451
Comprehensive income	¥5,643	¥ 1,505	$68,817
Comprehensive income attributable to:			
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥5,627	¥ 1,500	$68,622
Minority interests	16	5	195

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, 2011 and 2012

		Millions of yen						
		Shareholders' equity				Accumulated other comprehensive 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 April 1, 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 (2,143 shares)	—	—	—	—	(3)	—	—	(3)
Unrealized holding gains on securities	—	—	—	—	—	(2,504)	—	(2,504)
Gain on sales of treasury stock (275 shares)	—	—	0	—	0	—	—	0
Increase in minority interests	—	—	—	—	—	—	5	5
Balance at April 1, 2011	56,911,185	24,357	24,254	77,796	(4,339)	1,678	186	123,932
Net income for the year	—	—	—	4,770	—	—	—	4,770
Cash dividends paid	—	—	—	(1,849)	—	—	—	(1,849)
Treasury stock purchased (2,800,690 shares)	—	—	—	—	(4,341)	—	—	(4,341)
Unrealized holding gains on securities	—	—	—	—	—	858	—	858
Gain on sales of treasury stock (36 shares)	—	—	0	—	0	—	—	0
Increase in minority interests	—	—	—	—	—	—	16	16
Balance at March 31, 2012	56,911,185	¥24,357	¥24,254	¥80,717	¥(8,680)	¥2,536	¥202	¥123,386

		Thousands of U.S. dollars (Note 3)						
		Shareholders' equity				Accumulated other comprehensive 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 April 1, 2011	56,911,185	$297,037	$295,780	$948,732	$ (52,915)	$20,464	$2,268	$1,511,366
Net income for the year	—	—	—	58,171	—	—	—	58,171
Cash dividends paid	—	—	—	(22,549)	—	—	—	(22,549)
Treasury stock purchased (2,800,690 shares)	—	—	—	—	(52,939)	—	—	(52,939)
Unrealized holding gains on securities	—	—	—	—	—	10,463	—	10,463
Gain on sale of treasury stock (36 shares)	—	—	0	—	0	—	—	0
Increase in minority interests	—	—	—	—	—	—	195	195
Balance at March 31, 2012	56,911,185	$297,037	$295,780	$984,354	$(105,854)	$30,927	$2,463	$1,504,707

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	**2012**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 8,074	¥ 6,333	$ 98,463
Depreciation and amortization	2,635	2,810	32,134
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	110	—
Increase (decrease) in allowance reserves	(30)	297	(366)
Impairment loss	162	2	1,976
Interest and dividend income	(674)	(692)	(8,220)
Interest expense	43	58	524
Foreign exchange loss	0	4	0
(Gain) loss on evaluation of securities	(175)	44	(2,134)
Gain on sales of property, plant and equipment	(77)	(2)	(939)
Loss on devaluation of investments in securities	120	989	1,463
Income from out-of-court settlement	—	(190)	—
Loss on sale or disposal of properties	47	36	573
(Gain) loss on sales of investments in securities	—	(341)	—
(Increase) decrease in notes and accounts receivable	(3,046)	(950)	(37,146)
(Increase) decrease in inventories	1,047	(2,481)	12,768
(Increase) decrease in other current assets	(183)	1,022	(2,232)
Increase (decrease) in notes and accounts payable	(729)	(395)	(8,890)
Increase (decrease) in other current liabilities	(826)	1,564	(10,073)
Increase (decrease) in other long-term liabilities	(7)	(862)	(85)
Other	(29)	158	(354)
Sub total	6,352	7,514	77,462
Receipt of interest and dividends	629	654	7,671
Payment of interest	(43)	(59)	(524)
Out-of-court settlement received	—	190	—
Payment of income taxes	(1,893)	(3,610)	(23,085)
Net cash provided by operating activities	5,045	4,689	61,524
Cash Flows from Investing Activities:			
Time deposits received	(106)	(113)	(1,293)
Time deposits paid	106	113	1,293
Reduction of investments in specified trusts	36	41	439
Proceeds from sales of marketable securities	200	—	2,439
Acquisition of property and equipment	(1,767)	(1,728)	(21,549)
Proceeds from sales of property and equipment	154	12	1,878
Proceeds from subsidies received from the government	160	160	1,951
Acquisition of intangible assets	(210)	(284)	(2,561)
Acquisition of investments in securities	(1,080)	(896)	(13,171)
Proceeds from sales of investments in securities	313	610	3,817
Payments for loans	(114)	(229)	(1,390)
Collection of loans	316	399	3,854
Long-term advance payment costs	(769)	(10)	(9,378)
Other	(15)	(16)	(183)
Net cash used in investing activities	(2,776)	(1,941)	(33,854)
Cash Flows from Financing Activities:			
Short-term bank loans received	270	430	3,293
Repayment of short-term bank loans	(593)	(296)	(7,232)
Long-term debt received	—	596	—
Repayment of long-term debt	(122)	(144)	(1,488)
Repayment of finance lease obligation	(14)	(63)	(171)
Cash dividends paid by the Company	(1,849)	(1,791)	(22,549)
Treasury stock purchased	(4,341)	(3)	(52,939)
Treasury stock sale	0	0	0
Net cash used in financing activities	(6,649)	(1,271)	(81,086)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0)	(4)	(0)
Increase (Decrease) in Cash and Cash Equivalents	(4,380)	1,473	(53,416)
Cash and Cash Equivalents at Beginning of Year (Note 4)	50,154	48,681	611,635
Cash and Cash Equivalents at End of Year (Note 4)	¥45,774	¥50,154	$558,219

The accompanying notes are an integral part of these statements.

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 Instruments 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, 2011 and 2012 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 two years ended March 31, 2012.

(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 on the balance sheet is reduced to reflect decreased 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.

(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.
(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 fiscal year under review 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
"Accrued retirement benefits to directors and corporate auditors" is 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.

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.

(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) Additional Information
For the accounting changes and error corrections made on or after the beginning of the fiscal year ended March 31, 2012, we have applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009).

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 ¥82=U.S.$1, the approximate effective rate of exchange at March 31, 2012. 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 ¥82=U.S.$1 or at any other rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash on hand and in banks	**¥19,234**	¥23,116	**$234,561**
Marketable securities	**26,600**	27,501	**324,390**
Time deposits with original maturities of over three months	**(60)**	(61)	**(732)**
Marketable securities with maturities of over three months	**—**	(402)	**—**
Cash and cash equivalents	**¥45,774**	¥50,154	**$558,219**

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. The market value of these securities is periodically reported to the Board of Directors.

(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, 2011 and 2012 and unrealized gains (losses) are shown in the following tables. The following 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, 2012	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	**¥19,234**	**¥19,234**	**¥—**
Notes and accounts receivable	**26,059**	**26,059**	**—**
Marketable securities and investments in securities	**50,822**	**50,822**	**—**
Total assets	**¥96,115**	**¥96,115**	**¥—**
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	¥ —	¥ —	¥—

	Thousands of U.S. dollars		
As of March 31, 2012	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	$ 234,561	$ 234,561	$—
Notes and accounts receivable	317,793	317,793	—
Marketable securities and investments in securities	619,780	619,780	—
Total assets	$1,172,134	$1,172,134	$—
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
	2012	2011	**2012**
Unlisted stocks	¥1,011	¥1,011	$12,329
Investments in partnerships	521	739	6,354
Investments in unconsolidated subsidiaries	641	641	7,817

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 preceeding table.

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2011 and 2012 are as follows:

	Millions of yen			
As of March 31, 2012	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	¥19,234	¥ —	¥ —	¥—
Notes and accounts receivable	26,059	—	—	—
Marketable securities and investments in securities	26,600	379	1,433	—
Total	¥71,893	¥379	¥1,433	¥—

	Millions of yen			
As of March 31, 2011	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	¥—

	Thousands of U.S. dollars			
As of March 31, 2012	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	$234,561	$ —	$ —	$—
Notes and accounts receivable	317,793	—	—	—
Marketable securities and investments in securities	324,390	4,622	17,476	—
Total	$876,744	$4,622	$17,476	$—

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, 2011 and 2012 are as follows:

	Millions of yen			
	2012			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥18,078	¥22,047	¥6,085	¥2,116
Corporate debt securities	999	986	5	18
Other	27,830	27,789	45	86
Total	¥46,907	¥50,822	¥6,135	¥2,220

	Millions of yen			
	2011			
	Acquisition 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
Total	¥46,760	¥49,544	¥4,940	¥2,155

	Thousands of U.S. dollars			
	2012			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$220,463	$268,866	$74,207	$24,804
Corporate debt securities	12,183	12,024	61	220
Other	339,390	338,890	549	1,049
Total	$572,036	$619,780	$74,817	$27,073

Sales of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Sales proceeds	¥—	¥436	$—
Gross realized gains	—	341	—
Gross realized losses	—	—	—

Note 7
Inventories

Inventories at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥1,496	¥ 2,380	$ 18,244
Finished goods	2,544	1,541	31,024
Work-in-process	1,634	2,878	19,927
Raw materials	4,121	4,004	50,256
Supplies	169	208	2,061
Total	¥9,964	¥11,011	$121,512

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

Short-term bank loans outstanding at March 31, 2011 and 2012 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2011 and 2012 bore interest at an average annual rate of 1.22% and 1.07%, respectively.

Long-term debt of the Companies at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.52% due from 2011 to 2027	¥1,769	¥1,891	$21,573
Less: current maturities due within one year	(222)	(122)	(2,707)
Total	¥1,547	¥1,769	$18,866

The aggregate annual maturities of long-term debt outstanding at March 31, 2012 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 102	$ 1,244
2015	92	1,122
2016	21	256
2017 and thereafter	1,332	16,244
Total	¥1,547	$18,866

Note 9
Income Taxes

Deferred tax assets (both current and non-current) at March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued retirement benefits to employees	**¥ 1,468**	¥ 1,547	**$ 17,902**
Prepaid research and development expenses	**1,082**	1,503	**13,195**
Accrued bonuses to employees	**760**	860	**9,268**
Write-down of securities	**421**	651	**5,134**
Inventory assets	**412**	459	**5,024**
Payment of retirement benefits to directors and corporate auditors	**230**	256	**2,805**
Impairment loss	**181**	143	**2,207**
Reserve for sales rebates	**169**	187	**2,061**
Accrued enterprise tax	**167**	139	**2,037**
Other	**939**	1,070	**11,452**
Total gross deferred tax assets	**5,829**	6,815	**71,085**
Valuation allowance	**(1,003)**	(1,210)	**(12,232)**
Total deferred tax assets	**¥ 4,826**	¥ 5,605	**$ 58,853**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥(1,335)**	¥(1,080)	**$(16,280)**
Other	**(21)**	(26)	**(256)**
Total deferred tax liabilities	**(1,356)**	(1,106)	**(16,536)**
Deferred tax assets, net	**¥ 3,470**	¥ 4,499	**$ 42,317**

Reconciliation of the actual tax rate for the years ended March 31, 2011 and 2012 are as follows:

	2012	2011
Effective statutory tax rate	**40.4%**	40.4%
Adjustments:		
Entertainment expenses and other non-deductibles	**4.9**	5.9
Dividend income not taxable	**(1.5)**	(1.9)
Tax benefits due to research and development expenses	**(9.0)**	(11.7)
Per capital levy of local inhabitants taxes	**1.0**	1.2
Valuation allowance	**(0.9)**	2.2
Tax effect from change in tax rate by tax reform, etc.	**4.8**	—
Other	**1.1**	0.6
Actual tax rate	**40.8%**	36.7%

Correction of deferred tax assets and deferred tax liabilities by the corporate tax rate changes, etc.

According to the promulgation of “The Law to Revise the Income Tax, etc., in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure” (Act No. 114 of 2011) and “Special Measures to Secure the Financial Resources to Implement the Restoration from the Great East Japan Earthquake” (Act No.117 of 2011) on December 2, 2011, the effective tax rate which the Companies used for calculation of deferred tax assets and deferred tax liabilities has been changed from 40.4% for the previous fiscal year to 37.7% or 35.4% for the current fiscal year end. 37.7% is applied to assets and liabilities that are expected to be settled in the period from April 1, 2012 to March 31, 2015 and 35.4% is applied to those to be settled starting from April 1, 2015.

As a result of this change, deferred tax assets (after offsetting deferred tax liabilities) have been decreased by ¥198 million, deferred tax income has been increased by ¥386 million, and unrealized holding gains on securities have been increased by ¥188 million.

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, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligations	¥ 16,742	¥14,219	$ 204,171
Fair value of plan assets	(10,138)	(9,655)	(123,634)
Funded status of the plans	6,604	4,564	80,537
Unrecognized net actuarial difference	(3,748)	(2,167)	(45,707)
Unamortized prior service cost	1,134	1,433	13,829
Net liability recognized	¥ 3,990	¥ 3,830	$ 48,659

The net periodic retirement benefit cost for the years ended March 31, 2011 and 2012 included the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Retirement benefit cost	¥1,049	¥957	$12,793
(1) Service cost	704	683	8,585
(2) Interest cost	354	336	4,317
(3) Expected return on plan assets	(241)	(234)	(2,939)
(4) Amortization of difference caused from actuarial calculation	487	444	5,939
(5) Amortization of prior service cost	(299)	(299)	(3,646)
(6) Additional payment of retirement costs	44	27	537

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, 2011, and 1.8% as of March 31, 2012. The rate of expected return on plan assets was 2.5% as of March 31, 2011 and 2012. 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

Amounts of recycling and income tax relating to other comprehensive income as of March 31, 2012, were as follows:

As of March 31, 2012	Millions of yen	Thousands of U.S. dollars
Unrealized holding gains on securities		
Amount recognized in the year under review	¥ 992	$12,098
Amount of recycling	120	1,463
Before income tax effect adjustment	1,112	13,561
Amount of income tax effect	(255)	(3,110)
Unrealized holding gains on securities	857	10,451
Total other comprehensive income	¥ 857	$10,451

Note 12
Commitments and Contingent Liabilities

Contingent Liabilities

The Companies had contingent liabilities arising from notes receivable discounted by banks in the ordinary course of business in the amount of ¥7 million ($85 thousand) at March 31, 2012.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥16 million ($195 thousand) at March 31, 2012.

Note 13
Segment Information

(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 the 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 an arm's-length transaction.

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

	Millions of yen			
	2012			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to outside customers	¥ 55,503	¥ 55,503	¥ 9,116	¥ 64,619
Intersegment sales and transfers	—	—	5,111	5,111
Total	¥ 55,503	¥ 55,503	¥14,227	¥ 69,730
Segment profit	¥ 7,049	¥ 7,049	¥ 372	¥ 7,421
Segment assets	¥137,832	¥137,832	¥ 8,884	¥146,716
Other items				
Depreciation	¥ 2,409	¥ 2,409	¥ 347	¥ 2,756
Increase of property, plant and equipment and intangible assets	2,711	2,711	324	3,035

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

	Thousands of U.S. dollars			
	2012			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to outside customers	$ 676,866	$ 676,866	$111,171	$ 788,037
Intersegment sales and transfers	—	—	62,329	62,329
Total	$ 676,866	$ 676,866	$173,500	$ 850,366
Segment profit	$ 85,963	$ 85,963	$ 4,537	$ 90,500
Segment assets	$1,680,878	$1,680,878	$108,342	$1,789,220
Other items				
Depreciation	$ 29,378	$ 29,378	$ 4,232	$ 33,610
Increase of property, plant and equipment and intangible assets	33,061	33,061	3,951	37,012

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

(4) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Net sales			
Total of business segments	¥ 55,503	¥ 55,356	$ 676,866
Other business sales	14,227	13,201	173,500
Elimination of intersegment transactions	(5,111)	(4,163)	(62,329)
Reported on consolidated financial statements	¥ 64,619	¥ 64,394	$ 788,037
Segment profit			
Total of business segments	¥ 7,049	¥ 6,221	$ 85,963
Other business profit	372	118	4,537
Elimination of intersegment transactions	57	53	695
Adjustments to depreciable assets	(8)	63	(98)
Other adjustments	(4)	9	(48)
Reported on consolidated financial statements	¥ 7,466	¥ 6,464	$ 91,049
Segment assets			
Total of business segments	¥137,832	¥138,937	$1,680,878
Assets classified as "other"	8,884	9,010	108,342
Elimination of intersegment transactions	(2,331)	(1,698)	(28,427)
Reported on consolidated financial statements	¥144,385	¥146,249	$1,760,793

(5) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Depreciation			
Total of business segments	¥2,409	¥2,535	$29,378
Other segments	347	412	4,232
Adjustments	(120)	(137)	(1,463)
Reported on consolidated financial statements	¥2,636	¥2,810	$32,147
Increase of property, plant and equipment and intangible assets			
Total of business segments	¥2,711	¥1,508	$33,061
Other segments	324	411	3,951
Adjustments	(168)	(198)	(2,049)
Reported on consolidated financial statements	¥2,867	¥1,721	$34,963

Note 14
Related Party Transactions

For the year ended March 31, 2011

No corresponding items

For the year ended March 31, 2012

Transactions with executives, main individual stockholders, etc.

Category	Name of party	Location	Capital or investment amount (millions of yen)	Business/ Occupation	Ratio of voting rights holding (held) (%)	Relationship with related party	Details of transaction	Amount transaction (millions of yen)	Account	Outstanding amount at the end of the year (millions of yen)
Executives or relatives of executives	Kunio Kanzawa	—	—	Honorary President of the Company	Direct 5.3 (held)	Relative of the President of the Company	Construction subcontracting	22	—	—

*1: The above amounts do not include consumption tax.
*2: Terms and conditions of the transaction and its policies:
The above transaction is over the arm's-length price.

Note 15
Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Advertising and sales promotion expenses	¥ 4,507	¥ 4,097	$ 54,963
Payroll costs	9,327	9,148	113,744
Research and development expenses	10,043	12,037	122,476
Traveling expenses	1,908	1,848	23,268
Depreciation	1,043	1,196	12,720
Other	7,477	7,106	91,183
	¥34,305	¥35,432	$418,354

Note 16
Impairment Loss

The main contents of impairment loss for the years ended March 31, 2011 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	¥160	¥1	$1,951
Land	2	1	25
	¥162	¥2	$1,976

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.

The book values of certain assets were reduced to recoverable amounts and impairment losses were recognized because the market price of assets in certain rental property and idle asset groups declined substantially. The recoverable amount of an asset is estimated based on the net amount that asset could be sold for land and buildings, which is estimated by appraisal amount based on real estate appraisal standards.

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kissei Pharmaceutical Co., Ltd. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

June 28, 2012
Tokyo, Japan

Ernst & Young ShinNihon LLC

BOARD OF DIRECTORS

As of June 28, 2012

President and Chief Executive Officer:

Mutsuo Kanzawa

Executive Vice Presidents:

Yukiyoshi Ajisawa

Seiichiro Furihata

Executive Managing Director:

Masuo Akahane

Managing Directors:

Hiroe Sato

Nobuo Shibata

Masaki Morozumi

Masayuki Isaji

Directors:

Imao Mikoshiba

Yoshio Furihata

Takuo Asakawa

Keiji Fukushima

Kaname Hashimoto

Yasuo Takehana

Auditors:

Makoto Yonekubo

Sukio Adachi

Hiroshi Ueno

Kando Nakagawa

CORPORATE DATA

As of June 28, 2012

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, 2012)

Number of Employees:
1,548 (Non-consolidated) (As of March 31, 2012)

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, 2012

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

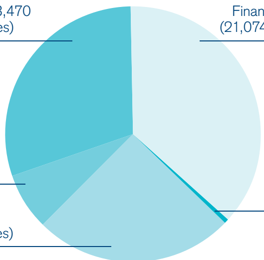
3,944 (Year-on-year change: 142 decrease)

Principal Shareholders:

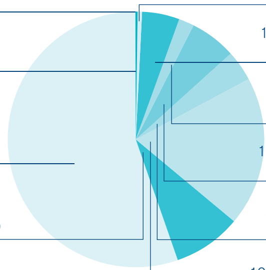
	Number of shares held (Hundreds)	Voting rights (%)
The Dai-ichi Life Insurance Company, Ltd.	32,000	6.2
Kanzawa Limited	31,782	6.2
Kunio Kanzawa	27,030	5.3
The Hachijuni Bank, Ltd.	26,709	5.2
Mizuho Bank, Ltd.	25,702	5.0
Japan Trustee Services Bank, Ltd. (Trust account)	23,515	4.6
The Master Trust Bank of Japan, Ltd. (Trust account)	16,367	3.2
Mutsuo Kanzawa	15,197	3.0
Japan Trustee Services Bank, Ltd. (Trust account 9)	14,606	2.8
Kissei Group Employee Stockholders Committee	12,643	2.5

Note: The Company holds 54,382 hundred shares of treasury stock but is not included in the above list of major shareholders. Further, the calculation of voting rights percentages is based on total shares issued net of treasury stock.

Composition of Shareholders:
By Category



By Number of Shares Held



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URL: http://www.kissei.co.jp/

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Printed in Japan