KISSEI

Annual Report 2013

About Kissei

Guided by its management philosophy, the Kissei Group is aiming to make significant contributions to society. The Kissei 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. (Kissei), 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 patient-centered measures including the undertaking of R&D activities, the manufacture of high-quality pharmaceuticals, the collection and provision of drug information necessary for the optimum use of its products, the implementation of efficient operations, and the construction of a total marketing system. In addition, each Kissei 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. Further, the 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®) has achieved a steady rise in sales since its launch in July 2011. Overseas, we are advancing out-licensing activities for new drug discovery themes. The Kissei product silodosin (brand name in Japan: Urief®) is being sold in more countries and is seeing higher sales with licensing rights mainly in Europe and the Americas as well as in Asia and Oceania given over to licensing partners.

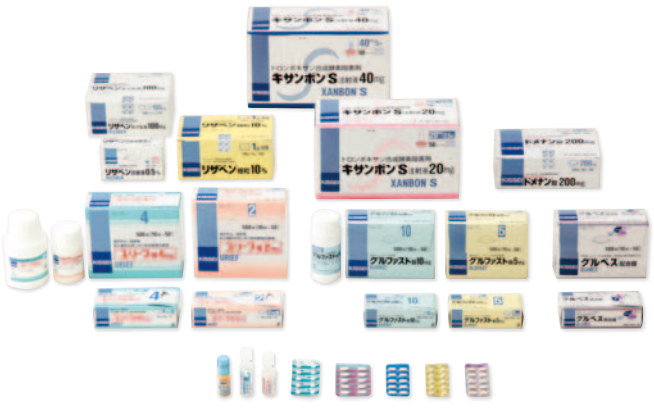
Kissei is constantly striving to develop new drugs and therefore focuses management resources into its drug discovery efforts. We are putting our efforts into R&D, working to take each theme in the development pipeline to the next stage. Between December 2012 and January 2013, Kissei applied for approval of two development 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.

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
Cup Agalorie: energy supplement



Contents

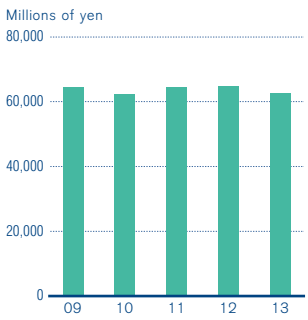
Financial Highlights

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

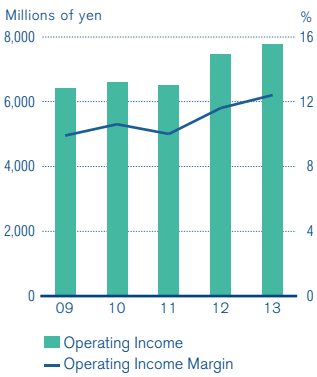
	Millions of yen, except per share data					Thousands of U.S. dollars, except per share data[1]
	2009	2010	2011	2012	**2013**	**2013**
For the Year:						
Net Sales	¥64,536	¥62,179	¥64,394	¥64,619	**¥62,491**	**$664,798**
R&D Expenses	11,557	10,786	12,037	10,043	**10,312**	**109,702**
Capital Investment	1,414	2,037	1,322	1,893	**1,664**	**17,702**
Operating Income	6,393	6,585	6,464	7,466	**7,761**	**82,563**
Net Income	2,061	4,371	4,004	4,770	**5,020**	**53,404**
At Year-End:						
Total Assets	¥140,181	¥147,022	¥146,249	¥144,385	**¥160,028**	**$1,702,426**
Total Net Assets	118,415	124,221	123,932	123,386	**134,784**	**1,433,873**
Per Share (Yen and U.S. Dollars):						
Net Income[2]:						
Primary	¥38.0	¥80.5	¥73.8	¥91.4	**¥97.5**	**$1.037**
Fully-Diluted	37.2	—	—	—	**—**	**—**
Cash Dividends	30.0	32.0	34.0	36.0	**38.0**	**0.404**
Key Ratios (%):						
Operating Income Margin	9.9	10.6	10.0	11.6	**12.4**	
Return on Assets (ROA)	1.4	3.0	2.7	3.3	**3.1**	
Return on Equity (ROE)	1.7	3.6	3.2	3.9	**3.9**	
Shareholders' Equity Ratio	84.4	84.4	84.6	85.3	**84.1**	
Number of Employees	1,870	1,920	1,911	1,893	**1,894**	

1: U.S. dollar amounts are translated at the rate of ¥94=U.S.$1, the approximate effective rate of exchange at March 31, 2013.
2: Net income per share is computed based on the weighted-average number of shares of common stock after subtracting the weighted-average number of shares of treasury stock for the year.

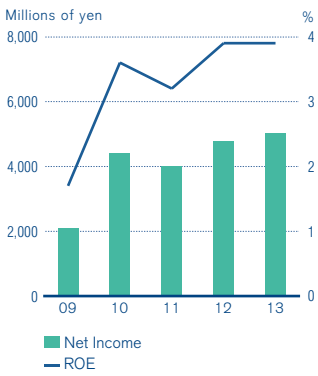
Net Sales



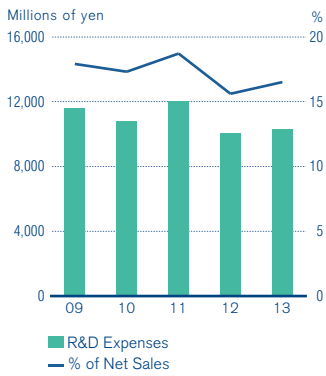
Operating Income / Operating Income Margin



Net Income / ROE



R&D Expenses



A Message from the President

Mutsuo Kanzawa
President and Chief Executive Officer

Review of Operations

Overview of Operations in the Year Under Review

In fiscal 2013, the year ended March 31, 2013, the Japanese economy made uncertain progress at first, due to the influence of the slowdown of the European economy in the wake of the European debt crisis and the deceleration of growth in emerging economies. However, there were also signs of recovery in the second half of the year as hopes over economic policies led to an adjustment in the excessive strength of the yen as well as rising prices.

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. While the trial period for the "premium to promote the development of new drugs and eliminate off-label use" continued, there was an additional price cut for long-listed drugs in last April's NHI price revisions. Further, competition remained fierce in the information services, merchandising, and construction industries, despite a sense of emerging economic recovery, because of stagnant domestic demand. This reflected cautious IT investment and capital investment among companies, and sluggish consumer spending.

Amid these conditions, our business results for fiscal 2013 were as seen in the following table.

Consolidated Performance

	Millions of yen		%
	Results for year ended March 2012	Results for year ended March 2013	Change
Net Sales	¥64,619	¥62,491	(3.3)
Operating Income	7,466	7,761	4.0
Net Income	4,770	5,020	5.2

In the pharmaceutical business, net sales decreased 2.3% year on year, to ¥54,232 million. We concentrated efforts on cultivating such new products as a treatment of renal anemia, Epoetin Alfa BS Injection [JCR], and an improving agent for postprandial hyperglycemia, the Glubes® Combination Tablet. At the same time, we actively provided medical specialists with information on our existing products. However, revenues declined due to last April's NHI price reductions and the same month's transfer from Kissei to Pfizer Japan Inc. of marketing for the Parkinson's disease treatment Cabaser®, which Pfizer Japan manufactures. 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 in Germany in June 2010.

In other businesses, net sales were down 9.4% year on year, to ¥8,259 million, despite higher revenues from information services, as a result of a decline in revenues from merchandising and construction projects.

As for income, operating income and net income increased despite the reduced revenue. This was due to a lower cost of sales as a percentage of net sales in both the pharmaceutical and other businesses segments, and lower sales, general and administrative expenses, particularly sales expenses.

In R&D, we submitted an application in December last year for an additional indication of combination therapy of our diabetes treatment mitiglinide (brand name in Japan: Glufast®) and either dipeptidyl peptidase-IV (DPP-4) inhibitors or biguanides. In January this year, we submitted an application for approval for Dexrazoxane (brand name, development code: KDX-0811) for the treatment of anthracycline

extravasation. We continue to focus on advancing respective themes forward into their next development stage.

Outlook for the Current Fiscal Year

In Japan's pharmaceutical market, business conditions will likely remain tough due to the Japanese government's strong support for policies for reducing medical treatment costs such as encouraging the use of generic drugs.

Other businesses are also likely to continue facing challenging conditions in their industries with stagnant domestic demand, despite a sense of emerging economic recovery.

In response to these conditions, the Kissei Group is focused on strengthening its management base by creating synergies among the companies in the group, reaping the benefits of investments in R&D, and improving profitability. Our consolidated performance forecast for the year ending March 2014 is as follows.

Consolidated Performance Forecast

	Millions of yen		%
	Forecast for year ending March 2014	Results for year ended March 2013	Difference
Net Sales	¥63,400	¥62,491	1.5
Operating Income	7,900	7,761	1.8
Net Income	5,900	5,020	17.5

Major Domestic Pharmaceuticals

Dysuria treatment: Urief® Tablet
Urief® is a selective alpha 1A-adrenoceptor blocker developed by Kissei for the treatment of dysuria associated with benign prostatic hyperplasia. By blocking alpha 1A-adrenoceptors in the prostate gland it removes the tension of the prostate gland to improve urethral resistance. It has been co-marketed with Daiichi Sankyo Co., Ltd., since sales began in May 2006.

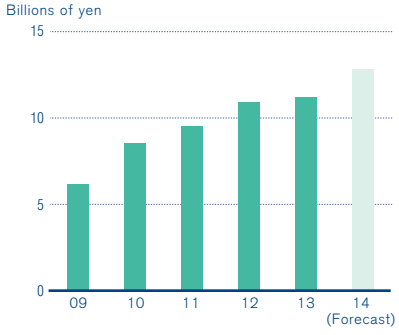
Diabetes treatment: Glufast® Tablet and Glubes® Combination Tablet
Glufast® is a rapid-acting insulin secretagogue developed by Kissei that has been co-marketed with Takeda Pharmaceutical Co., Ltd., since May 2004. As of July 2013, we are in the process of applying for approval of combination therapy with either DPP-4 (dipeptidyl peptidase-4) inhibitors or biguanides.

The Glubes® Combination Tablet, a combination of Glufast® and voglibose (generic name), was first sold in July 2011 by Kissei, acting independently. The tablet has been highly praised as an ideal combination, providing aggressive treatment of postprandial glucose increases as well as being easy to administer and reducing the economic burden on patients.

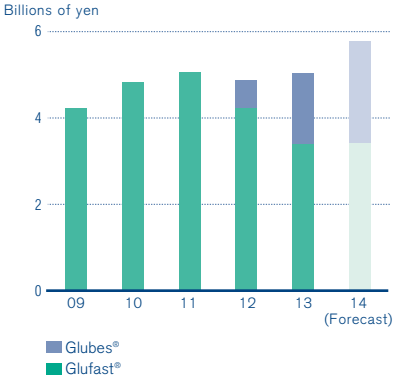
Renal anemia treatment: Epoetin Alfa BS Injection [JCR]
Epoetin Alfa BS Injection [JCR] is a biosimilar recombinant human erythropoietin developed together with JCR Pharmaceuticals Co., Ltd. It has been co-marketed since May 2010.

Years ended March 31

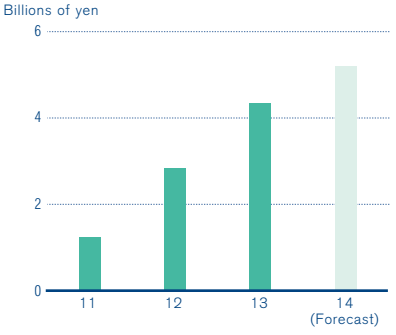
Urief® Sales



Glufast® and Glubes® Sales



Epoetin Alfa BS Injection [JCR] Sales



Net Sales

In the pharmaceutical business, we will continue cultivating Urief®, Glubes® Combination Tablet, and Epoetin Alfa BS Injection [JCR], and we expect revenues to increase. As regards other businesses, we expect that uncertain business conditions will lead to lower revenues.

Income

In the pharmaceutical business, despite continued investment in R&D and product cultivation, we anticipate increases in operating income and net income because of increased revenues and an increased gross margin due to a lower cost of sales as a percentage of net sales. Other businesses are 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 current medium-term management plan, CORE 3.

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

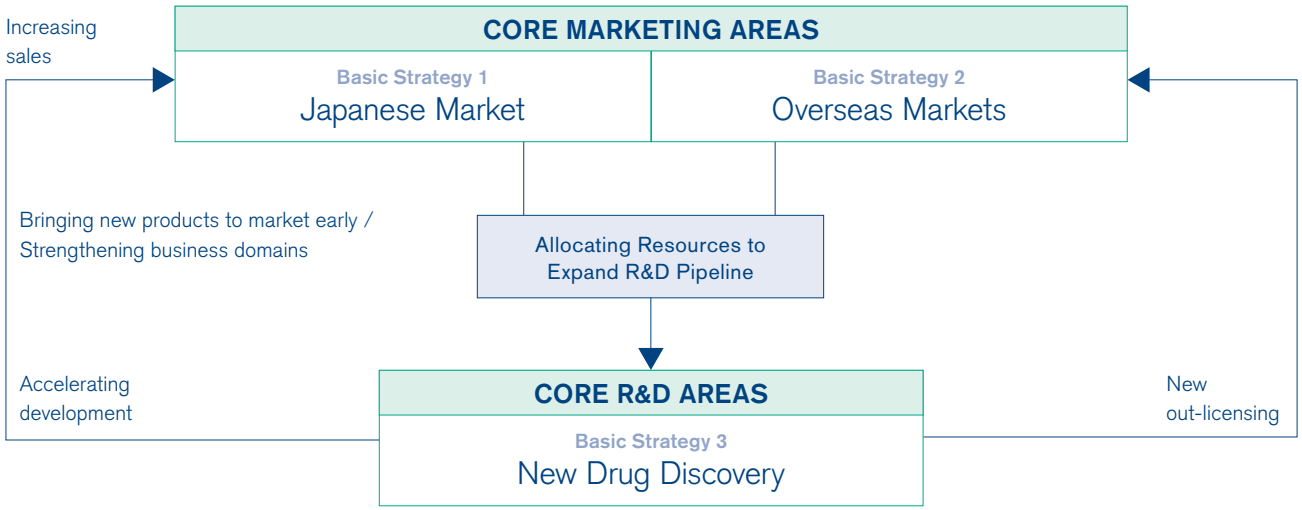
In addition, we intend to develop corporate governance systems and manage our business based on corporate social responsibility in order to maximize corporate value and remain a company that stakeholders trust.

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

June 2013

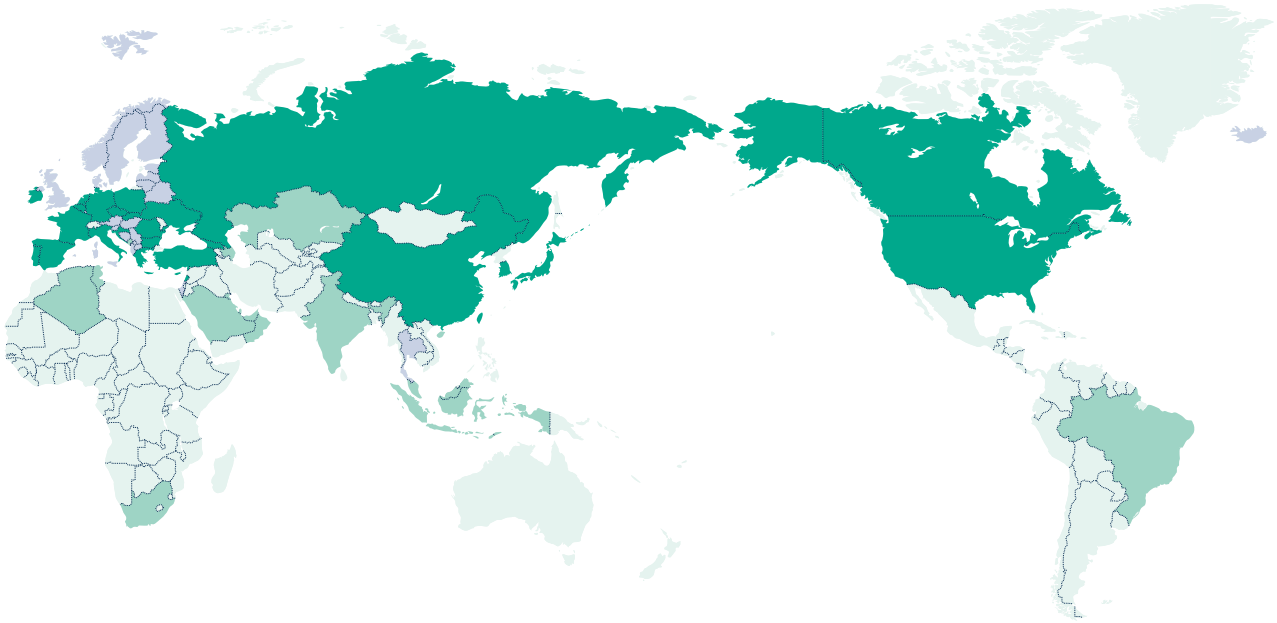
Mutsuo Kanzawa
President and Chief Executive Officer

"CORE 3" Medium-Term Management Plan



The Overseas Development of Silodosin

As of July 2013



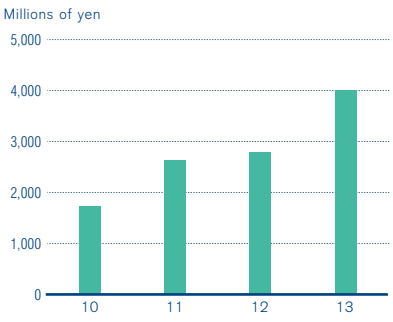
- Launched: Japan, the U.S., Canada, South Korea, Taiwan, China, Macau, Lebanon, Germany, Ireland, Spain, France, Portugal, Belgium, Romania, Italy, Greece, the Netherlands, Russia, Czech Republic, Slovakia, Bulgaria, Cyprus, Turkey, Poland, the Ukraine, Georgia and Croatia
- Approval acquired but not yet launched: 12 of the 28 EU member countries (already launched in the other 16) and eleven other countries: Liechtenstein, Norway, Iceland, Belarus, Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Serbia, Thailand, and Israel
- Filed an NDA but not yet approved: Brazil, Hong Kong, Indonesia, Malaysia, India, South Africa, Tunisia, Algeria, Kuwait, Bahrain, Montenegro, United Arab Emirates, Oman, Saudi Arabia, Armenia, Kazakhstan, and Azerbaijan

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 Actavis, Inc. (formerly Watson Pharmaceuticals, Inc.), under the brand name Rapaflo®. To date this company has received additional licensing rights to sell the drug in 19 countries throughout the Americas. Further, the drug was introduced into Germany in June 2010 under the brand name UROREC® by licensing partner Recordati, of Italy. Recordati has received additional licensing rights to sell the drug in 84 countries in Europe, the Middle East, Africa, and Oceania. In April 2013, licensing partner Daiichi Sankyo Co., Ltd. (Japan), began selling the drug in China through a local subsidiary under the name Youlifu®.

Silodosin sales are rising as the number of countries it is sold in slowly increases, primarily in Europe. Silodosin has now been launched in 28 countries, including Japan, and is thus contributing to improving the quality of life of patients around the world.

Years ended March 31

Past Exports



* "Exports" is the total for overseas sales and revenue from dispensing fees (based on financial results)

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 Kissei 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 ¥10,312 million, or 16.5% 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 ¥10,198 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 ¥114 million.

R&D Pipeline (In-House)
As of August 2013

Development Stage	Product Name / Generic Name / Development Code	Development Classification	Therapeutic Target
NDA	Glufast® / Mitiglinide	Kissei	Type 2 diabetes mellitus - Combination medication with DPP-4 (Dipeptidyl peptidase-4) inhibitors or biguanides - - Additional indication -
	Dexrazoxane / KDX-0811	In-licensed / Norgine B.V. (The Netherlands)	Anthracycline extravasation - Catalytic inhibitor of topoisomerase II -
	Salagen®/ Pilocarpine	Kissei	Dry mouth - Additional dosage form: granule form -
Phase III	PA21	In-licensed / Vifor Pharma (Switzerland)	Hyperphosphatemia in hemodialysis patients - Phosphate binder -
	KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Product mimetic of TRH action -
Phase II	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 -
	KWA-0711	Kissei	Chronic 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 -
Phase I	KUX-1151	Kissei	Gout and hyperuricemia - Decrease formation of uric acid - - Uricosuric effect -
	Epoetin Alfa BS Injection [JCR] / JR-013sc	In-licensed / Co-development with Japan Chemical Research (Japan)	Renal anemia and autologous blood transfusion - Increase the red blood cell (RBC) count -
	Urief® / Silodosin	Kissei / Co-development with Daiichi Sankyo (Japan)	Dysuria associated with benign prostatic hyperplasia - Alpha 1A antagonist - - Additional dosage form: oral disintegration tablet -

R&D Pipeline (Out-Licensing)
As of August 2013

Development Stage	Generic Name / Development Code	Development Company	Territory	Therapeutic Target
NDA	Mitiglinide	Eisai (Japan)	ASEAN [1]	Type 2 diabetes mellitus
	Silodosin	Eisai (Japan)	ASEAN, India, Sri Lanka [2]	Dysuria associated with benign prostatic hyperplasia
NDA Preparation	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	Bedoradrine	MediciNova (U.S.)	Worldwide, except for Japan	COPD

1: Launched in Thailand, approved in the Philippines and NDA in 4 countries
2: Approved in Thailand and NDA in 2 ASEAN countries, India

Corporate Governance

Our Basic Approach to Corporate Governance

One of the core management challenges of Kissei 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 Kissei 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.

Kissei has adopted a corporate auditor system. It has two in-house and two external auditors. Corporate auditors attend meetings of the Board of Directors and actively state opinions. 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

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

Internal Audits

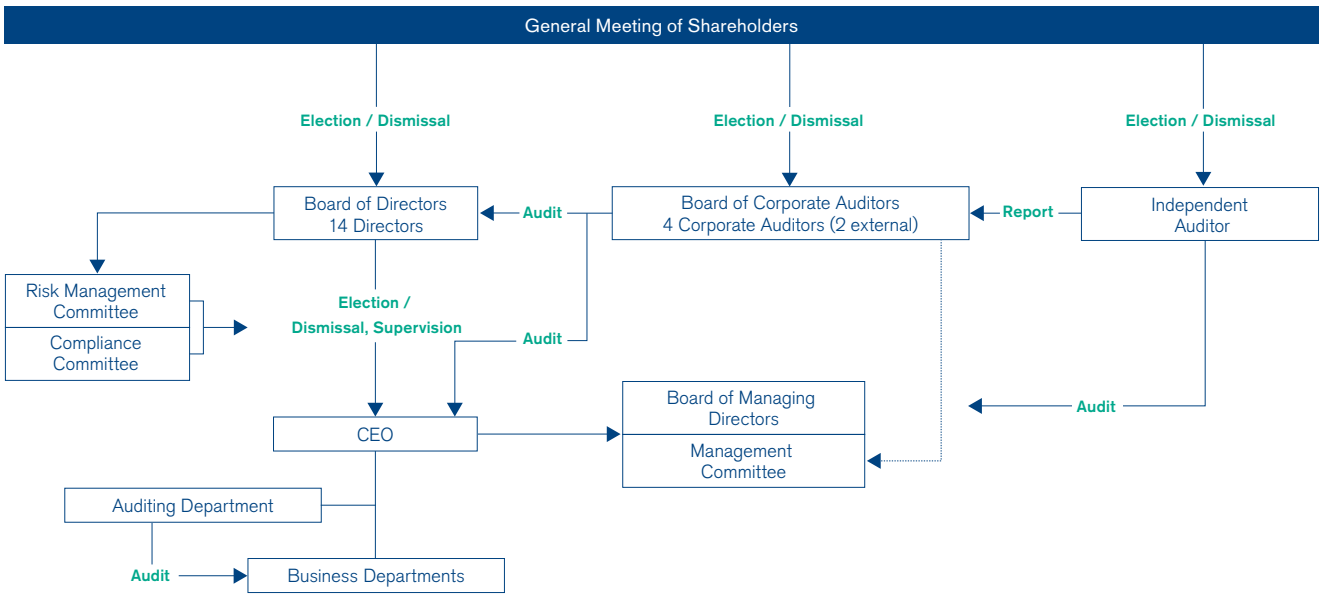
Kissei has established the Auditing Department, an independent body that reports directly to the president. This six-member body conducts internal audits for each department and all internal systems in Kissei based on the yearly auditing plan, ensuring that all departments carry out business activities 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 Kissei. External auditors are expected to participate in the management of Kissei 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 Kissei are partners of Ernst & Young ShinNihon LLC. Also, eleven certified public accountants engage in assisting the audit and a further six employees 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 Kissei's internal control systems.

1. Systems to ensure that directors and employees comply with laws and regulations as well as Kissei'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
   - Kissei 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 Kissei Group company shall acquire prior approval for a resolution from Kissei's Board of Directors.

6. Items for systems relating to Kissei employees who assist the corporate auditors and the independence of these employees
   - If a corporate auditor requests that a Kissei 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

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 Kissei was founded. In addition to maintaining systems to promote CSR throughout the Kissei Group, we are further broadening the scope of our CSR initiatives.

Compliance Initiatives

All our employees are expected to act in accordance with societal and corporate ethics. Kissei 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.

Kissei 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.

Furthermore, we have expanded the range of our existing Promotion Code, which was limited to promotion activities, into self-regulation in the form of the Kissei Code of Practice implemented in April 2013, which covers all aspects of a wide range of our activities in relation to researchers, health professionals, patient groups, and others.

Kissei also carries out compliance training for all employees and has established a helpline as an additional contact and consultation 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 in the field of medical treatment.

One example of Kissei's social contribution activities is the Saito Kinen Festival, a global music festival held each fall in Matsumoto City, Nagano Prefecture, which we have sponsored since the year it began. We also acquired the naming rights for the hall in Matsumoto where the festival is held, giving it the name "Kissei Cultural Hall." 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 develop both new medical treatments and the medical profession itself. Furthermore, as a first step in providing high-quality medical care for local communities, Kissei holds sponsored courses on serious nerve diseases at the Shinshu University School of Medicine and holds drug discovery courses in collaboration with the university. Kissei also contributes to the development of the field of medicine and local communities through other ongoing, pertinent 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 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 3.0% in comparison to fiscal 2011's levels and have also lowered CO_2 emissions by 3.3% 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 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, 2013, total assets stood at ¥160,028 million, up ¥15,643 million from the previous fiscal year-end. Total current assets increased ¥5,474 million, to ¥92,263 million, due to increases in cash on hand and in banks, marketable securities, and inventories, which offset a decline in notes and accounts receivable. Total non-current assets increased ¥10,168 million, to ¥67,765 million, following rises in investments in securities due to higher market values, which outweighed declines related to depreciation.

Total liabilities amounted to ¥25,244 million at fiscal year-end, up ¥4,244 million from the previous fiscal year-end. Total current liabilities stood at ¥15,577 million, up ¥915 million, due to increases in notes and accounts payable, and income taxes payable. Total long-term liabilities were up ¥3,330 million, to ¥9,667 million, principally due to deferred tax liabilities.

Total net assets amounted to ¥134,784 million at fiscal year-end, increasing ¥11,398 million from the previous fiscal year-end. This was primarily due to higher retained earnings and unrealized holding gains on securities.

As a result, the shareholders' equity ratio was 84.1%, down from 85.3% at the previous fiscal year-end.

Financial Results

Net sales decreased 3.3% year on year, to ¥62,491 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were down 2.3%, or ¥1,271 million, to ¥54,232 million. In this segment, revenues from Epoetin Alfa BS Injection [JCR], Glubes® Combination Tablet, and Urief® were up, as were exports of drug substances. However, this was offset by the influence of NHI price revisions and the transfer of marketing for Cabaser® to Pfizer Japan Inc. In other businesses, segment sales were down 9.4%, or ¥857 million, to ¥8,259 million. This decrease can be largely attributed to lower revenues from merchandising and construction projects, despite higher revenues from information services.

Cost of sales as a percentage of net sales showed an overall decrease of 1.6 percentage points. In the pharmaceutical business, this ratio was down 0.5 percentage point due to changes in the breakdown of segment sales, while it was down 4.9 percentage points in other businesses following a lower percentage of sales from construction projects. As a result, gross profit was down 1.0% year on year, or ¥422 million, to ¥41,348 million.

In selling, general and administrative expenses, R&D expenses increased due to a rise in payment of contract fees associated with adoption of themes and higher development costs. However, selling expenses decreased due to lower entertainment expenses and a drop in fees associated with cultivating new products. Accordingly, operating income increased 4.0% year on year, or ¥296 million, to ¥7,761 million.

In other income (expenses), despite increased gains on revaluation of securities, losses on revaluation of investment securities mainly in the pharmaceutical business also increased. As a result, other income was down ¥376 million year on year, to ¥232 million.

Due to the above, income before income taxes and minority interests fell 1.0% year on year, or ¥81 million, to ¥7,993 million, and net income increased 5.2%, or ¥250 million, to ¥5,020 million.

Basic Policy on the Distribution of Profits / Dividends for the Fiscal Year under Review and the Current Fiscal Year

Kissei aims to secure a solid management base while providing stable, consistent returns to shareholders through cash dividends. Kissei 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.

Kissei'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, Kissei'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, Kissei will acquire and dispose of treasury stock, based on resolutions of the Board of Directors, flexibly and as necessary in light of operational developments.

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

For the fiscal year under review, Kissei paid a year-end cash dividend of ¥19.0 per share, which when combined with an interim cash dividend of ¥19.0 per share gave a full-year cash dividend of ¥38.0 per share.

For the current fiscal year, ending March 31, 2014, the Group plans to pay an interim cash dividend of ¥20.0 per share and a year-end cash dividend of ¥20.0 per share, giving a full-year cash dividend of ¥40.0 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 Kissei 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, Kissei can guarantee neither that a new drug undergoing development or an additional indication will have its intended benefit nor predict when or if 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 biennially. There may be revisions or other changes to the medical insurance system in Japan that go beyond Kissei's forecast, such as the introduction of diagnosis procedure combinations or the promotion of generic drugs, which would negatively impact Kissei's operating results and financial position.

3. Competition with Other Companies' Products

The Kissei 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 Kissei'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 Kissei 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 Kissei may be faced with large costs to restore the environment, which would negatively impact Kissei's operating results and financial position.

9. Information Management

The Kissei 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 Kissei Group's image may be tarnished, which would negatively impact Kissei's operating results and financial position.

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

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2013	2012	2013
Current Assets:			
Cash on hand and in banks (Notes 4 and 5)	¥ 23,937	¥ 19,234	$ 254,649
Notes and accounts receivable (Note 5)	25,005	26,059	266,011
Marketable securities (Notes 4, 5 and 6)	27,344	26,600	290,894
Inventories (Note 7)	11,124	9,964	118,340
Deferred tax assets—current (Note 9)	2,030	2,005	21,596
Other current assets	2,826	2,929	30,063
Allowance for doubtful accounts	(3)	(2)	(32)
Total current assets	92,263	86,789	981,521
Property, Plant and Equipment:			
Buildings and structures	36,882	36,650	392,362
Less: accumulated depreciation	(26,272)	(25,473)	(279,490)
Buildings and structures, net	10,610	11,177	112,872
Land	13,191	13,192	140,330
Construction in progress	553	41	5,883
Other	14,396	14,267	153,149
Less: accumulated depreciation	(12,222)	(11,872)	(130,021)
Other, net	2,174	2,395	23,128
Total property, plant and equipment	26,528	26,805	282,213
Intangible Assets:			
Software for internal use	761	881	8,096
Other	57	71	606
Total intangible assets	818	952	8,702
Investments and Other Assets:			
Investments in securities (Notes 5 and 6)	38,091	26,394	405,223
Long-term loans receivable	123	138	1,309
Long-term prepaid expenses	669	733	7,117
Deferred tax assets—non-current (Note 9)	423	1,465	4,500
Other	1,163	1,163	12,372
Allowance for doubtful accounts	(49)	(54)	(521)
Total investments and other assets	40,420	29,839	430,000
Total assets	¥160,028	¥144,385	$1,702,426

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 3) 2013
Current Liabilities:			
Notes and accounts payable	¥ 4,882	¥ 4,499	$ 51,936
Short-term bank loans (Note 8)	1,880	1,880	20,000
Current portion of long-term debt (Note 8)	122	222	1,298
Income taxes payable (Note 9)	1,992	1,723	21,191
Accrued bonuses to employees	2,153	2,016	22,904
Accrued bonuses to directors and corporate auditors	23	23	245
Reserve for sales returns	14	17	149
Reserve for sales rebates	364	448	3,872
Reserve for sales promotion expenses	179	224	1,904
Other current liabilities	3,968	3,610	42,214
Total current liabilities	15,577	14,662	165,713
Long-Term Liabilities:			
Long-term debt (Note 8)	1,525	1,547	16,223
Deferred tax liabilities—non-current (Note 9)	3,101	—	32,989
Accrued retirement benefits to employees (Note 10)	4,199	3,990	44,670
Accrued retirement benefits to directors and corporate auditors	120	131	1,277
Asset retirement obligations	102	99	1,085
Other long-term liabilities	620	570	6,596
Total long-term liabilities	9,667	6,337	102,840
Total liabilities	25,244	20,999	268,553
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, 2012 and 2013, respectively	24,357	24,357	259,117
Additional paid-in capital	24,254	24,254	258,021
Retained earnings	83,832	80,717	891,830
Treasury stock (5,438,203 shares and 5,439,210 shares at March 31, 2012 and 2013, respectively)	(8,682)	(8,680)	(92,362)
Total shareholders' equity	123,761	120,648	1,316,606
Accumulated other comprehensive income:			
Unrealized holding gains on securities	10,798	2,536	114,872
Total accumulated other comprehensive income	10,798	2,536	114,872
Minority interests in consolidated subsidiaries	225	202	2,395
Total net assets	134,784	123,386	1,433,873
Total liabilities and net assets	¥160,028	¥144,385	$1,702,426

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2012 and 2013

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	**2013**
Net Sales	¥62,491	¥64,619	$664,798
Cost of Sales	21,143	22,848	224,926
Gross profit	41,348	41,771	439,872
Selling, General and Administrative Expenses (Note 15)	33,587	34,305	357,309
Operating income	7,761	7,466	82,563
Other Income (Expenses):			
Interest and dividend income	698	673	7,426
Interest expense	(40)	(42)	(426)
Loss on sales or disposal of properties	(20)	(47)	(213)
Income (loss) from investments in partnerships	56	(0)	596
Gain on sales of property, plant and equipment	1	77	11
Gain on valuation of securities	240	175	2,553
Loss on devaluation of investments in securities	(837)	(120)	(8,904)
Impairment loss	(1)	(162)	(11)
Other, net	135	54	1,437
	232	608	2,469
Income before income taxes and minority interests	7,993	8,074	85,032
Income Taxes (Note 9):			
Current	3,127	2,514	33,266
Deferred	(177)	774	(1,883)
	2,950	3,288	31,383
Income before Minority Interests	5,043	4,786	53,649
Minority Interests	(23)	(16)	(245)
Net Income	¥ 5,020	¥ 4,770	$ 53,404

	Yen		U.S. dollars (Note 3)
Per Share:			
Net income:			
Primary	¥97.5	¥91.4	$1.037
Fully-diluted	—	—	—
Cash dividends	38.0	36.0	0.404

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)
	2013	2012	**2013**
Income before Minority Interests	¥ 5,043	¥4,786	$ 53,649
Other Comprehensive Income			
Unrealized holding gains on securities	8,262	857	87,894
Total other comprehensive income (Note 11)	8,262	857	87,894
Comprehensive Income	¥13,305	¥5,643	$141,543
Comprehensive income attributable to:			
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥13,282	¥5,627	$141,298
Minority interests	23	16	245

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, 2012 and 2013

	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, 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 April 1, 2012	56,911,185	¥24,357	¥24,254	¥80,717	¥(8,680)	¥ 2,536	¥202	¥123,386
Net income for the year	—	—	—	5,020	—	—	—	5,020
Cash dividends paid	—	—	—	(1,905)	—	—	—	(1,905)
Treasury stock purchased (1,007 shares)	—	—	—	—	(2)	—	—	(2)
Unrealized holding gains on securities	—	—	—	—	—	8,262	—	8,262
Increase in minority interests	—	—	—	—	—	—	23	23
Balance at March 31, 2013	56,911,185	¥24,357	¥24,254	¥83,832	¥(8,682)	¥10,798	¥225	¥134,784

	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, 2012	56,911,185	$259,117	$258,021	$858,692	$(92,340)	$ 26,978	$2,150	$1,312,618
Net income for the year	—	—	—	53,404	—	—	—	53,404
Cash dividends paid	—	—	—	(20,266)	—	—	—	(20,266)
Treasury stock purchased (1,007 shares)	—	—	—	—	(22)	—	—	(22)
Unrealized holding gains on securities	—	—	—	—	—	87,894	—	87,894
Increase in minority interests	—	—	—	—	—	—	245	245
Balance at March 31, 2013	56,911,185	$259,117	$258,021	$891,830	$(92,362)	$114,872	$2,395	$1,433,873

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, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	**2013**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 7,993	¥ 8,074	$ 85,032
Depreciation and amortization	2,390	2,635	25,426
Increase (decrease) in allowance reserves	201	(30)	2,138
Impairment loss	1	162	11
Interest and dividend income	(698)	(674)	(7,426)
Interest expense	40	43	426
Foreign exchange (gain) loss	(4)	0	(43)
Gain on valuation of securities	(240)	(175)	(2,553)
Gain on sales of property, plant and equipment	(1)	(77)	(11)
Loss on devaluation of investments in securities	837	120	8,904
Loss on sale or disposal of properties	20	47	213
(Increase) decrease in notes and accounts receivable	1,054	(3,046)	11,213
(Increase) decrease in inventories	(1,160)	1,047	(12,340)
(Increase) decrease in other current assets	365	(183)	3,883
Increase (decrease) in notes and accounts payable	383	(729)	4,074
Increase (decrease) in other current liabilities	648	(826)	6,894
Decrease in other long-term liabilities	(57)	(7)	(606)
Other	(38)	(29)	(405)
Sub total	11,734	6,352	124,830
Receipt of interest and dividends	650	629	6,915
Payment of interest	(40)	(43)	(426)
Payment of income taxes	(3,057)	(1,893)	(32,521)
Net cash provided by operating activities	9,287	5,045	98,798
Cash Flows from Investing Activities:			
Time deposits received	86	106	915
Time deposits paid	(86)	(106)	(915)
Reduction of investments in specified trusts	41	36	436
Proceeds from sales of marketable securities	—	200	—
Acquisition of property and equipment	(1,630)	(1,767)	(17,340)
Proceeds from sales of property and equipment	1	154	11
Proceeds from subsidies received from the government	—	160	—
Acquisition of intangible assets	(254)	(210)	(2,702)
Acquisition of investments in securities	(411)	(1,080)	(4,372)
Proceeds from sales of investments in securities	220	313	2,340
Payments for loans	(108)	(114)	(1,149)
Collection of loans	130	316	1,383
Long-term advance payment costs	(54)	(769)	(574)
Other	(11)	(15)	(118)
Net cash used in investing activities	(2,076)	(2,776)	(22,085)
Cash Flows from Financing Activities:			
Short-term bank loans received	—	270	—
Repayment of short-term bank loans	—	(593)	—
Long-term debt received	100	—	1,064
Repayment of long-term debt	(221)	(122)	(2,351)
Repayment of finance lease obligation	(10)	(14)	(106)
Cash dividends paid by Kissei	(1,905)	(1,849)	(20,266)
Treasury stock purchased	(2)	(4,341)	(22)
Treasury stock sale	—	0	—
Net cash used in financing activities	(2,038)	(6,649)	(21,681)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	4	(0)	43
Increase (Decrease) in Cash and Cash Equivalents	5,177	(4,380)	55,075
Cash and Cash Equivalents at Beginning of Year (Note 4)	45,774	50,154	486,957
Cash and Cash Equivalents at End of Year (Note 4)	¥50,951	¥45,774	$542,032

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 1

Basis of Presenting the Consolidated Financial Statements

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

Note 2

Summary of Significant Accounting Policies

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended March 31, 2012 and 2013 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	% of voting rights owned	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 intercompany 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, 2013.

(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.

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 respective 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 historical bad debt loss incurred against the balance of total receivables in addition to the amount of uncollectable 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 date.
(iii) Accrued bonuses to directors and corporate auditors
"Accrued bonuses to directors and corporate auditors" is provided for based on estimated payments for their performance during the fiscal year ended March 31.
(iv) Reserve for sales returns
"Reserve for sales returns" is estimated based on the percentage of the Companies' own actual return history against sales.
(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 adopt current applicable rebate rates allowed in the six-month period preceding the balance sheet date.
(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 date. In estimating the amount of sales promotion expenses, the Companies adopt current applicable expense rate for such payment against dealers' inventories based on the experience in the fiscal year under review preceding the balance sheet date.
(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 in an amount entitled to according to internal regulations 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) Standards Issued But Not Yet Effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25). The major changes are as follows:
(i) Treatment in the balance sheet
Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.
(ii) Treatment in the statement of income and the statement of comprehensive income
Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income, while actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The companies are currently evaluating the effect these modifications will have on their consolidated results of operations and financial position.

(15) Changes in Accounting Policies which are Difficult to Distinguish from Changes in Accounting Estimates

Effective from the fiscal year ended March 31, 2013, the Companies changed the depreciation method for property, plant and equipment newly acquired from April 1, 2012 according to the amendment of the Corporation Tax Act of Japan.

However, this change had only a minor impact on operating income and income before income taxes and minority interests in the fiscal year ended March 31, 2013.

Note 3
United States Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥94=U.S.$1, the approximate rate of exchange prevailing at March 31, 2013. The approximate rate of exchange prevailing at June 27, 2013 was ¥97=U.S.$1. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4
Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash on hand and in banks	**¥23,937**	¥19,234	**$254,649**
Marketable securities	**27,344**	26,600	**290,894**
Time deposits with original maturities of over three months	**(61)**	(60)	**(649)**
Marketable securities with maturities of over three months	**(269)**	—	**(2,862)**
Cash and cash equivalents	**¥50,951**	¥45,774	**$542,032**

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 arising from fluctuations in foreign currency exchange rates 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 a different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2012 and 2013 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, 2013	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	**¥ 23,937**	**¥ 23,937**	**¥—**
Notes and accounts receivable	**25,005**	**25,005**	**—**
Marketable securities and investments in securities	**63,276**	**63,276**	**—**
Total	**¥112,218**	**¥112,218**	**¥—**
Derivatives	**¥ —**	**¥ —**	**¥—**

	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	¥96,115	¥96,115	¥—
Derivatives	¥ —	¥ —	¥—

As of March 31, 2013	Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	$ 254,649	$ 254,649	$—
Notes and accounts receivable	266,011	266,011	—
Marketable securities and investments in securities	673,149	673,149	—
Total	$1,193,809	$1,193,809	$—
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
	2013	2012	**2013**
Unlisted stocks	¥967	¥1,011	$10,287
Investments in partnerships	552	521	5,872
Investments in unconsolidated subsidiaries	641	641	6,819

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 "Marketable securities and investments in securities".

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2012 and 2013 are as follows:

As of March 31, 2013	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥23,937	¥ —	¥ —	¥—
Notes and accounts receivable	25,005	—	—	—
Marketable securities and investments in securities	27,366	348	1,404	—
Total	¥76,308	¥348	¥1,404	¥—

As of March 31, 2012	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	¥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	¥—

As of March 31, 2013	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets				
Cash on hand and in banks	$254,649	$ —	$ —	$—
Notes and accounts receivable	266,011	—	—	—
Marketable securities and investments in securities	291,127	3,702	14,936	—
Total	$811,787	$3,702	$14,936	$—

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, 2012 and 2013 are as follows:

	Millions of yen			
	2013			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥17,287**	**¥33,448**	**¥16,374**	**¥213**
Corporate debt securities	**1,000**	**1,001**	**6**	**5**
Other	**28,705**	**28,826**	**160**	**39**
Total	**¥46,992**	**¥63,275**	**¥16,540**	**¥257**

	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

	Thousands of U.S. dollars			
	2013			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$183,904**	**$355,830**	**$174,192**	**$2,266**
Corporate debt securities	**10,638**	**10,649**	**74**	**53**
Other	**305,373**	**306,659**	**1,702**	**426**
Total	**$499,915**	**$673,138**	**$175,968**	**$2,745**

Sales of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales proceeds	**¥34**	¥—	**$362**
Gross realized gains	**—**	—	**—**
Gross realized losses	**—**	—	**—**

Note 7
Inventories

Inventories at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Merchandise	**¥ 1,327**	¥1,496	**$ 14,117**
Finished goods	**2,748**	2,544	**29,234**
Work-in-process	**1,478**	1,634	**15,723**
Raw materials	**5,372**	4,121	**57,149**
Supplies	**199**	169	**2,117**
Total	**¥11,124**	¥9,964	**$118,340**

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

Short-term bank loans outstanding at March 31, 2012 and 2013 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2012 and 2013 bore interest at an average annual rate of 1.07% and 1.15%, respectively.

Long-term debt of the Companies at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 3.61% due from 2012 to 2027	**¥1,647**	¥1,769	**$17,521**
Less: current maturities due within one year	**(122)**	(222)	**(1,298)**
Total	**¥1,525**	¥1,547	**$16,223**

The aggregate annual maturities of long-term debt outstanding at March 31, 2013 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 112	$ 1,191
2015	41	436
2016	41	436
2017 and thereafter	1,331	14,160
Total	¥1,525	$16,223

Note 9
Income Taxes

Deferred tax assets (both current and non-current) at March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Accrued retirement benefits to employees	**¥ 1,526**	¥ 1,468	**$ 16,234**
Prepaid research and development expenses	**1,141**	1,082	**12,138**
Accrued bonuses to employees	**812**	760	**8,638**
Write-down of securities	**705**	421	**7,500**
Inventory assets	**486**	412	**5,170**
Payment of retirement benefits to directors and corporate auditors	**204**	230	**2,170**
Impairment loss	**179**	181	**1,904**
Accrued enterprise tax	**172**	167	**1,830**
Reserve for sales rebates	**137**	169	**1,458**
Other	**913**	939	**9,713**
Total gross deferred tax assets	**6,275**	5,829	**66,755**
Valuation allowance	**(1,266)**	(1,003)	**(13,468)**
Total deferred tax assets	**¥ 5,009**	¥ 4,826	**$ 53,287**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥(5,634)**	¥(1,335)	**$(59,936)**
Other	**(22)**	(21)	**(234)**
Total deferred tax liabilities	**(5,656)**	(1,356)	**(60,170)**
Deferred tax assets (liabilities), net	**¥ (647)**	¥ 3,470	**$ (6,883)**

Reconciliation of the actual tax rate for the years ended March 31, 2012 and 2013 are as follows:

	2013	2012
Effective statutory tax rate	**37.7%**	40.4%
Adjustments:		
Entertainment expenses and other non-deductibles	**2.1**	4.9
Dividend income not taxable	**(1.4)**	(1.5)
Tax benefits due to research and development expenses	**(6.5)**	(9.0)
Per capital levy of local inhabitants taxes	**1.0**	1.0
Valuation allowance	**3.7**	(0.9)
Tax effect from change in tax rate by tax reform, etc.	**—**	4.8
Other	**1.0**	1.1
Actual tax rate	**37.6%**	40.8%

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 as of March 31, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligations	¥(17,247)	¥(16,742)	$(183,479)
Fair value of plan assets	11,356	10,138	120,809
Funded status of the plans	(5,891)	(6,604)	(62,670)
Unrecognized net actuarial difference	2,529	3,748	26,904
Unamortized prior service cost	(837)	(1,134)	(8,904)
Net liability recognized	¥ (4,199)	¥ (3,990)	$ (44,670)

The net periodic retirement benefit cost for the years ended March 31, 2012 and 2013 included the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Retirement benefit cost	¥1,116	¥1,049	$11,872
(1) Service cost	818	704	8,702
(2) Interest cost	300	354	3,191
(3) Expected return on plan assets	(253)	(241)	(2,691)
(4) Amortization of difference caused from actuarial calculation	498	487	5,298
(5) Amortization of prior service cost	(297)	(299)	(3,160)
(6) Additional payment of retirement costs	50	44	532

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 1.8% as of March 31, 2012 and 2013. The rate of expected return on plan assets was 2.5% as of March 31, 2012 and 2013. 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 for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unrealized holding gains on securities			
Amount recognized in the year under review	¥11,720	¥ 992	$124,681
Amount of recycling	837	120	8,904
Before income tax effect adjustment	12,557	1,112	133,585
Amount of income tax effect	(4,295)	(255)	(45,691)
Unrealized holding gains on securities	8,262	857	87,894
Total other comprehensive income	¥ 8,262	¥ 857	$ 87,894

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 ¥8 million ($85 thousand) at March 31, 2013.

In addition, the Companies were contingently liable for guarantees in respect of loans borrowed by its unconsolidated subsidiaries for an amount of ¥19 million ($202 thousand) at March 31, 2013.

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 the 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			
	2013			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 54,232	¥ 54,232	¥ 8,259	¥ 62,491
Intersegment sales and transfers	—	—	4,279	4,279
Total	¥ 54,232	¥ 54,232	¥12,538	¥ 66,770
Segment profit	¥ 7,237	¥ 7,237	¥ 480	¥ 7,717
Segment assets	¥153,148	¥153,148	¥ 9,766	¥162,914
Other items				
Depreciation	¥ 2,143	¥ 2,143	¥ 357	¥ 2,500
Increase of property, plant and equipment and intangible assets	1,980	1,980	390	2,370

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

	Millions of yen			
	2012			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 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; it includes sales of materials and other goods, information solution services, construction subcontracting, and facilities and equipment management.

	Thousands of U.S. dollars			
	2013			
	Business segment			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	$ 576,936	$ 576,936	$ 87,862	$ 664,798
Intersegment sales and transfers	—	—	$ 45,521	$ 45,521
Total	$ 576,936	$ 576,936	$133,383	$ 710,319
Segment profit	$ 76,990	$ 76,990	$ 5,106	$ 82,096
Segment assets	$1,629,234	$1,629,234	$103,894	$1,733,128
Other items				
Depreciation	$ 22,798	$ 22,798	$ 3,798	$ 26,596
Increase of property, plant and equipment and intangible assets	21,064	21,064	4,149	25,213

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

(4) Reconciliation Items between Segment Information and the Consolidated Financial Statements

(i) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net sales			
Total of business segments	¥ 54,232	¥ 55,503	$ 576,936
Other business sales	12,538	14,227	133,383
Elimination of intersegment transactions	(4,279)	(5,111)	(45,521)
Reported on consolidated financial statements	¥ 62,491	¥ 64,619	$ 664,798
Segment profit			
Total of business segments	¥ 7,237	¥ 7,049	$ 76,989
Other business profit	480	372	5,106
Elimination of intersegment transactions	55	57	585
Adjustments to depreciable assets	(1)	(8)	(11)
Other adjustments	(10)	(4)	(106)
Reported on consolidated financial statements	¥ 7,761	¥ 7,466	$ 82,563
Segment assets			
Total of business segments	¥153,148	¥137,832	$1,629,234
Assets classified as “other”	9,766	8,884	103,894
Elimination of intersegment transactions	(2,886)	(2,331)	(30,702)
Reported on consolidated financial statements	¥160,028	¥144,385	$1,702,426

(ii) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Depreciation			
Total of business segments	¥2,143	¥2,409	$22,798
Other segments	357	347	3,798
Adjustments	(110)	(120)	(1,170)
Reported on consolidated financial statements	¥2,390	¥2,636	$25,426
Increase of property, plant and equipment and intangible assets			
Total of business segments	¥1,980	¥2,711	$21,064
Other segments	390	324	4,149
Adjustments	(398)	(168)	(4,234)
Reported on consolidated financial statements	¥1,972	¥2,867	$20,979

Note 14
Related Party Transactions

For the year ended March 31, 2013

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, 2012 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Advertising and sales promotion expenses	¥ 3,716	¥ 4,507	$ 39,532
Payroll costs	9,406	9,327	100,064
Research and development expenses	10,312	10,043	109,702
Traveling expenses	1,819	1,908	19,351
Depreciation	781	1,043	8,309
Other	7,553	7,477	80,351
	¥33,587	¥34,305	$357,309

Independent Auditor's Report

Ernst & Young ShinNihon LLC
3-1-1 Ote, Matsumoto-shi
Nagano, Japan 390-0874

Tel: +81 263 31 8720
Fax: +81 263 31 8721

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, 2013, 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 its consolidated subsidiaries as at March 31, 2013, 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 27, 2013
Matsumoto, Japan

Ernst & Young ShinNihon LLC

Board of Directors

As of June 27, 2013

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 (External)

Kando Nakagawa (External)

Corporate Data

As of June 27, 2013

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, 2013)

Number of Employees:
1,552 (Non-consolidated) (As of March 31, 2013)

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, 2013

Common Stock:

Authorized: 227,000,000 shares

Issued: 56,911,185 shares

Number of Shareholders:

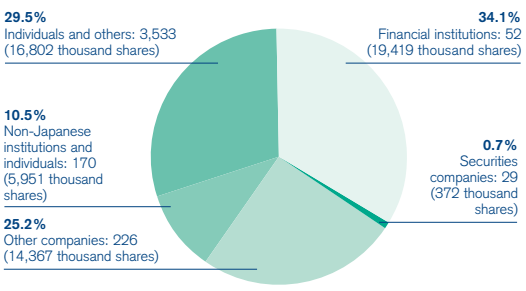
4,010 (Year-on-year change: 66 increase)

Principal Shareholders:

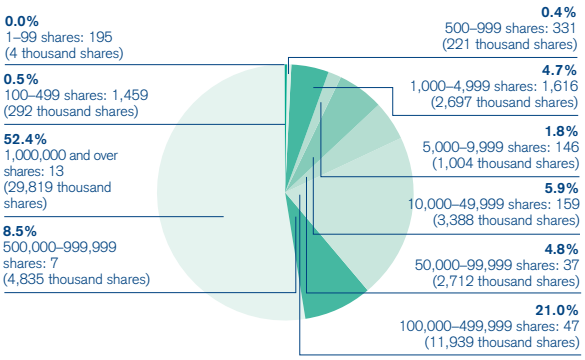
	Number of shares held (Hundreds)	Voting rights (%)
The Dai-ichi Life Insurance Company, Limited	32,000	6.2
Kanzawa Limited	31,782	6.2
Kunio Kanzawa	27,030	5.3
The Hachijuni Bank, Ltd.	25,729	5.0
Mizuho Bank, Ltd.	25,702	5.0
Japan Trustee Services Bank, Ltd. (Trust account)	22,644	4.4
The Master Trust Bank of Japan, Ltd. (Trust account)	16,157	3.1
Mutsuo Kanzawa	15,254	3.0
Kissei Group Employee Stockholders Committee	13,523	2.6
Nabelin Co., Ltd.	12,223	2.4

*1: Kissei holds 54,392 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



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

MIX
Paper from responsible sources
FSC™ C014687
VEGETABLE OIL INK
Waterless Printing. Natural.

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

Printed in Japan