Looking Towards Tomorrow's Health

KISSEI

Annual Report 2015

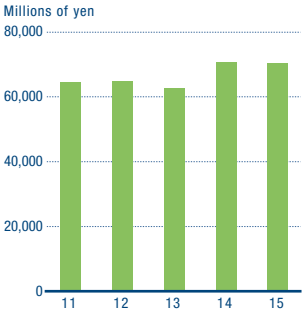
Financial Highlights

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

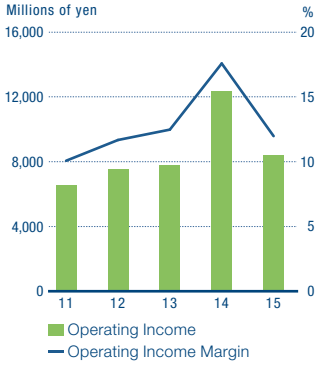
	Millions of yen, except per share data					Thousands of U.S. dollars, except per share data[1]
	2011	2012	2013	2014	**2015**	**2015**
For the Year:						
Net Sales	¥64,394	¥64,619	¥62,491	¥70,399	**¥70,111**	**$584,258**
R&D Expenses	12,037	10,043	10,312	11,299	**14,488**	**120,733**
Capital Investment	1,322	1,893	1,664	2,382	**1,825**	**15,208**
Operating Income	6,464	7,466	7,761	12,301	**8,334**	**69,450**
Net Income	4,004	4,770	5,020	9,093	**7,165**	**59,708**
At Year-End:						
Total Assets	¥146,249	¥144,385	¥160,028	¥172,650	**¥181,485**	**$1,512,375**
Total Net Assets	123,932	123,386	134,784	142,821	**150,720**	**1,256,000**
Per Share (Yen and U.S. Dollars):						
Net Income[2]:						
Primary	¥73.8	¥91.4	¥97.5	¥176.7	**¥142.1**	**$1.184**
Fully-Diluted	—	—	—	—	**—**	**—**
Cash Dividends	34.0	36.0	38.0	40.0	**42.0**	**0.35**
Key Ratios (%):						
Operating Income Margin	10.0	11.6	12.4	17.5	**11.9**	
Return on Assets (ROA)	2.7	3.3	3.1	5.5	**4.0**	
Return on Equity (ROE)	3.2	3.9	3.9	6.6	**4.9**	
Shareholders' Equity Ratio	84.6	85.3	84.1	82.6	**82.9**	
Number of Employees	1,911	1,893	1,894	1,883	**1,883**	

1: U.S. dollar amounts are translated at the rate of ¥120=U.S.$1, the approximate effective rate of exchange at March 31, 2015.
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.

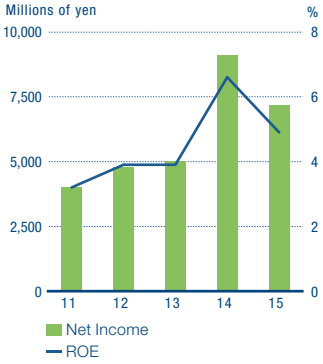
Net Sales



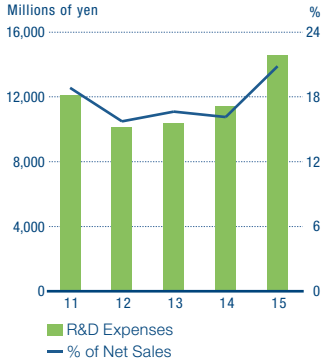
Operating Income / Operating Income Margin



Net Income / ROE



R&D Expenses



Contents

Letter from the CEO

Mutsuo Kanzawa
Chairman and Chief Executive Officer

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.

In the pharmaceutical business, Kissei developed and is advancing the PROGRESS 3 medium-term management plan. Covering the three-year period from fiscal 2014 to fiscal 2016, this plan sets forth a concrete roadmap for realizing the management vision.

In developing countries, governments are accelerating various measures geared toward improving health insurance systems in terms of finances. At the same time, there is doubt that the previously brisk pace of growth in emerging economies will remain as strong in the future. The domestic pharmaceutical market, meanwhile, is currently a hotbed for medical innovation in response to the rapid aging of the Japanese population. However, it is also bearing witness to the promotion of generic drug use as well as the revision of the National Health Insurance (NHI) price listings as a part of an aggressive drive to limit future public medical treatment costs. In this manner, the operating environment for the pharmaceutical industry is expected to undergo intense change on a global scale, which will likely ignite fierce competition as companies around the world vie for survival in this difficult environment. Nevertheless, we are confident in Kissei's ability to keep growing as an R&D-oriented pharmaceutical company by implementing the concrete growth strategies described in PROGRESS 3.

Kissei aims to always be a highly trusted company that lives up to the expectations of all its stakeholders, including patients, patients' families, and medical practitioners as well as its shareholders and employees and the local communities it serves. To accomplish this goal, we will advance untiringly on our quest to realize Kissei's management vision while forging a path for creating future value through never-ending innovation.

I hope for the ongoing support of all our stakeholders as we advance into the future.

June 2015

Medium-Term Management Plan

1. Enhance our product portfolio and efficiently advance clinical trials for development themes to quickly achieve approval
2. Launch promising new products overseas and set targets for development, overseas expansion, and sales to maximize sales in order to secure funds for R&D expenditures and strengthen earnings structures
3. Develop efficient production systems and provide a stable supply of high-quality pharmaceuticals
4. Secure profits in healthcare businesses, explore new markets, and transform business model
5. Strengthen management bases of Group companies to facilitate utilization of comprehensive capabilities through effective Group management
6. Establish and promote forward-thinking organizations and human resource strategies, invigorate employee base and organization, and improve productivity

Message from the COO

Masaki Morozumi
President and
Chief Operating Officer

Review of Operations

Overview of Operations in the Year Under Review

In fiscal 2014, the year ended March 31, 2015, the Japanese economy saw a recovery trend driven by yen deprecation and stock price appreciation resulting from government economic stimulus measures, while the recovery in the U.S. economy also had a positive impact. However, due to lingering uncertainty in the European economy and economic slowdowns in both China and emerging nations, future prospects for the Japanese economy remain unclear.

In the pharmaceutical industry, business conditions remained tough due to the Japanese government's continued promotion of policies to encourage the use of generic drugs to reduce public medical treatment costs. Moreover, although NHI price revisions implemented in April 2014 continued to introduce trial programs to promote new drug creation and resolve issues related to off-label use, they also included special price reductions of long-listed drugs that have yet to be replaced by generics. Demand for IT investment and capital investment gradually recovered among companies in the information services, merchandising, and construction industries. However, economic recovery overall slowed, primarily in consumer spending, and competition remained fierce as a result.

Amid these operating conditions, our business results for fiscal 2014 were as follows.

Consolidated Performance

	Millions of yen		%
	Results for year ended March 2014	Results for year ended March 2015	Change
Net Sales	¥70,399	¥70,111	(0.4)
Operating Income	12,301	8,334	(32.2)
Net Income	9,093	7,165	(21.2)

In the pharmaceutical business, net sales fell 2.3% year on year, to ¥59,694 million. We focused our efforts on cultivating such new products as the Glubes® Combination Tablet, a treatment for type 2 diabetes; Urief®, a treatment for dysuria associated with benign prostatic hyperplasia (BPH); and Epoetin Alfa BS injection [JCR], a treatment for renal anemia. At the same time, we actively engaged in promotional activities to spread information about our existing products. Nonetheless, net sales fell due to the influence of decreased revenues from technical fees, mainly licensing fees from the out-licensing of R&D themes, and NHI price reductions. In fiscal 2014, we also launched SAVENE® Injectable 500mg, an antineoplastic drug used to prevent complications from anthracyclines extravasations, and SALAGEN® Granules 0.5%, a treatment to improve symptoms of dry mouth, on April 17 and December 12, respectively. As for the respiratory stimulant DOPRAM® Injectable 400mg, we received approval for the additional indication of the drug for primary apnea in premature infants (apneic attack of prematurity) in March. Accordingly, we are developing promotional activities related to this additional indication. In addition, licensed companies continued to advance measures to cultivate and prepare for sales of silodosin (brand name in Japan: Urief®), a treatment for dysuria associated with BPH, in the countries and regions in which they are licensed to do so. In the year under review, U.S-based licensee Allergan plc (formly Actavis plc) advanced these measures in North America and Latin America, and Italy-based licensee Recordati S.p.A advanced these measures in Europe, the Middle East, and Africa. Moreover, other licensees are also planning to cultivate this product.

In other businesses, net sales rose 11.9% year on year, to ¥10,417 million. Although sales slightly decreased in the information services industry, sales increased in both the merchandising and construction industries.

As for income, an increase in selling, general and administrative expenses, primarily due to higher R&D expenses, and a decrease in sales led to reductions in operating income and net income.

As for R&D, in the year under review, we submitted an application for an additional dosage form of Urief® (oral disintegration tablet) in June, and an application for the approval of PA21 (development number), a drug used to treat hyperphosphatemia, in November. Additionally, we submitted an application for an additional dosage form of Glufast® (oral disintegration tablet), a drug used to treat type 2 diabetes, in January 2015. We also continued to advance relevant R&D themes, and move them forward into their next development stage. In March, we concluded an agreement with Ajinomoto Pharmaceuticals Co., Ltd. for the joint domestic development and marketing of AJM300 and AJG511 (development numbers), drugs used to treat ulcerative colitis. Although we advanced clinical development (phase II clinical trial) of KUX-1151 (development number), used to treat gout and hyperuricemia, we have decided, from a practical perspective, to suspend its further development in Japan. The reason behind our decision was the fact that Pfizer Inc., which we granted exclusive rights to develop

and market KUX-1151 outside of Japan, could not obtain their expected clinical development profile for the drug in the United States. However, we are currently advancing research with Pfizer on new compounds to take the place of KUX-1151.

Outlook for the Current Fiscal Year

In the domestic pharmaceutical market, business conditions will likely remain tough as the Japanese government continues to push the promotion of policies to reduce public medical treatment costs, such as encouraging the use of generic drugs.

Other businesses are also expected to continue facing challenging conditions in their industries, despite signs of economic recovery.

Amid these conditions, the Kissei Group is focused on strengthening its management base by creating synergies among Group companies, reaping the benefits of investments made in R&D, and improving profitability.

Our consolidated performance forecast for fiscal 2015, the year ending March 31, 2016, is as follows.

Consolidated Performance Forecast

	Millions of yen		%
	Forecast for year ending March 2016	Results for year ended March 2015	Change
Net Sales	¥70,500	¥70,111	0.6
Operating Income	8,700	8,334	4.4
Net Income	6,800	7,165	(5.1)

Net Sales

In the pharmaceutical business, with the continued cultivation of Urief®, Glubes®, and Epoetin Alfa BS, we are expecting an increase in net sales. We are also expecting an increase in net sales in other businesses as well.

Income

In the pharmaceutical business, we are expecting an increase in operating income due to increased sales and reduced R&D expenses. However, as we do not anticipate any noteworthy other profit and loss items, a decrease is expected in net income. Although other businesses are likely to record increased net sales, income is expected to decline due to higher cost of sales.

Management Strategy

In April 2014, Kissei started its PROGRESS 3 medium-term management plan. By advancing the basic policies of PROGRESS 3 mentioned on page one, we will work to strengthen Kissei's earnings structures as an R&D-oriented pharmaceutical company and build growth foundations for the future.

Kissei recognizes that enhancing and reinforcing its unique and competitive product portfolio is an important management task. During the period of the PROGRESS 3 medium-term management plan, tasks such as the selection of drug discovery themes, introduction of newly developed and existing products, development of biopharmaceutical operations, and institution of lifecycle management will be conducted in a balanced manner while considering marketing and intellectual property strategies.

In regard to R&D, areas in which we currently market products (urinary system, metabolism and endocrine system, kidney and dialysis, gynecology, and ophthalmology) will be positioned as core product areas, and the Company will continue to introduce new priority drugs and other products to enhance and reinforce its product lineup in these areas. At the same time, we will push forward with R&D activities in new areas that have the potential to become core product areas (central nervous system, digestive system, and unmet medical needs).

In addition, we intend to develop corporate governance systems and manage our business based on exemplary 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.

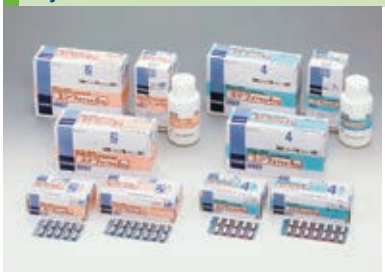
June 2015

Enhancement and Reinforcement of Product Portfolio

Area		Marketed Products	Products Under Development (Name / Development Code)
Current Areas of Marketing	Kidney and dialysis	Epoetin Alfa BS Injection [JCR] Fragmin® Fulstan®	Hyperphosphatemia treatment PA21
	Urinary system	Urief®	Dysuria treatment Urief® OD
	Metabolism and endocrine system	Glufast® Glubes® Bezatol®	Diabetes treatment Glufast® OD
	Ophthalmology	Rizaben® Eye Drops Rysmon® TG Ophthalmic Solution	Dry eye treatment KCT-0809
	Gynecology	Utemerin® Zoladex® 1.8mg Depot	Endometriosis treatment KLH-2109
New Areas	Central nervous system		Spinocerebellar ataxia treatment KPS-0373
	Digestive system		Chronic constipation treatment KWA-0711 Ulcerative colitis treatment AJM300 Ulcerative colitis treatment AJG511
	Unmet medical needs		Malignant mesothelioma treatment YS110

Major Domestic Pharmaceuticals

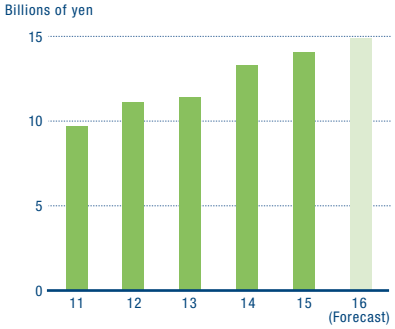
Dysuria treatment: Urief® Tablet



Urief® is a selective alpha 1A-adrenoceptor blocker developed by Kissei for the treatment of dysuria associated with BPH. 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. Preparations are currently advancing to commence sales of Urief® in the form of an orally disintegrating tablet.

Years ended March 31

Urief® Sales



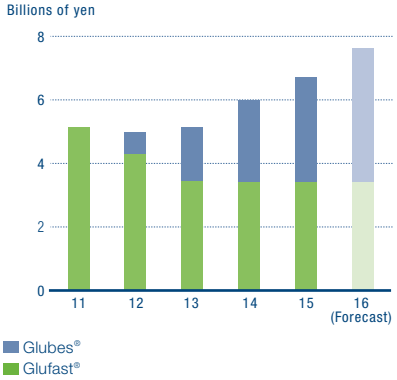
Diabetes treatment: Glufast® Tablet

Glufast® is a rapid-acting insulin secretagogue developed by Kissei that has been co-marketed with Takeda Pharmaceutical Co., Ltd., since May 2004. In September 2013, a partial revision to the indication for this agent was approved. It is now approved for treatment of type 2 diabetes, and can be used in conjunction with all oral hypoglycemic agents except sulfonylurea derivatives.

Glubes® Combination Tablet

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.

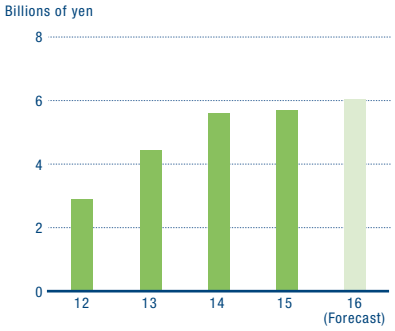
Glufast® and Glubes® Sales



Renal anemia treatment: Epoetin Alfa BS Injection [JCR]

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

Epoetin Alfa BS Injection [JCR] Sales



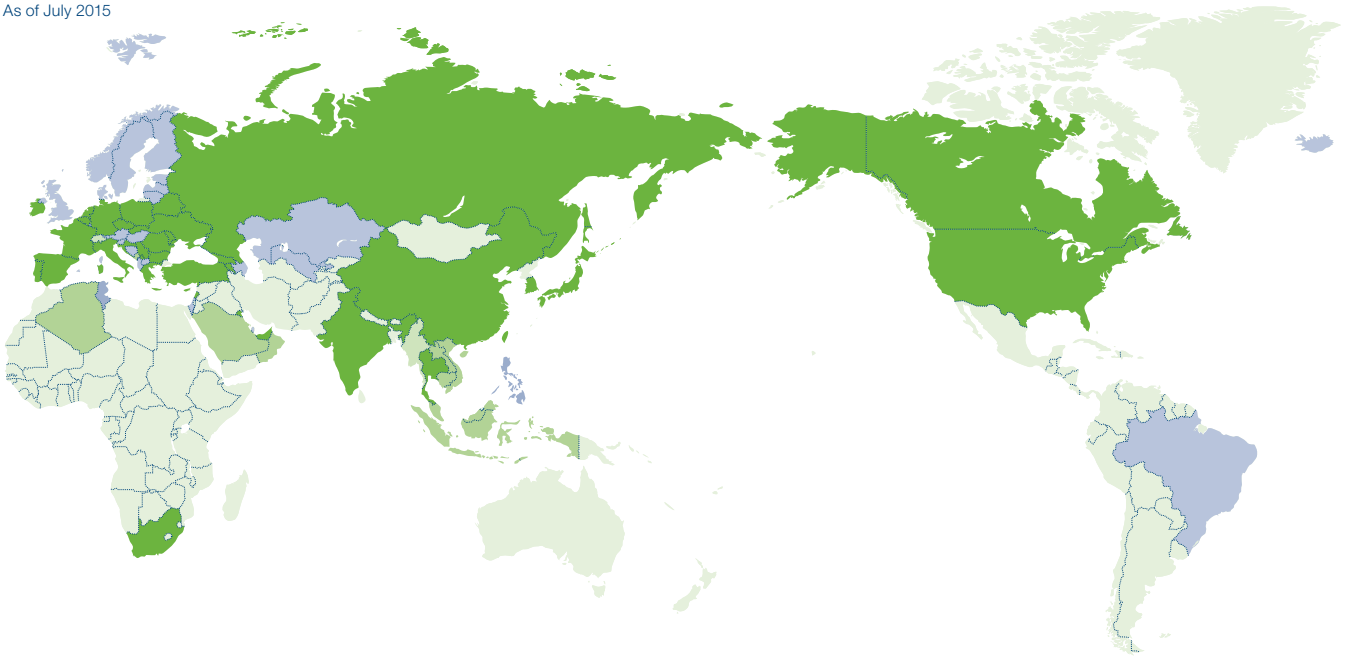
Domestic Manufacturing and Marketing Authorization Application Submitted for Hyperphosphatemia Treatment PA21

In November 2014, Kissei submitted an application to receive domestic manufacturing and marketing authorization for a drug known as PA21 (development code), which is a treatment for hyperphosphatemia. Kissei began developing PA21 in September 2010 after the acquisition of exclusive development and marketing rights for the drug in Japan. The license holder for PA21 is Vifor Fresenius Medical Care Renal Pharma Ltd. (Head office: Switzerland). This company has received approval for the drug in 35 countries worldwide, and is currently marketing it under the brand name Velphoro® in the United States, Australia, and numerous European countries. PA21 is an iron-based phosphate binder for the treatment of hyperphosphatemia that decreases the serum phosphate concentration by binding to phosphoric acid in the gastrointestinal tract and reducing in vivo phosphate absorption. In addition, the drug can be taken orally without water, and is therefore expected to provide a new treatment option for dialysis patients that require fluid restriction. The number of chronic dialysis patients is growing every year, and had reached approximately 310,000 in Japan as of December 31, 2013. By obtaining marketing authorization for this drug, we aim to further enhance our product lineup in the kidney and dialysis area to make further contributions to dialysis treatment.

Overseas Development

Overseas Development of Silodosin

As of July 2015



Launched: Japan, the U.S., Canada, South Korea, Taiwan, China, Macau, Thailand, India, Lebanon, the UAE, Kuwait, South Africa, Germany, Ireland, Spain, France, Portugal, Belgium, Romania, Italy, Greece, the Netherlands, Russia, the Czech Republic, Slovakia, Bulgaria, Cyprus, Turkey, Poland, the Ukraine, Georgia, Belarus, Croatia, Armenia, Serbia, and Moldova

Approval acquired but not yet launched: 12 of the 28 EU member countries (already launched in the other 16), and 15 other countries: Brazil, the Philippines, Israel, Qatar, Tunisia, Liechtenstein, Norway, Iceland, Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Uzbekistan, Azerbaijan, and Kazakhstan

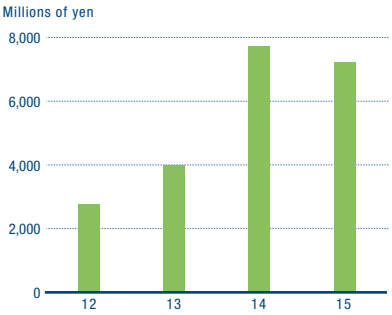
Filed an NDA but not yet approved: Hong Kong, Indonesia, Malaysia, Laos, Vietnam, Cambodia, Myanmar, Algeria, Bahrain, Oman, Saudi Arabia, Montenegro, and Switzerland

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 Allergan plc, 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 regions such as Europe, the Middle East, Africa, and Oceania. In April 2013, licensing partner Daiichi Sankyo (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 37 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 "Message from the COO" 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 ¥14,488 million, or 20.7% of net sales.

Pharmaceutical Business

We have reinforced our product portfolio by stepping up R&D and in-licensing activities in R&D fields such as biologics and other new areas of participation as well as marketing. Total R&D expenses in this business segment for the fiscal year under review were ¥14,361 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 segment for the fiscal year under review were ¥127 million.

R&D Pipeline (In-House)
As of August 2015

Development Stage	Product name / Generic name / Development Code	Development Classification	Therapeutic Target
NDA	Urief® / Silodosin	Kissei / Co-development with Daiichi Sankyo (Japan)	Dysuria associated with benign prostatic hyperplasia - Alpha 1A antagonist - - Additional dosage form: oral disintegration tablet -
	PA21	In-licensed / Vifor Fresenius Medical Care Renal Pharma (Switzerland)	Hyperphosphatemia in hemodialysis patients - Phosphate binder -
	Glufast® / Mitiglinide	Kissei	Type 2 diabetes mellitus - A rapid-acting insulin secretagogue - - Additional dosage form: oral disintegration tablet -
Phase III	Rovatirelin / KPS-0373	In-licensed / Shionogi (Japan)	Spinocerebellar ataxia - Product mimetic of TRH action -
	AJM300	In-licensed / Co-development with Ajinomoto Pharmaceuticals (Japan)	Ulcerative colitis - Alpha 4 integrin antagonist -
	AJG511	In-licensed / Co-development with Ajinomoto Pharmaceuticals (Japan)	Ulcerative colitis - A locally-active steroid - - Rectal foam product -
	Ozagrel / KCT-0809	Kissei / Co-development with Teika (Japan)	Dry-eye with sjögren's syndrome - Restoration of corneal and conjunctival epithelium -
Phase II	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, AMED (Japan)	Malignant mesothelioma - Humanized anti-CD26 monoclonal antibody -

R&D Pipeline (Out-Licensing)
As of August 2015

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, SriLanka [2]	Dysuria associated with benign prostatic hyperplasia
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, the Philippines; Approved in Myanmar, Cambodia; NDA in 2 countries
2: Launched in Thailand, India; Approved in the Philippines; NDA in 6 ASEAN countries

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 sustainable 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.

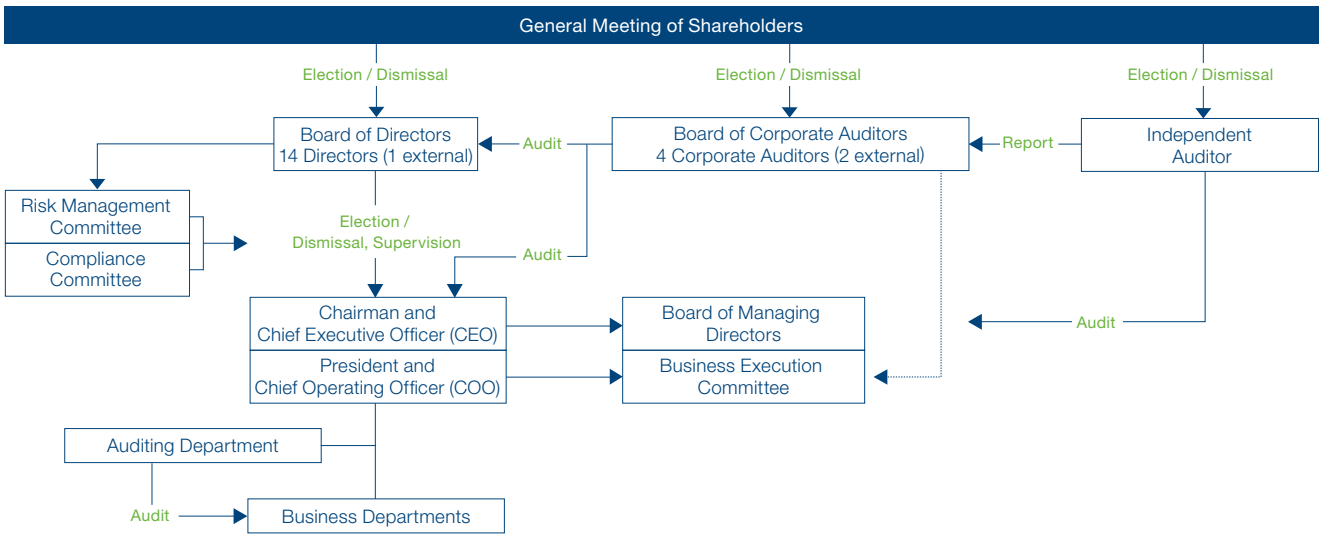
The Company employs a corporate governance management system under which the chief executive officer (CEO) is given authority over all matters pertaining to management and the chief operating officer (COO) is responsible for all matters related to business execution. This system delegates certain business execution responsibilities from the Board of Directors, and it was instituted with the aim of strengthening management systems and allowing for management to be conducted more flexibly. In addition, the CEO is responsible for convening meetings of the Board of Managing Directors, which consists of managing directors and directors of a higher rank and is responsible for discussing and ruling on items from a predetermined agenda. Furthermore, the Business Execution Committee has been established as an advisory committee to the COO, the highest authority for business execution matters, to aid the COO in making decisions and to assist in examining the management matters to be proposed or reported to the Board of Directors, of which the COO is a member.

The Company has adopted a corporate auditor system. This system was deemed rational as the corporate auditors together with the appointed external director effectively facilitate improvements in the functionality of the Board of Directors while strengthening management oversight functions. The Company has two in-house and two external corporate auditors. Corporate auditors attend meetings of the Board of Directors and actively state opinions. One external corporate auditor is a licensed attorney, while the other is a certified public accountant. Consequently, they are able to conduct audits from a specialist perspective.

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 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.

Corporate Governance Bodies and Internal Control System



Corporate Governance (Continued)

Internal Audits

Kissei has established the Auditing Department, an independent body that reports directly to the COO. This five-member body conducts internal audits for each department and all internal systems in Kissei based on the yearly auditing plan, ensuring that all departments are carrying 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 year. In addition, they meet each month to exchange opinions on the status of the audits being conducted.

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. In addition, the Tripartite Auditing Council convenes periodically, providing an opportunity for corporate auditors, Auditing Department staff, and the independent auditor to meet to exchange information and otherwise coordinate with one another.

External Director and Corporate Auditors

There are no special relationships between the one external director and the two external corporate auditors and the Company that could cause a conflict of interests.

The external director and corporate auditors are expected to participate in management from an objective and neutral standpoint, thereby helping improve the transparency of management.

Reasons for Appointment of External Director

The one external director was selected for their wealth of specialized knowledge gained while working at financial institutions as well as their experience and expertise in corporate management. From a perspective that is independent from business execution, it is anticipated that this external director will provide valuable insight and advice to support the Board of Directors in making better decisions with regard to the appropriate management direction and other important matters.

Reasons for Appointment of External Corporate Auditors

One external corporate auditor has experience as the chairman of an auditing firm and is also versed in finance and accounting due to their experience as a certified public accountant and tax accountant. For this reason, it was judged that this individual possessed substantial insight into corporate management, and they were thus selected with the anticipation that they would conduct audits rooted in their insight and years of experience in the fields of finance and accounting. The other external corporate auditor possesses substantial insight into corporate management from their experience as a licensed attorney practicing in the field of corporate law. This individual was thus selected with the anticipation that they would conduct audits rooted in their legal insight and experience.

Board of Directors and Board of Corporate Auditors

As of June 26, 2015

Chairman and Chief Executive Officer:
Mutsuo Kanzawa

President and Chief Operating Officer:
Masaki Morozumi

Executive Vice President:
Masuo Akahane

Executive Managing Director:
Hiroe Sato

Managing Directors:
Masayuki Isaji
Keiji Fukushima

Directors:
Yoshio Furihata
Takuo Asakawa
Kaname Hashimoto
Yasuo Takehana
Kenji So
Hidetoshi Kanai
Tetsu Takayama
Shigetaka Shimizu (External)

Auditors:
Makoto Yonekubo
Sukio Adachi
Hiroshi Ueno (External)
Kando Nakagawa (External)

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 type of appropriate action enhances its brand and corporate image and also helps improve both corporate value and the trust stakeholders hold in the Company.

Kissei has formulated the Kissei Code of Conduct and published 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. Kissei Pharmaceutical's Compliance Program Manual is distributed throughout the Company and the Kissei Group companies 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 such groups as researchers, health professionals, and patients.

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, misuses of power, and general compliance-related consultations.

The Central Research Laboratories conduct animal testing as a certified organization after having undergone inspections by third-party organization Japan Health Sciences Foundation. Furthermore, in March 2015, the Toxicological Laboratories, a safety research facility, received full accreditation from the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC International), indicating that this facility is operating to international standards for humane animal testing.

Consideration for Society

We place great importance on our relationships with local communities. We continue to make social contributions through 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 Seiji Ozawa Matsumoto Festival (formerly the Saito Kinen Festival), a global music festival held annually during early fall in Matsumoto City, Nagano Prefecture. We have sponsored this cultural event since the year it began. We have also acquired the naming rights for the hall in Matsumoto City in which the festival is held, giving it the name "Kissei Cultural Hall." In the field of sports, Kissei is an official sponsor of the Matsumoto Yamaga Football Club, which plays in the J.League Division 1. 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 with emphasis placed on local communities, Kissei holds sponsored courses on serious nerve diseases at the Shinshu University School of Medicine and conducts drug discovery courses in collaboration with the same university. Kissei also contributes to the development of the field of medicine and local communities through ongoing, pertinent donations.

Consideration for Customers

We established the Product Customer Service Center to respond to inquiries from doctors, pharmacists, and other healthcare professionals, as well as from patients and their families. Our medical information representatives carry iPads equipped with a safety information system that is linked to a database containing safety information on our pharmaceuticals and thereby enables requested information to be displayed immediately. This system allows representatives to provide swift responses to questions from medical practitioners regarding pharmaceutical side effects or other matters.

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 workplace 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 a workplace 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. In accordance with this basic environment policy, we strive to minimize the adverse impact of all our activities on the environment and to contribute to environmental protection.

Adhering to this policy, we are working to reduce energy use and CO_2 emissions throughout the organization. In fiscal 2014, energy use (crude oil equivalent) increased 0.3% year on year, and CO_2 emissions were up 0.4%. Further, with the aim of preventing global warming and reducing energy use, 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 use, 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. In addition, each facility has a designated person responsible for environmental management to advance environmental protection activities going forward.

Financial Review

Financial Position

At the end of the fiscal year under review, ended March 31, 2015, total assets stood at ¥181,485 million, up ¥8,835 million from the previous fiscal year-end. Total current assets decreased ¥3,533 million, to ¥97,362 million, due to declines in cash on hand and in banks as well as marketable securities, which offset an increase in inventories. Total non-current assets rose ¥12,368 million, to ¥84,123 million, following an increase in investments in securities.

Total liabilities amounted to ¥30,765 million at fiscal year-end, up ¥936 million from the previous fiscal year-end. Total current liabilities stood at ¥18,935 million, up ¥1,056 million, due to increases in notes and accounts payable as well as payables and advances included in other current liabilities, which outweighed the decline in income taxes payable and accrued bonuses to employees. Total long-term liabilities were down ¥119 million, to ¥11,830 million, principally due to a decrease in net defined benefit liability, which counteracted an increase in deferred tax liabilities.

Total net assets amounted to ¥150,720 million at fiscal year-end, increasing ¥7,899 million from the previous fiscal year-end. Retained earnings increased, but total shareholders' equity decreased ¥3,259 million following the acquisition of treasury stock. Meanwhile, fluctuations in unrealized holding gains on securities and retirement benefits liability adjustments resulted in a ¥11,110 million increase in total accumulated other comprehensive income, which was a major contributing factor to the rise in total net assets.

As a result, the shareholders' equity ratio was 82.9%, up from 82.6% at the previous fiscal year-end.

Financial Results

Overall net sales decreased 0.4% year on year, to ¥70,111 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were down 2.3%, or ¥1,396 million, to ¥59,694 million. In this segment, sales of Glubes® Combination Tablet, Urief®, and Epoetin Alfa BS Injection [JCR] increased as did exports of drug substances. However, these increases could not absorb the impact of decreases in revenue from the licensing of R&D themes and other licensing fee royalties and reductions in NHI prices, and overall segment sales decreased as a result. In other businesses, segment sales were up 11.9%, or ¥1,107 million, to ¥10,417 million. This increase can be largely attributed to higher revenues from merchandising and construction projects, which offset the slight decrease in information services earnings.

In the pharmaceutical business, cost of sales as a percentage of net sales (cost of sales ratio) was up 0.4 percentage points due both to a decline in licensing fee royalties and the cost of sales ratio for individual products showing no significant change. In other businesses, the cost of sales ratio was up 1.0 percentage point as a result of a larger percentage of sales coming from construction projects, an area for which this ratio is high. Due to these factors, gross profit was down 2.5% year on year, or ¥1,174 million, to ¥46,045 million.

In selling, general and administrative expenses, selling expenses declined, while research and development expenses and general and administrative expenses increased. As a result, operating income decreased 32.2% year on year, or ¥3,967 million, to ¥8,334 million.

In other income (expenses), the lower sales placed downward pressure on income, but this was counteracted by the benefits of the increased gain on valuation of securities and the recording of a foreign exchange gain. As a result, the net of other income (expenses) resulted in net other income of ¥2,132 million, up ¥1,032 million.

Due to the above, income before income taxes and minority interests was down 21.9% year on year, or ¥2,935 million, to ¥10,466 million, and net income decreased 21.2%, or ¥1,928 million, to ¥7,165 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 the interim cash dividend, while the General Meeting of Shareholders decides the amount of the year-end cash dividend. Also, Kissei's articles of incorporation stipulate that a resolution of the Board of Directors enables the payment of interim cash dividends with a date of record 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 ¥21.0 per share, which when combined with an interim cash dividend of ¥21.0 per share gave a full-year cash dividend of ¥42.0 per share.

For the current fiscal year, ending March 31, 2016, the Group plans to pay an interim cash dividend of ¥22.0 per share and a year-end cash dividend of ¥22.0 per share, giving a full-year cash dividend of ¥44.0 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 the consolidated financial statements for the end of the 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 prices. 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 assumptions, 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 to 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 could 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, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	2015	2014	2015
Current Assets:			
Cash on hand and in banks (Notes 4 and 5)	¥ 27,242	¥ 31,267	$ 227,017
Notes and accounts receivable (Note 5)	23,676	23,712	197,300
Marketable securities (Notes 4, 5 and 6)	25,132	27,049	209,433
Inventories (Note 7)	14,646	12,813	122,050
Deferred tax assets—current (Note 9)	2,019	2,355	16,825
Other current assets	4,648	3,701	38,733
Allowance for doubtful accounts	(1)	(2)	(8)
Total current assets	97,362	100,895	811,350
Property, Plant and Equipment:			
Buildings and structures (Note 13)	37,696	38,481	314,133
Less: accumulated depreciation	(26,368)	(26,938)	(219,733)
Buildings and structures, net	11,328	11,543	94,400
Land (Note 13)	13,056	13,070	108,800
Construction in progress	50	—	417
Other	14,414	14,815	120,116
Less: accumulated depreciation	(11,995)	(12,467)	(99,958)
Other, net	2,419	2,348	20,158
Total property, plant and equipment	26,853	26,961	223,775
Intangible Assets:			
Software for internal use	744	646	6,200
Other	42	46	350
Total intangible assets	786	692	6,550
Investments and Other Assets:			
Investments in securities (Notes 5 and 6)	54,382	41,669	453,183
Long-term loans receivable	135	137	1,125
Long-term prepaid expenses	490	585	4,083
Deferred tax assets—non-current (Note 9)	432	566	3,600
Other	1,098	1,198	9,151
Allowance for doubtful accounts	(53)	(53)	(442)
Total investments and other assets	56,484	44,102	470,700
Total assets	¥181,485	¥172,650	$1,512,375

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2015	2014	Thousands of U.S. dollars (Note 3) 2015
Current Liabilities:			
Notes and accounts payable	¥ 6,046	¥ 5,390	$ 50,383
Short-term bank loans (Note 8)	1,730	1,760	14,417
Current portion of long-term debt (Note 8)	85	112	708
Income taxes payable (Note 9)	1,372	3,231	11,433
Accrued bonuses to employees	2,144	2,620	17,867
Accrued bonuses to directors and corporate auditors	25	30	208
Reserve for sales returns	15	13	125
Reserve for sales rebates	337	350	2,808
Reserve for sales promotion expenses	174	166	1,450
Other current liabilities	7,007	4,208	58,393
Total current liabilities	18,935	17,880	157,792
Long-Term Liabilities:			
Long-term debt (Note 8)	1,464	1,409	12,200
Deferred tax liabilities—non-current (Note 9)	7,338	3,817	61,150
Net defined benefit liability (Note 10)	2,279	5,797	18,992
Accrued retirement benefits to directors and corporate auditors	114	132	950
Asset retirement obligations	108	106	900
Other long-term liabilities	527	688	4,391
Total long-term liabilities	11,830	11,949	98,583
Total liabilities	30,765	29,829	256,375
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, 2014 and 2015, respectively	24,357	24,357	202,975
Additional paid-in capital	24,254	24,254	202,117
Retained earnings	95,566	90,918	796,383
Treasury stock (5,440,603 shares and 7,982,957 shares at March 31, 2014 and 2015, respectively)	(16,592)	(8,685)	(138,267)
Total shareholders' equity	127,585	130,844	1,063,208
Accumulated other comprehensive income:			
Unrealized holding gains on securities	21,518	12,724	179,317
Retirement benefits liability adjustments	1,338	(978)	11,150
Total accumulated other comprehensive income	22,856	11,746	190,467
Minority interests in consolidated subsidiaries	279	231	2,325
Total net assets	150,720	142,821	1,256,000
Total liabilities and net assets	¥181,485	¥172,650	$1,512,375

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2014 and 2015

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2014	2015
Net Sales	¥70,111	¥70,399	$584,258
Cost of Sales	24,066	23,181	200,550
Gross profit	46,045	47,218	383,708
Selling, General and Administrative Expenses (Note 16)	37,711	34,917	314,258
Operating income	8,334	12,301	69,450
Other Income (Expenses):			
Interest and dividend income	893	858	7,442
Interest expense	(33)	(37)	(275)
Gain (loss) on sales of investment securities	7	(21)	58
Loss on sales or disposal of properties	(115)	(79)	(958)
Income from investments in partnerships	58	151	483
Gain on sales of property, plant and equipment	11	46	92
Gain on valuation of securities	729	235	6,075
Impairment loss	—	(87)	—
Foreign exchange gain (loss)	486	(53)	4,050
Loss on valuation of investments in capital of subsidiaries and affiliates	(22)	—	(183)
Other, net	118	87	983
	2,132	1,100	17,767
Income before income taxes and minority interests	10,466	13,401	87,217
Income Taxes (Note 9):			
Current	3,408	4,510	28,400
Deferred	(131)	(226)	(1,091)
	3,277	4,284	27,309
Income before Minority Interests	7,189	9,117	59,908
Minority Interests	24	24	200
Net Income	¥ 7,165	¥ 9,093	$ 59,708

	Yen		U.S. dollars (Note 3)
Per Share:			
Net income:			
Primary	¥142.14	¥176.67	$1.184
Fully-diluted	—	—	—
Cash dividends	42.0	40.0	0.35

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)
	2015	2014	2015
Income before Minority Interests	¥ 7,189	¥ 9,117	$ 59,908
Other Comprehensive Income			
Unrealized holding gains on securities	8,794	1,926	73,283
Retirement benefits liability adjustments	2,345	—	19,542
Total other comprehensive income (Note 11)	11,139	1,926	92,825
Comprehensive Income	¥18,328	¥11,043	$152,733
Comprehensive income attributable to:			
Shareholders of Kissei Pharmaceutical Co., Ltd.	¥18,275	¥11,019	$152,291
Minority interests	53	24	442

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, 2014 and 2015

	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	Retirement benefits liability adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2013	56,911,185	¥24,357	¥24,254	¥83,832	¥ (8,682)	¥10,798	¥ —	¥225	¥134,784
Net income for the year	—	—	—	9,093	—	—	—	—	9,093
Cash dividends paid	—	—	—	(2,007)	—	—	—	—	(2,007)
Treasury stock purchased (1,515 shares)	—	—	—	—	(3)	—	—	—	(3)
Unrealized holding gains on securities	—	—	—	—	—	1,926	—	—	1,926
Retirement benefits liability adjustments	—	—	—	—	—	—	(978)	—	(978)
Gain on sale of treasury stock (122 shares)	—	—	0	—	0	—	—	—	0
Increase in minority interests	—	—	—	—	—	—	—	6	6
Balance at April 1, 2014	56,911,185	¥24,357	¥24,254	¥90,918	¥ (8,685)	¥12,724	¥ (978)	¥231	¥142,821
Cumulative effects of changes in accounting policies	—	—	—	(407)	—	—	—	(5)	(412)
Restated balance at April 1, 2014	56,911,185	24,357	24,254	90,511	(8,685)	12,724	(978)	226	142,409
Net income for the year	—	—	—	7,165	—	—	—	—	7,165
Cash dividends paid	—	—	—	(2,110)	—	—	—	—	(2,110)
Treasury stock purchased (2,542,418 shares)	—	—	—	—	(7,907)	—	—	—	(7,907)
Unrealized holding gains on securities	—	—	—	—	—	8,794	—	—	8,794
Retirement benefits liability adjustments	—	—	—	—	—	—	2,316	—	2,316
Gain on sale of treasury stock (64 shares)	—	—	0	—	0	—	—	—	0
Increase in minority interests	—	—	—	—	—	—	—	53	53
Balance at March 31, 2015	56,911,185	¥24,357	¥24,254	¥95,566	¥(16,592)	¥21,518	¥1,338	¥279	¥150,720

	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	Retirement benefits liability adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2014	56,911,185	$202,975	$202,117	$757,650	$ (72,375)	$106,034	$ (8,150)	$1,925	$1,190,175
Cumulative effects of changes in accounting policies	—	—	—	(3,392)	—	—	—	(42)	(3,433)
Restated balance at April 1, 2014	56,911,185	202,975	202,117	754,258	(72,375)	106,034	(8,150)	1,883	1,186,742
Net income for the year	—	—	—	59,708	—	—	—	—	59,708
Cash dividends paid	—	—	—	(17,583)	—	—	—	—	(17,583)
Treasury stock purchased (2,542,418 shares)	—	—	—	—	(65,892)	—	—	—	(65,892)
Unrealized holding gains on securities	—	—	—	—	—	73,283	—	—	73,283
Retirement benefits liability adjustments	—	—	—	—	—	—	19,300	—	19,300
Gain on sale of treasury stock (64 shares)	—	—	0	—	0	—	—	—	0
Increase in minority interests	—	—	—	—	—	—	—	442	442
Balance at March 31, 2015	56,911,185	$202,975	$202,117	$796,383	$(138,267)	$179,317	$11,150	$2,325	$1,256,000

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, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2014	2015
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥10,466	¥13,401	$ 87,217
Depreciation and amortization	2,204	2,190	18,367
Increase (decrease) in allowance reserves	(502)	460	(4,183)
Increase (decrease) in net defined benefit liability	(626)	56	(5,217)
Impairment loss	—	87	—
Interest and dividend income	(893)	(858)	(7,442)
Interest expense	33	37	275
Foreign exchange (gain) loss	(460)	12	(3,833)
Loss on sales of securities	—	6	—
Gain on valuation of securities	(729)	(235)	(6,075)
Gain on sales of property, plant and equipment	(11)	(46)	(92)
Loss (gain) on sales of investment securities	(7)	21	(58)
Loss on sales or disposal of properties	115	79	958
(Increase) decrease in notes and accounts receivable	36	1,294	300
(Increase) decrease in inventories	(1,833)	(1,689)	(15,275)
(Increase) decrease in other current assets	(214)	(625)	(1,783)
Increase (decrease) in notes and accounts payable	656	507	5,467
Increase (decrease) in other current liabilities	3,162	8	26,350
Increase (decrease) in other long-term liabilities	(83)	3	(692)
Loss on valuation of investments in capital of subsidiaries and affiliates	22	—	183
Other	(17)	(137)	(142)
Sub total	11,319	14,571	94,325
Receipt of interest and dividends	833	807	6,942
Payment of interest	(34)	(37)	(284)
Payment of income taxes	(5,451)	(3,395)	(45,425)
Net cash provided by operating activities	6,667	11,946	55,558
Cash Flows from Investing Activities:			
Time deposits received	75	198	625
Time deposits paid	(75)	(187)	(625)
Reduction of investments in specified trusts	47	43	392
Proceeds from sales of marketable securities	—	386	—
Purchase of marketable securities	—	(103)	—
Acquisition of property and equipment	(1,975)	(1,909)	(16,458)
Proceeds from sales of property and equipment	40	72	333
Acquisition of intangible assets	(391)	(199)	(3,258)
Acquisition of investments in securities	(2,030)	(1,946)	(16,917)
Proceeds from sales of investments in securities	1,114	1,426	9,283
Payments for loans	(113)	(135)	(942)
Collection of loans	120	125	1,000
Long-term advance payment costs	(6)	(24)	(50)
Other	25	(62)	209
Net cash used in investing activities	(3,169)	(2,315)	(26,408)
Cash Flows from Financing Activities:			
Short-term bank debt received	—	230	—
Repayment of short-term bank debt	(30)	(350)	(250)
Long-term debt received	200	—	1,667
Repayment of long-term debt	(172)	(127)	(1,434)
Repayment of finance lease obligation	(63)	(48)	(525)
Cash dividends paid	(2,110)	(2,007)	(17,583)
Treasury stock purchased	(7,907)	(3)	(65,892)
Treasury stock sale	0	0	0
Net cash used in financing activities	(10,082)	(2,305)	(84,017)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	461	(12)	3,842
Increase (Decrease) in Cash and Cash Equivalents	(6,123)	7,314	(51,025)
Cash and Cash Equivalents at Beginning of Year (Note 4)	58,265	50,951	485,542
Cash and Cash Equivalents at End of Year (Note 4)	¥52,142	¥58,265	$434,517

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, 2014 and 2015 were six, respectively, of which three were consolidated in the respective years. The subsidiaries that 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, 2015.

(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 8% 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 and 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.

(11) Accounting Method for Retirement Benefits
Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of balance sheet date.
(i) Allocation of expected benefit payments
When calculating retirement benefit obligation, the straight-line method is used to allocate expected benefit payments to the period until the fiscal year-end.
(ii) Actuarial differences and prior service cost
Prior service cost is amortized through the straight-line method 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).
Net actuarial gains or losses are amortized from the following year through the straight-line method 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).
(iii) Accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service cost
Unrecognized actuarial gains and losses and unrecognized prior service cost are adjusted for tax effects and then recorded in retirement benefits liability adjustments under accumulated other comprehensive income in the net assets portion of the consolidated balance sheets.

(12) 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.

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

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

(15) Accounting Changes
Adoption of Accounting Standard for Retirement Benefits
The Companies adopted Section 35 of "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the defined benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use several Japanese government debt yield rates defined for each estimated benefit payment timing.

The cumulative effect of changing the method for calculating the defined benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Section 37 of "Accounting Standard for Retirement Benefits."

As a result, net defined benefit liability increased ¥637 million ($5,308 thousand) and retained earnings decreased ¥407 million ($3,392 thousand) at April 1, 2014, and operating income and income before income taxes and minority interests increased ¥278 million ($2,317 thousand) in the year under review.

Also, net income per share increased by ¥3.51 ($0.029) for the year ended March 31, 2015.

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 ¥120=U.S.$1, the approximate rate of exchange prevailing at March 31, 2015. 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, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash on hand and in banks	¥27,242	¥31,267	$227,017
Marketable securities	25,132	27,049	209,433
Time deposits with original maturities of over three months	(50)	(51)	(416)
Marketable securities with maturities of over three months	(182)	—	(1,517)
Cash and cash equivalents	¥52,142	¥58,265	$434,517

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, 2014 and 2015 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, 2015	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	¥ 27,242	¥ 27,242	¥—
Notes and accounts receivable	23,676	23,676	—
Marketable securities and investments in securities	77,636	77,636	—
Total	¥128,554	¥128,554	¥—
Derivatives	¥ —	¥ —	¥—

	Millions of yen		
As of March 31, 2014	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	¥ 31,267	¥ 31,267	¥—
Notes and accounts receivable	23,712	23,712	—
Marketable securities and investments in securities	66,295	66,295	—
Total	¥121,274	¥121,274	¥—
Derivatives	¥ —	¥ —	¥—

	Thousands of U.S. dollars		
As of March 31, 2015	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets			
Cash on hand and in banks	$ 227,017	$ 227,017	$—
Notes and accounts receivable	197,300	197,300	—
Marketable securities and investments in securities	646,966	646,966	—
Total	$1,071,283	$1,071,283	$—
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
	2015	2014	2015
Unlisted stocks	¥1,024	¥1,454	$8,533
Investments in partnerships	213	328	1,775
Investments in unconsolidated subsidiaries	641	641	5,342

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, 2014 and 2015 are as follows:

	Millions of yen			
As of March 31, 2015	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	¥27,242	¥ —	¥ —	¥—
Notes and accounts receivable	23,676	—	—	—
Marketable securities and investments in securities	25,098	760	891	—
Total	¥76,016	¥760	¥891	¥—

	Millions of yen			
As of March 31, 2014	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	¥31,267	¥ —	¥ —	¥—
Notes and accounts receivable	23,712	—	—	—
Marketable securities and investments in securities	27,049	602	1,391	—
Total	¥82,028	¥602	¥1,391	¥—

	Thousands of U.S. dollars			
As of March 31, 2015	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	$227,017	$ —	$ —	$—
Notes and accounts receivable	197,300	—	—	—
Marketable securities and investments in securities	209,150	6,333	7,425	—
Total	$633,467	$6,333	$7,425	$—

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, 2014 and 2015 are as follows:

	Millions of yen			
	2015			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,692	¥48,596	¥30,906	¥ 2
Corporate debt securities	200	202	2	—
Other	28,453	28,838	393	7
Total	¥46,345	¥77,636	¥31,301	¥ 9

	Millions of yen			
	2014			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,285	¥36,411	¥19,168	¥42
Corporate debt securities	700	713	13	—
Other	29,047	29,171	137	13
Total	¥47,032	¥66,295	¥19,318	¥55

	Thousands of U.S. dollars			
	2015			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	$147,433	$404,967	$257,550	$17
Corporate debt securities	1,667	1,683	17	—
Other	237,108	240,316	3,275	58
Total	$386,208	$646,966	$260,842	$75

Unlisted stocks are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

Sales proceeds of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Sales proceeds	¥28	¥463	$233
Gross realized gains	7	1	58
Gross realized losses	—	28	—

Note 7 Inventories

Inventories at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Merchandise	¥ 1,494	¥ 1,222	$ 12,450
Finished goods	3,450	2,925	28,750
Work-in-process	1,563	1,860	13,025
Raw materials	8,067	6,645	67,225
Supplies	72	161	600
Total	¥14,646	¥12,813	$122,050

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

Short-term bank loans outstanding at March 31, 2014 and 2015 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2014 and 2015 bore interest at an average annual rate of 1.13% and 1.11%, respectively.

Long-term debt outstanding of the Companies at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 2.20% due from 2014 to 2020	¥1,549	¥1,521	$12,908
Less: current maturities due within one year	(85)	(112)	(708)
Total	¥1,464	¥1,409	$12,200

The aggregate annual maturities of long-term debt outstanding at March 31, 2015 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 85	$ 708
2018	70	583
2019	28	234
2020 and thereafter	1,281	10,675
Total	¥1,464	$12,200

Note 9 Income Taxes

Deferred tax assets (both current and non-current) at March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Prepaid research and development expenses	¥ 2,089	¥ 1,155	$ 17,408
Net defined benefit liability	738	2,052	6,150
Accrued bonuses to employees	706	928	5,883
Write-down of securities	636	706	5,300
Inventory assets	461	453	3,842
Impairment loss	178	206	1,483
Payment of retirement benefits to directors and corporate auditors	154	206	1,283
Accrued enterprise tax	149	297	1,242
Reserve for sales rebates	111	124	925
Other	890	943	7,417
Total gross deferred tax assets	6,112	7,070	50,933
Valuation allowance	(1,169)	(1,297)	(9,741)
Total deferred tax assets	¥ 4,943	¥ 5,773	$ 41,192
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥(9,815)	¥(6,651)	$(81,792)
Other	(15)	(18)	(125)
Total deferred tax liabilities	(9,830)	(6,669)	(81,917)
Deferred tax assets (liabilities), net	¥(4,887)	¥ (896)	$(40,725)

Reconciliation of the actual tax rate for the years ended March 31, 2014 and 2015 are as follows:

	2015	2014
Effective statutory tax rate	35.4%	37.7%
Adjustments:		
Entertainment expenses and other non-deductibles	1.3	1.3
Dividend income not taxable	(1.3)	(1.0)
Tax benefits due to research and development expenses	(9.8)	(8.9)
Per capital levy of local inhabitants taxes	0.8	0.6
Valuation allowance	(0.1)	0.2
Tax effect from change in tax rate by tax reform, etc.	4.5	1.2
Other	0.5	0.9
Actual tax rate	31.3%	32.0%

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Companies’ deferred tax assets and liabilities was changed from 35.4% to 32.9% and 32.1% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015, and for the temporary differences expected to be realized or settled from April 1, 2016, respectively. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities after offsetting deferred tax assets by ¥600 million ($5,000 thousand), and increase deferred income taxes by ¥474 million ($3,950 thousand), unrealized holding gains on securities by ¥1,008 million ($8,400 thousand), and retirement benefits liability adjustments by ¥65 million ($542 thousand) in the year under review.

Note 10 Funded Defined Benefit Plans

General outline of retirement benefits plans implemented

The Companies have introduced cash balance plans into their defined benefit corporate pension plans. In certain cases, the Group pays additional retirement benefits for employees that are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits.

For the years ended March 31, 2014 and 2015

(i) Reconciliation of defined benefit obligation at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Defined benefit obligation at beginning of period	¥18,347	¥17,246	$152,892
Cumulative effects of changes in accounting policies	637	—	5,308
Restated balance at beginning of period	18,984	17,246	158,200
Service cost	753	825	6,275
Interest cost	184	309	1,533
Actuarial gains and losses incurred this period	(234)	508	(1,950)
Prior service cost incurred this period*	(2,551)	—	(21,266)
Retirement benefits paid	(613)	(541)	(5,108)
Defined benefit obligation at end of period	¥16,523	¥18,347	$137,692

* Prior service cost incurred this period arises from the completion of transitional measures related to the reevaluation rate of cash balance plans.

(ii) Reconciliation of balance of plan assets at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Plan assets at beginning of period	¥12,550	¥11,355	$104,583
Expected return on plan assets	314	283	2,617
Actuarial gains and losses incurred this period	923	594	7,692
Employer contribution	989	777	8,241
Retirement benefits paid	(532)	(459)	(4,433)
Plan assets at end of period	¥14,244	¥12,550	$118,700

(iii) Reconciliation of defined benefit obligation and plan assets with net defined benefit liability and asset reflected on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Defined benefit obligation for funded plan	¥ 16,523	¥ 18,347	$ 137,692
Plan assets	(14,244)	(12,550)	(118,700)
Net amount of defined benefit liability and asset on the consolidated balance sheets	2,279	5,797	18,992
Defined benefit liability	2,279	5,797	18,992
Net amount of defined benefit liability and asset on the consolidated balance sheets	¥ 2,279	¥ 5,797	$ 18,992

(iv) The components of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 753	¥ 825	$ 6,275
Interest cost	184	309	1,533
Expected return on plan assets	(314)	(283)	(2,617)
Amortization of actuarial gains and losses	351	359	2,925
Amortization of prior service cost	(531)	(296)	(4,425)
Other	49	72	409
Retirement benefit expense	¥ 492	¥ 986	$ 4,100

(v) The components of retirement benefit liability adjustment included in other comprehensive income (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Prior service cost	¥2,021	¥—	$16,841
Actuarial gains and losses	1,508	—	12,567
Total	¥3,529	¥—	$29,408

(vi) The components of retirement benefit liability adjustment included in accumulated other comprehensive income (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized prior service cost	¥(2,561)	¥ (540)	$(21,341)
Unrecognized actuarial gains and losses	574	2,082	4,783
Total	¥(1,987)	¥1,542	$(16,558)

(vii) Plan assets information

Breakdown of plan assets

Ratio of each component of plan assets to amount of total pension assets

	2015	2014
Debt securities	19%	18%
Equity securities	31	29
General accounts	49	52
Other	1	1
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

(viii) Assumptions used in accounting for the above plans (discount rate is displayed as a weighted average)

	2015	2014
Discount rate	1.5%	1.8%
Expected rate of return on plan assets	2.5%	2.5%

Note 11 Other Comprehensive Income

Amounts of recycling and income tax relating to other comprehensive income for the years ended March 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrealized holding gains on securities:			
Amount recognized in the year under review	¥11,966	¥ 2,900	$ 99,717
Amount of recycling	(8)	27	(67)
Before income tax effect adjustment	11,958	2,927	99,650
Amount of income tax effect	(3,164)	(1,001)	(26,367)
Unrealized holding gains on securities	8,794	1,926	73,283
Retirement benefits liability adjustments:			
Amount recognized in the year under review	3,453	—	28,775
Amount of recycling	76	—	633
Before income tax effect adjustment	3,529	—	29,408
Amount of income tax effect	1,184	—	9,866
Retirement benefits liability adjustments	2,345	—	19,542
Total other comprehensive income	¥11,139	¥ 1,926	$ 92,825

Note 12 Contingent Liabilities

No corresponding items.

Note 13 Government Grants

For the years ended March 31, 2014 and 2015

Government grants of ¥798 million ($6,650 thousand) for buildings and ¥113 million ($942 thousand) for land are deducted in calculating the carrying amounts of these assets.

Note 14 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.

The Companies adopted Section 35 of"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the defined benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use several Japanese government debt yield rates defined for each estimated benefit payment timing.

As a result, segment profit increased ¥245 million ($2,042 thousand) for the ethical pharmaceuticals segment and ¥32 million ($267 thousand) for the other segment in the year ended March 31, 2015.

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

	Millions of yen			
	Business segments			
As of March 31, 2015	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 59,694	¥ 59,694	¥10,417	¥ 70,111
Intersegment sales and transfers	—	—	5,460	5,460
Total	¥ 59,694	¥ 59,694	¥15,877	¥ 75,571
Segment profit	¥ 7,626	¥ 7,626	¥ 722	¥ 8,348
Segment assets	¥173,576	¥173,576	¥10,076	¥183,652
Other items				
Depreciation	¥ 2,009	¥ 2,009	¥ 328	¥ 2,337
Increase of property, plant and equipment and intangible assets	2,127	2,127	342	2,469

*1: 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.

*2: Depreciation includes the amortization of long-term prepaid expenses. The increases in property, plant and equipment and intangible assets reflect the increase in long-term prepaid expenses.

	Millions of yen			
	Business segments			
As of March 31, 2014	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	¥ 61,090	¥ 61,090	¥ 9,309	¥ 70,399
Intersegment sales and transfers	—	—	6,374	6,374
Total	¥ 61,090	¥ 61,090	¥15,683	¥ 76,773
Segment profit	¥ 11,649	¥ 11,649	¥ 723	¥ 12,372
Segment assets	¥164,500	¥164,500	¥10,532	¥175,032
Other items				
Depreciation	¥ 1,965	¥ 1,965	¥ 337	¥ 2,302
Increase of property, plant and equipment and intangible assets	2,516	2,516	340	2,856

*1: 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.

*2: Depreciation includes the amortization of long-term prepaid expenses. The increases in property, plant and equipment and intangible assets reflect the increase in long-term prepaid expenses.

As of March 31, 2015	Thousands of U.S. dollars			
	Business segments			
	Ethical pharmaceuticals	Total	Other*	Total
Net sales				
Sales to third parties	$ 497,450	$ 497,450	$ 86,808	$ 584,258
Intersegment sales and transfers	—	—	45,500	45,500
Total	$ 497,450	$ 497,450	$132,308	$ 629,758
Segment profit	$ 63,550	$ 63,550	$ 6,017	$ 69,567
Segment assets	$1,446,467	$1,446,467	$ 83,966	$1,530,433
Other items				
Depreciation	$ 16,742	$ 16,742	$ 2,733	$ 19,475
Increase of property, plant and equipment and intangible assets	17,725	17,725	2,850	20,575

*1: 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.
*2: Depreciation includes the amortization of long-term prepaid expenses. The increases in property, plant and equipment and intangible assets reflect the increase in long-term prepaid expenses.

(4) Reconciliation items between segment information and the consolidated financial statements

(i) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net sales			
Total of business segments	¥ 59,694	¥ 61,090	$ 497,450
Other business sales	15,877	15,683	132,308
Elimination of intersegment transactions	(5,460)	(6,374)	(45,500)
Reported on consolidated financial statements	¥ 70,111	¥ 70,399	$ 584,258
Segment profit			
Total of business segments	¥ 7,626	¥ 11,649	$ 63,550
Other business profit	722	723	6,017
Elimination of intersegment transactions	63	71	525
Adjustments to depreciable assets	(58)	(140)	(483)
Other adjustments	(19)	(2)	(159)
Reported on consolidated financial statements	¥ 8,334	¥ 12,301	$ 69,450
Segment assets			
Total of business segments	¥173,576	¥164,500	$1,446,467
Assets classified as “other”	10,076	10,532	83,966
Elimination of intersegment transactions	(2,167)	(2,382)	(18,058)
Reported on consolidated financial statements	¥181,485	¥172,650	$1,512,375

(ii) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Depreciation			
Total of business segments	¥2,009	¥1,965	$16,742
Other segments	328	337	2,733
Adjustments	(133)	(112)	(1,108)
Reported on consolidated financial statements	¥2,204	¥2,190	$18,367
Increase of property, plant and equipment and intangible assets			
Total of business segments	¥2,127	¥2,516	$17,725
Other segments	342	340	2,850
Adjustments	(246)	(251)	(2,050)
Reported on consolidated financial statements	¥2,223	¥2,605	$18,525

(5) Related Information

(i) Product and service information

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Ethical pharmaceuticals	¥59,694	¥61,090	$497,450
Other	10,417	9,309	86,808
Total	¥70,111	¥70,399	$584,258

(ii) Geographical information

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Japan	¥62,854	¥62,643	$523,783
North America	3,484	5,085	29,033
Other foreign countries	3,773	2,671	31,442
Total	¥70,111	¥70,399	$584,258

*1: Net sales information above is based on customer location.
*2: There are no corresponding items as the Company does not possess any property, plant or equipment outside of Japan.

(iii) Major customer information

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Alfresa Corporation	¥10,789	¥10,865	$89,908
SUZUKEN CO., LTD.	9,347	9,370	77,892
MEDICEO CORPORATION	¥ 7,633	¥ 7,869	$63,608

* Related segment for each major customer is the ethical pharmaceuticals segment.

Note 15 Related Party Transactions

For the year ended March 31, 2015

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	Mutsuo Kanzawa	—	—	Chairman and CEO of the Company	3.13% (held)	Chairman and CEO of the Company	Acquisition of treasury stock	7,775	—	—

*1: Terms and conditions of the transaction and its policies: The above transaction is conducted through the Tokyo Stock Exchange Trading Network System for Off-Auction Own Share Repurchase Trading (ToSTNeT-3).
*2: Ratio of voting rights holding (held) is based on total shares issued net of treasury stock.

For the year ended March 31, 2014

Transactions with executives, main individual shareholders, 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	Tomonari Hashimoto	—	—	—	—	Relative of Director Kaname Hashimoto	Construction subcontracting	30	—	—

*1: The above amount does not include consumption tax.
*2: Terms and conditions of the transaction and its policies: The above transaction is conducted in accordance with standard transaction conditions.

Note 16 Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2014 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Advertising and sales promotion expenses	¥ 3,502	¥ 3,889	$ 29,183
Payroll costs	9,509	9,775	79,242
Research and development expenses	14,488	11,299	120,733
Traveling expenses	1,820	1,813	15,167
Depreciation	632	673	5,267
Other	7,760	7,468	64,666
	¥37,711	¥34,917	$314,258

Note 17 Subsequent Events

The Company cancelled treasury stock as follows, based on a resolution of the Board of Directors passed on April 24, 2015, as per Article 178 of the Companies Act:

- Type of shares cancelled: Common Stock of the Company
- Number of shares cancelled: 2,600,000 shares (ratio to the number of outstanding shares before the cancellation of treasury stock: 4.57%)
- Effective date of cancellation: May 15, 2015

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

Building a better working world

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, 2015, 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, 2015, 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.

Ernst & Young ShinNihon LLC

June 26, 2015
Matsumoto, Japan

A member firm of Ernst & Young Global Limited

Corporate Data

As of March 31, 2015

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:
¥24,356 million

Number of Employees:
1,528 (Non-consolidated)

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, Nagano
Shiojiri City, Nagano

Distribution Center:
Shiojiri City, Nagano

Information Center:
Matsumoto City, Nagano

Nutritional Business Center:
Shiojiri City, Nagano

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.

Common Stock:
Authorized: 227,000,000 shares
Issued: 56,911,185 shares

Number of Shareholders:
3,463 (Year-on-year change: 208 decrease)

Investor Information

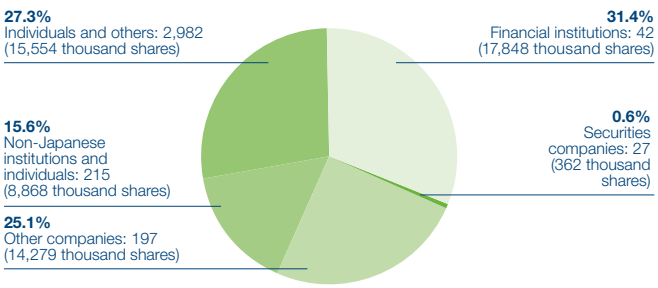
As of March 31, 2015

Principal Shareholders:

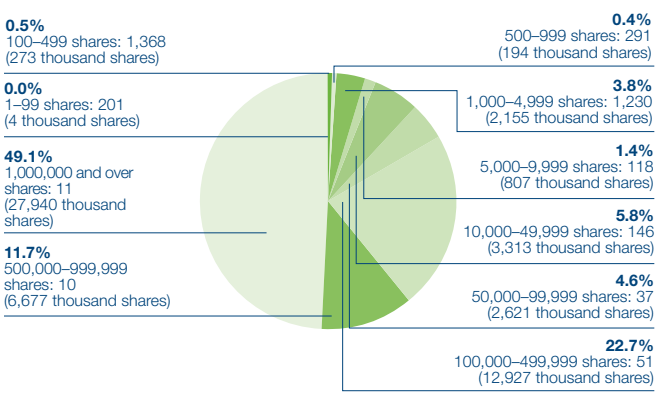
	Number of shares held (Hundreds)	Voting rights (%)
The Dai-ichi Life Insurance Company, Limited	32,000	6.5
Kanzawa Limited	31,783	6.5
The Hachijuni Bank, Ltd.	25,703	5.3
Mizuho Bank, Ltd.	24,434	5.0
Japan Trustee Services Bank, Ltd. (Trust account)	24,022	4.9
Mutsuo Kanzawa	15,339	3.1
Kissei Group Employee Stockholders Committee	12,591	2.6
Nabelin Co., Ltd.	12,223	2.5
The Nagano Bank, Ltd.	11,261	2.3
The Master Trust Bank of Japan, Ltd. (Trust account)	10,215	2.1

* Kissei holds 79,830 hundred shares of treasury stock but is not included in the above list of principal 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® C002318
VEGETABLE OIL INK
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