KAKEN

Bringing Smiles to Everyone

Annual Report 2010

Year Ended March 31, 2010

Corporate Philosophy

By serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals, Kaken helps improve the quality of life for patients.

Business Philosophy: Three Joys

KAKEN
conducts business by

Creating joy for patients.

We strive to create and offer effective drugs that satisfy the needs of patients and medical professionals.

Creating joy as a company.

We recognize our social responsibility as a pharmaceutical company with a high ethical standard and society's trust.

Creating joy for our employees.

Our objective is to become a company with vitality and presence whose employees enjoy and take pride in their work.

Profile

The origin of Kaken Pharmaceutical Co., Ltd. can be traced back to the Institute of Physical and Chemical Research (Riken), established in 1917. The Company started pharmaceutical business with full-scale development of penicillin and streptomycin based on Riken's own technologies in 1948, and since then broadened the scope of its business and drug development activities through merger and alliance. Kaken's prestige has soared accordingly.

While the Company has established strength in developing and selling pharmaceuticals for orthopedics, it is now expanding its involvement in other medical fields, such as dermatology. The Company contributes to improving people's health by cultivating its own original technologies, engaging in joint development initiatives, introducing new technologies and acquiring marketing rights.

As a fruit of its technology and product introduction, the Company has been since June 2001 marketing Fiblast Spray consisting of Trafermin, a recombinant form of human basic Fibroblast Growth Factor (bFGF) for the first time in the world, licensed from a U.S. bio-pharmaceutical company, Scios, in the area of regenerative medicine (wound healing medicine).

Contents

Forward-Looking Statements

This annual report contains forward-looking statements pertaining to the Company's business and prospects. These statements are based on current analysis of existing information and trends. Actual results may differ from expectations due to unforeseen risks and uncertainties.

Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars (note)
	2010	2009	2010
For the years ended March 31,			
Net sales	¥85,022	¥82,930	$914,215
Operating income	11,784	10,629	126,710
Net income	6,734	5,579	72,409
At March 31,			
Total net assets	59,575	56,679	640,591
Total assets	95,096	94,504	1,022,538
Per share data:	Yen		U.S. dollars (note)
Net income (basic)	¥ 68.79	¥ 55.61	$ 0.740
Cash dividends (non-consolidated)	30.00	26.00	0.323
Ratios:	%		
ROE	11.59	9.78	—
Capital adequacy ratio	62.65	59.98	—

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥93 = $1 effective on March 31, 2010.

President's Message

Kaken strives to be a company with an independent presence. Rather than pursuing scale, we center on areas in which we have a competitive advantage. We leverage this strength and our independence to raise the value of our company. By providing drugs that meet the needs of the times, we intend to remain a company that has a clear reason to exist as we work to bring smiles to the faces of patients and their families.

We aim to return smiles of happiness to as many people as possible. We will continue to apply innovation and creativity in drug development as we pursue this goal.

Overview of Results for the Fiscal Year Ended March 31, 2010

The pharmaceutical industry in Japan is being affected by the national government policy of constraining medical costs by promoting the use of generic drugs at medical institutions and sales at dispensaries, and to increase the number of medical facilities adopting the diagnosis procedure combination (DPC) payment system for medical treatment.

During the fiscal year under review, increased sales of mainstay pharmaceuticals and medical devices prompted a 2.5% increase in consolidated net sales compared with the previous year, to ¥85,022 million. Spending was higher on experimental R&D for the development of overseas clinical trials, but profits increased because we offset through efforts to use selling, general and administrative expenses more efficiently. Consequently, we fared well on the profit front, with operating income growing 10.9%, to ¥11,784 million; and net income jumping 20.7%, to ¥6,734 million.

Addressing Future Challenges for Continued Growth

Ongoing government initiatives to curb healthcare spending are raising the level of competition within the pharmaceutical industry. The Kaken Group considers this situation an opportunity. We aim to maximize corporate value by steadily raising awareness and implementing operational reforms, as well as maintaining our status as a trusted company in the eyes of society through a strong commitment to compliance. Our five key reforms are outlined below.

Focus investments on research and development

We are striving to concentrate our investment in and raise the efficiency of our research and development to expand the product pipeline. At the same time, we will continue to actively pursue strategic alliances with domestic and overseas companies and research institutions, and introduce new research programs.

To speed up research and development, we will outsource basic research procedures, make use of contract research organizations (CROs) and conduct overseas and joint international clinical trials.

We will also endeavor to maximize new research and development of new drugs, to raise our level of contribution to people throughout the world.

Strengthen our sales force

We have developed a system to ensure that medical representatives provide medical institutions with necessary information at the appropriate times. We will expand our market share to ensure our strong position in the field of orthopedics. We are also actively pursuing the generic drug business as one pillar of our operations. We are augmenting the information we provide by utilizing product-related websites and the mass media.

Establish an internal control system and carefully manage risk

We are reinforcing our internal control system to achieve four objectives: higher operating effectiveness and efficiency, reliable financial reporting, compliance in our business activities and security of assets.

Optimize and streamline operations

On the production side, we will make further reassessments of procedures, products and standards as we strive to lower manufacturing costs. In the field of agrochemicals, we are expanding consigned production to overseas companies and we remain committed to obtaining FDA certification. Moreover, we are outsourcing our distribution center business and we will continue to promote cost reductions.

Promote Environmental Protection

Kaken's Shizuoka production and R&D facilities have obtained ISO 14001 certification, and our Kyoto research laboratories have been awarded the Kyoto Environmental System certification by the city of Kyoto in recognition of their environmental management systems. We recognize environmental protection as a social responsibility, and to this end we are aggressively promoting activities at all levels of our organization. For example, we have established an Environment Committee and set up Environment Task Forces at each worksite, and we carefully comply with the revised Law Concerning the Rational Use of Energy. These activities are summarized in our Social and Environmental Report on the Kaken website.

Basic Policy and Approach concerning Returns to Shareholders

Kaken considers long-term and comprehensive profit increases for its shareholders an important management goal. Operating in the pharmaceutical industry entails large risks, requiring us to have a higher level of equity capital than companies in other industries. We employ a flexible dividend policy that sets cash dividends based on performance while maintaining a balance between returns to shareholders and strengthening equity capital.

Dividends per share of common stock applicable to the fiscal year under review consisted of an interim dividend of ¥15.00 and a year-end dividend of ¥15.00—each ¥2.00 higher than in the previous year, resulting in total dividends for the year of ¥30.00 per share. This amount is ¥4.00 higher than for the preceding fiscal year, making fiscal year 2009 our eighth consecutive year of dividend increases and achieving a payout ratio of 43.6%. Kaken also implements a flexible system of acquisition of treasury stock through resolutions by the Board of Directors to facilitate response to changes in the business environment. During the fiscal year, Kaken bought back an additional 2 million of its shares from the market.

Retained earnings are appropriated to optimize corporate value through targeted investment in research and development and in improvements to business infrastructure.

Target Management Indicators and Long-Term Business Strategy

The Kaken Group's medium- to long-term numerical targets for future growth comprise consolidated operating income of ¥15 billion and return on equity (ROE) of 12% or more. In the future, we will endeavor to optimize the value of each division and establish a base that ensures our survival as a business that maintains a strong presence in the 21st century.

June 2010

Shiro Inui
President

SPECIAL FEATURE

Developing New Products

Kaken's Innovative Product for Regeneration

Fiblast Spray—the world's first regenerative medicine—is the commercialized product of the human recombinant protein basic Fibroblast Growth Factor (bFGF). bFGF, a member of the FGF family that exists endogenously in almost all tissues and binds to the extracellular matrix, is released from the matrix once cells or tissues are damaged, such as by trauma or ischemia, after which bFGF acts on a variety of cells and tissues to promote regeneration. As the drug's actions are broad-ranging, it is characterized by its powerful ability to stimulate not only the proliferation of numerous cell types, but also the formation of new blood vessels.

After obtaining exclusive licensing rights in Asia in 1988 from Scios Inc. of the United States, Kaken made continued R&D efforts toward approval of the drug for the treatment of pressure ulcer and other skin ulcers (burns and leg ulcers), releasing the product onto the market for the first time as Fiblast Spray in June 2001. After more than nine years on the market as a wound healing agent, the drug is employed in numerous hospitals and clinics in Japan. In recent years, the drug has earned a solid reputation for its ability to improve the "Quality of Wound Healing," as evidenced by the prevention of hypertrophic scar and scar contracture, the formation of moisturized soft scar and so on.

bFGF has also been found to promote the proliferation and regeneration of periodontal and bone tissues, in addition to skin tissue. In dentistry, its effectiveness has been proven in the regeneration of alveolar bone, as well as to the regeneration of periodontal ligament and cementum. We have completed two Phase II clinical trials in periodontitis patients to confirm the dose-dependent effects on the regeneration of destroyed alveolar bone, and also to identify the optimal dose for Phase III. Currently, Phase III trial is proceeding as scheduled, and we expect to obtain marketing approval in 2012. We are conducting basic research with the prospect of expansion into areas of dentistry beyond periodontitis, including implant applications.

For bone tissue, bFGF has demonstrated the ability to promote fracture repairs by enhancing bone metabolism through both the direct proliferative effect on osteoblasts and the indirect accelerative effect on osteoclasts. We recently completed Phase II clinical trials on patients

New Drug Development Pipeline

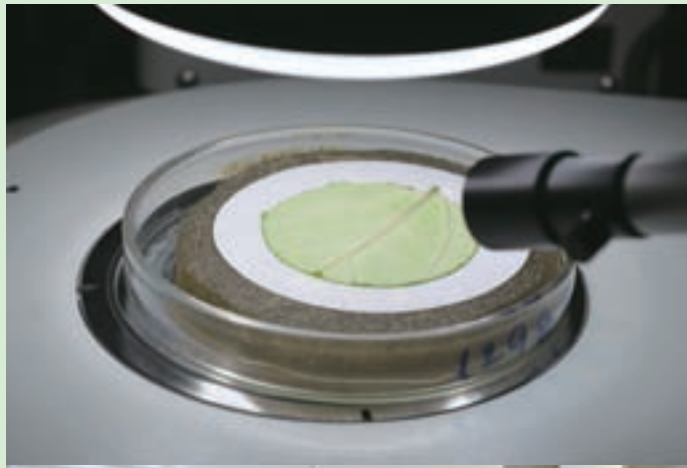
	Product	Indication	Stage	Remarks
1	KCB-1D	Periodontitis	PIII	bFGF
2	KP-103 (IDP-108)	Onychomycosis	PIII	Global clinical development; topical formulation
3	KCB-1B	Bone fractures	PII Finished	bFGF Next stage of clinical trials under consideration
4	TRK-100STP	Lumbar spinal canal stenosis	PII	Developed jointly with Toray; New indication for sustained-release formulation of beraprost sodium
5	KP-413	Atopic dermatitis	PI/II	Topical formulation; PI/ II in U.S.A.
6	KP-102LN	Short stature	Development abandoned	
7	KP-496NS	Allergic rhinitis	Development abandoned	

with tibial shaft fractures, and we are in the process of setting our next objective.

In addition to the areas in which we are conducting clinical trials, we are also currently collaborating with universities and other research organizations in Japan in broad-ranging areas to expand the possibilities of bFGF-based regenerative medicines.

In March 2005, we obtained worldwide rights to develop, manufacture and market bFGF. That same year in December, we concluded a license agreement with a Chinese pharmaceutical company for the development and marketing of Fiblast Spray. In June 2007, we concluded a license agreement with Sunstar Inc. involving development and marketing in Europe and North America in the dental area. Furthermore, in November 2009 Kaken and Olympus Corporation entered a license agreement regarding the development, manufacture and marketing of bFGF in wound healing applications in Europe and North America.

Utilizing the technologies and know-how accumulated through our research and development efforts toward bFGF, we continue to collaborate with our overseas partners to expand our global activities.



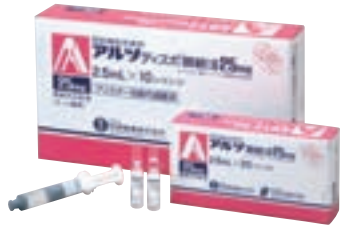
Overview of Major Products

Pharmaceuticals and Medical Devices

Artz (sodium hyaluronate)

Artz is an anti-osteoarthritis with highly purified sodium hyaluronate as the active ingredient. Hyaluronic acid is extracted from rooster combs and has viscoelastic, water-retentive and lubricating properties. In 1987, Artz was released for the first time, indicated for osteoarthritis of the knee as a form of hyaluronic acid injectable into the joint, obtaining additional approval for the treatment of shoulder periarthritis in 1989.

In 1992, Artz Dispo—a packaging of the drug with a disposable syringe—was released with the aim of making injection procedures simpler and faster, as well as reducing the danger of infections. In 2005, the drug was approved for the treatment of knee joint pain accompanying chronic rheumatoid arthritis.



Artz (Sodium hyaluronate)

Procylin (oral prostaglandin I_2 analog)

Procylin is a prostaglandin I_2 analog, beraprost sodium, as its active ingredient, which dilates blood vessels and inhibits platelet aggregation, serving as a treatment for chronic artery occlusive disease. This drug was created by Toray Industries, Inc. and commercialized through joint clinical development with Kaken. It is the only oral prostaglandin I_2 analog formulation in the world.

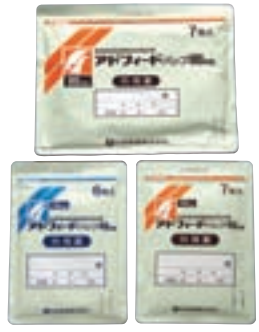
Procylin is a superior circulation enhancer with its ability to inhibit platelet aggregation and increase peripheral blood flow. The drug was launched in 1992 for its effectiveness in treating ulcers, pain and chills resulting from such conditions as arteriosclerosis obliterans (ASO) and thromboangitis obliterans (TAO). In 1999 Procylin received additional approval for primary pulmonary hypertension.

Procylin
(oral prostaglandin I_2 analog)

Adofeed (pain- and inflammation-relieving plaster)

Adofeed is an antiphlogistic analgetic plaster containing Flurbiprofen as its active ingredient, which is a non-steroidal anti-inflammatory drug that acts as a powerful prostaglandin biosynthesis inhibitor. Absorbed directly through the skin, Adofeed has proven effective in reducing pain and inflammation associated with osteoarthritis, shoulder periarthritis, tennis elbow, muscle pain and other inflammatory diseases.

In October 2008, we began selling products that are twice the size of previous offerings. This enhanced lineup gives patients more range in selecting products that are sized correctly for their use.



Adofeed
(pain- and inflammation-relieving plaster)

Mentax (anti-trichophyton agent)

Mentax is a topical treatment for superficial mycosis with butenafin hydrochloride—created by Kaken—as its main ingredient. Mentax is marketed worldwide, including in the United States through Mylan Pharmaceuticals. In December 2001, Mentax was approved as an over-the-counter (OTC) drug in the United States and is now marketed under the trade name Lotrimin Ultra through Schering-Plough Corporation.

In 2003, Mentax was approved for manufacture and sale as an OTC drug in Japan, and is currently being marketed as an OTC drug by Takeda Pharmaceutical Company Limited and Sato Pharmaceutical Co., Ltd.

In 2004, we launched a new spray formulation of Mentax.

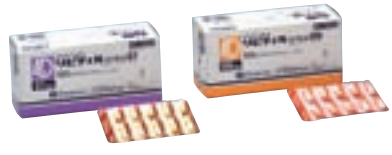
Mentax
(anti-trichophyton agent)

Lipidil (anti-hyperlipidemia)

This new micronized formulation of the active ingredient Fenofibrate in the drug Lipantil—released in 1999—is a fibrate type of lipid-lowering agent with increased absorbability.

Fenofibrate is a fibrate compound developed by Fournier Pharma in France. The drug improves overall lipid metabolism by activating peroxisome proliferator activated receptor a (PPARa) in liver cells and lowering triglycerides and cholesterol while increasing HDL cholesterol by adjusting the expression of a variety of proteins involved in lipid metabolism.

Lipidil is sold in over 90 countries and has accumulated extensive clinical experience.



Lipidil (anti-hyperlipidemia)

Seprafilm (synthetic-absorbent anti-adhesive barrier)

Seprafilm is a sheet-type, synthetic-absorbent and anti-adhesive medical device developed by Genzyme Corp. in the United States, consisting of sodium hyaluronate and Carboxymethylcellulose. Within 24 to 48

Seprafilm
(synthetic-absorbent anti-adhesive barrier)

hours after applying Seprafilm to tissues damaged by surgery, the product becomes a hydrated gel and remains in place for approximately seven days, acting as an effective anti-adhesive by creating a physical barrier between damaged tissue and the surrounding normal tissue.

Seprafilm is available in three types of package, for selection according to use.

Fiblast Spray (wound healing agent)

Consisting of Trafermin, a recombinant form of human basic Fibroblast Growth Factor (bFGF), Fiblast Spray is a wound healing promoter having effects of angiogenesis and granulation formation. Scios Inc. paved the way for the development of recombinant bFGF by mapping the complete DNA sequence of the human bFGF gene. Kaken then took over development of the drug, releasing Fiblast Spray as the world's first human bFGF agent in 2001.

Fiblast Spray
(wound healing agent)

Ebrantil (treatment for dysuria and 1-selective hypertension)

Ebrantil is a sustained-release formulation of the 1-selective blocker, Urapidil.

In Japan, the drug was first marketed in 1989 as a treatment drug for hypertension, based on its peripheral vasodilating effect. In 1995 the treatment was approved for difficulty in urination caused by benign prostatic hyperplasia, and in 1999 it was approved as the world's first α1-blocker for the treatment of dysuria caused by neurogenic bladder.

Cytotec (NSAID-induced ulcer preventive drug)

This drug is excellent at treating gastric and duodenal ulcers brought on by the administration of NSAIDs. The active ingredient, prostaglandin E1-analog Misoprostol, developed by G.D. Searle (now Pfizer, Inc.), both inhibits the secretion of gastric juices and exerts a mucosal protective effect (site protection).

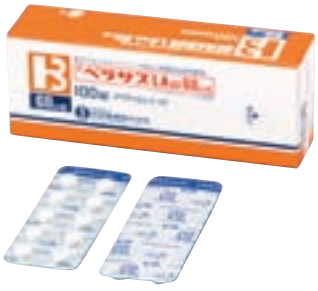
In the Guidelines for the Examination of Gastric Ulcers and Guidelines for the Treatment of Rheumatoid Arthritis in Japan, Cytotec is recommended as a drug backed by clinical evidence for the prevention and treatment of NSAID-induced ulcers.

Generic Drugs

In Japan, government authorities are currently urging the use of generics as part of a movement to reduce medical costs. We are also seeing an increase in frequency of generic drug use in actual medical practice.

As the generic drug market grows, Kaken is making aggressive forays into generics to seize this business opportunity.

In addition to pharmaceuticals, medical devices, agrochemicals and animal health products, and real estate, we intend to build generics into the fifth pillar of our operations with a medium-term goal of ¥10 billion in sales. We will continue to expand our product line to achieve this objective.



Berasas
(Oral Prostaglandin I_2 analog
Sustained-Release Formulation)

Berasus (oral prostaglandin I_2 analog sustained-release formulation)

In October 2007, Kaken gained manufacturing and sales authorization for Berasus, and launched the drug on the market the same year in December

Berasus is a sustained-release formulation of beraprost sodium, a primary component of procylin, which was launched in 1992. Compared with procylin, it can be used as a treatment for pulmonary arterial hypertension (PAH) but with more stable blood concentrations and with the possibilities of reduced number of administrations and higher single doses.

To date, there have been few effective drugs to combat PAH and Berasus is positioned as an important drug in this category.

Clinical trials are currently underway that include lumbar spinal canal stenosis as a new indication.

Agrochemicals

Polyoxins (fungicides)

Polyoxins were discovered in 1963 by Dr. Saburo Suzuki and his associates at the RIKEN Institute. Polyoxins are natural pesticides produced from microorganisms by culturing from the actinomycete *Streptomyces cacaoi* var. *asoensis*, which is isolated from the soil of the Aso region of Kumamoto Prefecture, Japan.

Polyoxins are not single compounds, but rather consist of a group of composite compounds with chemically similar structures. So far, 14 types of polyoxin analogues of Polyoxins A through N have been discovered. Among these analogues, Polyoxin AL, used on fruit trees and vegetables, has Polyoxin B as its active ingredient, while Polyoxin Z, used on lawns, has Polyoxin D as its active ingredient. Polyoxins have already been marketed as horticultural fungicides for over 40 years and are used broadly in a wide variety of applications. Polyoxin AL formulation has demonstrated wide-ranging antifungal activity against disease damage from powdery mildew, gray mold and other mold fungi affecting vegetables, flowers and ornamental plants and has recently been clarified as showing an acaricidal activity on *Tetranychus* species.

Pentoxazone (rice herbicide)

Pentoxazone is an oxazolidinedione-type rice herbicide synthesized at the Sagami Chemical Research Center and developed by Kaken. In 1997, we obtained registration of Pentoxazone in Japan as a single agent and mixed formulation, since which time the herbicide has been used primarily as the initial chemical in a number of rice herbicide mixtures.

While Pentoxazone is mainly used to control annual weeds, such as barnyard grass, broad leaves, and monocholia in paddy fields, the chemical is effective against a vast array of weeds, including *Eleocharis kuroguwai*, a perennial weed that is difficult to control. It is especially stable, effective and long-lasting in controlling broad leaves and monocholia species, which are resistant to sulfonylurea herbicides.

Pentoxazone can be used in diverse situations owing to its high crop safety. The agent may be applied as an initial chemical before or after transplant, allowing simultaneous transplanting as a one-shot herbicide. One formulation has also recently received registration for direct planting in flooded soil. Although injury to crops may result in the form of light browning on the leaf sheaths of the rice plants five to ten days after application, this condition is temporary and the plants recover quickly with little impact on their development.

The herbicide has extremely low water solubility and high soil adsorptivity, resulting is almost no outflow into groundwater or rivers. Pentoxazone's low toxicity to humans, animals, marine creatures and other living things lends the herbicide a high degree of environmental safety.

Animal Health Products

Salinomycin (ionophore anti-coccidial for chicken)

Salinomycin sodium is a polyether antibiotic discovered by Kaken Pharmaceutical Co., Ltd. in 1968 in a culture of a strain of the actinomycete *Streptomyces albus*. Salinomycin sodium is the most widely used anti-coccidial in the world and is effective even against clostridia. Salinomycin sodium is produced under Good Manufacturing Practice (GMP), supplied to Japan and exported worldwide.

Colistin sulfate (polypeptide antibiotic)

Colistin sulfate is a polypeptide antibiotic discovered in 1950 in a culture of *Bacillus Colistinus*, which had been extracted from soil in Fukushima Prefecture, Japan. Colistin's activity against gram-negative bacteria, including the major livestock pathogens *E. coli* and *salmonella*, has led Kaken to export the antibiotic around the world in response to high global demand.

Commitment and Excellence

R&D Division

Kaken's drug discovery activities focus on such areas of strength as inflammation, allergies and pain, in addition to its continued research on fungal infections. We invest substantial financial and human resources into such research activities with the aim of developing new drugs that are both effective and safe. To continue creating innovative drugs, we maintain active programs of drug discovery research, spearheaded by outstanding research professionals and techniques refined over many years of experience in pharmaceutical development.

At present, we have a total of around 300 employees in the R&D division. During the year under review, we estimate that our research and development expenses came to ¥7.5 billion. To reinforce the new product development pipeline, we cooperate with Global Business Development to enhance the proactive evaluation of licensing-in candidates among developed products. In addition, to expedite our R&D activities we are actively pursuing strategic alliances with both domestic and international companies and research institutes including for global clinical development, as well as outsourcing some of our operations.

Kaken is fully committed to R&D activities that produce progressive proprietary medicines, which will enable the Company to build a unique position as a pharmaceutical manufacturer. To enable efficient R&D activities, we adopt a multifaceted approach that includes pinpointing specific research programs, in-house discovery, joint research and development, in- and out-licensing of developed products, and outsourcing.

The Central Research Laboratories are located in Kyoto, the ancient capital of Japan, and Shizuoka. We divide duties and employ cutting-edge research equipment and techniques to aid drug discovery and investigation, which require long and arduous research and unrivalled expertise. At our Kyoto laboratory, we carry out drug discovery research, synthetic studies and pharmacological studies, while at our Shizuoka laboratory we conduct studies on pharmacokinetics, drug safety and formulation.

We advance R&D efforts through cooperation and coordination among five research sections. The Chemistry Laboratory handles synthesis of medicinal compounds that are the seeds of new drugs. The Drug Discovery Research Laboratory seeks out discovery targets, performs screening and evaluates pharmacological activities of candidate compounds. The Pharmacology Laboratory verifies the utility of candidate compounds created through discovery research and compares them alongside other drugs. The Pharmacokinetics and Safety Research Laboratory investigates the safety of candidate compounds on animals and humans and assesses their ADME *in vitro* and *vivo*. The Drug Formulation Laboratory characterizes the physico-chemical properties of compounds and designs formulation for drug compounds to bring out maximum safety and effectiveness in the resulting drug's action on target patients.

As a result of our research activities, in 2003, Kaken's scientists received the Award for the Most Outstanding Pharmacy Thesis from the Academy of Pharmaceutical Science and Technology, Japan (APSTJ) in the field of oral solid formulation design, and in 2009, we won the APSTJ Asahi Kasei Encouraging Award for employing the same technology in the formulation design of Itraconazole. These awards underscore our high level of fundamental technology. We are leveraging such research technologies to accelerate and expand our leading R&D efforts.

During 2007, we concluded a licensing agreement with Gene Techno Science Co., Ltd. (GTS), a venture company of Hokkaido University, which grants exclusive worldwide rights to Kaken for development, manufacturing and marketing of the anti-alpha-9 integrin antibody. Through such initiatives, we are pressing forward with the development of antibody drugs.

Furthermore, to expedite drug discovery research, we will continue focusing on our specialist areas and actively pursue alliances with research institutions in Japan and overseas. We will also introduce and license new technologies on a global basis, seeking out new technologies and their seeds on a worldwide scale. As a part of our efforts to continue carrying out research that anticipates future needs, respected researchers in Japan periodically discuss and advise on Kaken's drug discovery programs.

Following numerous pharmacological and safety studies, clinical candidates proceed to clinical development. Clinical trials are studies in which drug candidates that have passed the non-clinical trials are actually administered to humans. The Clinical Development Department verifies the efficacy of candidate compounds coming out of discovery research or from elsewhere and plans and performs clinical trials on those compounds. The Administration Department of Clinical Development oversees clinical trial quality and reliability and manages safety information for investigational drugs. These departments coordinate with the research laboratories to ensure speedy completion of clinical trials.

Regulatory Affairs Division

Kaken's Regulatory Affairs Division consists of three departments—the Quality Assurance Department, the

Pharmacovigilance Department and the Regulatory Affairs Department.

The Regulatory Affairs Division shoulders Kaken's responsibility as a pharmaceutical manufacturer and marketer, making the final judgments on quality, effectiveness and safety in providing Kaken's drugs to medical professionals in the field.

The Quality Assurance Department assesses whether each drug is produced according to those judgments every time and whether the quality test results comply with standards. The Pharmacovigilance Department then evaluates the safety information collected so far from medical institutions pertaining to the drug in question, after which the Regulatory Affairs Division judgments are comprehensively carried out.

The Quality Assurance Department therefore works to maintain quality by regularly inspecting internal and external plants and collecting and examining information on quality. Meanwhile, the Pharmacovigilance Department reports the assessed safety information to the required entities and distributes information to medical institutions on the appropriate use of pharmaceuticals to enhance their effectiveness, such as by incorporating this information in the drug documentation.

The Regulatory Affairs Department supervises and assists with general aspects of production and marketing. Separate from these matters, the department is also involved in drug R&D affairs. It compiles basic and clinical data produced in the R&D Division, obtaining drug approvals as well as registration in the drug price standards after approval.

Production Division

Our production facilities in Shizuoka Prefecture were among the first in the industry to incorporate factory automation systems. They comply with Japanese GMP, which stipulates requirements for drug manufacturing and quality control. In addition to satisfying these requirements, the quality of products for export clears current Good Manufacturing Practice (cGMP) regulations in the United States, which were formulated by the Food and Drug Administration (FDA).

We have also set up Production Technology Laboratories within the facilities, aiming to enhance product quality and research pharmaceutically useful innovations.

Marketing and Sales Division

Kaken's medical representatives (MRs) provide professionals on the medical front line with up-to-date information on the Company's drugs and medical devices. Our MRs also talk with healthcare professionals to gather medical information related to the safety and effectiveness of our drugs and provide feedback to the relevant departments. We have established nine branches and 68 sub-branches so that our 700 MRs can work closely with local communities, particularly in our specialist fields of orthopedics and dermatology.

Agrochemical & Animal Health Products Division

This division conducts integrated R&D and sales of agrochemicals, feed additives and drugs for animals globally.

Within agrochemicals, we supply two original active compounds for agricultural use: Polyoxins (fungicides) and Pentoxazone (a rice herbicide), with sales focused in Japan and an expanding market overseas. Polyoxins are natural pesticides cultured from *Streptomyces* mycelia, and can be used against disease damage on vegetables, fruit trees, lawns and ornamental plants with a high degree of safety for humans and animals, and a low environmental impact. The product has demonstrated wide-ranging anti-fungal activity and has earned long-standing support from agricultural producers in Japan and abroad. In addition, acaricidal activity has recently been clarified, expanding the scope of usage. Pentoxazone has proven to be extremely effective against perennial weeds in rice paddies. As the number of sulfonylurea herbicide-resistant weeds has increased in recent years, Pentoxazone has become an essential herbicide for rice farmers.

We also supply feed additives, including our original products Salinomycin and Lasalocid used as anti-coccidials for chickens, and colistin sulfate and bacitracin zinc, used to control the spread of bacterial diseases in stock animals, and other livestock products that are essential for healthy animals and safe food production.

The Agrochemical & Animal Health Products Division will continue to develop and sell products with a high degree of safety for humans and animals and a low environmental impact and, accordingly, contribute to the safety and reliability of food production.

Distribution Division

We outsource all distribution center functions to distributors specialized in handling pharmaceuticals.

Fulfilling Our Social Responsibilities

Corporate Governance

Kaken's business philosophy is the "three joys." These are: "creating joy for patients," "creating joy as a company" and "creating joy for our employees." Of the three, our understanding of "creating joy as a company" is that "we recognize our social responsibility as a pharmaceutical company with a high ethical standard and society's trust." In accordance with this viewpoint, the enhancement of corporate governance, management transparency and the obligation to provide stakeholders with appropriate information is among our top management priorities.

Our Initiatives

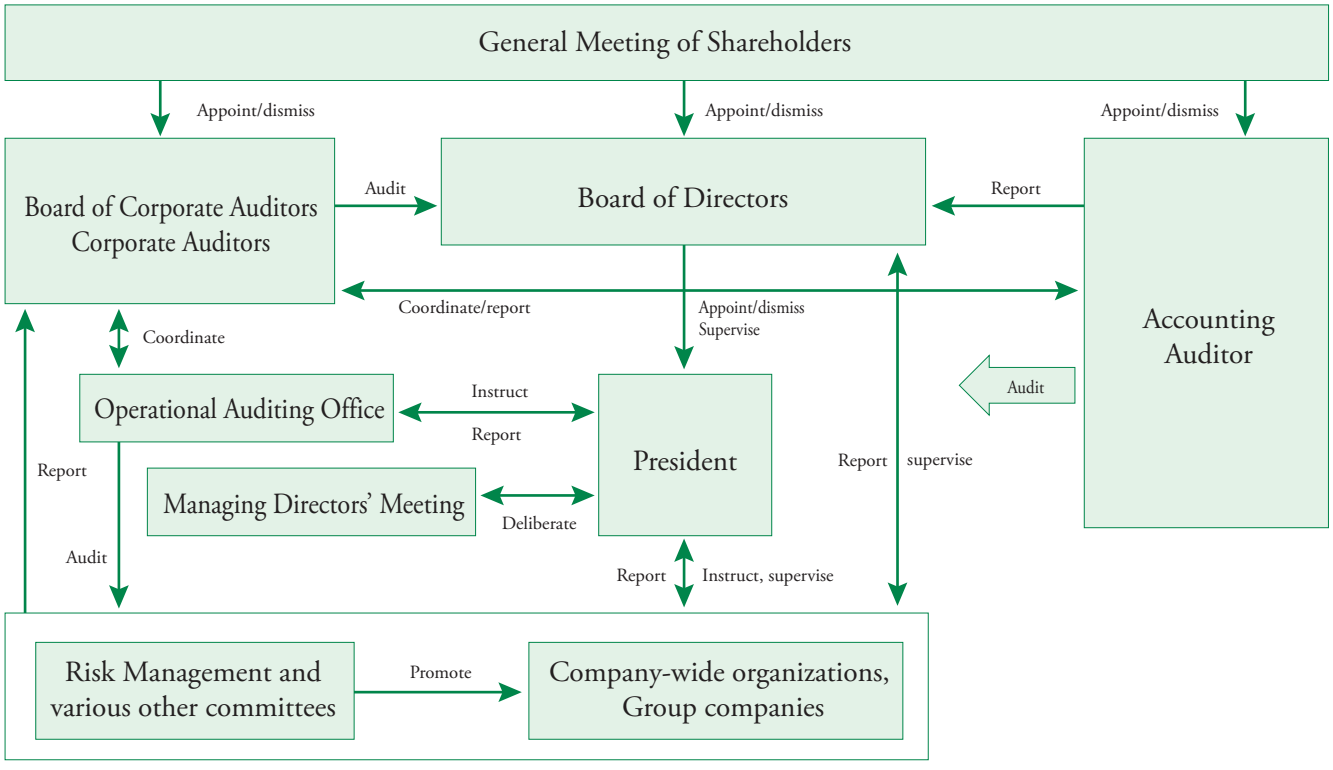
Kaken is aware that compliance is pivotal to earning the trust of society. To this end, we have established activity principles and guidelines and adhere to high ethical standards in all of our business activities. The Company's businesses are directly concerned with people's health and lives. In carrying out these important activities, each employee maintains a strong daily commitment to these activity principles and guidelines.

Moreover, we maintain and operate a basic policy on internal control systems, pursuant to the Companies Act, based on a resolution of the Board of Directors on May 12, 2006.

Compliance

Kaken recognizes compliance-based management as the most fundamental element in gaining society's trust and achieving healthy development. We further believe that this will enable the Company to raise its corporate value for the benefit of our shareholders, investors, business partners and the local community.

Corporate Governance System



Kaken's Activity Principles

Every executive and employee of Kaken and its subsidiaries is strongly committed to compliance in operations with respect to observing Japanese and foreign laws and regulations, respecting different cultures and customs and adopting high ethical standards.

1. We recognize the preciousness of life and shall contribute to the welfare of society by channeling all our efforts into enhancing people's health and patients' quality of life.
2. We recognize the importance of maintaining appropriate relations with all our stakeholders, including shareholders, investors, employees, business partners and local communities.
3. We shall compete in a fair and free manner, conducting our business activities in a just and proper way.
4. We shall handle all the Company's assets, including information, in a legitimate and proper manner to facilitate the smooth running of its operations.
5. We shall respect the human rights and individuality of employees, pay attention to health and safety issues and work hard to foster a fair and honest workplace culture.
6. We shall manage Company information appropriately and disclose information in a timely and appropriate manner.
7. We shall take seriously the impact of our activities on the global environment and contribute to society as a good corporate citizen, including through environmental protection efforts.
8. We shall not tolerate terrorism and other anti-social behavior.

Environmental Protection Activities

Our corporate philosophy is that "By serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals, Kaken helps improve the quality of life for patients." Based on this credo, we are contributing to the health and lives of people through our pharmaceutical operations.

The importance of environmental conservation has grown over recent years. Recognizing that environmental protection and improvement are pressing issues for corporations, too, we are striving to fulfill our corporate philosophy through environmental preservation—to realize a society full of healthy, smiling faces—and to promote social contribution activities as a good corporate citizen.

Kaken launched its environmental campaign in 1983, with the objectives of maintaining and preserving people's health and living conditions and responding to general pollution issues, through the establishment of Environmental Measure Committees and startup of activities at each operational site. Further, in 2004, we formulated basic principles and basic policies related to environmental issues. In response to the April 2009 revision of the Act on the Rational Use of Energy, we recast our Environmental Measures Committees into an Environmental Measures Task Force. This organization will work in tandem with the Environmental Committee to develop companywide activities centered on environmental preservation.

Thereafter, we have fortified our environmental management activities. Our Shizuoka production and R&D facilities have had ISO 14001 certification since August 2001 and our Kyoto research laboratories were awarded Kyoto Environmental System (KES) certification in April 2005.

In the future, all of our worksites, spanning the Company's headquarters and branches, will actively promote environmental management and social contribution activities to expand and strengthen our fight against environmental problems. Further, we are striving to reduce the environmental burden of our business activities on the environment.

Board of Directors and Corporate Auditors

(Standing, from left) Yoshihiro Ieda, Masao Ishida, Hirokazu Konishi, Takao Endo
(Seated, from left) Susumu Kojima, Shuji Komoto, Shiro Inui, Takeshi Hirahara, Tetsuo Onuma

President and Representative Director
Shiro Inui

Executive Managing Director
Takeshi Hirahara
(Administration)

Executive Managing Director
Shuji Komoto
(Accounting, Purchasing and Agrochemicals)

Executive Managing Director
Tetsuo Onuma
(Marketing and Sales)

Executive Managing Director
Susumu Kojima
(Research and Development)

Executive Director
Masao Ishida
(Global Business Development)

Executive Director
Takao Endo
(General Affairs)

Executive Director
Hirokazu Konishi
(Marketing Planning & Coordination)

Executive Director
Yoshihiro Ieda
(Corporate Planning & Coordination)

Auditor
Takeji Saito
(Standing)

Auditor
Fumio Hoshii
(Standing)

Auditor
Sumio Yoshizawa

Auditor
Keizo Nemoto

Financial Section

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (note)
	2010	2009	2008	2007	2006	2010
For the years ended March 31:						
Net sales	¥85,022	¥82,930	¥79,934	¥76,415	¥75,540	$914,215
Operating income	11,784	10,629	9,842	8,113	8,359	126,710
Net income	6,734	5,579	5,106	4,602	3,886	72,409
At March 31:						
Total net assets	59,575	56,679	57,447	60,433	54,637	640,591
Total assets	95,096	94,504	93,856	100,900	98,739	1,022,538
Per share data:	Yen					U.S. dollars (note)
Net income (basic)	¥ 68.79	¥ 55.61	¥ 48.35	¥ 42.42	¥ 40.23	$ 0.740
Cash dividends (non-consolidated)	30.00	26.00	20.00	17.00	15.00	0.323
Ratios:	%					
ROE	11.59	9.78	8.66	8.00	7.76	
Capital adequacy ratio	62.65	59.98	61.21	59.89	55.33	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥93 = $1 effective on March 31, 2010.

Management Discussion and Analysis

Business Climate

During the year, government-induced measures to limit medical costs continued through efforts such as encouraging medical institutions and pharmacies to promote the use of generic drugs, and the number of medical facilities adopting the diagnosis procedure combination (DPC) payment system for medical treatment increased.

Under these circumstances, the Group's sales of mainstay pharmaceuticals and medical devices increased.

Performance

Consolidated net sales for the year under review amounted to ¥85,022 million, up 2.5% from the preceding fiscal year. Research and development costs increased, owing to the expansion of overseas clinical trials, but operating income grew 10.9%, to ¥11,784 million, as we strove to raise the efficiency of selling, general and administrative expenses. Net income climbed 20.7%, to ¥6,734 million.

Segment Information

Pharmaceuticals

Our pharmaceuticals segment consists of two core categories: pharmaceuticals and medical devices, and agrochemicals.

In pharmaceuticals, sales of Artz—an anti-osteoarthritic and one of our mainstay products—grew. Sales of generic drugs increased, but sales of Procylin—a treatment for chronic artery occlusive disease—decreased.

In medical devices, sales of the anti-adhesive absorbent barrier Seprafilm expanded steadily.

In agrochemicals, sales of the feed additive Salinomycin fell, as did sales of Pentoxazone, a rice herbicide.

As a result, net sales rose 2.6% year on year, to ¥82,562 million, and operating income grew 12.4%, to ¥10,281 million. Net sales overseas reached ¥2,774 million.

Real Estate

Rental income from Bunkyo Green Court represents the bulk of revenues from our real estate business. Sales in the real estate segment declined 0.8%, to ¥2,460 million, while operating income increased 1.5%, to ¥1,503 million.

Financial Position

Total assets at fiscal year-end stood at ¥95,069 million, up ¥592 million from the previous year. This growth was mainly the result of an increase in marketable securities. Total liabilities amounted to ¥35,521 million, down ¥2,303 million, primarily as a result of a decrease in payables. Net assets totaled ¥59,575 million, a rise of ¥2,895 million, due mainly to higher retained earnings.

Cash Flows

Cash and cash equivalents at the end of fiscal year 2009 stood at ¥17,504 million, up ¥4,947 million from the previous year. Principal factors related to cash flow during the year are described below.

Net cash provided by operating activities amounted to ¥11,049 million, up ¥2,576 million. Principal factors were a decrease in inventories and an increase in income before income taxes.

Net cash used in investing activities totaled ¥2,374 million, down ¥197 million from the preceding year. The primary reason for the change was the redemption of investment securities.

Net cash used in financing activities was ¥3,727 million, ¥2,002 million less than in the preceding term. This was mainly the result of a decrease in the acquisition of treasury stock.

Risk Factors

The factors outlined in the list below may materially affect investors' decisions relating to the Company's business activities. Forward-looking statements reflect the Group's judgment and forecasts based on information available as of the end of the fiscal year under review. It should be noted that not all risks are included in the list.

(1) Risks related to new drug development

Substantial investment and development periods of more than 10 years are required before a new drug is released onto the market. While undertaking development with due regard to verifying the efficacy and safety of a particular drug, development could be halted midway.

(2) Risks related to the occurrence of side effects

Clinical trials undertaken in the development stage involve the trial administration of drugs to a restricted number of patients. Consequently, once a drug is launched onto the market we conduct post-marketing surveillance to supplement clinical trials. In the event a new side effect is discovered at this stage, sales of the drug could be halted.

(3) Risks related to policies to curtail medical expenses

As government initiatives to curtail medical expenses continue, various medical system reforms are under consideration. The Company's performance may be affected by such changes in the market environment.

(4) Risks due to competition

Sales competition with other pharmaceutical companies may result in a drop in prices. In addition, sales of generic products by other companies causes a decline in sales of the original product, which could affect the Company's performance.

(5) Risks related to delay or cessation of production

Production may be delayed or halted as a result of various factors, such as problems with manufacturing facilities or delays in the procurement of raw materials. These factors could affect the Company's performance.

(6) Risks related to legal action

We are exposed to the possibility of legal action in the course of our business activities. Such actions could affect the Company's performance.

Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2010**	2009	**2010**
Current Assets:			
Cash on hand and at banks (Notes 5 and 11)	**¥ 9,900**	¥10,155	**$ 106,452**
Marketable securities (Notes 5, 6 and 11)	**7,603**	2,401	**81,753**
Receivables:			
Notes and accounts receivable–trade (Note 11)	**27,660**	28,347	**297,419**
Accounts receivable–other	**1,197**	996	**12,871**
	28,858	29,344	**310,301**
Less: Allowance for doubtful receivables	**(7)**	(7)	**(75)**
	28,851	29,336	**310,226**
Inventories (Note 7)	**8,993**	10,946	**96,699**
Deferred tax assets (Note 17)	**1,168**	1,319	**12,559**
Other current assets	**306**	771	**3,290**
Total current assets	**56,824**	54,931	**611,011**
Property, Plant and Equipment (Notes 9 and 10)**:**			
Buildings and structures	**36,957**	36,485	**397,387**
Machinery and equipment	**19,171**	19,476	**206,140**
	56,129	55,962	**603,538**
Less: Accumulated depreciation	**(35,617)**	(34,754)	**(382,978)**
	20,511	21,207	**220,548**
Land	**3,762**	3,762	**40,452**
Construction in progress	**969**	925	**10,419**
Total property, plant and equipment	**25,243**	25,895	**271,430**
Investments and Other Assets:			
Investment securities (Notes 6 and 11)	**5,445**	5,042	**58,548**
Intangible assets and long-term prepaid expenses	**519**	657	**5,581**
Deferred tax assets (Note 17)	**4,900**	5,276	**52,688**
Other assets	**2,162**	2,699	**23,247**
Total investments and other assets	**13,028**	13,677	**140,086**
TOTAL ASSETS	**¥95,096**	¥94,504	**$1,022,538**

The accompanying notes are an integral part of the Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 4) 2010
Current Liabilities:			
Short-term bank loans (Notes 8 and 11)	**¥ 8,510**	¥ 7,910	**$ 91,505**
Payables:			
Notes and accounts payable–trade (Note 11)	**11,174**	13,172	**120,151**
Notes and accounts payable–construction	**130**	431	**1,398**
Accounts payable–other	**3,452**	4,242	**37,118**
	14,758	17,846	**158,688**
Accrued expenses	**1,131**	648	**12,161**
Accrued bonuses	**1,214**	1,222	**13,054**
Accrued sales rebates	**451**	485	**4,849**
Accrued income taxes (Note 17)	**2,061**	2,564	**22,161**
Other current liabilities	**731**	561	**7,860**
Total current liabilities	**28,858**	31,237	**310,301**
Non-Current Liabilities:			
Accrued pension and severance costs (Note 13)	**5,678**	5,598	**61,054**
Accrued retirement benefits to directors	**395**	357	**4,247**
Deferred tax liabilities (Note 17)	**189**	200	**2,032**
Other long-term liabilities	**398**	431	**4,280**
Total non-current liabilities	**6,662**	6,588	**71,634**
Net Assets:			
Shareholders' Equity (Notes 2 (l) and 14):			
Common stock–no par value			
Authorized: 360,000,000 shares			
Issued: 101,879,461 shares as of March 31, 2010 and 101,879,461 shares as of March 31, 2009	**23,853**	23,853	**256,484**
Capital surplus	**11,587**	11,587	**124,591**
Retained earnings	**28,684**	24,698	**308,430**
Treasury stock, at cost: 5,738,399 shares in 2010 and 3,695,041 shares in 2009	**(4,999)**	(3,417)	**(53,753)**
Total shareholders' equity	**59,124**	56,722	**635,742**
Valuation and translation adjustments:			
Net unrealized gain on other securities, net of taxes (Note 2 (c))	**447**	(43)	**4,806**
Deferred gain on hedges	**2**	—	**22**
Total valuation and translation adjustments	**450**	(43)	**4,839**
Total net assets	**59,575**	56,679	**640,591**
TOTAL LIABILITIES AND NET ASSETS	**¥95,096**	¥94,504	**$1,022,538**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Net sales	**¥85,022**	¥82,930	**$914,215**
Cost of sales	**44,116**	43,144	**474,366**
Gross profit	**40,905**	39,786	**439,839**
Selling, general and administrative expenses (Note 15)	**29,120**	29,156	**313,118**
Operating income	**11,784**	10,629	**126,710**
Other income (expenses):			
Interest and dividend income	**105**	161	**1,129**
Interest expenses	**(97)**	(130)	**(1,043)**
Amortization of net obligation at transition	**(524)**	(524)	**(5,634)**
Gain on sales of property, plant and equipment, net	**—**	0	**—**
Loss on disposal of property, plant and equipment	**(248)**	(80)	**(2,667)**
Gain (loss) on sales of investment securities, net	**68**	(403)	**731**
Loss on devaluation of investment securities	**—**	(398)	**—**
Amortization of long-term prepaid expenses (Note 16)	**(180)**	—	**(1,935)**
Revaluation loss of golf membership	**(0)**	(56)	**(0)**
Other, net	**22**	157	**237**
	(855)	(1,275)	**(9,194)**
Income before income taxes	**10,929**	9,354	**117,516**
Income taxes (Note 17)**:**			
Current	**4,017**	4,221	**43,194**
Deferred	**177**	(446)	**1,903**
	4,194	3,774	**45,097**
Net income	**¥ 6,734**	¥ 5,579	**$ 72,409**

Per share data:	Yen		U.S. dollars (Note 4)
Net income (Note 19):			
Basic	**¥68.79**	¥55.61	**$0.740**
Diluted	**—**	—	**—**
Cash dividends applicable to the year (Note 14)	**¥30.00**	¥26.00	**$0.323**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Shareholders' equity			
Common stock			
Balance at beginning of the year	**¥23,853**	¥23,853	**$256,484**
Changes during the year	**—**	—	**—**
Balance at end of the year	**23,853**	23,853	**256,484**
Capital surplus			
Balance at beginning of the year	**11,587**	22,727	**124,591**
Changes during the year:			
Treasury stock acquired	**(0)**	0	**(0)**
Retirement of treasury stock	**—**	(11,141)	**—**
Total changes during the year	**(0)**	(11,140)	**(0)**
Balance at end of the year	**11,587**	11,587	**124,591**
Retained earnings			
Balance at beginning of the year	**24,698**	21,440	**265,570**
Changes during the year:			
Cash dividends	**(2,748)**	(2,321)	**(29,548)**
Net income	**6,734**	5,579	**72,409**
Total changes during the year	**3,985**	3,258	**42,849**
Balance at end of the year	**28,684**	24,698	**308,430**
Treasury stock			
Balance at beginning of the year	**(3,417)**	(11,618)	**(36,742)**
Changes during the year:			
Treasury stock acquired	**(1,588)**	(2,966)	**(17,075)**
Treasury stock sold	**6**	26	**65**
Retirement of treasury stock	**—**	11,141	**—**
Total changes during the year	**(1,581)**	8,200	**(17,000)**
Balance at end of the year	**(4,999)**	(3,417)	**(53,753)**
Total shareholders' equity			
Balance at beginning of the year	**56,722**	56,403	**609,914**
Changes during the year:			
Cash dividends	**(2,748)**	(2,321)	**(29,548)**
Net income	**6,734**	5,579	**72,409**
Treasury stock acquired	**(1,588)**	(2,966)	**(17,075)**
Treasury stock sold	**5**	27	**54**
Retirement of treasury stock	**—**	—	**—**
Total changes during the year	**2,402**	319	**25,828**
Balance at end of the year	**¥59,124**	¥56,722	**$635,742**

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Valuation and translation adjustments			
Net unrealized gain (loss) on other securities			
Balance at beginning of the year	**¥ (43)**	¥ 1,045	**$ (462)**
Net changes in items other than shareholders' equity	**490**	(1,088)	**5,269**
Total changes during the year	**490**	(1,088)	**5,269**
Balance at end of the year	**447**	(43)	**4,806**
Deferred gain on hedges			
Balance at beginning of the year	**—**	(0)	**—**
Net changes in items other than shareholders' equity	**2**	0	**22**
Total changes during the year	**2**	0	**22**
Balance at end of the year	**2**	—	**22**
Total valuation and translation adjustment			
Balance at beginning of the year	**(43)**	1,044	**(462)**
Net changes in items other than shareholders' equity	**493**	(1,087)	**5,301**
Total changes during the year	**493**	(1,087)	**5,301**
Balance at end of the year	**450**	(43)	**4,839**
Total net assets			
Balance at beginning of the year	**56,679**	57,447	**609,452**
Changes during the year:			
Cash dividends	**(2,748)**	(2,321)	**(29,548)**
Net income	**6,734**	5,579	**72,409**
Treasury stock acquired	**(1,588)**	(2,966)	**(17,075)**
Treasury stock sold	**5**	27	**54**
Net changes in items other than shareholders' equity	**493**	(1,087)	**5,301**
Total changes during the year	**2,895**	(768)	**31,129**
Balance at end of the year	**¥59,575**	¥56,679	**$640,591**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Cash flows from operating activities:			
Income before income taxes	**¥10,929**	¥ 9,354	**$117,516**
Adjustments for:			
Depreciation	**2,423**	2,407	**26,054**
Amortization of long-term prepaid expenses	**527**	135	**5,667**
Accrual for pension and severance costs, less payments	**564**	456	**6,065**
Interest and dividend income	**(105)**	(161)	**(1,129)**
Interest expenses	**97**	130	**1,043**
Revaluation loss of golf membership	**0**	56	**0**
(Loss) gain on sales of investment securities, net	**(68)**	403	**(731)**
Loss on devaluation of investment securities	**—**	398	**—**
Loss on disposal of property, plant and equipment	**233**	80	**2,505**
Gain on sales of property, plant and equipment, net	**—**	(0)	**—**
Decrease (increase) in notes and accounts receivable–trade	**686**	(304)	**7,376**
Decrease (increase) in inventories	**1,953**	(1,008)	**21,000**
Increase (decrease) in notes and accounts payable–trade	**(1,997)**	(208)	**(21,473)**
Other, net	**355**	451	**3,817**
Subtotal	**15,598**	12,192	**167,720**
Interest and dividend received	**106**	162	**1,140**
Interest paid	**(97)**	(126)	**(1,043)**
Income taxes paid, net	**(4,558)**	(3,755)	**(49,011)**
Net cash provided by operating activities	**11,049**	8,472	**118,806**
Cash flows from investing activities:			
Acquisitions of property, plant and equipment	**(2,508)**	(2,577)	**(26,968)**
Proceeds from sales of property, plant and equipment	**—**	0	**—**
Acquisitions of investment securities	**(332)**	(457)	**(3,570)**
Proceeds from sales of investment securities	**325**	501	**3,495**
Proceeds from redemption of investment securities	**500**	—	**5,376**
Payment of long-term prepaid expenses	**(265)**	(47)	**(2,849)**
Other, net	**(92)**	7	**(989)**
Net cash used in investing activities	**(2,374)**	(2,571)	**(25,527)**
Cash flows from financing activities:			
Proceeds from short-term loans	**600**	2,530	**6,452**
Repayment of long-term debts	**—**	(3,000)	**—**
Acquisitions of treasury stock	**(1,582)**	(2,939)	**(17,011)**
Cash dividends paid	**(2,745)**	(2,320)	**(29,516)**
Net cash used in financing activities	**(3,727)**	(5,730)	**(40,075)**
Net increase in cash and cash equivalents	**4,947**	170	**53,194**
Cash and cash equivalents at beginning of year	**12,556**	12,386	**135,011**
Cash and cash equivalents at end of year (Note 5)	**¥17,504**	¥12,556	**$188,215**

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements:

The accompanying consolidated financial statements of KAKEN PHARMACEUTICAL CO., LTD. (the "Company") and its consolidated subsidiaries (collectively the "Group") are basically an English version of those which were prepared from accounts and records maintained by the Group and in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and filed with the Director of Kanto Finance Bureau.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies:

(a) Principles of Consolidation

The Company had three subsidiaries as of March 31, 2010 and 2009. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The consolidated subsidiaries as of March 31, 2010 are as follows:

KAKEN REALTY & SERVICE CO., LTD.
KAKEN PHARMA CO., LTD.
FUJIKA CORPORATION

There was no affiliate which was accounted for by the equity method.

All significant intercompany transactions, account balances and unrealized profits or losses among the Group have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits which are able to be withdrawn within three months and short-term investments with original maturity of three months or less and are considered to have minimal risk from market fluctuations.

(c) Marketable and Investment Securities

Securities are classified into one of the following four categories; (1) Trading, (2) Held-to-maturity debt, (3) shares in subsidiaries and affiliates, and (4) Other. Trading securities are recorded at market value with unrealized gains and losses recognized in the current year's earnings. Debt securities that are expected to be held to maturity are carried at amortized cost. Shares in subsidiaries and affiliates are carried at cost. Other securities are expected to be sold in future and those whose fair values are readily determinable are carried at fair value and the related unrealized gains or losses, net of taxes, are included as a component of "Valuation and translation adjustments" under net assets. Other securities without market quotations are stated at cost, determined by the moving average method.

(d) Inventories

Inventories are stated at the lower of cost determined by the gross average method, or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses.

(e) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, except for buildings, structures, machinery and equipment for the Komagome office that are computed on the straight-line method.

Furthermore, depreciation of buildings, except for ancillary facilities to buildings, acquired on and after April 1, 1998, is computed using the straight-line method. The range of useful lives is from 3 years to 60 years for buildings and structures, and from 2 years to 8 years for machinery and equipment.

(f) Accounting for Impairment of Fixed Assets
In accordance with the accounting standard for impairment of fixed assets, the Group reviews their fixed assets for impairment by grouping the assets in income generating units whenever there is any indication of a significant decline in the fair value against its book value based on an independent appraisal, and when the existence of any impairment for the group of the assets is identified, an impairment loss will be recognized and such amount is directly deducted from the related assets.

(g) Pension and Retirement Benefits
The Company had a retirement benefit program in which approximately 70% of the whole fund was allocated for the payment of lump-sum retirement benefit plan, while the rest was allocated to the tax qualified defined benefit pension plan which was transferred to a defined benefit corporate pension plan on April 1, 2010. In the meanwhile, the Company has set up a retirement benefit trust. Extra retirement payments may be paid to employees retiring under certain circumstance. Consolidated subsidiaries of the Company have no arrangement for corporate pension plans.

The accrued pension and severance costs represent the amount actuarially calculated projected benefit obligation less (1) the fair value of the plan assets, (2) unrecognized actuarial loss or gain, (3) the unrecognized transition amount arising from adopting the new standard and (4) unrecognized prior service cost. If the fair value of the plan assets exceeds the projected benefit obligations, prepaid pension and severance costs are recorded on the balance sheet. The transition amount is amortized on a straight-line basis over 15 years. Unrecognized actuarial loss or gain is amortized on a straight-line basis over 10 years from the next year in which they arise. Unrecognized prior service cost is amortized on a straight-line basis over 10 years from the year in which they arise. For the Company, prepaid pension and severance costs were recognized for a portion of the plan covered by the non-contributory pension plan assets and the accrued pension and severance costs were recognized for a portion of the plan not covered by the plan assets.

Accrued retirement benefits to directors and statutory auditors is provided in an amount equivalent to the liability the relevant company would have been required to pay upon retirement at the balance sheet date, as prescribed by its internal rules.

(h) Income Taxes
Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

(i) Consumption Taxes
Consumption taxes withheld and consumption taxes paid are excluded from revenues and expenses in the accompanying consolidated statements of income. The net balance of consumption taxes withheld and consumption taxes paid is included in current liabilities of the consolidated balance sheet as of the end of the fiscal year.

(j) Derivative Financial Instruments
Derivative instruments, which include forward foreign exchange contracts agreements, are used as a part of the Company's risk management of foreign currency risk exposures of its financial assets and liabilities.

Forward foreign exchange contracts:
The Company enters into forward foreign exchange contracts to limit exposure, affected by changes in foreign currency exchange rates, on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. For forward foreign exchange contracts which are designated and are effective as hedges of such currency exchange rate risk on existing assets and liabilities, the Company adopted the accounting method whereby foreign currency denominated assets and liabilities are measured at the contract rate of the respective forward foreign exchange contracts. With respect to such contracts for anticipated transactions, the contracts are marked-to-market and the unrealized gains/losses are deferred in the balance sheet to be released to income when the exchange gains/losses on the hedged items or transactions are recognized.

(k) Appropriations of Retained Earnings
Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon stockholders' approval.

(l) Shareholders' Equity
The Japanese companies are subject to the Corporate Law of Japan ("the Law"). The Law provided that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the stated capital. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The above mentioned legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

(m) 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 financial year appropriately adjusted for subsequent free distribution of shares (stock splits), if applicable.

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.

Diluted net income per share is computed, based on the assumption that the convertible bonds were fully converted into common stock on the date of issue or at the beginning of the respective years subsequent to the issue, with appropriate adjustments of related interest expense (net of taxes).

3. Change in Accounting Policies:

(Accounting for Pension and Retirement Benefits)

Effective the year ended March 31, 2010, the Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19, issued on July 31, 2008). There was no effect of this change on operating income and income before income taxes.

4. United States Dollar Amounts:

The Group maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥93=U.S.$1, the approximate rate of exchange at March 31, 2010. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or any other rate.

5. Cash and Cash Equivalents:

Cash on hand and at banks and marketable securities are reconciled to cash and cash equivalents of consolidated statements of cash flows as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2010**	2009	**2010**
Cash on hand and at banks	**¥ 9,900**	¥10,155	**$106,452**
Marketable securities	**7,603**	2,401	**81,753**
	17,504	12,556	**188,215**
Marketable securities due in more than three months	**—**	—	**—**
Cash and cash equivalents	**¥17,504**	¥12,556	**$188,215**

6. Marketable Securities and Investment Securities:

The carrying amounts and fair values of held-to-maturity securities are as follows:

	Millions of yen					
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
March 31	**2010**			2009		
Fair values exceeding carrying amount	**¥ —**	**¥ —**	**¥—**	¥ —	¥ —	¥—
Fair values not exceeding carrying amount	**1,999**	**1,999**	**—**	500	500	—
Total	**¥1,999**	**¥1,999**	**¥—**	¥500	¥500	¥—

	Thousands of U.S. dollars (Note 4)		
	Carrying amount	Fair value	Unrealized gain (loss)
March 31	**2010**		
Fair values exceeding carrying amount	**$ —**	**$ —**	**$—**
Fair values not exceeding carrying amount	**21,495**	**21,495**	**—**
Total	**$21,495**	**$21,495**	**$—**

The aggregate fair values (carrying amounts) and acquisition costs of other securities are as follows:

	Millions of yen					
	Fair value	Acquisition cost	Unrealized gain (loss)	Fair value	Acquisition cost	Unrealized gain (loss)
March 31	**2010**			2009		
Carrying amounts exceeding acquisition cost						
Equity securities	**¥ 4,308**	**¥ 3,384**	**¥ 924**	¥1,871	¥1,145	¥725
Others	**—**	**—**	**—**	—	—	—
Subtotal	**4,308**	**3,384**	**924**	1,871	1,145	725
Carrying amounts not exceeding acquisition cost						
Equity securities	**1,074**	**1,244**	**(170)**	2,579	3,377	(797)
Others	**5,603**	**5,603**	**—**	—	—	—
Subtotal	**6,678**	**6,848**	**(170)**	2,579	3,377	(797)
Total	**¥10,987**	**¥10,232**	**¥ 754**	¥4,450	¥4,523	¥ (72)

	Thousands of U.S. dollars (Note 4)		
	Fair value	Acquisition cost	Unrealized gain (loss)
March 31	**2010**		
Carrying amounts exceeding acquisition cost			
Equity securities	**$ 46,323**	**$ 36,387**	**$ 9,935**
Others	**—**	**—**	**—**
Subtotal	**46,323**	**36,387**	**9,935**
Carrying amounts not exceeding acquisition cost			
Equity securities	**11,548**	**13,376**	**(1,828)**
Others	**60,247**	**60,247**	**—**
Subtotal	**71,806**	**73,634**	**(1,828)**
Total	**$118,140**	**$110,022**	**$ 8,108**

Carrying amount of other securities whose fair value is not available as of March 31, 2009 is ¥2,494 million.

Other securities sold during the fiscal years ended March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Proceeds from sales	**¥325**	¥501	**$3,495**
Gross realized gains	**68**	32	**731**
Gross realized losses	**—**	436	**—**

7. Inventories:

Inventories as of March 31, 2010 and 2009 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2010**	2009	**2010**
Finished products	**¥5,386**	¥ 5,670	**$57,914**
Work in process	**1,854**	1,676	**19,935**
Raw materials and supplies	**1,752**	3,599	**18,839**
Total	**¥8,993**	¥10,946	**$96,699**

8. Short-term Bank Loans:

Short-term bank loans outstanding as of March 31, 2010 and 2009 represented the notes issued by the Group to banks. Customarily, these notes are renewed at maturity subject to renegotiation of interest rates and other factors. The weighted-average interest rates applicable to short-term bank loans as of March 31, 2010 and 2009 are 0.92% and 1.19%, respectively. Outstanding balance of short-term bank loans as of March 31, 2010 and 2009 are ¥8,510 million ($91,505 thousand) and ¥7,910 million, respectively.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of their default, to offset cash deposits against such obligations due to the bank. The Group has not received any such requests to date.

At March 31, 2010 and 2009, assets pledged as collateral for certain short-term bank loans are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2010**	2009	**2010**
Assets pledged:			
Buildings and structures	**¥2,440**	¥2,279	**$26,237**
Machinery and equipment	**2,140**	2,556	**23,011**
Land	**103**	103	**1,108**
Total	**¥4,683**	¥4,938	**$50,355**
Liabilities secured:			
Short-term bank loans	**¥1,400**	¥1,400	**$15,054**
Total	**¥1,400**	¥1,400	**$15,054**

9. Accounting for Leases:

Operating leases

Future lease payments under non-cancellable operating leases at March 31, 2010 and 2009 are as follows;

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2010**	2009	**2010**
Due within 1 year	**¥ 86**	¥ 86	**$ 925**
Due after 1 year	**1,476**	1,562	**15,871**
Total	**¥1,562**	¥1,648	**$16,796**

10. Investment Properties:

The Company and certain consolidated subsidiaries own rental office buildings (including lands) in Tokyo and other areas. Rental income from these properties for the year ended March 31, 2010 is ¥1,503 million ($16,161 thousand) (Major revenue from rental properties and rent expense are reported as net sales and cost of sales respectively).

Carrying amount, change during the year ended March 31, 2010 and fair values of these properties are stated as follows:

Millions of yen			
Carrying amount			
Balance at March 31, 2009	Change during the year ended March 31, 2010	Balance at March 31, 2010	Fair value at March 31, 2010
¥14,453	¥(523)	¥13,929	¥39,021

Thousands of U.S. dollars (Note 4)			
Carrying amount			
Balance at March 31, 2009	Change during the year ended March 31, 2010	Balance at March 31, 2010	Fair value at March 31, 2010
$155,409	$(5,624)	$149,774	$419,581

Notes:
1. The carrying amount represents the acquisition costs less accumulated depreciation.
2. The above figures include the amounts concerning the land earmarked for future development
3. Fair value at March 31, 2010 is based primarily on the real estate appraisal report prepared by independent real estate appraisers.

(Additional information)
Effective the year ended March 31, 2010, the Company adopted the "Accounting Standard for Disclosures about the Fair Value of Investment and Rental Property" (ASBJ Statement No.20, issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, issued on November 28, 2008).

11. Financial Instruments:

1. Outline of financial instruments

(1) Policy for financial instruments

The Group is managing its cash surplus in the form of low risk financial instruments with high liquidity, while raising short-term working capital through loans from financial institutions including banks. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described later.

(2) Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable-trade are exposed to customers' credit risk. Trade receivables denominated in foreign currency are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities are mainly held-to-maturity securities and shares held to maintain business collaborations with clients and trade partners, which are exposed to the risk of market price fluctuations.

Payment terms of payables, such as notes and accounts payable-trade, are mostly less than one year. Payables in foreign currency incurred from the import transactions of raw materials are exposed to foreign exchange fluctuation risk. Loans are used for short-term working capital.

Derivative transactions mainly include forward foreign exchange contracts for the purpose of hedging foreign exchange fluctuation risk exposed to trade receivables and payables denominated in foreign currency. Hedging instruments and hedged items, hedging policy, assessment method for hedge effectiveness and others related to hedge accounting are as follows:

a. Hedging instruments and hedged items

Hedging instruments:	Forward foreign exchange contract
Hedged items:	Foreign currency denominated receivables and payables, and forecasted foreign currency denominated transactions

b. Hedging policy

Hedging instruments are used within the limits of anticipated foreign currency denominated transactions and the Company makes it a policy not to use derivatives for speculative purposes.

c. Assessment method for hedge effectiveness

Since material terms related to hedged items and hedging instruments are substantially identical and such hedging transactions are deemed to be highly effective so that the market fluctuations may be completely offset continuously after the inception of hedge relation, assessment of hedging effectiveness is omitted.

Assessment of effectiveness is omitted also for the forward foreign exchange contracts, under which the hedged items are translated using the forward contract rates.

(3) Risk management for financial instruments

a. Credit risk management (customers' default risk)

For the purpose of managing trade receivables within the Group, each concerned department, according to the credit management rule, is controlling payment term and balances of each major customer by regularly monitoring their status, in an effort to achieve early identification and mitigation of default risk of customers arising from their deteriorating financial conditions and other factors.

Held-to-maturity securities held by the Company are, under the short-term investment rules, restricted to those with superior ratings only, involving minimal credit risk.

The Company enters into derivative transactions with high credit rating financial institutions to mitigate the counterparty risks.

b. Market risk management (foreign exchange and interest rate fluctuation risks)
The Company uses forward foreign exchange contracts as appropriate to hedge foreign exchange fluctuation risk associated with trade receivables and payables denominated in foreign currency.

With respect to marketable securities and investment securities, the Company is periodically monitoring fair values and financial positions of the related issuers (business connections).

Derivative transactions are conducted under the authority of general manager at each concerned department, under the forward foreign exchange contracts management rules, and actual performance of derivative transactions is reported to the concerned departments including Accounting Department, as each transaction takes place. Then at the end of each month, outstanding balance of forward exchange contracts is reported to directors in charge, as well as to other concerned departments. The consolidated subsidiaries are not engaged in derivative transactions.

c. Liquidity risk management on fund raising
The Company manages its liquidity risk by preparing and updating cash flow management plan as appropriate by accounting department based on the report from each concerned department.

(4) Supplementary explanation concerning fair values of financial instruments
Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in the note "Derivative Financial Instruments" do not indicate the amounts of market risk exposed to derivative transactions.

(5) Concentration of credit risks
As of March 31, 2010, 63% of all trade receivables are with the specific major accounts.

2. Fair values of financial instruments
Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2010 are as follows:
Financial instruments whose fair values are not readily determinable are excluded from the following table:

	Millions of yen		
March 31, 2010	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash on hand and at banks	¥ 9,900	¥ 9,900	—
(2) Notes and accounts receivable–trade	27,660		
Allowance for doubtful receivables (*1)	(6)		
	27,654	27,654	—
(3) Marketable securities and investment securities			
a. Held-to-maturity securities	1,999	1,999	—
b. Other securities	10,987	10,987	—
Total assets	¥50,541	¥50,541	—
(1) Notes and accounts payable–trade (*2)	¥11,305	¥11,305	—
(2) Short-term bank loans	8,510	8,510	—
Total liabilities	¥19,815	¥19,815	—
Derivative transactions (*3)	¥ 4	¥ 4	—

	Thousands of U.S. dollars (Note 4)		
March 31, 2010	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash on hand and at banks	$106,452	$106,452	—
(2) Notes and accounts receivable–trade	297,419		
Allowance for doubtful receivables (*1)	(65)		
	297,355	297,355	—
(3) Marketable securities and investment securities			
a. Held-to-maturity securities	21,495	21,495	—
b. Other securities	118,140	118,140	—
Total assets	$543,452	$543,452	—
(1) Notes and accounts payable–trade (*2)	$121,559	$121,559	—
(2) Short-term bank loans	91,505	91,505	—
Total liabilities	$213,065	$213,065	—
Derivative transactions (*3)	$ 43	$ 43	—

(*1) Allowance for doubtful receivables in respect of notes and accounts receivable–trade
(*2) Notes and accounts payable–trade include notes payable–construction.
(*3) Receivables and payables incurred by derivative transactions are presented in net.

Notes:
1. Calculation method of fair values of financial instruments and securities and derivative transactions
Assets:
(1) Cash on hand and at banks and (2) Notes and accounts receivable–trade
These assets are recorded using carrying amounts because fair values approximate carrying amounts because of their short-term maturities
(3) Marketable securities and investment securities
Fair values of equity securities are based on the prices quoted on stock exchanges while those of debt securities are based on the prices quoted on stock exchanges, or those quoted by correspondent financial institutions. For the notes on marketable securities by purpose of holding, please see the note "Marketable Securities and Investment Securities."

Liabilities
(1) Notes and accounts payable–trade and (2) Short-term bank loans
These payables are recorded using carrying amounts because fair values approximate carrying amounts because of their short-term maturities.
Derivative financial instruments:
Please see the note "Derivative Financial Instruments"

2. Financial instruments whose fair values are not readily determinable

	Millions of yen	Thousands of U.S. dollars (Note 4)
Category	Carrying amount	Carrying amount
Unlisted equity securities	¥62	$667

These items are not included in "(3) Marketable securities and investment securities," because there is no market price and it is very difficult to identify fair values.

3. Redemption schedule of monetary assets and securities with contractual maturities

	Millions of yen
March 31, 2010	Within one year
Cash on hand and at banks	¥ 9,900
Notes and accounts receivable–trade	27,660
Marketable securities and investment securities:	
Held-to-maturity securities	1,999
Other securities with contractual maturities	1,700
Total	¥41,261

	Thousands of U.S. dollars (Note 4)
March 31, 2010	Within one year
Cash on hand and at banks	$106,452
Notes and accounts receivable–trade	297,419
Marketable securities and investment securities:	
Held-to-maturity securities	21,495
Other securities with contractual maturities	18,280
Total	$443,667

(Additional information)
Effective the year ended March 31, 2010, the Company adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Guidance on Disclosures about Fair value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10, 2008).

12. Derivative Financial Instruments:

Year ended March 31, 2010

1. Derivative transactions to which hedge accounting is not applied:

Not applicable.

2. Derivative transactions to which hedge accounting is applied:

Currencies

			Millions of yen		
Hedge accounting method	Classification	Major hedged items	Notional amount	Notional amount over one year	Fair value
Primary method	Forward foreign exchange contracts:	Forecasted transactions in foreign currency			
	Long position US dollars		¥111	—	¥4
Receivables or Payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:				
	Long position US dollars	Accounts payable–trade	55	—	(Note 2)
	Short position US dollars	Accounts receivable–trade	9	—	(Note 2)
Total			¥176	—	¥4

			Thousands of U.S. dollars (Note 4)		
Hedge accounting method	Classification	Major hedged items	Notional amount	Notional amount over one year	Fair value
Primary method	Forward foreign exchange contracts:	Forecasted transactions in foreign currency			
	Long position US dollars		$1,194	—	$43
Receivables or Payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:				
	Long position US dollars	Accounts payable–trade	591	—	(Note 2)
	Short position US dollars	Accounts receivable–trade	97	—	(Note 2)
Total			$1,892	—	$43

Notes:
1. Fair values at the end of the fiscal year are calculated using prices quoted by correspondent financial institutions.
2. As forward foreign exchange contracts subject to deferral hedge accounting are treated as one unit combined with foreign currency denominated receivables and payables that are hedged, fair values of the former are included in the fair values of the latter.

   Forward foreign exchange contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the foreign currency denominated receivables or payables as hedged items are translated using the forward contract rates. Accordingly, the fair values of the forward foreign exchange contracts are considered to be reflected in the fair values of the related receivables or payables.

Year ended March 31, 2009

1. Matters regarding the status of transactions

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks.

The Company has established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for speculative purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts and interest rate swap agreements. The Company is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest rate derivatives; however, the Company does not anticipate non-performance by any of these counterparties all of whom are financial institutions with high credit ratings.

2. Matters regarding the fair value of transactions

There is no relevant information as derivative transactions subject to hedge accounting are excluded.

13. Pension and Retirement Benefits:

The pension and retirement benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheets as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2010**	2009	**2010**
Projected benefit obligations	**¥(21,665)**	¥(21,406)	**$(232,957)**
Plan assets	**10,341**	9,015	**111,194**
Funded status	**(11,323)**	(12,390)	**(121,753)**
Unrecognized transition amount	**2,624**	3,149	**28,215**
Unrecognized actuarial loss	**4,153**	5,282	**44,656**
Unrecognized prior service cost	**(64)**	(88)	**(688)**
	(4,610)	(4,046)	**(49,570)**
Amounts recognized in the balance sheet consists of			
Prepaid pension cost (other assets)	**1,068**	1,552	**11,484**
Accrued pension and severance costs	**¥ (5,678)**	¥ (5,598)	**$ (61,054)**

The components of net pension and severance costs for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Service cost	**¥ 669**	¥ 673	**$ 7,194**
Interest cost	**485**	488	**5,215**
Expected return on plan assets	**(86)**	(306)	**(925)**
Amortization of transition amount	**524**	524	**5,634**
Amortization of actuarial loss	**792**	565	**8,516**
Amortization of prior service cost	**(22)**	(22)	**(237)**
Net pension expense	**¥2,363**	¥1,923	**$25,409**

Assumptions used in calculation of the above information for the year ended March 31, 2010 and 2009 are as follows:

Discount rate	2.3%
Expected rate of return on plan assets	1.0% (3.0% in 2009)
Method of attributing the projected benefits to periods of services	Straight-line method

14. Shareholders' Equity:

a) Type and number of shares outstanding and treasury stock

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2009	101,879,461	3,695,041
Increase in the number of shares during the accounting period ended March 31, 2010	—	2,050,437
Decrease in the number of shares during the accounting period ended March 31, 2010	—	7,079
Number of shares as of March 31, 2010	101,879,461	5,738,399

Notes:

1. Increase in treasury stock (2,050,437 shares) is due to the purchase of treasury stock (2,000,000 shares) and purchase of shares less than one unit (50,437 shares).
2. Decrease in treasury stock is due to the purchase request on shares less than one unit (7,079 shares).

b) Matters related to dividends

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 26, 2009 were as follows:

Dividends on common stock	
Total amount of dividends	¥1,276 million ($13,720 thousand)
Dividends per share	¥13.00 ($0.14)
Record date	March 31, 2009
Effective date	June 29, 2009

Approvals by the Board of Directors' meeting held on November 5, 2009 were as follows:

Dividends on common stock	
Total amount of dividends	¥1,472 million ($15,828 thousand)
Dividends per share	¥15.00 ($0.16)
Record date	September 30, 2009
Effective date	December 3, 2009

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2010, but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2010:

Dividends on common stock	
Total amount of dividends	¥1,442 million ($15,505 thousand)
Dividends per share	¥15.00 ($0.16)
Record date	March 31, 2010
Effective date	June 30, 2010

15. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009 amounted to ¥7,873 million ($84,656 thousand) and ¥7,696 million, respectively.

16. Long-term Prepaid expense:

Amortization of long-term prepaid expense refers to one-time depreciation of fees for manufacturing technologies and information.

17. Income Taxes:

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.69% for the years ended March 31, 2010 and 2009. A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2010 and 2009 is as follows:

	2010	2009
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**3.15**	4.55
Income not included for income tax purpose (ex. Dividend income)	**(0.15)**	(0.34)
Inhabitant per capita taxes	**0.79**	0.92
Tax credit for research expenses	**(7.08)**	(6.44)
Other	**0.98**	0.97
Effective tax rate	**38.38%**	40.35%

Significant components of deferred tax assets as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Deferred tax assets:			
Reserve for bonuses	**¥ 464**	¥ 472	**$ 4,989**
Reserve for sales rebates	**183**	197	**1,968**
Loss of supplies	**95**	162	**1,022**
Devaluation of financial instruments	**31**	204	**333**
Amortization of R&D	**292**	415	**3,140**
Amortization of long-term prepaid expenses	**250**	173	**2,688**
Pension and severance costs	**2,058**	1,827	**22,129**
Retirement benefits to directors	**161**	145	**1,731**
Unrealized gain of property, plant and equipment	**2,568**	2,568	**27,613**
Other	**480**	550	**5,161**
Total	**6,585**	6,717	**70,806**
Valuation allowance	**(136)**	(44)	**(1,462)**
Deferred tax assets	**6,448**	6,672	**69,333**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(259)**	(274)	**(2,785)**
Unrealized gain on other securities	**(306)**	—	**(3,290)**
Other	**(2)**	(3)	**(22)**
Deferred tax liabilities	**(569)**	(277)	**(6,118)**
Deferred tax assets, net	**¥5,878**	¥ 6,395	**$63,204**

18. Related Party Transactions:

There is nothing to be noted according to the disclosure requirements in Japan for the year ended March 31, 2010 and 2009.

19. Per Share Information:

Per share information for the years ended March 31, 2010 and 2009 is as follows:

	Yen		U.S. dollars (Note 4)
	2010	2009	**2010**
Net assets per share	**¥619.66**	¥577.27	**$6.663**
Net income per share	**68.79**	55.61	**0.740**
Diluted net income per share	**—**	—	**—**

Note: Diluted net income per share is not presented due to the absence of residual shares.

Calculation for net income per share and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
For the years ended March 31	**2010**	2009	**2010**
Net income	**¥ 6,734**	¥ 5,579	**$72,409**
Net income attributable to common stock	**6,734**	5,579	**72,409**
Adjustment to net income	**—**	—	**—**
(Share data)			
Average number of share (thousand)	**97,896**	100,340	**—**
Additional number of share (thousand)	**—**	—	**—**

20. Segment Information:

Information about operations in industry segments of the Group for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen				
Year ended March 31, 2010	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	**¥82,562**	**¥ 2,460**	**¥85,022**	**¥ —**	**¥85,022**
Inter-segment	**—**	**307**	**307**	**(307)**	**—**
Total	**82,562**	**2,767**	**85,329**	**(307)**	**85,022**
Operating expenses	**72,280**	**1,264**	**73,545**	**(307)**	**73,237**
Operating income	**¥10,281**	**¥ 1,503**	**¥11,784**	**¥ —**	**¥11,784**
II. Assets, depreciation and capital expenditure					
Assets	**¥55,062**	**¥15,332**	**¥70,395**	**¥24,701**	**¥95,096**
Depreciation	**¥ 2,310**	**¥ 640**	**¥ 2,951**	**¥ —**	**¥ 2,951**
Capital expenditure	**¥ 2,179**	**¥ 58**	**¥ 2,237**	**¥ —**	**¥ 2,237**

Year ended March 31, 2009	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
	Millions of yen				
I. Sales and operating income					
Outside customers	¥80,448	¥ 2,481	¥82,930	¥ —	¥82,930
Inter-segment	—	306	306	(306)	—
Total	80,448	2,787	83,236	(306)	82,930
Operating expenses	71,301	1,305	72,607	(306)	72,300
Operating income	¥ 9,147	¥ 1,481	¥10,629	¥ —	¥10,629
II. Assets, depreciation and capital expenditure					
Assets	¥57,842	¥15,919	¥73,762	¥20,742	¥94,504
Depreciation	¥ 1,850	¥ 692	¥ 2,542	¥ —	¥ 2,542
Capital expenditure	¥ 3,170	¥ 25	¥ 3,196	¥ —	¥ 3,196

Year ended March 31, 2010	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
	Thousands of U.S. dollars (Note 4)				
I. Sales and operating income					
Outside customers	**$887,763**	**$ 26,452**	**$914,215**	**$ —**	**$ 914,215**
Inter-segment	**—**	**3,301**	**3,301**	**(3,301)**	**—**
Total	**887,763**	**29,753**	**917,516**	**(3,301)**	**914,215**
Operating expenses	**777,204**	**13,591**	**790,806**	**(3,301)**	**787,495**
Operating income	**$110,548**	**$ 16,161**	**$126,710**	**$ —**	**$ 126,710**
II. Assets, depreciation and capital expenditure					
Assets	**$592,065**	**$164,860**	**$756,935**	**$265,602**	**$1,022,538**
Depreciation	**$ 24,839**	**$ 6,882**	**$ 31,731**	**$ —**	**$ 31,731**
Capital expenditure	**$ 23,430**	**$ 624**	**$ 24,054**	**$ —**	**$ 24,054**

21. Subsequent Event:

There was no significant subsequent event to be noted herein as of June 29, 2010.

Report of Independent Auditors

To the Board of Directors
KAKEN PHARMACEUTICAL CO., LTD.

We have audited the accompanying consolidated balance sheets of KAKEN PHARMACEUTICAL CO., LTD. (the "Company") and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended , all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Hijiribashi Audit Corporation

Hijiribashi Audit Corporation

Tokyo, Japan
June 29, 2010

Corporate Data

(As of March 31, 2010)

Directory

REGISTERED HEAD OFFICE
28-8, Honkomagome 2-chome, Bunkyo-ku,
Tokyo 113-8650, Japan
Tel: 81-3-5977-5001
Fax: 81-3-5977-5131
http://www.kaken.co.jp

Global Business Development
Executive Director & General Manager
Masao Ishida
Tel: 81-3-5977-5046
Fax: 81-3-5977-5133
E-mail: masao-ishida@kaken.co.jp

Main Branches
Sapporo Branch
Sendai Branch
Tokyo-1 Branch
Tokyo-2 Branch
Nagoya Branch
Osaka-1 Branch
Osaka-2 Branch
Hiroshima Branch
Fukuoka Branch

Plant
Shizuoka Factory

Research Laboratories
Shizuoka Research Laboratories
Kyoto Research Laboratories
Production Technology Laboratories

Overseas Office:
Kaken New York Office
245 Park Avenue, 24th Floor, New York, NY10167
Tel: 1-212-372-8910
Fax: 1-212-372-8970
E-mail: ny@kaken.co.jp

Company Information

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥23,853 million

Common Stock
Authorized: 360,000,000 shares
Issued: 101,879,461 shares (As of July 31, 2010)
Number of Shareholders: 16,159 (As of Mar. 31, 2010)

Employees (Non-Consolidated)
Administration: 119
Sales & Marketing: 980
Production & Technology: 232
Research & Development: 295
Regulatory Affairs: 39

KAKEN PHARMACEUTICAL CO., LTD.

28-8, Honkomagome 2-chome, Bunkyo-ku, Tokyo
113-8650, Japan
Tel: 81-3-5977-5001
Fax: 81-3-5977-5131
http://www.kaken.co.jp

Printed in Japan