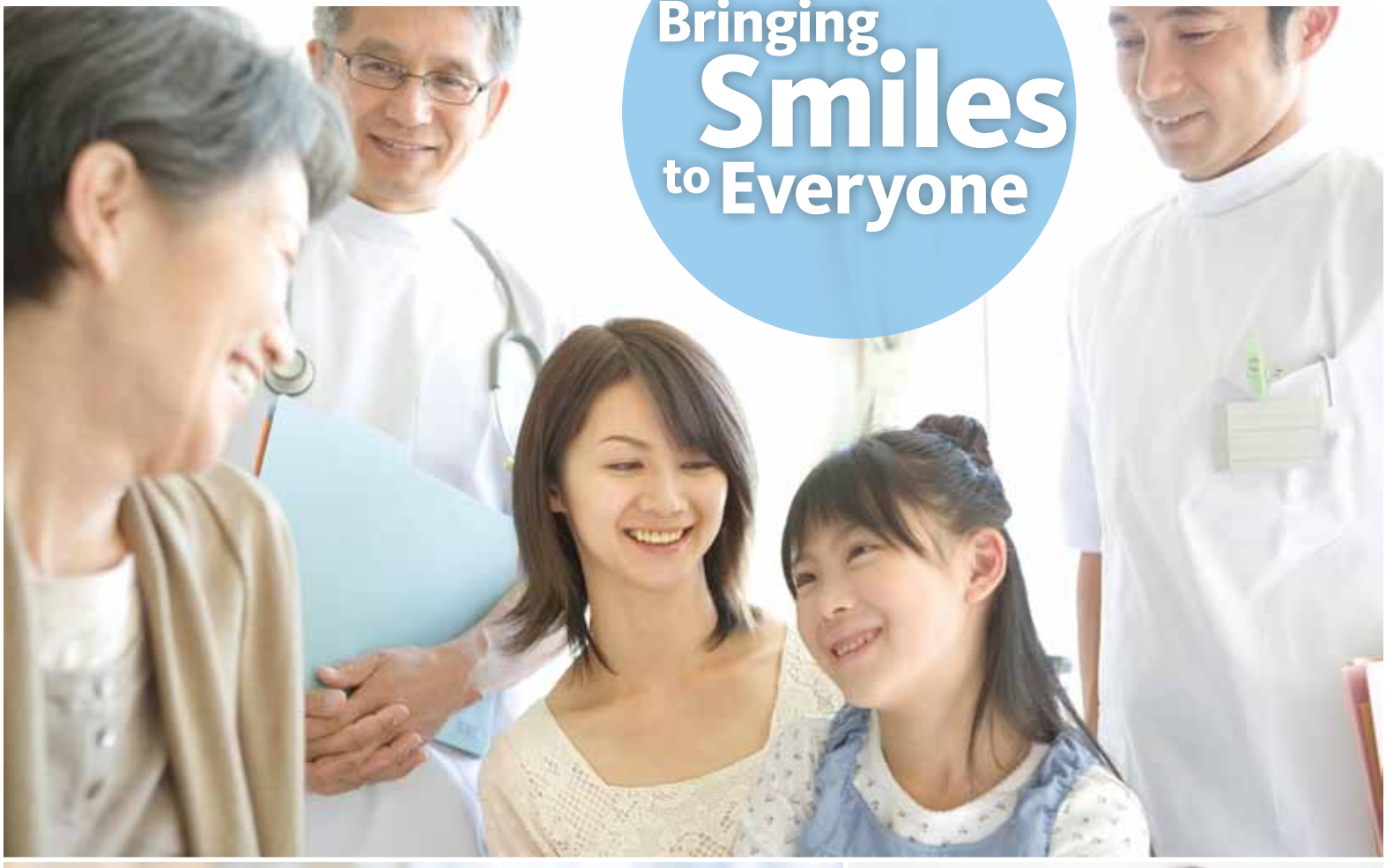
# KAKEN PHARMACEUTICAL CO., LTD.

Annual Report 2011

Year Ended March 31, 2011

## Bringing Smiles to Everyone



## 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 its 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 mergers and alliances. Accordingly, Kaken has established a strong reputation in the industry.

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 Inc., in the area of regenerative medicine (wound healing medicine).


## Corporate Philosophy

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

## 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.

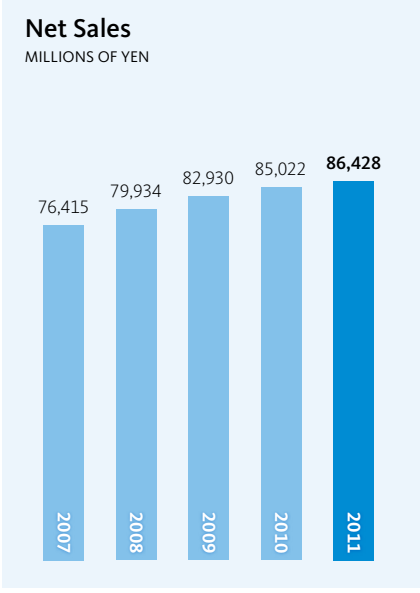
**Creating joy as a company.**
We recognize our social responsibility as a pharmaceutical company with a high ethical standard and society's trust.

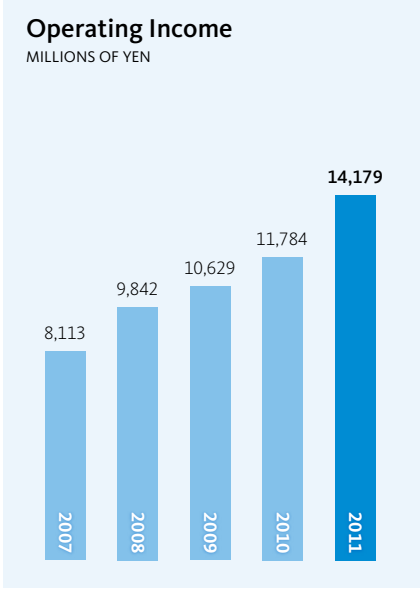
**Creating joy for our employees.**
Our objective is to become a company with vitality and presence whose employees enjoy and take pride in their work.

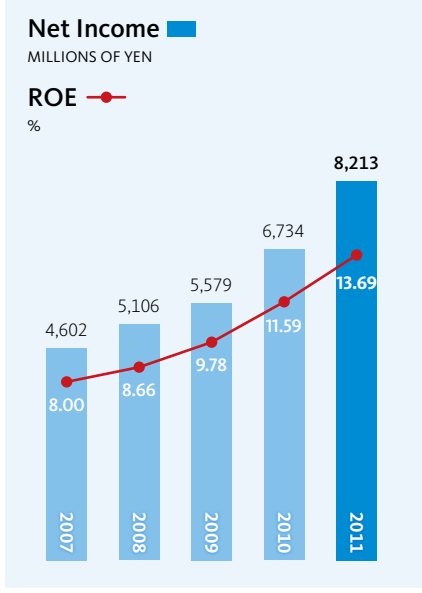
# Consolidated Financial Highlights

| | MILLIONS OF YEN | | | THOUSANDS OF U.S. DOLLARS (NOTE) |
|---|---|---|---|---|
| | 2009 | 2010 | **2011** | **2011** |
| FOR THE YEARS ENDED MARCH 31 | | | | |
| Net sales | ¥82,930 | ¥85,022 | **¥86,428** | **$1,041,301** |
| Operating income | 10,629 | 11,784 | **14,179** | **170,831** |
| Net income | 5,579 | 6,734 | **8,213** | **98,952** |
| AT MARCH 31 | | | | |
| Total net assets | 56,679 | 59,575 | **60,375** | **727,410** |
| Total assets | 94,504 | 95,096 | **98,493** | **1,186,663** |
| PER SHARE DATA | YEN | | | U.S. DOLLARS (NOTE) |
| Net income (Basic) | ¥55.61 | ¥68.79 | **¥87.87** | **$1.059** |
| Cash dividends (Non-Consolidated) | 26.00 | 30.00 | **36.00** | **0.434** |
| RATIOS | % | | | |
| ROE | 9.78% | 11.59% | **13.69%** | — |
| Capital adequacy ratio | 59.98 | 62.65 | **61.30** | — |

NOTE: U.S. dollar amounts are translated, for convenience only, at the rate of ¥83 = $1, the rate effective on March 31, 2011.




# Contents





# President's Message


## Dear Stakeholders

On June 29, 2011, I have assumed the position of President and Representative Director of Kaken Pharmaceutical Co., Ltd.

The business environment for pharmaceutical companies and the industry as a whole has been growing harsher with each coming year. Kaken, however, is targeting its tenth straight year of increased sales and income in the fiscal year ending March 31, 2012. Taking over from the solid foundation created by the previous President, I believe it is important for me to ensure that we continue to see this strong growth going forward.

Further, I believe that reinforcing Kaken's strengths while working to improve areas in which it is weak is crucial. Specifically, we will continue to strengthen our staff of MRs and increase our sales capabilities through enhanced productivity. At the same time, we will endeavor to introduce new drugs and license existing ones. Through such efforts, we will continue to develop Kaken into a truly independent and valuable company. Further, by maintaining a stable dividend payout ratio and purchasing treasury stock should the opportunity arrive, I aim to ensure that we can continue providing shareholder returns, as we always have, and that Kaken remains an appealing company to investors. In closing, I would like to ask all of our stakeholders for their continued support as we strive to further Kaken's continued development.

**Tetsuo Onuma**
President and Representative Director

## Overview of Results for the Fiscal Year Ended March 31, 2011

### *Achieving increased income for the ninth consecutive year as well as record-breaking net sales and operating income*

In the fiscal year under review, ended March 31, 2011, wide-ranging drug price revisions were instituted, including the discounting of long-term listed products, and the system offering pricing premiums to promote the discovery of new drugs and to eliminate the so-called drug lag, making for an increasingly harsh operating environment for the pharmaceutical industry.

During the fiscal year under review, net sales for the Kaken Group's mainstay pharmaceuticals and medical devices grew 1.7% year on year, to ¥86,428 million, regardless of the effects of the drug price revisions. Additionally, the cost of sales ratio improved and selling, general and administrative expenses declined following a decrease in research and development costs. These factors resulted in operating income increasing 20.3%, to ¥14,179 million; ordinary income growing 21.3%, to ¥13,713 million; and net income rising 22.0%, to ¥8,213 million.

In regard to the Great East Japan Earthquake, which occurred March 11, 2011, while some of the Group's sales branches in the affected regions were damaged, the effects on operating results were minimal.

## Addressing Future Challenges for Continued Growth

The Kaken Group is addressing future challenges with the aim of maximizing corporate value and maintaining the trust of society.

### • Strategically investing in R&D

In our R&D efforts, we selectively focus our investment of resources and constantly strive to raise efficiency in order to expand the product pipeline. At the same, we will conduct joint-

research and pursue strategic alliances with companies and research institutions in Japan and around the world with the aim of quickly introducing new research projects.

To expedite R&D efforts, we will outsource basic research procedures, utilize contract research organizations (CROs) and conduct overseas clinical trials while also participating in joint international clinical trials.

Through these efforts, we will work to develop new drugs to facilitate the health of people around the world.

### • Strengthening our sales force

We conduct sales activities in which our medical representatives (MRs) work closely with local communities to supply medical practitioners with high-value-added medical information according to their needs. We primarily provide information by utilizing product-related websites and the mass media.

Additionally, we are expanding our market share in the field of orthopedics to further solidify our position in that field. We are also developing our generic drug business as a central pillar of our operations. Further, we are expanding the size of our organization by augmenting our sales force with additional MRs.

### • Enhancing internal control

We are enhancing our internal control systems primarily focusing achieving higher operating effectiveness and efficiency, more reliable financial reporting, thorough compliance in our business activities and better security of assets.

### • Optimizing operations and promoting efficiency

We are actively working to improve the cost of sales ratio through more efficient investment, optimizing the placement of employees, while revising products and standards. Also, we are increasingly outsourcing the production of agrochemicals to overseas companies.

Additionally, we outsource all of our distribution center functions.

### • Promoting environmental preservation

Both Kaken's Shizuoka Factory and Shizuoka Research Laboratories have obtained ISO 14001 certification. Also, its Kyoto Research Laboratories have received the Kyoto Environmental System (KES) certification, a certification awarded by the city of Kyoto in recognition of environmental management systems. Kaken recognizes that promoting environmental preservation is a social responsibility. Therefore, it has established an Environment Committee and set up Environment Task Forces at each worksite to conduct environmental preservation activities throughout the Company. We also act in strict compliance with the revised Law Concerning the Rational Use of Energy.

Further information regarding Kaken's environmental preservation activities can be found in its Social and Environmental Report (Japanese only), which is available on Kaken's website.

## Policy and Approach Concerning Returns to Shareholders

Kaken believes that providing consistent shareholders returns is an important task for management.

The pharmaceutical industry is relatively high risk, and therefore companies operating in this industry must maintain a higher level of equity capital than companies in other industries. However, we aim to provide shareholder returns while maintaining a balance with the need to secure sufficient equity capital. Accordingly, we have established a flexible policy of dividend payments that are based on operating results and also take this balance into consideration. Retained earnings are used to maximize corporate value through strategic investments in R&D and business infrastructure.

By principle, the Company makes dividend payments twice a year, with the interim dividend being decided at the general meeting of shareholders and the year-end dividend being decided by the Board of Directors.

In accordance with the above mentioned policy, we have decided to increase both the interim and year-end dividend by ¥3.00 per share, to ¥18.00, for total dividend payments of ¥36.00 per share in the year under review, making this our ninth straight year of increased dividend payments.

Further, the Company has developed a flexible system for the acquisition of treasury stock through which acquisitions are decided by the Board of Directors. In the year under review, we acquired 4.5 million shares of treasury stock.

In the fiscal year ending March 31, 2012, we intend to pay interim and year-end dividends of ¥20.00 per share each, for total dividend payments of ¥40.00 per share.

## Target Management Indicators and Long-Term Business Strategy

Targeting future growth, the Kaken Group has set the medium-term numeric target of consolidated operating income of ¥20.0 billion. 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 2011

**Tetsuo Onuma**
President and Representative Director

Special Feature

Bringing Smiles to Everyone

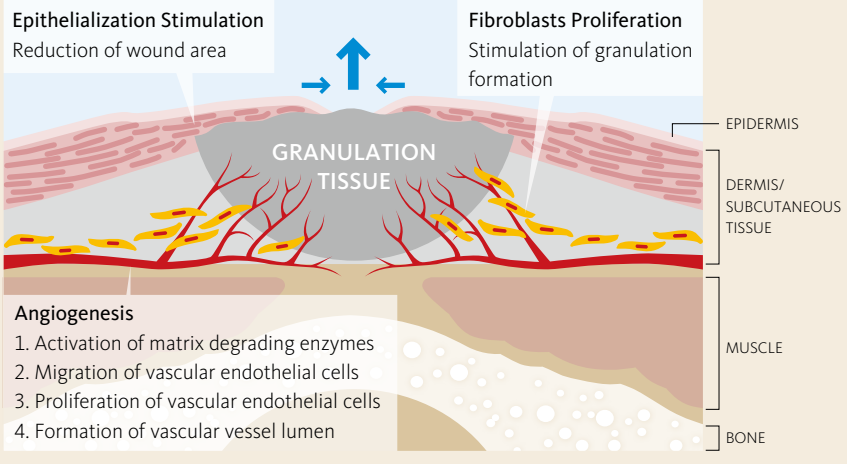
# Developing New Products to Satisfy Unmet Medical Needs

## Kaken's Innovative Product for Regeneration

Fiblast Spray is the world's first product that commercializes recombinant human basic Fibroblast Growth Factor (bFGF). bFGF is a member of the fibroblast growth factor family and exists in almost all tissues in the human body. It is released from the extracellular matrix once tissue is damaged by trauma, ischemia, etc., after which bFGF acts on various cells and tissues to stimulate tissue regeneration. While bFGF has a wide range of functions, it is best known for its powerful abilities to stimulate both cellular proliferation and neovascularization. In 1988, Kaken obtained exclusive licensing rights for recombinant human bFGF (trafermin) in Asia from Scios Inc. of the United States. Following this, Kaken made continued R&D efforts, and as a result we obtained marketing approval for trafermin for the treatment of pressure ulcers and other skin ulcers (burn ulcers and leg ulcers) in June 2001 in Japan. Through these efforts, bFGF was successfully introduced into the Japanese market for the first time in the world by Kaken under the trade name "Fiblast Spray." This product continues to be used by a number of hospitals today, 10 years after the drug was released as a wound-healing agent. In recent years, Fiblast Spray has earned a solid reputation as a drug that improves the "Quality of Wound Healing," based on the evidence that bFGF has the ability to prevent hypertrophic scars or scar contracture and promote the formation of moisturized soft scar, as well as possessing a number of other properties. Further, having finished its reexamination by Japanese regulatory authorities in 2010, Fiblast Spray has reestablished its presence as a highly reliable drug in the medical market in Japan.

In addition to its effectiveness in regard to skin tissue, bFGF has also demonstrated the ability to promote the proliferation and regeneration of periodontal and bone tissues. In the field of dentistry, bFGF is known for its ability to promote the proliferation of the cells in periodontal ligaments

### Action Mechanism of Fiblast Spray



## New Drug Development Pipeline

| | PRODUCT CODE | INDICATION | STAGE | REMARKS |
|---|---|---|---|---|
| 1 | KCB-1D | Periodontitis | Preparing for NDA | bFGF |
| 2 | KP-103 (IDP-108) | Onychomycosis | PIII | Global clinical development;<br>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;<br>New indication for sustained-release formulation of beraprost sodium |
| 5 | KP-413 | Atopic dermatitis | Development abandoned | |

and the regeneration of alveolar bone. Kaken has conducted two Phase II clinical trials examining the effects of trafermin on patients suffering from periodontitis. These trials confirmed trafermin has dose-dependent effects on the regeneration of alveolar bone that had been destroyed by periodontitis. Based on these findings, we determined the optimal dose for Phase III clinical trials, and conducted Phase III clinical trials to further verify its effects, which reconfirmed the effectiveness of this drug. We are currently preparing for filing for marketing approval. Moreover, we believe that bFGF also has the potential for further treatments in the dental field, including applications with implants, other than the treatment of periodontitis. Therefore, we are currently conducting basic research to discover the "seeds" for such potential applications.


In regard to bone tissue, bFGF has demonstrated its effectiveness in treating bone fractures by accelerating bone metabolism through both the direct effect of promoting the proliferation of osteoblasts and the indirect effect of accelerating the activities of osteoclasts. Kaken has completed Phase II clinical trials on patients with tibial shaft fractures, and we are currently in preparation for the next step.

In addition to the fields in which we have conducted clinical trials, we are currently collaborating with universities and other research institutions in Japan in a wide range of fields to further explore the possibilities of bFGF as a regenerative medicine.

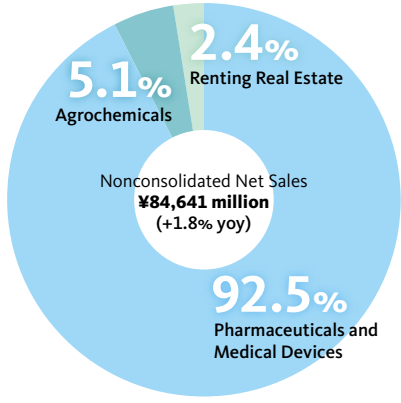
In March 2005, Kaken acquired the worldwide rights to develop, manufacture and market trafermin for all therapeutic purposes. Later, in December 2005, Kaken entered a license agreement with a Chinese pharmaceutical company involving the development and marketing of Fiblast Spray. In June 2007, Kaken entered a license agreement with Sunstar Inc. regarding the development and marketing of trafermin for dental applications in Europe and North America. Further, in November 2009, Kaken entered a license agreement with Olympus Corporation regarding the development, manufacturing and marketing of trafermin for wound healing in Europe and North America.

Going forward, in collaboration with our overseas business partners, Kaken will continue to further establish the presence of trafermin on the global medical market by fully utilizing the wealth of technologies and knowledge we have accumulated regarding bFGF and this product through our R&D efforts.

# Overview of Major Products

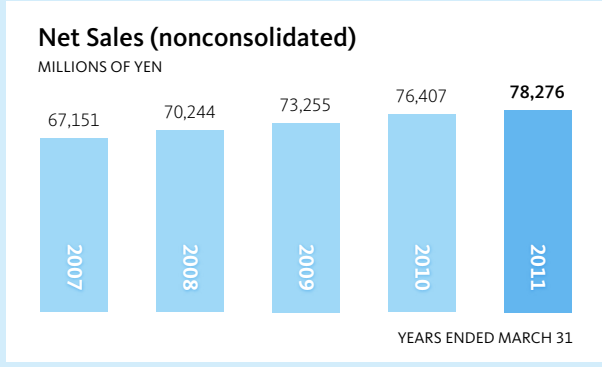
### Distribution of Net Sales (nonconsolidated)

In the fiscal year ended March 31, 2011, wide-ranging drug price revisions were instituted, including the discounting of long-term listed products, and the system offering pricing premiums to promote the discovery of new drugs and to eliminate the so-called drug lag was introduced. In this environment, net sales for the Kaken's mainstay pharmaceuticals and medical devices increased, despite the effects of the drug price revisions. As a result, in the fiscal year under review, nonconsolidated net sales increased 1.8% year on year, to ¥84.641 million.



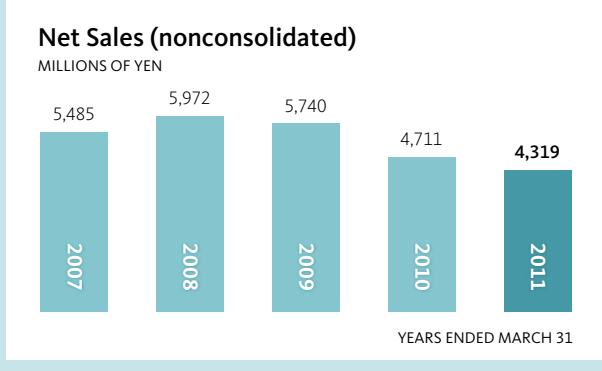

### Pharmaceuticals and Medical Devices

In pharmaceuticals, sales remained strong for Artz, which is one of the Company's mainstay products. In addition, sales of generic drugs increased, while sales went down for Adofeed and Procylin. In medical devices, sales went up for Seprafilm. As a result, in the fiscal year under review, net sales for Pharmaceuticals and Medical Devices increased 2.4% year on year, to ¥78,276 million.



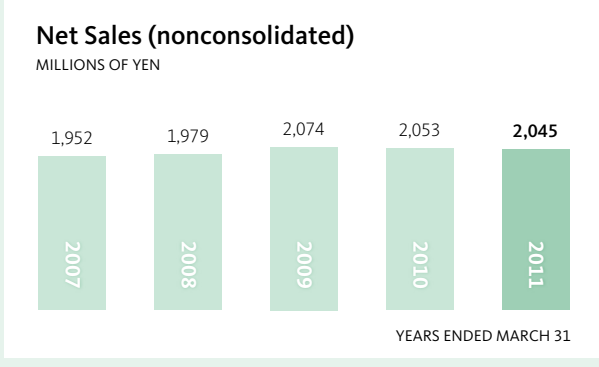

### Agrochemicals

In Agrochemicals, overall sales went down. As a result, in the fiscal year under review, net sales for Agrochemicals decreased 8.3% year on year, to ¥4,319 million.




### Renting Real Estate

In the Real Estate Segment, the majority of revenues are generated through rental income from the Bunkyo Green Court commercial facility. Net sales for Real Estate Segment decreased 0.4% year on year, to ¥2,045 million.



# Pharmaceuticals and Medical Devices

## Artz *(anti-osteoarthritis product)*

Artz is an anti-osteoarthritis drug. Its active pharmaceutical ingredient is highly purified sodium hyaluronate extracted from rooster combs, and it has viscoelastic, water-retentive and lubricating properties.

In 1987, Artz was introduced into the market as a world's first drug of sodium hyaluronate indicated to treat osteoarthritis by intraarticular injection. In 1989, an indication was added for the treatment of shoulder periarthritis.

In 1992, Artz began being marketed in pre-filled disposable syringes under the name Artz Dispo. This was done with the aim of making injection procedures simpler and faster, as well as reducing the danger of infection.

In 2005, the drug was approved for an indication to treat knee joint pain accompanied by chronic rheumatoid arthritis.

## Procylin *(oral-use prostaglandin $I_2$ analog product)*

Procylin is a drug to treat chronic artery occlusive disease by oral administration containing a prostaglandin $I_2$ analog, beraprost sodium, as an active pharmaceutical ingredient. It has the effects of vascular vessel dilatation and platelet aggregation inhibition. It is the only one oral-use prostaglandin $I_2$ analog product in the world. It was created by Toray Industries, Inc. and commercialized by co-development with Kaken.

Procylin improves blood circulation by platelet aggregation and peripheral blood flow increase. It has an improvement effect on ulcers, pain and chill resulting from conditions associated with arteriosclerosis obliterans (ASO) and thromboangitis obliterans (TAO). It was launched in 1992. In 1999, Procylin was approved for an additional indication to treat primary pulmonary hypertension.

## Adofeed *(pain- and inflammation-relieving plaster)*

Adofeed is an antiphlogistic analgetic plaster. Its active pharmaceutical ingredient is Flurbiprofen, a non-steroidal anti-inflammatory agent that functions as a powerful prostaglandin biosynthesis inhibitor. Adofeed is absorbed directly through the skin and is effective in treating pain and inflammation caused by such condition as osteoarthritis, shoulder periarthritis, tennis elbow and muscle pain.

In October 2008, we launched plasters with double the size of Adofeed previously offered. This allows patients to choose the size most appropriate for their needs.

## Mentax *(anti-trichophyton product)*

Mentax is a topical product used to treat superficial mycosis containing butenafine hydrochloride, a compound created by Kaken, as an active pharmaceutical ingredient. Mentax is on the market in the United States by Mylan Pharmaceuticals, and is also marketed in a number of other countries worldwide. In December 2001, Mentax received approval as an over-the-counter (OTC) drug in the United States. It has since been sold in the United States by Merck Consumer Care under the trade name Lotrimin Ultra.

In Japan, Mentax received approval to be manufactured and it was launched as an OTC drug in 2003. The sales of Mentax as an OTC drug in Japan are conducted by Takeda Pharmaceutical Company Limited and Sato Pharmaceutical Co., Ltd. In 2004, a new spray formulation of Mentax was introduced into the market.

## Lipidil *(anti-hyperlipidemia product)*

Lipidil is a fibrate-type anti-hyperlipidemic drug with absorbability enhanced by using micronized fenofibrate, the active pharmaceutical ingredient of Lipantil, which was launched in 1999.

Fenofibrate is the fibrate class compound that was developed by Groupe Fournier SA in France. The drug lowers triglycerides and total cholesterol, and increases HDL cholesterol improving overall lipid metabolism by activating peroxisome proliferator activated receptor α (PPARα) in the liver cells to adjust the expression of various lipid metabolism-related proteins.

Lipidil is currently on the market in 90 countries or more and much clinical experience has been accumulated to date.

## Fiblast Spray *(wound healing product)*

Fiblast Spray is a wound healing drug containing trafermin, a recombinant form of human basic fibroblast growth factor (bFGF) that has effects on the promotion of angiogenesis and granulation formation, as an active pharmaceutical ingredient. The entire DNA sequence of human bFGF gene was mapped by Scios Inc., making it possible to manufacture recombinant human bFGF. Kaken was licensed to develop this product and launched Fiblast Spray, the world's first recombinant human bFGF product, in 2001 in Japan.

## Ebrantil *(α1 blocker to treat dysuria due to BPH and hypertension)*

Ebrantil is a sustained-release formulation of urapidil which is a selective α1 blocker. This product was initially placed on the market in Japan in 1989 for the treatment of hypertension based on its peripheral vasodilating effect. In 1995, it was approved for the treatment of dysuria due to it having benign prostate hypertrophy as an additional indication. In 1999, it was approved for the treatment of dysuria caused by neurogenic bladder, making it the first α1 blocker in the world for this indication.

## Berasus *(oral-use sustained-release formulation of prostaglandin $I_2$ analog)*

Berasus, approved for marketing in October 2007 and launched in December of the same year, is a drug to treat pulmonary arterial hypertension (PAH). This product is a sustained-release formulation of beraprost sodium, the active pharmaceutical ingredient of Procylin, which was launched in 1992. This product can maintain more consistent blood levels in comparison with Procylin, which made it possible to reduce the number of administrations and increase the daily dose.

Since currently very few effective drugs are available for the treatment of PAH, Berasus is ranked as an important drug for this disorder.

At the moment, clinical trials are in progress to add an indication to treat lumbar spinal canal stenosis.

## Clexane *(anticoagulant)*

Clexane is an anticoagulant containing enoxaparin sodium, a low molecular weight heparin developed by sanofi-aventis of France, as an active pharmaceutical ingredient.

Clexane exhibits an anticoagulant effect by forming a complex with antithrombin III that inhibits activation factors, Xa and IIa.

Clexane is the first product of low molecular weight heparin developed in Japan with an indication to suppress an onset of venous thromboembolism (VTE). Clexane is recommended to be used to suppress the sideration of VTE for the treatment of patients who undergo podiatric or abdominal surgery by domestic and international medical guidelines.

The product is currently used in approximately 130 countries worldwide.

## Generic Drugs

Today, in Japan, people are encouraged by the government to use generic drugs as part of a movement to reduce public healthcare costs. There has also been an increasing trend in the medical fields toward using generic drugs in the practice.

Kaken sees the future expansion of the generic drug market as a significant business opportunity, and therefore is aggressively increasing its presence in this market in order to take full advantage of this opportunity.

We aim to grow generic drug operations into a fifth pillar of our business, alongside pharmaceuticals, medical devices, agrochemicals and animal health products, and real estate, and have set a medium-term goal of achieving net sales of ¥10.0 billion in this field. Accordingly, we will continue to expand our generic product lineup.

## Seprafilm *(synthetic-absorbent anti-adhesive barrier)*

Developed by Genzyme Corporation of the United States, Seprafilm is a sheet-type, synthetic, anti-adhesive barrier. Made from sodium hyaluronate and carboxymethyl cellulose, Seprafilm transforms into a hydrated gel within 24 to 48 hours after being applied to tissue that has been damaged by surgery. It then remains in place for approximately seven days, preventing adhesion by forming a physical barrier between damaged tissue and the healthy tissue surrounding it.

There are currently three sizes of Seprafilm available, allowing practitioners to select the size that meets the needs of the situation.

# Agrochemicals

### Polyoxins *(fungicides)*

In 1963, polyoxins are natural fungicides originated from microorganisms first discovered by Dr. Saburo Suzuki and his team at the RIKEN Institute. They are produced by culturing an actinomycete, *Streptomyces cacaoi var. asoensis* isolated from soil of the Aso region in Kumamoto Prefecture, Japan. Polyoxins are not a single compound, but are a complex consisting of a series of compounds resembling each other in the chemical structures. Currently, 14 different polyoxin analogues, polyoxins A through N, have been discovered. Among them, the major active ingredient of Polyoxin AL, a polyoxin complex used for fruit trees and vegetables, is a polyoxin complex consisting of polyoxin B and other related compounds. Meanwhile the main active ingredient of Polyoxin Z, used for lawns, is polyoxin D.

Polyoxins have been sold as horticultural fungicides for over 40 years and even now, they are still widely used. Polyoxin AL is effective against a wide range of fungi-related diseases such as mildew, gray mold and other mold fungi diseases that affect vegetables, flowers and other plants.

### Pentoxazone *(rice herbicide)*

Synthesized at the Sagami Chemical Research Center and developed by Kaken, Pentoxazone is an oxazolidinedione-type rice herbicide. In 1997, it was registered as an agrochemical in Japan. Since then, it has been used as a herbicide for paddy rice in its initial formulation and in several mixed formulations based on this initial formulation.

Pentoxazone is effective mainly on annual weeds in rice paddies, such as barnyard grass, Lindernia, and Monocholia, and is also widely effective on other weeds including *Eleocharis kuroguwai*, a perennial weed that is difficult to eradicate. Pentoxazone shows high, stable and residual efficacy particularly on Lindernia and Monocholia, both of which are resistant to sulfonylurea herbicides.

The safety of Pentoxazone is high for rice paddies and therefore can be used in a variety of ways. Its initial formulation can be used on rice paddies before or after the rice is transplanted and its one-shot herbicide formulation can be used at the same time as rice planting. There are also formulations approved for flooding and direct seeding in rice paddies. As a harmful effect, mild browning of the leaf sheathes of the rice plants is observed five to ten days after the application of the herbicide, but it is only a temporary effect and the plants quickly recover without adverse effects on their subsequent growth.

Having extremely low water solubility and high soil absorbability, Pentoxazone hardly flows out to groundwater and rivers. Furthermore, it has low toxicity to humans, animals and other living beings. For these reasons, it is an environmentally safe herbicide.

# Animal Health Products

### Salinomycin *(anti-coccidial for chickens)*

Salinomycin sodium is a polyether antibiotic originally discovered in a culture of *Streptomyces albus*, a strain of Actinomycetes in 1968. Later, it was developed as a feed additive by Kaken. Salinomycin sodium is currently the most widely used anti-coccidial worldwide having effectiveness against Clostridium and other gram-positive bacteria. Produced in accordance with Good Manufacturing Practices (GMP), Salinomycin sodium is not only used in Japan but also exported to countries of the world, thus supporting poultry farmers worldwide.

### Colistin sulfate *(polypeptide antibiotic)*

Colistin sulfate is a polypeptide antibiotic that was originally discovered in a culture of *Bacillus colistinus* taken from the soil in Fukushima Prefecture, Japan. Colistin sulfate is effective against gram-negative bacteria such as *E. coli* and *salmonella*, which are serious pathogens for livestock. Accordingly, there is a great demand domestically and internationally for this product. Therefore, Kaken exports this product worldwide.

# Commitment and Excellence

## R&D Division

Kaken focuses its drug discovery efforts on areas in which it is particularly strong including inflammation, allergies and pain relief, while also maintaining its focus on the area of fungal infection in which it specializes, devoting a great deal of financial and human resources to these efforts. It utilizes the technologies it has developed over the years and its superior research staff in the pursuit of new drugs that are both effective and safe. In this manner, Kaken is continuing to implement active drug discovery programs.

The R&D division is presently staffed by approximately 300 employees. We estimate that research and development expenses will be around ¥7.3 billion during the current fiscal year. The R&D division works in cooperation with Global Business Development in order to more actively evaluate products as potential candidates to be introduced into Kaken's pipelines of clinical development. At the same time, the division forms strategic alliances with other companies and research institutions in Japan and abroad, including participation in global clinical trials. We also outsource some of our operations to such organizations. This serves to accelerate our R&D initiatives.

As a pharmaceutical manufacturer, Kaken is dedicated to conducting R&D activities while always maintaining the goal of developing proprietary medicines. To promote efficiency within our R&D activities, we have developed a multifaceted approach toward these activities, which entails engaging in in-house discovery, joint research and development, in- and out-licensing of developed products, and outsourcing focused on the areas in which Kaken is particularly strong.

Kaken's Central Research Laboratory consists of two different facilities, one located in Kyoto, the old capital of Japan, and the other located in Shizuoka. At both facilities, drug discovery projects, which require long, arduous research as well as unique, specialized knowledge, are conducted. In order to ensure that these projects progress efficiently, researchers make full use of state-of-the-art equipment and technologies, while encouraging effective communication and the clear division of duties. Drug discovery research, synthetic studies and pharmacological studies are conducted at Kyoto Research Laboratories, whereas studies on pharmacokinetics, drug safety and formulation are conducted at Shizuoka Research Laboratories. The Research Laboratories are divided into five different sections. The Chemistry Laboratory specializes in the synthesis of chemical compounds, the seeds from which new drugs are created. The Drug Discovery Research Laboratory seeks out novel drug targets, screens them and evaluates selected candidate compounds. The Pharmacology Laboratory evaluates the usefulness of candidate compounds developed through drug discovery research and compares these compounds to other drugs. The Pharmacokinetics and Safety Research Laboratory assesses how candidate compounds behave within the body and determines the safety of candidate compounds for use on both humans and animals. The Drug Formulation Laboratory identifies the physicochemical properties of compounds and develops formulations of these compounds that guarantee their stability and maximize their effectiveness when used on the target group of patients. These five sections advance our R&D efforts through collaborative, coordinated efforts.

Our R&D activities have earned us a number of awards. 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 technology. Later, in 2009, other scientists were awarded the APSTJ Asahi Kasei Encouraging Award for utilizing novel technology in the development of Itraconazole products. Additionally, in 2011, a paper written on the Formulation Design of Latanoprost Eye Drops received an award as an excellent paper from the Academy of Pharmaceutical Science and Technology, Japan (APSTJ). These recognitions have further reinforced the high evaluation of this fundamental technology. By leveraging such superior research technologies, we aim to continue to accelerate and expand our R&D efforts.

Further, while focusing on our areas of expertise, we will continue to collaborate with both domestic and overseas research institutions in order to accelerate the progression of our drug discovery research efforts. Also, we will introduce and license new drugs while seeking out the "seeds" of new technologies and drugs around the world. Moreover, by periodically discussing drug discovery with and receiving advice from respected experts in Japan, we will continue to ensure that our drug discovery programs are in-line with present day needs.

Only candidate drugs that have cleared a number of non-clinical studies regarding safety and pharmacokinetics, as well as effectiveness of the drugs, are allowed to proceed onto clinical trials in which the drugs are administered to humans. After testing the efficacy of candidate compounds that have been developed through drug discovery research or introduced from outside sources, the Clinical Development Department and the Overseas Clinical Development Department plan and conduct efficient clinical trials for these compounds both in Japan and overseas. The R&D Quality Assurance Department ensures their quality and reliability, and the Administration Department of Clinical Development manages data from clinical trials and information related to the safety of the drugs under investigation. These departments cooperate with our research laboratories in order to conduct clinical trials as quickly as possible.

## 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 is an embodiment of Kaken's sense of responsibility as a pharmaceutical manufacturer. It makes the final judgments regarding the quality, effectiveness, and safety of the drugs that the Company supplies to the medical field.

The Quality Assurance Department assesses whether each batch of each drug is produced in the predetermined manner and evaluates whether or not quality tests are compliant with applicable standards. The Pharmacovigilance Department then reviews safety related information pertaining to these drugs that has been collected from medical institutions. Following this, the Regulatory Affairs Division makes comprehensive judgments based on the findings of these two departments.

The Quality Assurance Department conducts regular inspections and audits of internal and external plants, gathering and assessing quality related information at these plants in order to ensure the quality of their operations. The Pharmacovigilance Department reports the safety related information it has gathered and reviewed to both the regulatory and internal organizations that require it. The department also distributes this information to medical institutions by reflecting the gathered information in the package inserts in the form of information on the proper-use of drugs in order to promote the effective utilization of Kaken's drugs.

The Regulatory Affairs Department supervises and assists all aspects of the Company's manufacturing and sales activities. In addition to this, the department also participates in the R&D process. It compiles the R&D division's data regarding quality as well as data from both non-clinical and clinical trials. After compiling this data, the department is responsible for gaining approval for usage of our drugs and for listing them in the National Health Insurance Drug Price List after approval is obtained from the authorities.

### Production Division

The Shizuoka Factory, located in Shizuoka Prefecture, was among the earliest factories in this industry to introduce automated production lines. The factory is in compliance with Japanese GMP, a standard that sets guidelines for the manufacturing and quality control of drugs. Further, exported products are in compliance with current Good Manufacturing Practice (cGMP) regulations, which were developed by the Food and Drug Administration (FDA) of the United States. In these ways, we are practicing thorough quality control. Additionally, located within the grounds of the factory is the Production Technology Laboratories, which works to improve products and conduct research on drug formulations.

### Marketing and Sales Division

At Kaken, we employ medical representatives (MRs), who are responsible for providing medical practitioners in the field with the latest information regarding the Company's drugs and medical devices. These MRs also gather information regarding the safety and effectiveness of Kaken's products by actively engaging in communication with such medical practitioners. They then provide feedback to internal departments based on their findings.

We currently have 9 branches and 68 sub-branches throughout Japan. Utilizing this network, our approximately 700 MRs work in close contact with local communities with particular regard to the fields of orthopedics and dermatology, two areas in which we specialize.

In the current fiscal year ending March 31, 2012, we will begin implementing aggressive measures to boost sales. In order to further our advancement of these measures, we intend to bolster our staff of MRs, raising their numbers from 700 to 800 within the next couple of years.

### Agrochemical & Animal Health Products Division

The Agrochemical & Animal Health Products Division is collectively responsible for conducting global research, development and sales activities related to agrochemicals, feed additives and drugs for animals.

Our agrochemical operations are primarily focused on two products: Polyoxins, a group of fungicides, and Pentoxazone, a rice herbicide. We are actively expanding sales of these products in Japan and overseas. Polyoxins are fungicides produced by culturing microorganisms in a culturing medium consisting of natural materials. For a number of years, they have earned the high regard of agriculture producers around the world due to their safety for both humans and animals, low environmental impact and effectiveness for use against disease damage on vegetables, fruit trees, lawns and flowers. These products were also recently proven to have acaricidal properties, further expanding their range of uses. Pentoxazone is effective against the vast array of annual weeds in rice paddies and has demonstrated effectiveness against herbicide-resistant weeds that have emerged recently. These factors make Pentoxazone an indispensable tool for rice farmers.

Kaken offers anti-coccidials for chickens. These include Salinomycin and Lasalocid, both of which are feed additives, and Colistin sulfate and Bacitracin zinc, which help prevent infectious diseases in livestock. The Company also supplies an animal drug for bovine, thus contributing to the production of healthy livestock and safe food.

Going forward, the Agrochemical & Animal Health Products Division will continue contributing to the safety and reliability of food production by developing and selling products that are safe for both humans and animals, while also having low environmental impact.

### Distribution Division

All distribution functions are outsourced to distributors that specialize in the distribution of pharmaceuticals.

# Fulfilling Our Social Responsibilities

### Corporate Governance

Kaken's management philosophy is centered on the three joys of "creating joy for patients", "creating joy as a company" and "creating joy for employees". "Creating joy as a company", one of the three joys, is based on the principle that "Kaken aims to be a company realizing its social responsibility as a pharmaceutical company conducting its business with both a high ethical standard and society's trust." Accordingly, the tasks of "enhancing corporate governance" and "ensuring the transparency of management," as well as "providing our stakeholders with proper explanations of the Company's activities," are placed among our top management priorities.

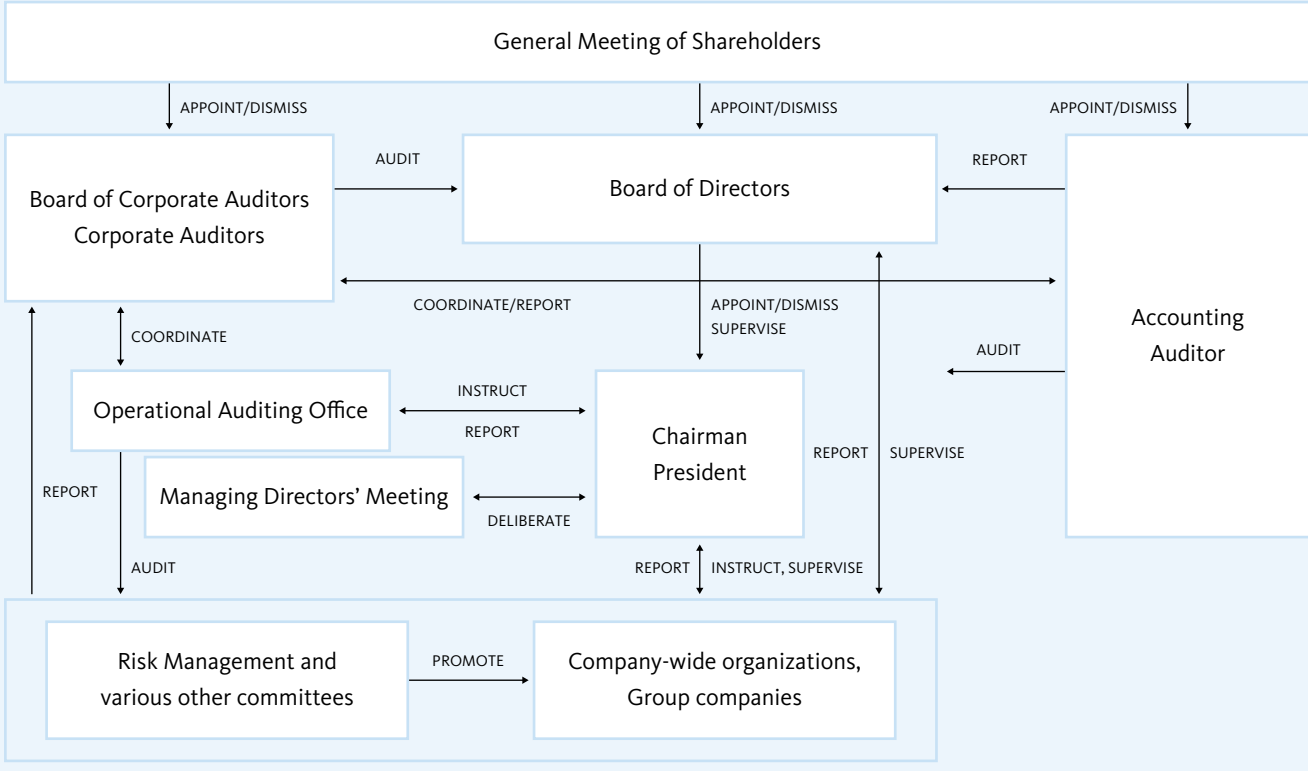
### Initiatives to Enhance Corporate Governance

The Company recognizes the fact that compliance is essential in earning the trust of society. For this reason, we have established Kaken's Activity Principles and Guidelines, and consequently strive to practice high ethical standards in our management. Moreover, we realize that our business activities have a direct impact on people's lives and health. All of our employees are thus fully aware of these principles and guidelines, and exercise them in their daily work as they participate in this important business pursuit.

### Compliance

We believe that compliance-based management is the most fundamental key element in earning the trust of society and promoting the healthy development of the Company. Moreover, compliance is important in raising corporate value, which our shareholders, investors, business partners and the local community, will in turn benefit from.

**Corporate Governance System**



## Kaken's River Beautification Activities


Seto River, Shizuoka Prefecture


Shinomiya River, Kyoto Prefecture

### Kaken's Activity Principles and Guidelines

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

1. We recognize the preciousness of life and shall contribute to the welfare of society by channeling all our efforts into the enhancement of people's health and patients' quality of life.
2. We recognize the importance of maintaining appropriate relations with all of medical practitioners as well as our shareholders, investors, employees, business partners, and local communities.
3. We shall compete in a fair and free manner, conducting our business activities in an appropriate way.
4. We shall handle all the Company's assets, including information, in a legitimate and proper manner to facilitate the smooth running of our business operations.
5. We shall respect the human rights and individuality of employees, pay attention to health and safety issues, and endeavor 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

"Kaken helps improve the quality of life for patients by serving as many people as possible to return smiles of happiness to their faces, through supplying superior pharmaceuticals" is Kaken's corporate philosophy. We will continue to act in accordance with this philosophy in order to contribute to the betterment of people's lives and health through our pharmaceutical operations.

In recent years, there has been a growing concern for environmental issues, such as preserving biodiversity. These issues force corporations to reevaluate their interests in a number of wide-ranging and complex areas, thus increasing the role that corporations must play in addressing these issues. Of these issues, we believe that addressing the need to preserve and restore the natural environment is of particular importance for corporations. Therefore, we will continue to exercise our corporate philosophy by promoting environmental preservation and working to be a good corporate citizen with the aim of creating a society that is full of healthy, smiling faces.

In 1983, Kaken launched its environmental campaign by establishing Environmental Measure Committees at each of its operational sites. These committees were assigned the task of comprehensively addressing various CSR-related issues such as the need to preserve the environment, improve people's health and living environments, and reduce pollution. Further, in 2004, we developed the Kaken Basic Environmental Philosophy and the Basic Environmental Policies. Later, the Environmental Measure Committees were transformed into the Environmental Measures Task Force to enhance their ability to respond to such changes as the April 2009 revision of the Act on the Rational Use of Energy. This task force works in cooperation with the Environmental Committee to develop environmental preservation measures with a particular focus on those that relate directly to society. Additionally, we have taken several steps to reinforce our environmental management activities, including acquiring ISO 14001 certification for our Shizuoka Factory in August 2001 and Kyoto Environmental System (KES) certification for our Kyoto Research Laboratories in April 2005

Looking ahead, we will continue to actively engage in environmental management and social contribution activities at the Company's headquarters and all of its branches, while developing a more complete and aggressive approach toward environmental issues. At the same time, we will work to reduce the environmental impact of Kaken's operations.

# Board of Directors and Corporate Auditors

(Standing, from left)
Masao Ishida, Yoshihiro Ieda, Susumu Kojima, Hirokazu Konishi, Noboru Shibata, Takao Endo

(Seated, from left)
Shiro Inui, Tetsuo Onuma

Chairman and Representative Director
**Shiro Inui**

President and Representative Director
**Tetsuo Onuma**

Managing Director
**Susumu Kojima**
(Research and Development)

Managing Director
**Hirokazu Konishi**
(Marketing and Sales)

Managing Director
**Yoshihiro Ieda**
(Administration, Corporate Planning & Coordination)

Managing Director
**Noboru Shibata**
(Accounting,Purchasing and Agrochemicals)

Director
**Masao Ishida**
(Global Business Development)

Director
**Takao Endo**
(General Affairs)

Auditor
**Fumio Hoshii**
(Standing)

Auditor
**Kazuo Shiba**
(Standing)

Auditor
**Sumio Yoshizawa**

Auditor
**Toshio Sakurai**

# Financial Section

# Consolidated Five-Year Summary

| | MILLIONS OF YEN | | | | | THOUSANDS OF U.S. DOLLARS (NOTE) |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 | **2011** |
| For the years ended March 31, | | | | | | |
| Net sales | **¥86,428** | ¥85,022 | ¥82,930 | ¥79,934 | ¥76,415 | **$1,041,301** |
| Operating income | **14,179** | 11,784 | 10,629 | 9,842 | 8,113 | **170,831** |
| Net income | **8,213** | 6,734 | 5,579 | 5,106 | 4,602 | **98,952** |
| At March 31, | | | | | | |
| Total net assets | **60,375** | 59,575 | 56,679 | 57,447 | 60,433 | **727,410** |
| Total assets | **98,493** | 95,096 | 94,504 | 93,856 | 100,900 | **1,186,663** |
| Per share data | | | YEN | | | U.S. DOLLARS (NOTE) |
| Net income (basic) | **¥ 87.87** | ¥ 68.79 | ¥ 55.61 | ¥ 48.35 | ¥ 42.42 | **$ 1.059** |
| Cash dividends (non-consolidated) | **36.00** | 30.00 | 26.00 | 20.00 | 17.00 | **0.434** |
| Ratios | | | % | | | |
| ROE | **13.69** | 11.59 | 9.78 | 8.66 | 8.00 | |
| Capital adequacy ratio | **61.30** | 62.65 | 59.98 | 61.21 | 59.89 | |

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥83 = $1 effective on March 31, 2011.

# Management Discussion and Analysis

## Operating Environment

In the fiscal year under review, the fiscal year ended March 31, 2011, wide-ranging drug price revisions were instituted, including the discounting of long-term listed products, and the system offering pricing premiums to promote the discovery of new drugs and to eliminate the so-called drug lag was introduced.

In this environment, net sales for the Kaken Group's mainstay pharmaceuticals and medical devices increased, despite the effects of the drug price revisions.

## Operating Performance

In the fiscal year under review, consolidated net sales increased 1.7% year on year, to ¥86,428 million. Further, there were improvements in the cost of sales ratio and selling, general and administrative expenses were lower due to a decline in research and development costs. As a result of these factors, operating income increased 20.3%, to ¥14,179 million and net income increased 22.0%, to ¥8,213 million.

Also, in regard to the Great East Japan Earthquake, which occurred on March 11, 2011, while some of the Group's sales branches in the affected regions were damaged, the impact on operating results was minimal.

## Segment Information

### Pharmaceuticals

Kaken's pharmaceuticals segment consists of two core categories: pharmaceuticals and medical devices as well as agrochemicals.

In pharmaceuticals, sales remained strong for Artz, an anti-osteoarthritic, which is one of the Company's mainstay products. In addition, sales of generic drugs increased, while sales went down for Adofeed, a pain- and inflammation-relieving plaster, and Procylin, a treatment for chronic artery occlusive disease.

In medical devices, sales of the anti-adhesive absorbent barrier Seprafilm went up.

In agrochemicals, overall sales went down.

As a result of the above, net sales increased 1.7% year on year, to ¥83,976 million, and segment income* increased 24.0%, to ¥12,749 million. Net sales overseas were ¥2,280 million.

### Real Estate

In the real estate segment, the majority of revenues are generated through rental income from the Bunkyo Green Court commercial facility.

Net sales in this segment decreased 0.3% year on year, to ¥2,452 million, and segment income* decreased 4.9%, ¥1,429 million.

* Segment income is based on operating income.

## Financial Position

Total assets were ¥98,493 million as of March 31, 2011, up ¥3,396 million from the previous fiscal year-end, primarily due to an increase in plant, property and equipment. Total liabilities were ¥38,117 million, up ¥2,596 million. This was largely attributable to an increase in accrued income taxes. Net assets totaled ¥60,375 million, an increase of ¥800 million, following higher retained earnings.

## Cash Flows

Cash and cash equivalents at the end of the fiscal year under review stood at ¥17,035 million, down ¥469 million from the previous fiscal year-end. Principal factors related to cash flows during the year under review are as follows.

Net cash provided by operating activities amounted to ¥13,142 million, up ¥2,093 million year on year. Principal factors included an increase in income before income taxes.

Net cash used in investing activities was ¥6,302 million, up ¥3,928 million. This was primarily due to an increase in acquisitions of property, plant and equipment.

Net cash used in financing activities was ¥7,309 million, up ¥3,581 million. The main factor in this increase was a rise in the acquisition of treasury stock.

## Business Risks

The risk factors outlined below in relation to the Company's business activities may materially affect the decision making of investors. The forward-looking statements that are made reflect the Group's judgment and forecasts based on information available to us as of the end of the year under review. Further, the risks faced by the Company are not limited to those listed below.

**(1) Risks related to new drug development**

Substantial investment amounts and development periods of more than 10 years are required before a new drug is launched. The Company develops new drugs while taking such factors as the efficacy and safety of a particular drug into full consideration. However, it is possible that the development process could be halted before its completion.

**(2) Risks related to the occurrence of side effects**

Clinical trials undertaken in the development stage involve the trial administration of drugs to a limited 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 health care expenses continue, various medical system reforms are being implemented. These reforms may cause changes in the market environment, which could subsequently affect the Company's performance.

**(4) Risks due to competition**

Sales competition with other pharmaceutical companies may result in a drop in the sales price of products. In addition, sales by other companies of generic versions of products offered by the Company may cause declines in sales of the original product. Such factors could subsequently affect the Company's performance.

**(5) Risks related to delay or cessation of product supply**

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

**(6) Risks related to legal action**

The Company is exposed to the possibility of legal action in the course of its business activities. Should such actions be taken against the Company, it could affect the Company's performance.

# Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
As of March 31, 2011 and 2010

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| **ASSETS** | **2011** | 2010 | **2011** |
| CURRENT ASSETS: | | | |
| Cash on hand and at banks (Notes 5 and 11) | **¥14,729** | ¥ 9,900 | **$ 177,458** |
| Marketable securities (Notes 5, 6 and 11) | **2,305** | 7,603 | **27,771** |
| Receivables: | | | |
| Notes and accounts receivable-trade (Note 11) | **27,119** | 27,660 | **326,735** |
| Accounts receivable-other | **994** | 1,197 | **11,976** |
| | **28,114** | 28,858 | **338,723** |
| Allowance for doubtful receivables | **(2)** | (7) | **(24)** |
| | **28,111** | 28,851 | **338,687** |
| Inventories (Note 7) | **10,301** | 8,993 | **124,108** |
| Deferred tax assets (Note 18) | **1,178** | 1,168 | **14,193** |
| Other current assets | **259** | 306 | **3,120** |
| Total current assets | **56,885** | 56,824 | **685,361** |
| PROPERTY, PLANT AND EQUIPMENT (Notes 9 and 10): | | | |
| Buildings and structures | **37,710** | 36,957 | **454,337** |
| Machinery and equipment | **20,106** | 19,171 | **242,241** |
| | **57,816** | 56,129 | **696,578** |
| Accumulated depreciation | **(37,343)** | (35,617) | **(449,916)** |
| | **20,473** | 20,511 | **246,663** |
| Land | **5,454** | 3,762 | **65,711** |
| Construction in progress | **2,220** | 969 | **26,747** |
| Total property, plant and equipment | **28,148** | 25,243 | **339,133** |
| Investments and other assets: | | | |
| Investment securities (Notes 6 and 11) | **6,079** | 5,445 | **73,241** |
| Intangible assets and long-term prepaid expenses | **593** | 519 | **7,145** |
| Deferred tax assets (Note 18) | **5,220** | 4,900 | **62,892** |
| Other assets | **1,564** | 2,162 | **18,843** |
| Total investments and other assets | **13,458** | 13,028 | **162,145** |
| TOTAL ASSETS | **¥98,493** | ¥95,096 | **$1,186,663** |

See accompanying notes to Consolidated Financial Statements.

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | **2011** | 2010 | **2011** |
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Notes 8 and 11) | **¥ 8,390** | ¥ 8,510 | **$ 101,084** |
| Payables: | | | |
| Notes and accounts payable-trade (Note 11) | **12,293** | 11,174 | **148,108** |
| Notes and accounts payable-construction | **177** | 130 | **2,133** |
| Accounts payable-other | **4,088** | 3,452 | **49,253** |
| | **16,559** | 14,758 | **199,506** |
| Accrued expenses | **729** | 1,131 | **8,783** |
| Provision for bonuses | **1,199** | 1,214 | **14,446** |
| Provision for sales rebates | **562** | 451 | **6,771** |
| Accrued income taxes (Note 18) | **3,625** | 2,061 | **43,675** |
| Other current liabilities | **400** | 731 | **4,819** |
| Total current liabilities | **31,466** | 28,858 | **379,108** |
| | | | |
| | | | |
| | | | |
| NON-CURRENT LIABILITIES: | | | |
| Accrued pension and severance costs (Note 13) | **5,620** | 5,678 | **67,711** |
| Accrued retirement benefits to directors | **455** | 395 | **5,482** |
| Deferred tax liabilities (Note 18) | **179** | 189 | **2,157** |
| Other long-term liabilities | **395** | 398 | **4,759** |
| Total non-current liabilities | **6,651** | 6,662 | **80,133** |
| | | | |
| NET ASSETS: | | | |
| Shareholders' Equity (Notes 2(l) and 15): | | | |
| Common stock - no par value | | | |
| Authorized: 360,000,000 shares | | | |
| Issued: 101,879,461 shares as of March 31, 2011 and 101,879,461 shares as of March 31, 2010 | **23,853** | 23,853 | **287,386** |
| Capital surplus | **11,587** | 11,587 | **139,602** |
| Retained earnings | **33,806** | 28,684 | **407,301** |
| Treasury stock, at cost: 10,306,088 shares in 2011 and 5,738,399 shares in 2010 | **(9,100)** | (4,999) | **(109,639)** |
| Total shareholders' equity | **60,145** | 59,124 | **724,639** |
| Accumulated other comprehensive income: | | | |
| Net unrealized gain on other securities, net of taxes (Note 2 (c)) | **229** | 447 | **2,759** |
| Deferred gain on hedges | **—** | 2 | **—** |
| Total accumulated other comprehensive income | **229** | 450 | **2,759** |
| Total net assets | **60,375** | 59,575 | **727,410** |
| TOTAL LIABILITIES AND NET ASSETS | **¥98,493** | ¥95,096 | **$1,186,663** |

See accompanying notes to Consolidated Financial Statements.

# Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2011 and 2010

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| NET SALES | **¥86,428** | ¥85,022 | **$1,041,301** |
| COST OF SALES | **44,064** | 44,116 | **530,892** |
| Gross profit | **42,364** | 40,905 | **510,410** |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 16) | **28,185** | 29,120 | **339,578** |
| OPERATING INCOME | **14,179** | 11,784 | **170,831** |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | **105** | 105 | **1,265** |
| Interest expenses | **(74)** | (97) | **(892)** |
| Amortization of net obligation at transition | **(524)** | (524) | **(6,313)** |
| Loss on disposal of property, plant and equipment | **(137)** | (248) | **(1,651)** |
| Gain on sales of investment securities, net | **—** | 68 | **—** |
| Amortization of long-term prepaid expenses (Note 17) | **—** | (180) | **—** |
| Revaluation loss of golf membership | **(35)** | (0) | **(422)** |
| Other, net | **33** | 22 | **398** |
| | **(633)** | (855) | **(7,627)** |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | **13,545** | 10,929 | **163,193** |
| INCOME TAXES (Note 18): | | | |
| Current | **5,521** | 4,017 | **66,518** |
| Deferred | **(189)** | 177 | **(2,277)** |
| | **5,332** | 4,194 | **64,241** |
| INCOME BEFORE MINORITY INTERESTS | **8,213** | — | **98,952** |
| NET INCOME | **¥ 8,213** | ¥ 6,734 | **$ 98,952** |

| | YEN | | U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| PER SHARE DATA: | **2011** | 2010 | **2011** |
| Net income (Note 20): | | | |
| Basic | **¥87.87** | ¥68.79 | **$1.059** |
| Diluted | **—** | — | **—** |
| Cash dividends applicable to the year (Note 15) | **¥36.00** | ¥30.00 | **$0.434** |

See accompanying notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.

For the years ended March 31, 2011 and 2010

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| SHAREHOLDERS' EQUITY | | | |
| COMMON STOCK | | | |
| Balance at beginning of the year | **¥23,853** | ¥23,853 | **$287,386** |
| Changes during the year | **—** | — | **—** |
| Balance at end of the year | **23,853** | 23,853 | **287,386** |
| CAPITAL SURPLUS | | | |
| Balance at beginning of the year | **11,587** | 11,587 | **139,602** |
| Changes during the year: | | | |
| Treasury stock sold | **0** | (0) | **0** |
| Total changes during the year | **0** | (0) | **0** |
| Balance at end of the year | **11,587** | 11,587 | **139,602** |
| RETAINED EARNINGS | | | |
| Balance at beginning of the year | **28,684** | 24,698 | **345,590** |
| Changes during the year: | | | |
| Cash dividends | **(3,091)** | (2,748) | **(37,241)** |
| Net income | **8,213** | 6,734 | **98,952** |
| Total changes during the year | **5,122** | 3,985 | **61,711** |
| Balance at end of the year | **33,806** | 28,684 | **407,301** |
| TREASURY STOCK | | | |
| Balance at beginning of the year | **(4,999)** | (3,417) | **(60,229)** |
| Changes during the year: | | | |
| Treasury stock acquired | **(4,103)** | (1,588) | **(49,434)** |
| Treasury stock sold | **2** | 6 | **24** |
| Total changes during the year | **(4,101)** | (1,581) | **(49,410)** |
| Balance at end of the year | **(9,100)** | (4,999) | **(109,639)** |
| TOTAL SHAREHOLDERS' EQUITY | | | |
| Balance at beginning of the year | **59,124** | 56,722 | **712,337** |
| Changes during the year: | | | |
| Cash dividends | **(3,091)** | (2,748) | **(37,241)** |
| Net income | **8,213** | 6,734 | **98,952** |
| Treasury stock acquired | **(4,103)** | (1,588) | **(49,434)** |
| Treasury stock sold | **2** | 5 | **24** |
| TOTAL CHANGES DURING THE YEAR | **1,021** | 2,402 | **12,301** |
| BALANCE AT END OF THE YEAR | **¥60,145** | ¥59,124 | **$724,639** |

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | |
| Net unrealized gain (loss) on other securities, net of taxes | | | |
| Balance at beginning of the year | **¥ 447** | ¥ (43) | **$ 5,386** |
| Net changes in items other than shareholders' equity | **(218)** | 490 | **(2,627)** |
| Total changes during the year | **(218)** | 490 | **(2,627)** |
| Balance at end of the year | **229** | 447 | **2,759** |
| DEFERRED GAIN ON HEDGES | | | |
| Balance at beginning of the year | **2** | — | **24** |
| Net changes in items other than shareholders' equity | **(2)** | 2 | **(24)** |
| Total changes during the year | **(2)** | 2 | **(24)** |
| Balance at end of the year | **—** | 2 | **—** |
| TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME | | | |
| Balance at beginning of the year | **450** | (43) | **5,422** |
| Net changes in items other than shareholders' equity | **(220)** | 493 | **(2,651)** |
| Total changes during the year | **(220)** | 493 | **(2,651)** |
| Balance at end of the year | **¥ 229** | ¥ 450 | **$ 2,759** |
| | | | |
| TOTAL NET ASSETS | | | |
| Balance at beginning of the year | **¥59,575** | ¥56,679 | **$717,771** |
| Changes during the year: | | | |
| Cash dividends | **(3,091)** | (2,748) | **(37,241)** |
| Net income | **8,213** | 6,734 | **98,952** |
| Treasury stock acquired | **(4,103)** | (1,588) | **(49,434)** |
| Treasury stock sold | **2** | 5 | **24** |
| Net changes in items other than shareholders' equity | **(220)** | 493 | **(2,651)** |
| Total changes during the year | **800** | 2,895 | **9,639** |
| Balance at end of the year | **¥60,375** | ¥59,575 | **$727,410** |

See accompanying notes to Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the year ended March 31, 2011

| | MILLIONS OF YEN | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|
| | **2011** | **2011** |
| Income before minority interests | ¥8,213 | $98,952 |
| | | |
| Other comprehensive income (Note 21): | | |
| Net unrealized gain on other securities, net of taxes | (218) | **(2,627)** |
| Deferred gain on hedges | (2) | **(24)** |
| Total other comprehensive income | (220) | **(2,651)** |
| Comprehensive income (Note 21) | ¥7,992 | **$96,289** |
| | | |
| Total comprehensive income attributable to (Note 21): | | |
| Owners of the parent | ¥7,992 | **$96,289** |

See accompanying notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2011 and 2010

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income before income taxes | **¥13,545** | ¥10,929 | **$163,193** |
| Adjustments for: | | | |
| Depreciation | **2,488** | 2,423 | **29,976** |
| Amortization of long-term prepaid expenses | **227** | 527 | **2,735** |
| Accrual for pension and severance costs, less payments | **426** | 564 | **5,133** |
| Interest and dividend income | **(105)** | (105) | **(1,265)** |
| Interest expense | **74** | 97 | **892** |
| Revaluation loss of golf membership | **35** | 0 | **422** |
| Gain on sales of investment securities, net | **—** | (68) | **—** |
| Loss on disposals of property, plant and equipment | **136** | 233 | **1,639** |
| Decrease in notes and accounts receivable-trade | **541** | 686 | **6,518** |
| Decrease (Increase) in inventories | **(1,307)** | 1,953 | **(15,747)** |
| Increase (Decrease) in notes and accounts payable-trade | **1,118** | (1,997) | **13,470** |
| Other, net | **(144)** | 355 | **(1,735)** |
| Subtotal | **17,037** | 15,598 | **205,265** |
| Interest and dividends received | **105** | 106 | **1,265** |
| Interest paid | **(73)** | (97) | **(880)** |
| Income taxes paid, net | **(3,926)** | (4,558) | **(47,301)** |
| Net cash provided by operating activities | **13,142** | 11,049 | **158,337** |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisition of property, plant and equipment | **(4,952)** | (2,508) | **(59,663)** |
| Acquisition of investment securities | **(1,001)** | (332) | **(12,060)** |
| Proceeds from sales of investment securities | **—** | 325 | **—** |
| Proceeds from redemption of investment securities | **—** | 500 | **—** |
| Payment of long-term prepaid expenses | **(296)** | (265) | **(3,566)** |
| Other, net | **(52)** | (92) | **(627)** |
| Net cash used in investing activities | **(6,302)** | (2,374) | **(75,928)** |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from short-term loans | **—** | 600 | **—** |
| Repayment of short-term loans | **(120)** | — | **(1,446)** |
| Acquisition of treasury stock | **(4,101)** | (1,582) | **(49,410)** |
| Cash dividends paid | **(3,088)** | (2,745) | **(37,205)** |
| Net cash used in financing activities | **(7,309)** | (3,727) | **(88,060)** |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **(469)** | 4,947 | **(5,651)** |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | **17,504** | 12,556 | **210,892** |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5) | **¥17,035** | ¥17,504 | **$205,241** |

See accompanying notes to 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 21. "Comprehensive Income".

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, 2011 and 2010. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The consolidated subsidiaries as of March 31, 2011 are as follows:

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

There was no affiliate which was accounted for using 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 "Accumulated other comprehensive income" 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 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. Changes in Accounting Policies and Adoption of New Accounting Standards:

(a) Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Asset Retirement obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations"(ASBJ Guidance No. 21, issued on March 31, 2008). There was no effect of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2011.

(b) Income before Minority Interests

Effective from the year ended March 31, 2011, the Company adopted the "Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, issued on March 24, 2009), based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008). "Income before minority interests" is separately presented on the consolidated statements of income due to the adoption.

(c) Presentation of Comprehensive Income

Effective from the year ended March 31, 2011, the Company adopted the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" as of March 31, 2010 represent the amounts of "Valuation and translation adjustments" and "Total valuation and translation adjustments" under the previous standard, respectively,

## 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 ¥83=U.S.$1, the approximate rate of exchange as of March 31, 2011. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at 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 | **2011** | 2010 | **2011** |
| Cash on hand and at banks | **¥14,729** | ¥ 9,900 | **$177,458** |
| Marketable securities | **2,305** | 7,603 | **27,771** |
| | **17,035** | 17,504 | **205,241** |
| Marketable securities due in more than three months | **—** | — | **—** |
| Cash and cash equivalents | **¥17,035** | ¥17,504 | **$205,241** |

## 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 | | 2011 | | | 2010 | |
| Fair values exceeding carrying amount | ¥ — | ¥ — | ¥— | ¥ — | ¥ — | ¥— |
| Fair values not exceeding carrying amount | 1,999 | 1,999 | — | 1,999 | 1,999 | — |
| Total | ¥1,999 | ¥1,999 | ¥— | ¥1,999 | ¥1,999 | ¥— |

| | THOUSANDS OF U.S. DOLLARS (NOTE 4) | | |
|---|---|---|---|
| | Carrying amount | Fair value | Unrealized gain (loss) |
| March 31 | | 2011 | |
| Fair values exceeding carrying amount | $ — | $ — | $— |
| Fair values not exceeding carrying amount | 24,084 | 24,084 | — |
| Total | $24,084 | $24,084 | $— |

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 | | 2011 | | | 2010 | |
| Carrying amounts exceeding acquisition cost | | | | | | |
| Equity securities | ¥3,726 | ¥2,839 | ¥887 | ¥ 4,308 | ¥ 3,384 | ¥924 |
| Others | — | — | — | — | — | — |
| Subtotal | 3,726 | 2,839 | 887 | 4,308 | 3,384 | 924 |
| Carrying amounts not exceeding acquisition cost | | | | | | |
| Equity securities | 2,290 | 2,791 | (500) | 1,074 | 1,244 | (170) |
| Others | 306 | 306 | — | 5,603 | 5,603 | — |
| Subtotal | 2,596 | 3,097 | (500) | 6,678 | 6,848 | (170) |
| Total | ¥6,323 | ¥5,937 | ¥386 | ¥10,987 | ¥10,232 | ¥754 |

| | THOUSANDS OF U.S. DOLLARS (NOTE 4) | | |
|---|---|---|---|
| | Fair value | Acquisition cost | Unrealized gain (loss) |
| March 31 | | 2011 | |
| Carrying amounts exceeding acquisition cost | | | |
| Equity securities | $44,892 | $34,205 | $10,687 |
| Others | — | — | — |
| Subtotal | 44,892 | 34,205 | 10,687 |
| Carrying amounts not exceeding acquisition cost | | | |
| Equity securities | 27,590 | 33,627 | (6,024) |
| Others | 3,687 | 3,687 | — |
| Subtotal | 31,277 | 37,313 | (6,024) |
| Total | $76,181 | $71,530 | $ 4,651 |

Information of other securities sold during the year ended March 31, 2010 is as follows:

| | MILLIONS OF YEN |
|---|---|
| For the year ended March 31, | 2010 |
| Proceeds from sales | ¥325 |
| Gross realized gains | 68 |
| Gross realized losses | — |

Information for the year ended March 31, 2011 is not disclosed since there were no sales of other securities.

## 7. Inventories:

Inventories as of March 31, 2011 and 2010 are comprised of the following:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| March 31 | **2011** | 2010 | **2011** |
| Finished products | **¥ 5,234** | ¥5,386 | **$ 63,060** |
| Work in process | **1,840** | 1,854 | **22,169** |
| Raw materials and supplies | **3,225** | 1,752 | **38,855** |
| Total | **¥10,301** | ¥8,993 | **$124,108** |

## 8. Short-term Bank Loans:

Short-term bank loans outstanding as of March 31, 2011 and 2010 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, 2011 and 2010 are 0.78% and 0.92%, respectively. Outstanding balance of short-term bank loans as of March 31, 2011 and 2010 are ¥8,390 million ($101,084 thousand) and ¥8,510 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, 2011 and 2010, 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 | **2011** | 2010 | **2011** |
| Assets pledged: | | | |
| Buildings and structures | **¥2,812** | ¥2,440 | **$33,880** |
| Machinery and equipment | **2,487** | 2,140 | **29,964** |
| Land | **103** | 103 | **1,241** |
| Total | **¥5,402** | ¥4,683 | **$65,084** |
| | | | |
| Liabilities secured: | | | |
| Short-term bank loans | **¥1,400** | ¥1,400 | **$16,867** |
| Total | **¥1,400** | ¥1,400 | **$16,867** |

## 9. Accounting for Leases:

**Operating leases**

Future lease payments under non-cancellable operating leases at March 31, 2011 and 2010 are as follows:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| March 31 | **2011** | 2010 | **2011** |
| Due within 1 year | **¥ 86** | ¥ 86 | **$ 1,036** |
| Due after 1 year | **1,389** | 1,476 | **16,735** |
| Total | **¥1,476** | ¥1,562 | **$17,783** |

## 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 years ended March 31, 2011 and 2010, are ¥1,429 million ($17,217 thousand) and ¥1,503 million (Major revenue from rental properties and rent expense are reported as net sales and cost of sales respectively).

Carrying amount, change during the years ended March 31, 2011 and 2010, and fair values of these properties are stated as follows:

| MILLIONS OF YEN | | | |
|---|---|---|---|
| Carrying amount | | | |
| Balance at March 31, 2010 | Change during the year ended March 31, 2011 | Balance at March 31, 2011 | Fair value at March 31, 2011 |
| **¥13,929** | ¥1,177 | ¥15,107 | ¥40,092 |

| THOUSANDS OF U.S. DOLLARS (NOTE 4) | | | |
|---|---|---|---|
| Carrying amount | | | |
| Balance at March 31, 2010 | Change during the year ended March 31, 2011 | Balance at March 31, 2011 | Fair value at March 31, 2011 |
| **$167,819** | $14,181 | $182,012 | $483,036 |

Notes: 1. The carrying amount represents the acquisition costs less accumulated depreciation.
2. The above figures include the amounts concerning the land for development.
3. Increase in changes during the year ended March 31, 2011 is primarily due to acquisition of land for development of ¥1,691 million ($20,373 thousand).
4. Fair value at March 31, 2011 is calculated, with adjustments using indexes, by the Company based primarily on the "Real estate appraisal standards of Japan".

| 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 |

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.

## 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 customer's credit risk. Trade receivables denominated in foreign currencies 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 currencies 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. For the year ended March 31, 2010, the notional amounts and other information described in Note 12. "Derivative Financial Instruments" do not indicate the amounts of market risk exposed to derivative transactions.

(5) Concentration of credit risks
As of March 31, 2011 and 2010, 63% of all trade receivables are with the specific major accounts.

2. Fair values of financial instruments
Carrying amount, fair value and difference of the financial instruments as of March 31, 2011 and 2010 are as follows:

Financial instruments whose fair values are not readily determinable are excluded from the following table:

| | MILLIONS OF YEN | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| March 31 | | **2011** | |
| (1) Cash on hand and at banks | **¥14,729** | **¥14,729** | **—** |
| (2) Notes and accounts receivable – trade | **27,119** | | |
| Allowance for doubtful receivables (*1) | **(2)** | | |
| | **27,116** | **27,116** | **—** |
| (3) Marketable securities and investment securities | | | |
| a. Held-to-maturity securities | **1,999** | **1,999** | **—** |
| b. Other securities | **6,323** | **6,323** | **—** |
| Total assets | **¥50,169** | **¥50,169** | **—** |
| (1) Notes and accounts payable – trade | **¥12,293** | **¥12,293** | **—** |
| (2) Short-term bank loans | **8,390** | **8,390** | **—** |
| Total liabilities | **¥20,683** | **¥20,683** | **—** |

| | MILLIONS OF YEN | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| March 31 | | 2010 | |
| (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) | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| March 31 | | 2011 | |
| (1) Cash on hand and at banks | **$177,458** | **$177,458** | **—** |
| (2) Notes and accounts receivable – trade | **326,735** | | |
| Allowance for doubtful receivables (*1) | **(24)** | | |
| | **326,699** | **326,699** | **—** |
| (3) Marketable securities and investment securities | | | |
| a. Held-to-maturity securities | **24,084** | **24,084** | **—** |
| b. Other securities | **76,181** | **76,181** | **—** |
| Total assets | **$604,446** | **$604,446** | **—** |
| (1) Notes and accounts payable – trade | **$148,108** | **$148,108** | **—** |
| (2) Short-term bank loans | **101,084** | **101,084** | **—** |
| Total liabilities | **$249,193** | **$249,193** | **—** |

(*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 Note 6. “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 Note 12. “Derivative Financial Instruments.”

2. Financial instruments whose fair values are not readily determinable

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | Carrying amount | | |
| March 31 | **2011** | 2010 | **2011** |
| Unlisted equity securities | **¥62** | ¥62 | **$747** |

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 as of March 31, 2011 and 2010 are as follows:

| | MILLIONS OF YEN |
|---|---|
| | Within one year |
| March 31 | **2011** |
| Cash on hand and at banks | ¥14,729 |
| Notes and accounts receivable - trade | 27,119 |
| Marketable securities and investment securities: | |
| Held-to-maturity securities | 1,999 |
| Other securities with contractual maturities | 300 |
| Total | ¥44,148 |

| | MILLIONS OF YEN |
|---|---|
| | Within one year |
| March 31 | **2010** |
| 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) |
|---|---|
| | Within one year |
| March 31 | **2011** |
| Cash on hand and at banks | $177,458 |
| Notes and accounts receivable - trade | 326,735 |
| Marketable securities and investment securities: | |
| Held-to-maturity securities | 24,084 |
| Other securities with contractual maturities | 3,614 |
| Total | $531,904 |

## 12. Derivative Financial Instruments:

**Year ended March 31, 2011**

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

Not applicable.

**2. Derivative transactions to which hedge accounting is applied:**

Not applicable.

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

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

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.

## 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, 2011 and 2010 are as follows:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| March 31 | **2011** | 2010 | **2011** |
| Projected benefit obligations | **¥(21,083)** | ¥(21,665) | **$(254,012)** |
| Plan assets | **10,202** | 10,341 | **122,916** |
| Funded status | **(10,881)** | (11,323) | **(131,096)** |
| Unrecognized transition amount | **2,099** | 2,624 | **25,289** |
| Unrecognized actuarial loss | **3,789** | 4,153 | **45,651** |
| Unrecognized prior service cost | **(44)** | (64) | **(530)** |
| Net amount recognized | **(5,036)** | (4,610) | **(60,675)** |
| Amounts recognized in the balance sheet consists of | | | |
| Prepaid pension cost (other assets) | **583** | 1,068 | **7,024** |
| Accrued pension and severance costs | **¥ (5,620)** | ¥ (5,678) | **$ (67,711)** |

The components of net pension and severance costs for the years ended March 31, 2011 and 2010 are as follows:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Service cost | **¥ 667** | ¥ 669 | **$ 8,036** |
| Interest cost | **497** | 485 | **5,988** |
| Expected return on plan assets | **(98)** | (86) | **(1,181)** |
| Amortization of transition amount | **524** | 524 | **6,313** |
| Amortization of actuarial loss | **758** | 792 | **9,133** |
| Amortization of prior service cost | **(20)** | (22) | **(241)** |
| Net pension expense | **¥2,328** | ¥2,363 | **$28,048** |

Assumptions used in calculation of the above information for the year ended March 31, 2011 and 2010 are as follows:

Discount rate: 2.3%

Expected rate of return on plan assets: 1.0%

Method of attributing the projected benefits to periods of services: Straight-line method

## 14. Discount of Export Bills:

Amount of export bills discounted at March 31, 2011 and 2010 are as follows:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| March 31 | **2011** | 2010 | **2011** |
| Export bills | **¥161** | ¥— | **$1,940** |

## 15. 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, 2010 | 101,879,461 | 5,738,399 |
| Increase in the number of shares during the accounting period ended March 31, 2011 | — | 4,570,090 |
| Decrease in the number of shares during the accounting period ended March 31, 2011 | — | 2,401 |
| Number of shares as of March 31, 2011 | 101,879,461 | 10,306,088 |

Notes: 1. Increase in treasury stock (4,570,090 shares) is due to the purchase of treasury stock (4,500,000 shares) and purchase of shares less than one unit (70,090 shares).
2. Decrease in treasury stock is due to the purchase request on shares less than one unit (2,401 shares).

**b) Matters related to dividends**

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 29, 2010 were as follows:

Dividends on common stock

| | |
|---|---|
| Total amount of dividends | ¥1,442 million ($17,373 thousand) |
| Dividends per share | ¥15.00 ($0.18) |
| Record date | March 31, 2010 |
| Effective date | June 30, 2010 |

Approvals by the Board of Directors' meeting held on November 4, 2010 were as follows:

Dividends on common stock

| | |
|---|---|
| Total amount of dividends | ¥1,649 million ($19,867 thousand) |
| Dividends per share | ¥18.00 ($0.22) |
| Record date | September 30, 2010 |
| Effective date | December 2, 2010 |

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2011, but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 29, 2011:

Dividends on common stock

| | |
|---|---|
| Total amount of dividends | ¥1,648 million ($19,855 thousand) |
| Dividends per share | ¥18.00 ($0.22) |
| Record date | March 31, 2011 |
| Effective date | June 30, 2011 |

## 16. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2011 and 2010 amounted to ¥6,853 million ($82,566 thousand) and ¥7,873 million, respectively.

## 17. Long-term Prepaid Expense:

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

## 18. 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, 2011 and 2010. A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2011 and 2010 is as follows:

| For the year ended March 31, | **2011** | 2010 |
|---|---|---|
| Statutory tax rate | 40.69% | 40.69% |
| Increase (decrease) in taxes resulting from: | | |
| Expenses not deductible for income tax purpose (ex. Entertainment expenses) | 2.57 | 3.15 |
| Income not included for income tax purpose (ex. Dividend income) | (0.13) | (0.15) |
| Inhabitant per capita taxes | 0.64 | 0.79 |
| Tax credit for research expenses | (4.11) | (7.08) |
| Other | (0.30) | 0.98 |
| Effective tax rate | 39.36% | 38.38% |

Significant components of deferred tax assets as of March 31, 2011 and 2010 are as follows:

| | MILLIONS OF YEN | | THOUSANDS OF U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| March 31 | **2011** | 2010 | **2011** |
| Deferred tax assets: | | | |
| Provision for bonuses | **¥453** | ¥464 | **$5,458** |
| Provision for sales rebates | **228** | 183 | **2,747** |
| Loss of supplies | **79** | 95 | **952** |
| Devaluation of financial instruments | **45** | 31 | **542** |
| Amortization of R&D | **251** | 292 | **3,024** |
| Amortization of long-term prepaid expenses | **195** | 250 | **2,349** |
| Pension and severance costs | **2,233** | 2,058 | **26,904** |
| Retirement benefits to directors | **185** | 161 | **2,229** |
| Unrealized gain of property, plant and equipment | **2,568** | 2,568 | **30,940** |
| Other | **463** | 480 | **5,578** |
| Total | **6,703** | 6,585 | **80,759** |
| Valuation allowance | **(78)** | (136) | **(940)** |
| Deferred tax assets | **6,625** | 6,448 | **79,819** |
| | | | |
| Deferred tax liabilities: | | | |
| Deferred gain on sales of property, plant and equipment | **(247)** | (259) | **(2,976)** |
| Unrealized gain on other securities | **(157)** | (306) | **(1,892)** |
| Other | **0** | (2) | **0** |
| Deferred tax liabilities | **(404)** | (569) | **(4,867)** |
| Deferred tax assets, net | **¥6,220** | ¥5,878 | **$74,940** |

## 19. Related Party Transactions:

There is nothing to be noted according to the disclosure requirements in Japan for the years ended March 31, 2011 and 2010.

## 20. Per Share Information:

Per share information for the years ended March 31, 2011 and 2010 is as follows:

| | MILLIONS OF YEN | | U.S. DOLLARS (NOTE 4) |
|---|---|---|---|
| For the year ended March 31, | **2011** | 2010 | **2011** |
| Net assets per share | **¥659.31** | ¥619.66 | **$7.943** |
| Net income per share | **87.87** | 68.79 | **1.059** |
| 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, | **2011** | 2010 | **2011** |
| Net income | **¥8,213** | ¥6,734 | **$98,952** |
| Net income attributable to common stock | **8,213** | 6,734 | **98,952** |
| Adjustment to net income | **—** | — | **—** |
| (Share data) | | | |
| Average number of share (thousand) | **93,473** | 97,896 | **—** |
| Additional number of share (thousand) | **—** | — | **—** |

## 21. Comprehensive Income:

Other comprehensive income for the year ended March 31, 2010 consists of the following:

| | MILLIONS OF YEN |
|---|---|
| For the year ended March 31, | 2010 |
| Other comprehensive income: | |
| Net unrealized gain on other securities, net of taxes | ¥490 |
| Deferred gain on hedges | 2 |
| Total other comprehensive income | ¥493 |

Total comprehensive income for the year ended March 31, 2010 comprises the following:

| | MILLIONS OF YEN |
|---|---|
| For the year ended March 31, | 2010 |
| Total comprehensive income attributable to: | |
| Owners of the parent | ¥7,227 |
| Total comprehensive income | ¥7,227 |

## 22. Segment Information:

(Additional information)

Effective from the year ended March 31, 2011, the Company adopted the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, issued on March 27, 2009) and the “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, issued on March 21, 2008).

For the year ended March 31, 2011

(a) Overview of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group.

The Group produces and sells medical products and agrochemicals, rents real estates, and maintains buildings, and operates business by category of industry. Each business operates on its own initiative, and creates comprehensive business strategies to conduct business activities. The Group consists of segments by category of industry based on the operation of business and therefore consists of two reportable segments: "Pharmaceutical" and "Real estate".

"Pharmaceutical" mainly produces and sells medical products, medical devices and agrochemicals.

"Real estate" mainly rents Bunkyo Greencourt.

(b) Method of calculating net sales, income, assets and other items by reportable segment

Accounting policies of the reportable segments are consistent to those described in Note 2. "Summary of Significant Accounting Policies". Income by the reportable segment is based on operating income. Intersegment transactions are based on prevailing market price.

Corporate assets are not allocated to each reportable segment. However, related expenses are allocated to each reportable segment using reasonable criteria.

(c) Information about reportable segments

| | MILLIONS OF YEN | | | | |
|---|---|---|---|---|---|
| | Reportable segment | | | | |
| | Pharmaceutical | Real estate | Total | Adjustments | Consolidated |
| Year ended March 31, | | | 2011 | | |
| Net Sales: | | | | | |
| Outside sales | ¥83,976 | ¥ 2,452 | ¥86,428 | ¥ — | ¥86,428 |
| Intersegment sales or transfers | — | 309 | 309 | (309) | — |
| Total | ¥83,976 | ¥ 2,762 | ¥86,738 | ¥ (309) | ¥86,428 |
| Segment income | ¥12,749 | ¥ 1,429 | ¥14,179 | ¥ — | ¥14,179 |
| Segment assets | ¥57,907 | ¥16,499 | ¥74,407 | ¥24,085 | ¥98,493 |
| Other items: | | | | | |
| Depreciation and amortization | ¥ 2,086 | ¥ 629 | ¥ 2,715 | ¥ — | ¥ 2,715 |
| Increase in property, plant and equipment and intangible assets | 4,031 | 1,748 | 5,780 | — | 5,780 |

| | THOUSANDS OF U.S. DOLLARS | | | | |
|---|---|---|---|---|---|
| | Reportable segment | | | | |
| | Pharmaceutical | Real estate | Total | Adjustments | Consolidated |
| Year ended March 31, | | | 2011 | | |
| Net Sales: | | | | | |
| Outside sales | $1,011,759 | $ 29,542 | $1,041,301 | $ — | $1,041,301 |
| Intersegment sales or transfers | — | 3,723 | 3,723 | (3,723) | — |
| Total | $1,011,759 | $ 33,277 | $1,045,036 | $ (3,723) | $1,041,301 |
| Segment income | $ 153,602 | $ 17,217 | $ 170,831 | $ — | $ 170,831 |
| Segment assets | $ 697,675 | $198,783 | $ 896,470 | $290,181 | $1,186,663 |
| Other items: | | | | | |
| Depreciation and amortization | $25,133 | $ 7,578 | $32,711 | $— | $32,711 |
| Increase in property, plant and equipment and intangible assets | $48,566 | $21,060 | $69,639 | $— | $69,639 |

(d) Information about products and services

Information about products and services has not been disclosed since the classification by products and services is same as the reportable segment.

(e) Information by geographical area

(1) Sales

Information about sales has not been disclosed since sales in Japan constituted more than 90% of sales on the consolidated statements of income.

(2) Property, plant and equipment

Information about property, plant and equipment has not been disclosed since property, plant and equipment in Japan constituted more than 90% of property, plant and equipment on the consolidated balance sheets.

(f) Information about major customers

| | MILLIONS OF YEN | THOUSANDS OF U.S. DOLLARS | |
|---|---|---|---|
| | Sales | | |
| For the year ended March 31, | 2011 | | Name of the related segment |
| SUZUKEN CO., LTD. | **¥14,025** | **$168,976** | Pharmaceutical |
| Alfresa Corporation | **13,916** | **167,663** | Pharmaceutical |
| MEDICEO CORPORATION | **13,063** | **157,386** | Pharmaceutical |
| Toho Pharmaceutical Co., Ltd. | **9,224** | **111,133** | Pharmaceutical |

For the year ended March 31, 2010

Information about operations in industry segments of the Group for the year ended March 31, 2010 is as follows.

| | MILLIONS OF YEN | | | | |
|---|---|---|---|---|---|
| | Pharmaceutical | Real estate | Total | Elimination or Corporate | Consolidated |
| Year ended March 31, | | | 2010 | | |
| 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 |

## 23. Subsequent Event:

Following acquisition of treasury stock under Article 156 of the Law, as applied pursuant to Article 165 (3) of the Law has been resolved by the Board of Directors' meeting held on May 12, 2011.

1. Reason for acquisition:
To execute flexible capital policy corresponding to changes in management environment.

2. Class of stocks to be acquired:
Common stock

3. Number of stocks to be acquired:
Up to 2,300,000 shares

4. Total amount of stocks to be acquired:
Up to ¥2,500 millions of yen ($30,120 thousand)

5. Schedule of acquisition:
From May 13, 2011 to December 31, 2011

Number and total amount of stocks acquired based on the above resolution on or before May 31, 2011 are 400,000 shares and ¥451 million ($5,434 thousand), respectively.

# 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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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.

As described in Note 23, at a meeting of the Board of Directors of the Company held on May 12, 2011, the Company approved a purchase of shares of treasury stock.

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.

Hijinibashi Audit Corporation

Tokyo, Japan
June 29, 2011

# Corporate Data

As of March 31, 2011

## 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

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 Branch
Tokyo Branch II
Nagoya Branch
Osaka Branch
Osaka Branch II
Hiroshima Branch
Fukuoka Branch

### Plant

Shizuoka Factory

### Research Laboratories

Central Research Laboratory (Kyoto)
Central Research Laboratory (Shizuoka)
Production Technology Laboratory

### Overseas Office

**Kaken New York Office**
245 Park Avenue, 24th Floor, New York, NY 10167
Tel: 1-212-372-8910
Fax: 1-212-372-8970
E-mail: ny@kaken.co.jp

## Company Information

### Founded

March 1917

### Incorporated

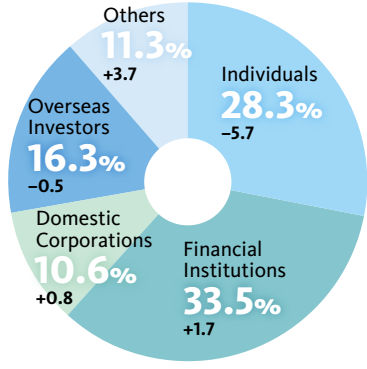
March 1948

### Paid-in Capital

¥23,853 million

### Common Stock

Authorized: 360,000,000 shares
Issued: 101,879,461 shares (As of August 31, 2011)
Number of Shareholders: 13,799 (As of March 31, 2011)




### Major Shareholders

| SHAREHOLDERS | NO. OF SHARES (THOUSANDS) | SHARE OF TOTAL (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Ac.) | 5,402 | 5.3 |
| Toray Industries, Inc. | 4,589 | 4.5 |
| Japan Trustee Services Bank, Ltd. (Trust Ac.) | 4,397 | 4.3 |
| Mizuho Bank, Ltd. | 4,086 | 4.0 |
| The Norinchukin Bank | 3,686 | 3.6 |
| Mellon Bank, N.A. As Agent for its Client Mellon Omnibus US Pension | 1,804 | 1.8 |
| Japan Trustee Services Bank, Ltd. (Trust Ac.9) | 1,754 | 1.7 |
| Nippon Life Insurance Company | 1,700 | 1.7 |
| Kaken Pharmaceutical Employee Stock Ownership Association | 1,594 | 1.6 |
| SOMPO JAPAN INSURANCE INC. | 1,343 | 1.3 |

### Employees (Non-Consolidated)

Administration: 117
Sales & Marketing: 988
Production & Technology: 220
Research & Development: 295
Regulatory Affairs: 39

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