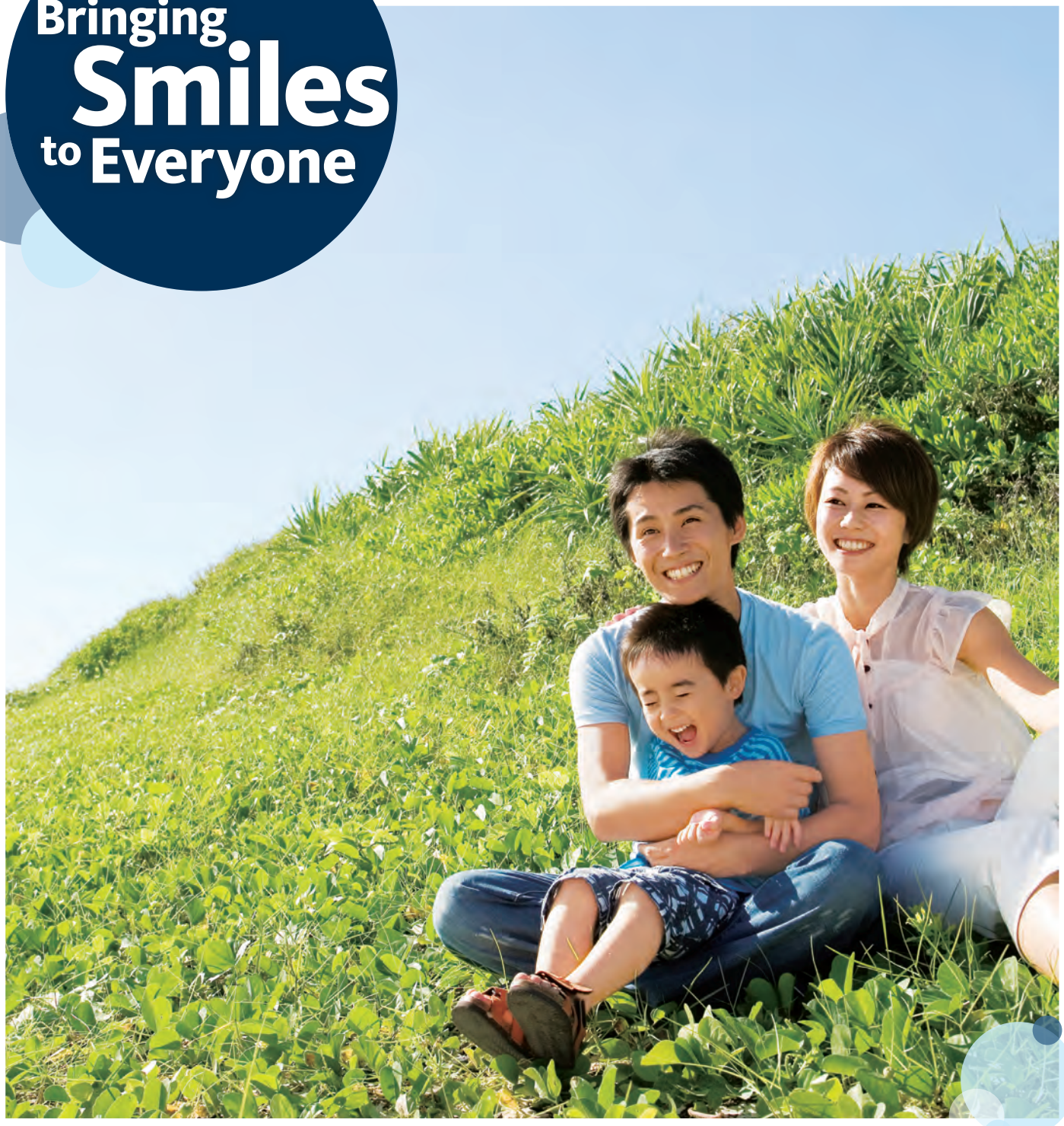
Bringing Smiles to Everyone



KAKEN PHARMACEUTICAL CO., LTD.

Annual Report 2013

Year Ended March 31, 2013

Profile

The origins of Kaken Pharmaceutical Co., Ltd., can be traced back to the Institute of Physical and Chemical Research (RIKEN), which was established in 1917.

In 1948, the Company started its pharmaceutical business by developing a new way to manufacture penicillin utilizing Riken's own technologies. It has since broadened the scope of its business activities to include the manufacturing and sales of drugs such as streptomycin, an antituberculosis drug, and various antifungal agents.

The Company is particularly strong in the field of orthopedics, dermatology, and internal medicine. In the field of orthopedics, Kaken boasts the accomplishment of introducing medical treatment for osteoarthritis that involves the intraarticular injection of sodium hyaluronate.

Since 2001, the Company has been marketing Fiblast Spray, a wound-healing agent that employs a recombinant human basic Fibroblast Growth Factor (bFGF). This was the first drug in the world to employ bFGF. Kaken continues to advance research efforts in this field.

The Company is also focused on the fields of inflammation, immunologic diseases, and allergies, as well as that of fungal infection. In 2012, Kaken applied for manufacturing approval for efinaconazole, an original drug developed by Kaken, as Japan's first topical antifungal agent for onychomycosis.

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

KAKEN
Three Joys

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.

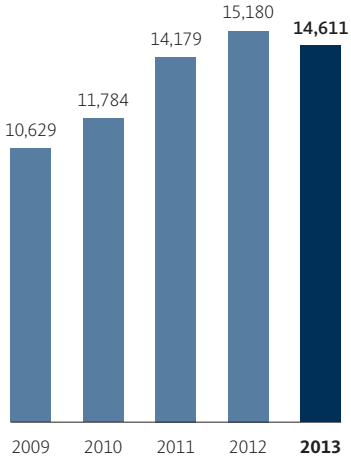
Forward-looking Statements

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

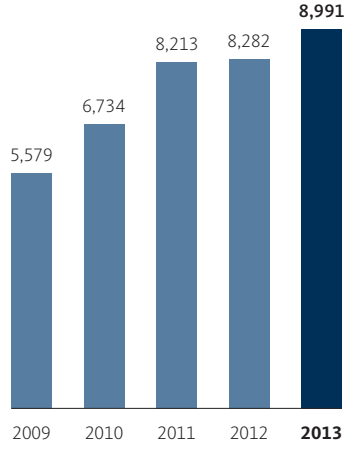
Consolidated Financial Highlights

Net Sales
MILLIONS OF YEN

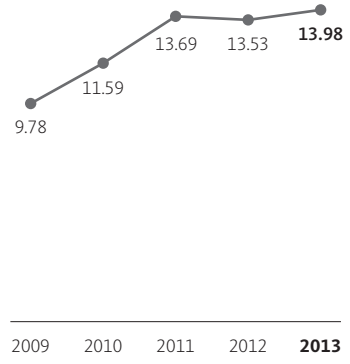
Operating Income
MILLIONS OF YEN



Net Income
MILLIONS OF YEN

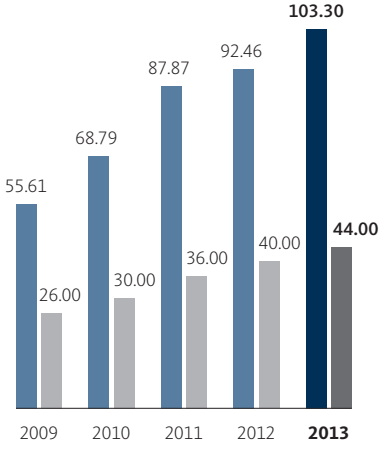


ROE
%



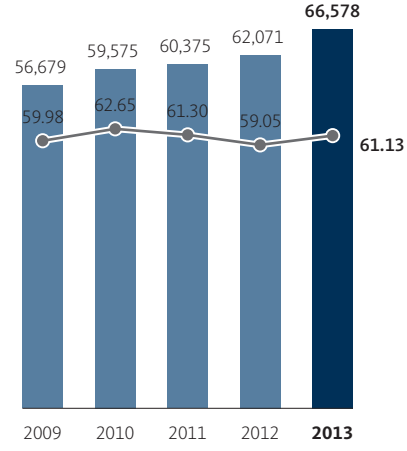
Net Income per Share
YEN

Cash Dividends per Share
YEN



Total Net Assets
MILLIONS OF YEN

Capital Adequacy Ratio
%



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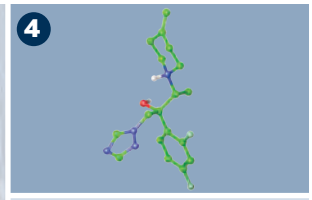


President's Message

Tetsuo Onuma
President and Representative Director

Dear Stakeholders:

In the fiscal year under review, ended March 31, 2013, sales volumes for Artz, Seprafilm, and other mainstay products were up, as were sales of generic drugs. However, drug prices were reduced by slightly less than 6%, resulting in a small year-on-year decline in sales. Nevertheless, we were able to achieve higher net income.

We increased dividend payments for the 11th consecutive year and repurchased 2 million shares of treasury stock. In this way, we would like to express our appreciation for your support over the years.

In the fiscal year ending March 31, 2014, we are targeting higher sales and income, as announced previously. In addition, we plan to issue total dividend payments of ¥48.00 per share, making for the 12th consecutive year of increased dividend payments. We will also repurchase another 1.2 million shares of treasury stock, as we pursue higher levels of shareholder returns.

Further, I anticipate that the fiscal year ending March 31, 2014, will be a year in which we give form to several initiatives that have yet to come to fruition. One such example is KP-103, Kaken's original topical antifungal agent for onychomycosis for which we submitted an application to receive marketing and manufacturing approval for in October 2012. At the same time, we will accelerate the licensing activities that we have traditionally conducted with the aim of supplementing our development pipeline.

Looking ahead, the operating environment is expected to remain highly opaque due to such factors as drug price revisions impacting long-term listed products. However, we believe it is still possible for Kaken to improve performance in the fiscal year ending March 31, 2014. This improved performance is expected to be driven by contributions from the sales of existing products that are still experiencing sales growth and the generic drugs we sell in response to the contemporary needs.

Going forward, we will strive unceasingly to ensure Kaken Pharmaceutical continues to be a company that is appealing to investors. In closing, I would like to ask for your continued support as we undertake this endeavor.

Overview of Results for the Fiscal Year Ended March 31, 2013

The impacts of drug price revisions in the fiscal year under review, ended March 31, 2013, resulted in a 1.1% year-on-year decrease in net sales, to ¥87,054 million. Consequently, operating income was down 3.7%, to ¥14,611 million. However, net income increased 8.6%, to ¥8,991 million, due to the benefits of tax revisions.

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 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 support 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 dominant pillar of our operations.

- **Optimizing operations and promoting efficiency**

We are actively working to improve the cost of sales ratio through more-efficient investment and 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**

Kaken recognizes that promoting environmental preservation is a social responsibility. Therefore, it is conducting Companywide environmental preservation activities under the guidance of the Environmental Committee.

Both Kaken's Shizuoka Factory and Shizuoka Research Laboratories have obtained ISO 14001 certification. Also, the Kyoto Research Laboratories have received the Kyoto Environmental Management System Standard (KES) Step 2 certification, a certification awarded by the city of Kyoto in recognition of implementing appropriate environmental management systems.

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.

Basic Policy and Approach Concerning Returns to Shareholders

Kaken believes that providing consistent shareholder 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.

In 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 aforementioned policy, we have decided to increase both the interim and year-end dividend by ¥2.00 per share, to ¥22.00, for total dividend payments of ¥44.00 per share in the year under review, making this our 11th straight year of increased dividend payments.

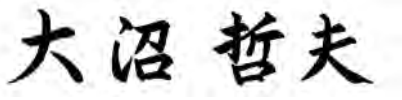
Further, the Company acquired 2,000,000 shares of treasury stock in accordance with a decision made by the Board of Directors.

In the fiscal year ending March 31, 2014, we intend to pay interim and year-end dividends of ¥24.00 per share each, for total dividend payments of ¥48.00 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 2013



Tetsuo Onuma
President and Representative Director

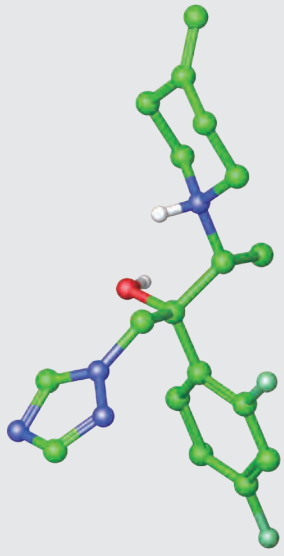
Special Feature

Bringing Smiles to Everyone

Developing New Products to Satisfy Unmet Medical Needs

Kaken's Specialty—Topical Antifungal Agent—

The drug candidate KP-103 (efinaconazole), which was discovered through the outstanding antifungal research at Kaken, has the potential to be the world's first triazole compound for a topical medication for onychomycosis. This drug has high antifungal activity and is effective against a wide spectrum of fungi. Also, compared to other existing antifungal agents, its activity decreased only slightly even in the presence of keratin, the main component of nails. This means that the drug has superior nail penetrating properties, thereby suggesting that it will maintain its therapeutic effect in nails thickened by fungal infection or on the underside of such nails. KP-103 has also shown antifungal activity in various animal models of infections and, in particular, greater effectiveness than other treatment options in a guinea pig model for onychomycosis. While oral medications are currently taken as a standard therapy for patients suffering from persistent onychomycosis, KP-103 shows promise as a new treatment option by its featured topical approach.



In 2006, Kaken concluded a licensing agreement with Dow Pharmaceutical Sciences, Inc. (DPS), of the United States, for the development and marketing of KP-103 products in Europe and the Americas. After the acquisition of DPS in 2009 by Valeant Pharmaceuticals International, Inc., of Canada, Valeant has continued the joint development activities with Kaken. In two multinational pivotal studies (Phase III) in patients with mild to moderate onychomycosis of the toenails, this topical investigational drug (US development code: IDP-108) was found to be statistically superior to a placebo for all primary and secondary endpoints. The efficacy of this drug is competitive when compared to that of existing oral medications, and it has thus demonstrated its efficacy as a topical agent with fewer side effects.

In 2012, Kaken applied for marketing authorization for KP-103 in Japan, and the application is currently under investigation. We expect that the drug will receive approval in 2014, making it Japan's first topical medication for onychomycosis, and we are currently responding to investigations and preparing to market the drug accordingly. Valeant also submitted a marketing authorization application for this drug in the United States and Canada during 2012.

We will continue our efforts with overseas partners to acquire approval of this drug as a treatment for onychomycosis in the global market.

New Drug Development Pipeline

	PRODUCT CODE	INDICATION	STAGE	REMARKS
1	KP-103 (IDP-108)	Onychomycosis	Filed	Topical formulation In the overseas markets, Valeant Pharmaceuticals International, Inc. filed a new drug application for approval in the U.S. and Canada.
2	KCB-1D	Periodontitis	PIII	bFGF
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 Industries, Inc.; Additional indication for BERASUS
5	SI-657	Enthesopathy	Preparing for PIII	Developed jointly with Seikagaku Corporation; Additional indication for ARTZ

Kaken's Innovative Product for Tissue Regeneration: Fiblast Spray

Fiblast Spray is the world's first product that commercializes recombinant human basic Fibroblast Growth Factor (bFGF). bFGF exists in almost all tissue in the human body. It is released from the extracellular matrix once tissue is damaged by trauma and 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.

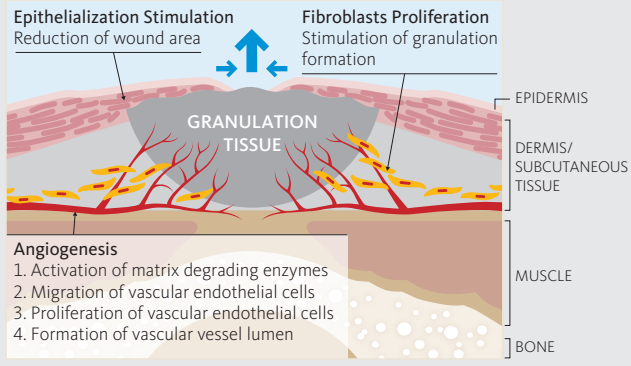
In 1988, Kaken obtained exclusive licensing rights for recombinant human bFGF (trafermin) in Asia from Scios Inc., of the United States. Following this, Kaken made continued R&D efforts, and as a result obtained marketing approval in Japan for Fiblast Spray for the treatment of pressure ulcers and other skin ulcers (burn ulcers and leg ulcers) in 2001. Further, as the Japanese regulatory authority completed reexamination of the product in 2010, Fiblast Spray has reestablished its presence as a highly reliable drug in the medical market in Japan, and is now used with confidence at a number of hospitals throughout the country.

In addition to its effectiveness in regard to regenerating skin tissue, trafermin has also demonstrated the abilities to promote the proliferation and regeneration of both periodontal and bone tissues. In the field of dentistry, trafermin is known for its ability to promote the regeneration of periodontal ligaments, cementum, and alveolar bone. After the completion of the phase III clinical trial that is currently underway, we intend to file a new drug application of trafermin for the treatment of periodontitis.

In March 2005, Kaken acquired the worldwide rights to develop, manufacture, and market trafermin for all therapeutic purposes. In June 2007, Kaken entered a licensing 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 licensing agreement with Olympus Corporation regarding the development and marketing of trafermin for wound healing in Europe and North America. Regarding the development and marketing of Fiblast Spray, Kaken entered licensing agreements with a Chinese pharmaceutical company in December 2005 and with a South Korean company in December 2006, respectively.

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

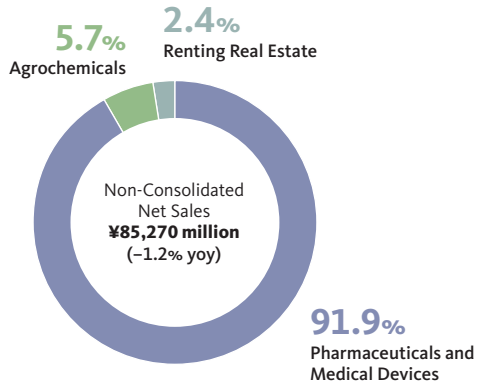
Action Mechanism of Fiblast Spray



Overview of Major Products

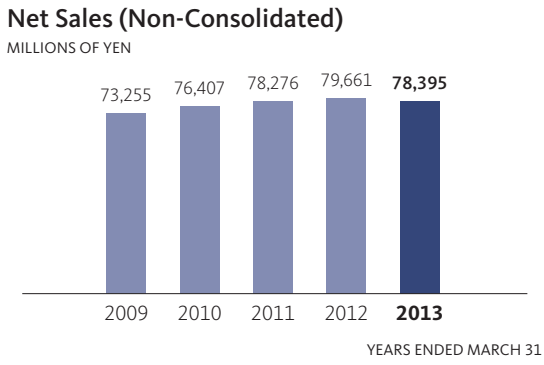
Distribution of Net Sales (Non-Consolidated)

In the fiscal year under review, drug price revisions adversely impacted sales. As a result, non-consolidated net sales decreased 1.2% year on year, to ¥85,270 million.



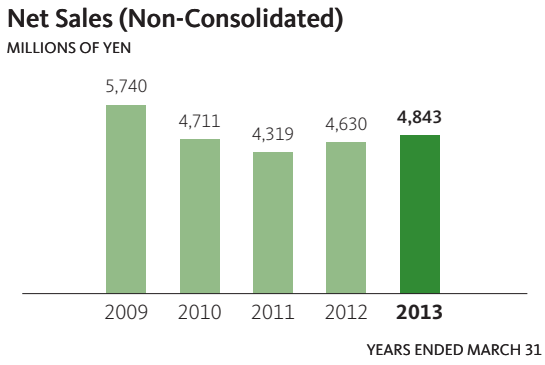
Pharmaceuticals and Medical Devices

In pharmaceuticals, sales of generic drugs were up, and Artz, an anti-osteoarthritis product that is one of the Company's mainstay products, maintained sales of essentially the same level as seen in the previous fiscal year. However, Procylin, a drug to treat chronic artery occlusive disease, and Adofeed, a pain- and inflammation-relieving plaster, experienced a decline in sales as the impacts of drug price revisions could not be completely absorbed. In medical devices, sales were up for Seprafilm, an anti-adhesive absorbent barrier. Due to these factors, in the fiscal year under review, net sales for pharmaceuticals and medical devices decreased 1.6% year on year, to ¥78,395 million.



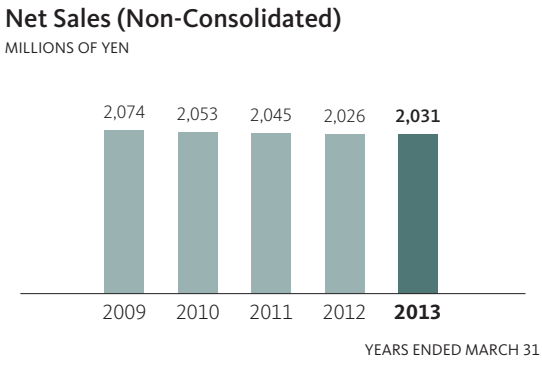
Agrochemicals

Agrochemical sales rose, driving an overall increase in sales in this category, and net sales rose 4.6%, to ¥4,843 million, accordingly.



Renting Real Estate

In the real estate segment, the majority of revenues are generated through rent fees related to the Bunkyo Green Court commercial facility. Net sales for the real estate segment increased 0.2% year on year, to ¥2,031 million.



Pharmaceuticals and Medical Devices

Artz

FUNCTION: Anti-osteoarthritis product

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

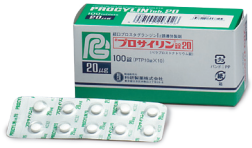
In 1987, Artz was introduced into the market as the world's first sodium hyaluronate drug indicated to treat osteoarthritis by intraarticular injection. In 1989, an indication was added for the treatment of shoulder periarthritis.

In 1992, Artz began being marketed in disposable pre-filled syringes under the trade 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

FUNCTION: Oral-use prostaglandin I_2 analog product

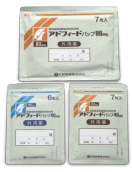


Procylin is a drug used to treat chronic artery occlusive disease containing a prostaglandin I_2 analog, beraprost sodium, as an active pharmaceutical ingredient. The drug has the effects of both vascular vessel dilatation and platelet aggregation inhibition. It is the only oral-use prostaglandin I_2 analog product in the world. It was developed 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 chills resulting from conditions associated with arteriosclerosis obliterans (ASO) and thromboangitis obliterans (TAO). The drug was launched in 1992. In 1999, Procylin was approved for an additional indication to treat primary pulmonary hypertension.

Adofeed

FUNCTION: 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 2008, we launched plasters that were double the size of the Adofeed plasters previously offered. This allows patients to choose the size most appropriate for their needs.

Mentax

FUNCTION: Anti-trichophyton product

Mentax is a topical product used to treat superficial mycosis containing butenafine hydrochloride, a compound developed by Kaken, as an active pharmaceutical ingredient. In addition to being available in Japan, Mentax is offered in the United States, sold 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 subsequently 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 subsequently launched as an OTC drug in 2003. 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

FUNCTION: Anti-hyperlipidemia product

Lipidil is a fibrate-type antihyperlipidemic drug with fenofibrate, which was developed by Groupe Fournier SA of France, as its active pharmaceutical ingredient.

The drug lowers triglycerides and total cholesterol, while increasing HDL cholesterol, thus improving overall lipid metabolism by activating peroxisome proliferator activated receptor (PPARα) in the liver cells to adjust the expression of various lipid metabolism related proteins.

Lipidil is currently marketed in over 90 countries and much clinical experience has been accumulated to date.

In 2011, Lipidil was released in tablet form. The change from capsule to tablet has made Lipidil even easier for patients to take.

Fiblast Spray

FUNCTION: Wound-healing product

Fiblast Spray is a wound-healing drug containing trafermin, a recombinant 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 the human bFGF gene was mapped by Scios Inc., thus making it possible to manufacture recombinant human bFGF. Kaken obtained a license to develop this product, and subsequently launched Fiblast Spray, the world's first recombinant human bFGF product, in Japan in 2001.

Ebrantil

FUNCTION: α1 blocker to treat dysuria 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

FUNCTION: Oral-use sustained-release formulation of prostaglandin I_2 analog

Berasus, which was approved for marketing in October 2007 and subsequently launched in December of the same year, is a drug used 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.

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

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

Clexane

FUNCTION: Anticoagulant

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

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

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 under domestic and international medical guidelines.

The product is currently used in approximately 130 countries worldwide.

Generic Drugs

In Japan, people are being encouraged by the government to use generic drugs as part of a movement to reduce public healthcare costs. As a result, there has also been an increasing trend in the medical field toward using generic drugs.

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.

Consequently, we aim to grow our 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

FUNCTION: Anti-adhesive absorbent barrier

Developed by Genzyme Corporation (current Sanofi) of the United States, Seprafilm is a sheet-type anti-adhesive absorbent 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, thus allowing practitioners to select the size that meets the need.

Agrochemicals

Polyoxins *(fungicides)*

Polyoxins are natural fungicides originating from microorganisms first discovered by Dr. Saburo Suzuki and his team at the RIKEN Institute in 1963. 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 their chemical structure. 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 it 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

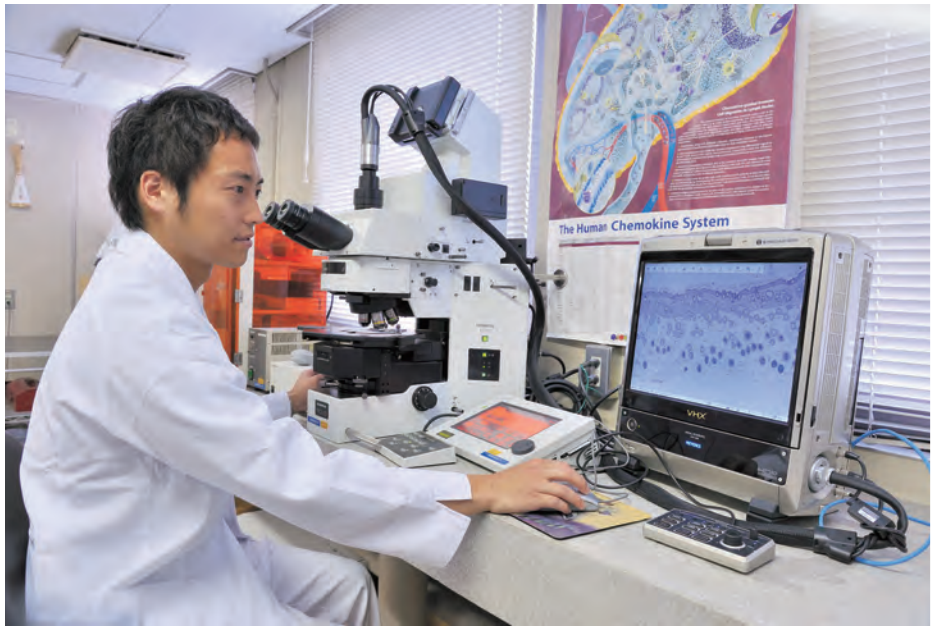
Salinomycin *(anti-coccidial for chickens)*

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 anticoccidial 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, 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 also exports this product worldwide.

Commitment and Excellence



R&D Division

As a pharmaceutical manufacturer, Kaken is dedicated to conducting R&D activities while always maintaining the goal of developing proprietary medicines. Kaken focuses its drug discovery efforts on areas in which it is particularly strong including inflammation, allergies, and pain relief, and also maintains its focus on the area of fungal infection in which it specializes, devoting a great deal of financial and human resources to these research themes. It utilizes the technologies it has developed through its experience over the years and 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. Kaken estimates that research and development expenses will be around ¥7.7 billion during the current fiscal year. The R&D Division also works to more actively evaluate products as potential candidates to be introduced into Kaken's pipeline of clinical development. At the same time, the division employs a multifaceted approach toward R&D activities, which entails engaging in joint research and development, in- and out-licensing of developed products, and outsourcing of its operations to such organizations. This serves to accelerate its R&D initiatives.

Kaken's Central Research Laboratories 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, and encourage effective communication and the clear division of responsibilities. The Research Laboratories are divided into five different sections. The Chemistry Research Department specializes in the synthesis of chemical compounds, the "seeds," from which new drugs are created. The Drug Discovery Research Department seeks out novel drug targets, screens chemical compounds, and evaluates selected candidates from screening. The Pharmacology Research Department evaluates the usefulness of candidate compounds developed through drug discovery research and compares these compounds to other drugs. The Pharmacokinetics and Safety Research Department assesses how candidate compounds behave within the body and evaluates the safety of candidate compounds for use on humans through non-clinical studies. The Drug Formulation Research Department identifies the physicochemical properties of compounds and develops formulations of these compounds that guarantee their stability and maximize their effectiveness when used on patients. These five sections advance Kaken's R&D efforts through collaborative, coordinated efforts.

Kaken's R&D activities have earned us a number of awards. In 2009, Kaken's scientists were awarded the Asahi Kasei Encouraging Award from the Academy of Pharmaceutical Science and Technology, Japan (APSTJ) 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 APSTJ. Later, in 2012, another scientist was awarded the Best Presentation Award for the 27th annual meeting of APSTJ for its research regarding "In Vitro—In Vivo Correlation of Percutaneous Drug Absorption."

These recognitions have further reinforced the high reputation of Kaken's fundamental technology. By leveraging such superior research technologies, the Company aims to continue to accelerate and expand its R&D efforts.

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 candidate compounds that have been developed through drug discovery research or introduced from outside partners, the Clinical Development Department plans and conducts efficient clinical trials for these compounds both in Japan and overseas to verify their efficacy and safety on human subjects. In addition to developing its original drugs, Kaken also engages in joint development with other companies or organizations. Recently, a successful global clinical trial was jointly conducted between Kaken and a foreign company, which has entered into a licensing agreement regarding the development and marketing of a compound created originally by Kaken. The Administration of Clinical Development Department is responsible for all areas of statistical analysis. It also manages case data from clinical trials and information related to the safety of the drugs under investigation, and works to maintain a certain degree of quality with regard to this data. Meanwhile, the R&D Quality Assurance Department assures the quality and reliability of the data related to clinical trials that are conducted by the Clinical Development Department. The R&D Quality Assurance Department also assures quality and reliability of the plans and data related to the non-clinical studies that are designed and conducted by research laboratories. These departments cooperate with Kaken's research laboratories in order to conduct clinical trials as quickly as possible.

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

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. This division 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 or not each batch of drug is produced in the predetermined manner and evaluates whether or not quality tests are compliant with all applicable standards. The Pharmacovigilance Department then reviews the safety related information pertaining to these drugs that has been collected from medical institutions using the drugs. 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 both internal and external production plants, thus 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 their effective use.

The Regulatory Affairs Department supervises and assists all aspects of the Company's manufacturing and sales activities, and is also responsible for maintaining marketing licenses for its pharmaceuticals. In addition to this, the department also participates in the R&D process. It compiles the R&D Division's data regarding production quality as well as data from both non-clinical and clinical trials. After compiling this data, the department is then tasked with gaining approval for use of our drugs and for listing them in the National Health Insurance Drug Price List after approval is obtained. The department is also responsible for producing product literature for approved drugs.

Production Division

Kaken's flagship production facility is the Shizuoka Factory. Here we manufacture the raw materials used to make pharmaceuticals and agrochemicals. The facility also produces a wide variety of pharmaceuticals in various different forms. Operations commenced after World War II, and initially it primarily manufactured antibiotics and enzymes through fermentation. Over the years, it has continued to refine these technologies, and now one of its main characteristics is its use of sophisticated fermentation technologies.

In manufacturing pharmaceuticals, we practice strict adherence to Japanese GMP ("Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Drugs and Quasi-drugs," Ordinance of Ministry of Health, Labour and Welfare, No. 179, 2004). Further, for products marketed overseas, we take steps to ensure they are in compliance with applicable standards in the United States and other countries in which they are sold. In such ways, we have developed a stringent quality control system under which we strive to manufacture products of the highest quality.

Marketing & 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.

Our approximately 700 MRs located throughout Japan work in close contact with local communities, particularly in the fields of orthopedics and dermatology, two areas in which we specialize.

In the fiscal year ended March 31, 2013, we strengthened our sales structures by switching to a sales system based on a nationwide network consisting of 8 branches and 69 sub-branches.

Agrochemical & Animal Health Products Division

The Agrochemical & Animal Health Products Division is 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, which is a group of fungicides, and Pentoxazone, a rice herbicide—and we are actively expanding sales of these products both in Japan and overseas. Polyoxins are fungicides produced by culturing microorganisms in a culturing medium consisting of natural materials. For a number of years, these products have been consistently evaluated highly by 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, thus further expanding their range of use. Pentoxazone is a rice herbicide effective against the vast array of annual weeds found in rice paddies and has demonstrated effectiveness against herbicide-resistant varieties of weeds that have emerged recently. These factors make Pentoxazone indispensable for rice farmers.

Our animal health products operations offer anti-coccidials for chickens, including Salinomycin, which is a feed additive, as well as Colistin sulfate, which helps prevent infectious diseases in livestock. We also supply a drug for bovine, known as Uroston, 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 a 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

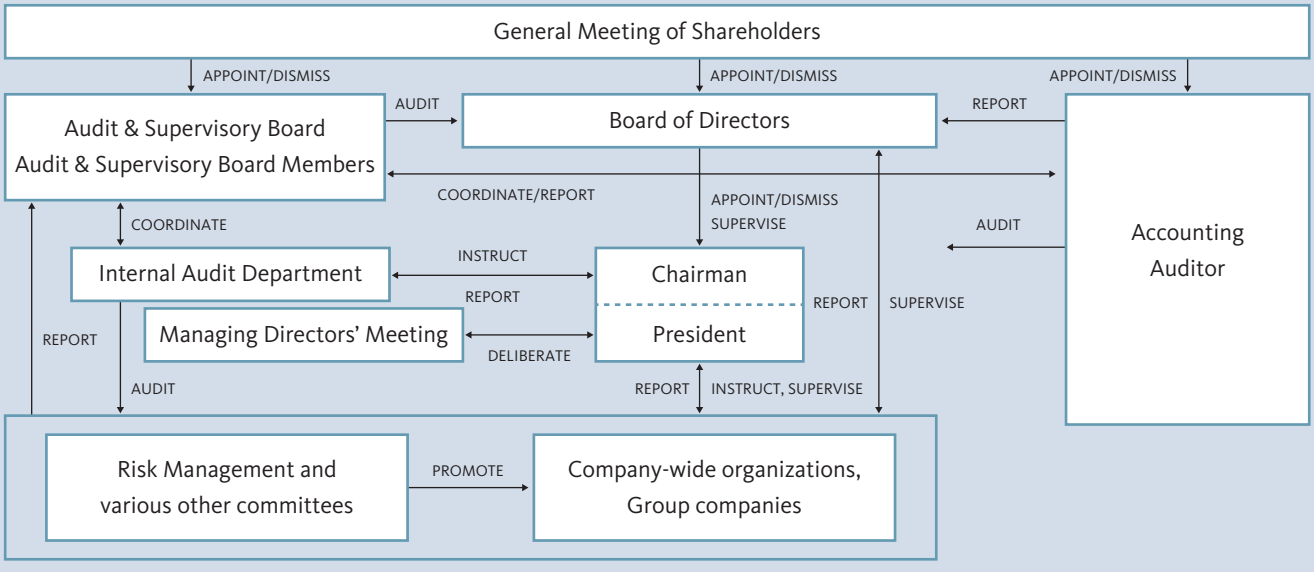
We believe that compliance-based management is the most fundamental key element in earning the trust of society and promoting the healthy development of the Company. Moreover, compliance is important in raising corporate value, which our shareholders, investors, business partners, and the local community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

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 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.

Corporate Governance System



Environmental Protection Activities

In recent years, there has been a growing concern for various 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 Measures 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 natural 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 Measures Committees were transformed into the Environmental Measures Task Forces in order to enhance their ability to respond to such changes as the April 2009 revision of the Act on the Rational Use of Energy. These task forces work 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 the Kyoto Environmental Management System Standard (KES) Step 2 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 factory, research laboratories, and sales and other 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.

Recent Environmental Protection Activities

Environmental Monitoring of Business Activities

Kaken believes that consideration for the natural environment is one of its responsibilities toward society. For this reason, all employees are made aware of the environmental circumstances regarding all of its business operations, spanning from research and development to production and back-office operations. This includes input data related to usage of chemical substances and energy, both of which impact the environment, as well as output data on the emissions into water and the atmosphere and waste production. Based on an understanding of this information, reductions in environmental impact are being pursued.

Water Pollution Prevention

Kaken is emphasizing initiatives that contribute to environment preservation. For example, the Shizuoka Factory separates wastewater from production activities into organic wastewater and other wastewater. Organic wastewater then undergoes treatment using active sludge, after which it is mixed with other wastewater until the organic wastewater is diluted to below the maximum level defined in wastewater standards. It is then dispelled into rivers. To further its efforts to prevent water pollution, the factory concluded an agreement with Fujieda City, Shizuoka Prefecture, regarding pollution prevention in 1976. The factory has also established internal standards based on which it periodically measures its environmental impacts, and practices strict compliance with environmental laws and regulations. In a similar manner, the Kyoto Research Laboratories treat organic wastewater using active sludge, and then mix it with wastewater from other systems before dispelling into public sewers. When dispelling such wastewater, the Kyoto Research Laboratories adheres to its own internal standards, which are stricter than the standards of Kyoto City, and it also periodically measures emissions and reports the findings.

Kaken's River Beautification Activities


Seto River, Shizuoka Prefecture


Shinomiya River, Kyoto Prefecture

Air Pollution Prevention

In order to prevent air pollution, the Shizuoka Factory installed a city-gas fired boiler to replace its previous boiler, which used fuel oil A. As a result, the factory has continued to boast zero emissions of sulfur oxide (SOx) since 2007. The factory also evaluates emissions of smoke dust twice a year, and emission volumes are currently significantly lower than the figures promised in its pollution prevention agreement with Fujieda City (smoke dust concentration of less than 0.2g/m^3N). Going forward, the Shizuoka Factory will continue to strengthen its management systems to better prevent air pollution.

Chemical Substance Management

Both the Shizuoka Factory and the Kyoto Research Laboratories are managing chemical substances on a voluntary basis. In order to reduce exposure to potential risks from using harmful chemical substances, the Company considers possible revisions to its processes for manufacturing and analyzing pharmaceuticals, and is working to reduce the amount of solvents used and switch to less harmful substances. In addition, regulations have been established for handling harmful chemical substances and these substances are stringently managed. In these ways, the Company is working to prevent accidents and environmental pollution at all stages of handling these chemicals, from purchasing to use and disposal. The Company also manages chemical substances in an integrated manner together with reagents, and safety data sheets (SDSs) regarding the usage of such substances are kept up-to-date to ensure readiness for emergencies.

Waste Reduction and Recycling

As the Company's operations involve using raw materials to create products, the production of waste cannot be avoided. However, the development of a recycling-based society requires that the production of waste for final disposal be reduced to the greatest extent possible. To this end, the Shizuoka Factory acts in accordance with the Basic Law for Establishing the Recycling-based Society, and is actively practicing the 4Rs (refuse, reduce, reuse, and recycle). In the fiscal year ended March 31, 2013, the total amount of waste produced by the Shizuoka Factory was 5,565 tons. Of this, 93% was sludge produced during treatment of wastewater and residual materials from fermentation processes (animal and plant remnants). All waste produced in this year was used for composting. Going forward, the Company will continue to advance activities promoting the reduction and recycling of waste.

Social Responsibility as a Pharmaceutical Company

Product Quality Assurance

Kaken believes that it is absolutely essential to possess a quality assurance system in which both its headquarters (responsible for sales and manufacturing of pharmaceuticals) and its factory (responsible for manufacturing of pharmaceuticals) fulfill their individual responsibilities while also maintaining close coordination. At Kaken's factory, the effectiveness and appropriateness of each manufacturing process and facility is evaluated to ensure that manufacturing practices and quality are suitably managed. Located in the Company's headquarters, the Quality Assurance Department evaluates and confirms these activities, which is believed will result in the creation of a more stringent quality assurance system. However, this type of coordination is not limited to divisions related to quality. Rather, these activities have been expanded to the R&D Division, Production Division, and Marketing & Sales Division to guarantee the utmost quality throughout all stages of a product's lifecycle.

Safety Assurance for Pharmaceuticals After Launch

New pharmaceuticals receive marketing approval only after undergoing stringent evaluations. However, these evaluations are based on the results of clinical trials, which have a limited scope in regard to such considerations as patient age and gender and the range of drugs taken simultaneously. After drugs are launched, they are used by a wider range of patients, and this can result in the occurrence of unexpected side effects. For this reason, it is necessary to continue to evaluate the efficacy and safety of drugs even after they are launched, and respond to any issues that may be discovered. To this end, the Company has established the Pharmacovigilance Department, which continues to collect, evaluate, and analyze data regarding the efficacy and safety of the pharmaceuticals Kaken sells after they are launched. It then addresses issues and provides information regarding proper usage methods to medical practitioners.

Information Provision by MRs

Kaken deals in a wide range of pharmaceuticals. Kaken's medical representatives (MRs) are responsible for handling all of these pharmaceuticals. For this reason, they are constantly taking on new challenges in a wide range of fields, and play an expansive role in the development of Kaken's pharmaceutical operations. MRs maintain an up-to-date, in-depth understanding with regard to products so that they are always able to adapt to changes in circumstances in the medical field. They also work to provide appropriate response to the ever more complex, diverse needs of medical institutions and medical practitioners. In addition, MRs collect feedback from practitioners in the medical field so that it may be utilized in efforts to improve existing products and developing new drugs. Through these and other activities coinciding with the corporate philosophy, MRs are providing medical professionals with accurate information regarding Kaken's products.

Board of Directors and Audit & Supervisory Board Members

(Standing, from left)
Noboru Shibata, Hirokazu Konishi, Susumu Kojima, Yoshihiro Ieda, Kazuki Sekitani

(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)

Outside Director
Kazuki Sekitani

Audit & Supervisory Board Member
Kazuo Shiba
(Standing)

Audit & Supervisory Board Member
Masanori Aoyama
(Standing)

Audit & Supervisory Board Member
Sumio Yoshizawa

Audit & Supervisory Board Member
Toshio Sakurai

Financial Section

Consolidated Five-Year Summary

	MILLIONS OF YEN					THOUSANDS OF U.S. DOLLARS (NOTE)
	2013	2012	2011	2010	2009	**2013**
FOR THE YEARS ENDED MARCH 31						
Net sales	**¥ 87,054**	¥ 87,997	¥86,428	¥85,022	¥82,930	**$ 936,065**
Operating income	**14,611**	15,180	14,179	11,784	10,629	**157,108**
Net income	**8,991**	8,282	8,213	6,734	5,579	**96,677**
AT MARCH 31						
Total net assets	**66,578**	62,071	60,375	59,575	56,679	**715,892**
Total assets	**108,911**	105,108	98,493	95,096	94,504	**1,171,086**
PER SHARE DATA			YEN			U.S. DOLLARS (NOTE)
Net income (Basic)	**¥103.30**	¥92.46	¥87.87	¥68.79	¥55.61	**$1.111**
Cash dividends (Non-Consolidated)	**44.00**	40.00	36.00	30.00	26.00	**0.473**
RATIOS			%			
ROE	**13.98**	13.53	13.69	11.59	9.78	
Capital adequacy ratio	**61.13**	59.05	61.30	62.65	59.98	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥93 = $1.00, effective on March 31, 2013.

Management Discussion and Analysis

Operating Performance

In the fiscal year under review, ended March 31, 2013, consolidated net sales were down 1.1% year on year, to ¥87,054 million, due to the impacts of drug price revisions. As a result, operating income decreased 3.7%, to ¥14,611 million. Nevertheless, net income increased 8.6%, to ¥8,991 million, thanks to the benefits of tax revisions.

Segment Information

Pharmaceuticals

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

In pharmaceuticals, sales increased for generic drugs, and sales of Artz, an anti-osteoarthritis product, remained at essentially the same level as seen in the previous fiscal year. However, Procylin, a drug to treat chronic artery occlusive disease, and Adofeed, a pain- and inflammation-relieving plaster, were unable to completely absorb the impacts of drug price revisions. As a result, sales were down overall.

In medical devices, sales increased for Seprafilm, an anti-adhesive absorbent barrier.

In agrochemicals, sales grew overall.

As a result of the above, net sales decreased 1.1% year on year, to ¥84,618 million, and segment income* was down 3.3%, to ¥13,240 million.

Net sales overseas were ¥3,722 million.

Real Estate

In the real estate segment, the majority of revenues are generated through rent fees related to the Bunkyo Green Court commercial facility. Net sales for the real estate segment increased 0.1% year on year, to ¥2,435 million, while segment income* decreased 7.5% year on year, to ¥1,370 million.

* Segment income is based on operating income.

Financial Position

Total assets were ¥108,911 million as of March 31, 2013, up ¥3,803 million from the previous fiscal year-end, primarily due to an increase in investment securities. Total liabilities were ¥42,333 million, down ¥703 million, which was largely attributable to a decrease in income taxes payable. Net assets totaled ¥66,578 million, an increase of ¥4,507 million, following higher retained earnings.

Cash Flows

Cash and cash equivalents as of March 31, 2013, totaled ¥16,920 million, a decrease of ¥930 million compared with 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 totaled ¥11,729 million, an increase of ¥1,444 million compared with the previous fiscal year-end, due to factors including a decrease in notes and accounts receivable–trade.

Net cash used in investing activities totaled ¥6,792 million, an increase of ¥4,228 million compared with the previous fiscal year-end, due to factors including an increase in purchase of property, plant and equipment.

Net cash used in financing activities totaled ¥5,867 million, a decrease of ¥1,037 million compared with the previous fiscal year-end, due to factors including a decline 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 healthcare 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 of generic products by other companies 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. Such actions could affect the Company's performance.

Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
ASSETS	**2013**	2012	**2013**
CURRENT ASSETS:			
Cash and deposits (Notes 3 and 9)	**¥ 9,710**	¥ 9,543	**$ 104,409**
Marketable securities (Notes 3, 4 and 9)	**7,210**	8,308	**77,527**
Receivables:			
Notes and accounts receivable–trade (Note 9)	**31,174**	32,032	**335,204**
Accounts receivable–other	**1,016**	1,070	**10,925**
	32,191	33,103	**346,140**
Allowance for doubtful accounts	**(3)**	(3)	**(32)**
	32,188	33,100	**346,108**
Inventories (Note 5)	**11,531**	10,926	**123,989**
Deferred tax assets (Note 14)	**1,117**	1,110	**12,011**
Other	**225**	225	**2,419**
Total current assets	**61,983**	63,214	**666,484**
PROPERTY, PLANT AND EQUIPMENT (Notes 6, 7 and 8):			
Buildings and structures	**39,846**	37,855	**428,452**
Machinery, equipment and vehicles	**21,900**	20,198	**235,484**
	61,746	58,054	**663,935**
Accumulated depreciation	**(40,635)**	(38,884)	**(436,935)**
	21,111	19,169	**227,000**
Land	**6,646**	5,455	**71,462**
Construction in progress	**1,380**	3,743	**14,839**
Total property, plant and equipment	**29,138**	28,368	**313,312**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 9)	**10,272**	6,422	**110,452**
Intangible assets	**732**	966	**7,871**
Long-term prepaid expenses	**1,396**	148	**15,011**
Deferred tax assets (Note 14)	**4,448**	4,899	**47,828**
Other assets	**939**	1,087	**10,097**
Total investments and other assets	**17,789**	13,525	**191,280**
TOTAL ASSETS	**¥108,911**	¥105,108	**$1,171,086**

See accompanying notes to Consolidated Financial Statements.

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
LIABILITIES AND NET ASSETS	**2013**	2012	**2013**
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 9)	**¥ 8,390**	¥ 8,390	**$ 90,215**
Payables:			
Notes and accounts payable–trade (Note 9)	**16,367**	16,331	**175,989**
Notes payable–facilities	**202**	154	**2,172**
Accounts payable–other	**4,642**	5,010	**49,914**
	21,212	21,496	**228,086**
Accrued expenses	**716**	726	**7,699**
Provision for bonuses	**1,213**	1,168	**13,043**
Provision for sales rebates	**529**	537	**5,688**
Income taxes payable (Note 14)	**2,616**	3,420	**28,129**
Other	**554**	614	**5,957**
Total current liabilities	**35,232**	36,354	**378,839**
NON-CURRENT LIABILITIES:			
Provision for retirement benefits (Note 10)	**6,112**	5,753	**65,720**
Provision for directors' retirement benefits	**5**	390	**54**
Deferred tax liabilities (Note 14)	**142**	150	**1,527**
Other	**840**	388	**9,032**
Total non-current liabilities	**7,100**	6,682	**76,344**
NET ASSETS:			
Shareholders' Equity (Notes 2(l) and 12):			
Common stock			
Authorized: 360,000,000 shares			
Issued: 101,879,461 shares as of March 31, 2013 and 101,879,461 shares as of March 31, 2012	**23,853**	23,853	**256,484**
Capital surplus	**11,587**	11,587	**124,591**
Retained earnings	**43,997**	38,672	**473,086**
Treasury stock, at cost: 15,537,710 shares in 2013 and 13,498,376 shares in 2012	**(14,796)**	(12,592)	**(159,097)**
Total shareholders' equity	**64,642**	61,520	**695,075**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Note 2 (c))	**1,936**	550	**20,817**
Total accumulated other comprehensive income	**1,936**	550	**20,817**
Total net assets	**66,578**	62,071	**715,892**
TOTAL LIABILITIES AND NET ASSETS	**¥108,911**	¥105,108	**$1,171,086**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2013	2012	**2013**
NET SALES	**¥87,054**	¥87,997	**$936,065**
COST OF SALES	**44,968**	44,932	**483,527**
Gross profit	**42,085**	43,065	**452,527**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	**27,474**	27,884	**295,419**
OPERATING INCOME	**14,611**	15,180	**157,108**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**152**	146	**1,634**
Interest expenses	**(68)**	(70)	**(731)**
Amortization of net retirement benefit obligation at transition	**(524)**	(524)	**(5,634)**
Loss on retirement of noncurrent assets	**(102)**	(101)	**(1,097)**
Loss on revaluation of investment securities	**—**	(128)	**—**
Loss on revaluation of golf club membership	**(4)**	(5)	**(43)**
Gain on sales of investment securities	**31**	—	**333**
Other, net	**82**	70	**882**
	(433)	(613)	**(4,656)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**14,178**	14,566	**152,452**
INCOME TAXES (Note 14):			
Current	**5,517**	6,071	**59,323**
Deferred	**(331)**	212	**(3,559)**
	5,186	6,283	**55,763**
INCOME BEFORE MINORITY INTERESTS	**8,991**	8,282	**96,677**
NET INCOME	**¥ 8,991**	¥ 8,282	**$ 96,677**

	YEN		U.S. DOLLARS (NOTE 1)
PER SHARE DATA:	**2013**	2012	**2013**
Net income (Note 16):			
Basic	**¥103.30**	¥92.46	**$1.111**
Diluted	**—**	—	**—**
Cash dividends applicable to the year (Note 12)	**¥ 44.00**	¥40.00	**$0.473**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2013 and 2012

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2013	2012	**2013**
Income before minority interests	**¥ 8,991**	¥8,282	**$ 96,677**
Other comprehensive income (Note 17):			
Net unrealized holding gain on securities	**1,385**	321	**14,892**
Total other comprehensive income	**1,385**	321	**14,892**
Comprehensive income	**10,377**	8,603	**111,581**
Total comprehensive income attributable to:			
Owners of the parent	**¥10,377**	¥8,603	**$111,581**

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, 2013 and 2012

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2013	2012	**2013**
SHAREHOLDERS' EQUITY			
COMMON STOCK			
Balance at beginning of the year	**¥ 23,853**	¥ 23,853	**$ 256,484**
Balance at end of the year	**23,853**	23,853	**256,484**
CAPITAL SURPLUS			
Balance at beginning of the year	**11,587**	11,587	**124,591**
Changes during the year:			
Sale of treasury stock	**0**	—	**0**
Total changes during the year	**0**	—	**0**
Balance at end of the year	**11,587**	11,587	**124,591**
RETAINED EARNINGS			
Balance at beginning of the year	**38,672**	33,806	**415,828**
Changes during the year:			
Cash dividends	**(3,667)**	(3,416)	**(39,430)**
Net income	**8,991**	8,282	**96,677**
Total changes during the year	**5,324**	4,866	**57,247**
Balance at end of the year	**43,997**	38,672	**473,086**
TREASURY STOCK			
Balance at beginning of the year	**(12,592)**	(9,100)	**(135,398)**
Changes during the year:			
Purchase of treasury stock	**(2,204)**	(3,491)	**(23,699)**
Sale of treasury stock	**1**	—	**11**
Total changes during the year	**(2,203)**	(3,491)	**(23,688)**
Balance at end of the year	**(14,796)**	(12,592)	**(159,097)**
TOTAL SHAREHOLDERS' EQUITY			
Balance at beginning of the year	**61,520**	60,145	**661,505**
Changes during the year:			
Cash dividends	**(3,667)**	(3,416)	**(39,430)**
Net income	**8,991**	8,282	**96,677**
Purchase of treasury stock	**(2,204)**	(3,491)	**(23,699)**
Sale of treasury stock	**1**	—	**11**
TOTAL CHANGES DURING THE YEAR	**3,121**	1,374	**33,559**
BALANCE AT END OF THE YEAR	**¥ 64,642**	¥ 61,520	**$ 695,075**

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2013	2012	**2013**
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Net unrealized holding gain on securities			
Balance at beginning of the year	**¥ 550**	¥ 229	**$ 5,914**
Net changes in items other than shareholders' equity	**1,385**	321	**14,892**
Total changes during the year	**1,385**	321	**14,892**
Balance at end of the year	**¥ 1,936**	¥ 550	**$ 20,817**
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance at beginning of the year	**550**	229	**5,914**
Net changes in items other than shareholders' equity	**1,385**	321	**14,892**
Total changes during the year	**1,385**	321	**14,892**
Balance at end of the year	**¥ 1,936**	¥ 550	**$ 20,817**
TOTAL NET ASSETS			
Balance at beginning of the year	**62,071**	60,375	**667,430**
Changes during the year:			
Cash dividends	**(3,667)**	(3,416)	**(39,430)**
Net income	**8,991**	8,282	**96,677**
Purchase of treasury stock	**(2,204)**	(3,491)	**(23,699)**
Sale of treasury stock	**1**	—	**11**
Net changes in items other than shareholders' equity	**1,385**	321	**14,892**
Total changes during the year	**4,507**	1,695	**48,462**
Balance at end of the year	**¥66,578**	¥62,071	**$715,892**

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, 2013 and 2012

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2013	2012	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	**¥14,178**	¥14,566	**$152,452**
Adjustments for:			
Depreciation	**2,607**	2,424	**28,032**
Amortization of long-term prepaid expenses	**72**	84	**774**
Increase (decrease) in provision for retirement benefits	**512**	615	**5,505**
Interest and dividend income	**(152)**	(146)	**(1,634)**
Interest expenses	**68**	70	**731**
Loss on revaluation of golf club memberships	**4**	5	**43**
Loss (gain) on sales of investment securities	**(31)**	—	**(333)**
Loss (gain) on revaluation of investment securities	**—**	128	**—**
Loss on retirement of noncurrent assets	**102**	101	**1,097**
Decrease (Increase) in notes and accounts receivable–trade	**858**	(4,913)	**9,226**
Decrease (increase) in inventories	**(605)**	(625)	**(6,505)**
Increase (decrease) in notes and accounts payable-trade	**35**	4,038	**376**
Other, net	**311**	134	**3,344**
Subtotal	**17,961**	16,485	**193,129**
Interest and dividends received	**152**	146	**1,634**
Interest paid	**(65)**	(70)	**(699)**
Income taxes paid, net	**(6,318)**	(6,275)	**(67,935)**
Net cash provided by operating activities	**11,729**	10,285	**126,118**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	**(3,845)**	(1,873)	**(41,344)**
Purchase of investment securities	**(1,813)**	(3)	**(19,495)**
Proceeds from sales of investment securities	**148**	—	**1,591**
Payment of long-term prepaid expenses	**(1,260)**	(35)	**(13,548)**
Other, net	**(22)**	(651)	**(237)**
Net cash used in investing activities	**(6,792)**	(2,563)	**(73,032)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in treasury stock	**(2,202)**	(3,491)	**(23,677)**
Cash dividends paid	**(3,664)**	(3,413)	**(39,398)**
Net cash provided by (used in) financing activities	**(5,867)**	(6,904)	**(63,086)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(930)**	816	**(10,000)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**17,851**	17,035	**191,946**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**¥16,920**	¥17,851	**$181,935**

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 prepared on the basis of the accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

As permitted by the Japanese Financial Instruments and Exchange Act, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for convenience and, as a matter of arithmetic computation only, at ¥93 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2013. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. For the years ended March 31, 2013 and 2012, the Company had two consolidated subsidiaries as follows:

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

Effective March 31, 2012, FUJIKA CORPORATION, one of the Company's subsidiaries, was excluded from the scope of consolidation as a result of dissolution through a merger with KAKEN REALTY & SERVICE CO., LTD. The profit and loss from April 1, 2011 to March 30, 2012 of the company was included in the consolidated statements of income for the year ended March 31, 2012.

For the years ended March 31, 2013 and 2012, there was no affiliate 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 securities, and (3) Available-for-sale securities. Trading securities are recorded at market value with unrealized gains or losses recognized in the current year's earnings. Held-to-maturity debt securities are carried at amortized cost. Available-for-sale 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. Available-for-sale 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 using 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, which are computed using the straight-line method.

Furthermore, depreciation of buildings, except for ancillary facilities to buildings, acquired on or 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.

(Changes in accounting policy which is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate)
Effective from the year ended March 31, 2013, the Company and its consolidated subsidiaries have changed their depreciation method for tangible fixed assets acquired on or after April 1, 2012, to the method in compliance with the revised Corporation Tax Act. There was no significant financial impact from this change. The impact on segment information is disclosed in Note 18. "Segment Information."

(f) Intangible Assets
Software for own use is amortized over the estimated useful life (five years) using the straight-line method.

(g) Provision for Retirement Benefits
The Company has a retirement benefit program of lump-sum retirement benefit plan, while the rest is allocated to a defined benefit corporate pension plan. Effective April 1, 2012, the Company changed the pension payments from 10-years guaranteed lifetime annuity to 15-years guaranteed 20-years terminable annuity. 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.

Provision for retirement benefits represents 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.

As of March 31, 2013, provision for directors' retirement benefits is provided in an amount equivalent to the liability the relevant company would have been required to pay upon retirement of directors and statutory auditors of consolidated subsidiaries at the balance sheet date, as prescribed by its internal rules.

(Additional information)

Previously, provision for directors' retirement benefits was provided in an amount equivalent to the liability the Company would have been required to pay upon retirement of directors and statutory auditors of the Company at the balance sheet date, as prescribed by its internal rules. However, in connection with the abolition of the Directors' Retirement Benefits Program, it was resolved to discontinue the accrual and make payments for the retirement benefits to directors and statutory auditors of the Company at the general meeting of shareholders on June 28, 2012.

Thus, all amounts accounted for as provision for directors' retirement benefits were reversed and the amount to be paid out, ¥402 million ($4,323 thousand), is recorded under other long-term liabilities as of March 31, 2013.

(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 consolidated 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, are used as a part of the Company's risk management of foreign currency risk exposure 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 foreign currency 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 shareholders' approval.

(l) Shareholders' Equity

Japanese companies are subject to the Companies Act of Japan (the "Act"). The Act provides 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.

(n) Additional Information

Accounting Standards Issued But Not Yet Adopted

The "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

1) Overview

This accounting standard and its implementation guidance have been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) unrecognized actuarial loss and unrecognized prior service cost should be accounted for, (b) projected benefit obligations and service cost should be determined, and (c) enhancement of disclosures.

2) Effective dates

The Company will adopt this accounting standard and its implementation guidance effective from the year ending March 31, 2014. However, the amendments relating to the calculation of projected benefit obligations and service costs will be adopted effective April 1, 2014.

3) Financial impact

The financial impact from the adoption of this accounting standard and its implementation guidance is being evaluated but has not been determined yet.

3. Cash and Cash Equivalents:

Cash and deposits and marketable securities are reconciled to cash and cash equivalents on the consolidated statements of cash flows as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
For the years ended March 31	**2013**	2012	**2013**
Cash and deposits	**¥ 9,710**	¥ 9,543	**$104,409**
Marketable securities	**7,210**	8,308	**77,527**
Time deposits due in more than three months	**—**	—	**—**
Marketable securities due in more than three months	**—**	—	**—**
Cash and cash equivalents	**¥16,920**	¥17,851	**$181,935**

4. Marketable and Investment Securities:

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

	MILLIONS OF YEN					
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
March 31		**2013**			2012	
Fair values exceeding carrying amount	**¥ —**	**¥ —**	**¥—**	¥ —	¥ —	¥—
Fair values not exceeding carrying amount	**2,999**	**2,999**	**—**	2,999	2,999	—
Total	**¥2,999**	**¥2,999**	**¥—**	¥2,999	¥2,999	¥—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Carrying amount	Fair value	Unrealized gain (loss)
March 31		**2013**	
Fair values exceeding carrying amount	**$ —**	**$ —**	**$—**
Fair values not exceeding carrying amount	**32,247**	**32,247**	**—**
Total	**$32,247**	**$32,247**	**$—**

The aggregate fair values (carrying amounts) and acquisition costs of available-for-sale securities are as follows:

	MILLIONS OF YEN					
	Fair value	Acquisition cost	Unrealized gain (loss)	Fair value	Acquisition cost	Unrealized gain (loss)
March 31		**2013**			2012	
Carrying amounts exceeding acquisition cost						
Equity securities	**¥10,129**	**¥ 7,114**	**¥3,014**	¥ 5,366	¥ 4,210	¥1,156
Others	**—**	**—**	**—**	—	—	—
Subtotal	**10,129**	**7,114**	**3,014**	5,366	4,210	1,156
Carrying amounts not exceeding acquisition cost						
Equity securities	**80**	**87**	**(6)**	993	1,295	(301)
Others	**4,210**	**4,210**	**—**	5,308	5,308	—
Subtotal	**4,291**	**4,297**	**(6)**	6,302	6,603	(301)
Total	**¥14,421**	**¥11,412**	**¥3,008**	¥11,668	¥10,813	¥ 855

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Fair value	Acquisition cost	Unrealized gain (loss)
March 31		2013	
Carrying amounts exceeding acquisition cost			
Equity securities	$108,914	$ 76,495	$32,409
Others	—	—	—
Subtotal	108,914	76,495	32,409
Carrying amounts not exceeding acquisition cost			
Equity securities	860	935	(65)
Others	45,269	45,269	—
Subtotal	46,140	46,204	(65)
Total	$155,065	$122,710	$32,344

For the year ended March 31, 2012, the Company recorded a revaluation loss of ¥128 million for available-for-sale securities whose fair values were readily determinable. Securities whose fair value as of March 31, 2012, declined by 50% or more become subject to impairment, whereby all the difference between the fair value and carrying amount is recorded as a revaluation loss. In cases where the fair value declined 30% or more but less than 50%, the difference between the fair value and carrying amount is recorded as a revaluation loss based on certain rules.

Available-for-sale securities sold for the year ended March 31, 2013, were as follows:

	MILLIONS OF YEN			THOUSANDS OF U.S. DOLLARS (NOTE 1)		
For the year ended March 31	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
Equity securities	¥148	¥31	¥—	$1,591	$333	$—

There were no available-for-sale securities sold for the year ended March 31, 2012.

5. Inventories:

Inventories as of March 31, 2013 and 2012, are comprised of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	2013	2012	2013
Merchandise and finished products	¥ 6,018	¥ 5,953	$ 64,710
Work in process	1,438	1,573	15,462
Raw materials and supplies	4,075	3,398	43,817
Total	¥11,531	¥10,926	$123,989

6. Short-term Bank Loans:

Short-term bank loans outstanding as of March 31, 2013 and 2012, amounting to ¥8,390 million ($90,215 thousand), represent 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, 2013 and 2012, are 0.72% and 0.78%, 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, 2013 and 2012, assets pledged as collateral for certain short-term bank loans are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	**2013**	2012	**2013**
Assets pledged:			
Buildings and structures	**¥2,730**	¥2,653	**$29,355**
Machinery and equipment	**2,978**	2,061	**32,022**
Land	**103**	103	**1,108**
Total	**¥5,812**	¥4,819	**$62,495**
Liabilities secured:			
Short-term bank loans	**¥1,400**	¥1,400	**$15,054**
Total	**¥1,400**	¥1,400	**$15,054**

7. Accounting for Leases:

Operating leases

Future minimum lease receivables under non-cancellable operating leases subsequent to March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	**2013**	2012	**2013**
Due within 1 year	**¥ 239**	¥ 86	**$ 2,570**
Due after 1 year	**2,567**	1,303	**27,602**
Total	**¥2,806**	¥1,389	**$30,172**

8. Investment Properties:

The Company and certain consolidated subsidiaries own rental office buildings (including land) in Tokyo and other areas. Rental income from these properties for the years ended March 31, 2013 and 2012, are ¥1,370 million ($14,731 thousand) and ¥1,481 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, 2013 and 2012, and fair values of these properties are stated as follows:

MILLIONS OF YEN			
Carrying amount			
Balance at April 1, 2012	Change during the year ended March 31, 2013	Balance at March 31, 2013	Fair value at March 31, 2013
¥15,307	**¥427**	**¥15,734**	**¥40,550**

MILLIONS OF YEN			
Carrying amount			
Balance at April 1, 2011	Change during the year ended March 31, 2012	Balance at March 31, 2012	Fair value at March 31, 2012
¥15,107	¥199	¥15,307	¥39,944

THOUSANDS OF U.S. DOLLARS (NOTE 1)			
Carrying amount			
Balance at April 1, 2012	Change during the year ended March 31, 2013	Balance at March 31, 2013	Fair value at March 31, 2013
$164,591	**$4,591**	**$169,183**	**$436,022**

Notes: 1. The carrying amount represents the acquisition costs less accumulated depreciation.

2. Fair value at March 31, 2013 and 2012 is calculated, with adjustments using indexes, by the Company based primarily on the "Real estate appraisal standards of Japan."

9. Financial Instruments:

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

Receivables such as notes and accounts receivable–trade are exposed to customers' credit risk. Trade receivables denominated in foreign currencies are exposed to foreign exchange fluctuation risk. Marketable 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 currencies. Hedging instruments and hedged items, hedging policy, assessment method for hedge effectiveness, and other matters related to hedge accounting are as follows:

a. Hedging instruments and hedged items

Hedging instrument:	Forward foreign exchange contract
Hedged items:	Foreign currency denominated receivables and payables, and forecast 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 the related hedge, 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 rules, is managing payment terms 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 condition 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 risk.

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 currencies.

With respect to marketable 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 the 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 the Accounting Department, as each transaction takes place. Then at the end of each month, the 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 the Accounting Department preparing and updating the cash flow management plan as appropriate 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 different assumptions.

(5) Concentration of credit risks

As of March 31, 2013 and 2012, 66% of all trade receivables are with specific major accounts.

2. Fair values of financial instruments

Carrying amount, fair value, and difference of the financial instruments as of March 31, 2013 and 2012, 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		**2013**	
(1) Cash and deposits	**¥ 9,710**	**¥ 9,710**	**—**
(2) Notes and accounts receivable – trade	**31,174**		
Allowance for doubtful accounts (*1)	**(2)**		
	31,171	**31,171**	**—**
(3) Marketable and investment securities			
a. Held-to-maturity securities	**2,999**	**2,999**	**—**
b. Available-for-sale securities	**14,421**	**14,421**	**—**
Total assets	**¥58,303**	**¥58,303**	**—**
(1) Notes and accounts payable – trade	**¥16,367**	**¥16,367**	**—**
(2) Short-term bank loans	**8,390**	**8,390**	**—**
Total liabilities	**¥24,757**	**¥24,757**	**—**

	MILLIONS OF YEN		
	Carrying amount	Fair value	Difference
March 31		2012	
(1) Cash and deposits	¥ 9,543	¥ 9,543	—
(2) Notes and accounts receivable – trade	32,032		
Allowance for doubtful accounts (*1)	(3)		
	32,029	32,029	—
(3) Marketable and investment securities			
a. Held-to-maturity securities	2,999	2,999	—
b. Available-for-sale securities	11,668	11,668	—
Total assets	¥56,242	¥56,242	—
(1) Notes and accounts payable – trade	¥16,331	¥16,331	—
(2) Short-term bank loans	8,390	8,390	—
Total liabilities	¥24,721	¥24,721	—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Carrying amount	Fair value	Difference
March 31		2013	
(1) Cash and deposits	**$104,409**	**$104,409**	**—**
(2) Notes and accounts receivable – trade	**335,204**		
Allowance for doubtful accounts (*1)	**(22)**		
	335,172	**335,172**	**—**
(3) Marketable and investment securities			
a. Held-to-maturity securities	**32,247**	**32,247**	**—**
b. Available-for-sale securities	**155,065**	**155,065**	**—**
Total assets	**$626,914**	**$626,914**	**—**
(1) Notes and accounts payable – trade	**$175,989**	**$175,989**	**—**
(2) Short-term bank loans	**90,215**	**90,215**	**—**
Total liabilities	**$266,204**	**$266,204**	**—**

(*1) Allowance for doubtful accounts in respect of notes and accounts receivable – trade.

Notes:

1. Calculation method of fair values of financial instruments and securities

Assets:

(1) Cash and deposits 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 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 4. “Marketable 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.

2. Financial instruments whose fair values are not readily determinable

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	Carrying amount		
March 31	**2013**	2012	**2013**
Unlisted equity securities	**¥62**	¥62	**$667**

These items are not included in “(3) Marketable 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 subsequent to March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN
	Within one year
March 31	**2013**
Cash and deposits	**¥ 9,710**
Notes and accounts receivable - trade	**31,174**
Marketable and investment securities:	
Held-to-maturity securities	**2,999**
Available-for-sale securities with contractual maturities	**900**
Total	**¥44,784**

	MILLIONS OF YEN
	Within one year
March 31	2012
Cash and deposits	¥ 9,543
Notes and accounts receivable - trade	32,032
Marketable and investment securities:	
Held-to-maturity securities	2,999
Available-for-sale securities with contractual maturities	900
Total	¥45,476

	THOUSANDS OF U.S. DOLLARS (NOTE 1)
	Within one year
March 31	**2013**
Cash and deposits	**$104,409**
Notes and accounts receivable - trade	**335,204**
Marketable and investment securities:	
Held-to-maturity securities	**32,247**
Available-for-sale securities with contractual maturities	**9,677**
Total	**$481,548**

4. Redemption schedules for long-term debt and other interest-bearing obligations subsequent to March 31, 2013 and 2012 are omitted since the Company only had short-term bank loans maturing within one year as of March 31, 2013 and 2012.

10. Retirement Benefits:

The following table sets forth the funded and accrued status of the plan, and the amounts recognized in the Company's consolidated balance sheets as of March 31, 2013 and 2012.

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	**2013**	2012	**2013**
Projected benefit obligations	**¥(21,805)**	¥(20,322)	**$(234,462)**
Plan assets	**11,133**	10,266	**119,710**
Funded status	**(10,671)**	(10,056)	**(114,742)**
Unrecognized transition amount	**1,049**	1,574	**11,280**
Unrecognized actuarial loss	**3,780**	3,155	**40,645**
Unrecognized prior service cost	**(271)**	(326)	**(2,914)**
	(6,112)	(5,652)	**(65,720)**
Amounts recognized in the balance sheet consists of			
Prepaid pension cost (other assets)	**—**	101	**—**
Provision for retirement benefits	**¥ (6,112)**	¥ (5,753)	**$ (65,720)**

Notes: 1. Retirement benefit trust assets of ¥549 million ($5,903 thousand) and of ¥524 million are included in plan assets as of March 31, 2013 and 2012.
2. The consolidated subsidiaries use a simplified method of accounting to calculate projected benefit obligations.
3. As a result of the change from a lifetime annuity to a terminal annuity, prior service cost decreased by ¥304 million for the year ended March 31, 2012.

The components of net pension and severance costs for the years ended March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
For the years ended March 31	**2013**	2012	**2013**
Service cost	**¥ 603**	¥ 640	**$ 6,484**
Interest cost	**466**	484	**5,011**
Expected return on plan assets	**(97)**	(96)	**(1,043)**
Amortization of transition amount	**524**	524	**5,634**
Amortization of actuarial loss	**628**	751	**6,753**
Amortization of prior service cost	**(55)**	(49)	**(591)**
Net pension expense	**¥2,070**	¥2,254	**$22,258**

Assumptions used in calculation of the above information for the years ended March 31, 2013 and 2012, are as follows:

Discount rate: 1.3% in 2013 and 2.3% in 2012

Expected rate of return on plan assets: 1.0%

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

11. Discount of Export Bills:

Amount of export bills discounted at March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	**2013**	2012	**2013**
Export bills	**¥—**	¥187	**$—**

12. Shareholders' Equity:

a) Type and number of shares outstanding and treasury stock

	Type of shares outstanding	Type of treasury stock
For the year ended March 31	Common stock	Common stock
Number of shares as of April 1, 2012	**101,879,461**	**13,498,376**
Increase in the number of shares during the accounting period ended March 31, 2013	**—**	**2,040,622**
Decrease in the number of shares during the accounting period ended March 31, 2013	**—**	**(1,288)**
Number of shares as of March 31, 2013	**101,879,461**	**15,537,710**

Note: Increase in treasury stock (2,040,622 shares) is due to purchase of shares in the market (2,000,000 shares) based on the resolution of the Board of Directors' meeting and purchase of shares less than one unit (40,622 shares). Decrease in treasury stock (1,288 shares) is due to sale of shares less than one unit in compliance with requests by odd-lot shareholders.

b) Matters related to dividends

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 28, 2012, were as follows:

Dividends on common stock	
Total amount of dividends	¥1,767 million ($19,000 thousand)
Dividends per share	¥20.00 ($0.215)
Record date	March 31, 2012
Effective date	June 29, 2012

Approvals by the Board of Directors' meeting held on November 5, 2012, were as follows:

Dividends on common stock	
Total amount of dividends	¥1,900 million ($20,430 thousand)
Dividends per share	¥22.00 ($0.237)
Record date	September 30, 2012
Effective date	December 4, 2012

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2013, but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 27, 2013:

Dividends on common stock	
Total amount of dividends	¥1,899 million ($20,419 thousand)
Dividends per share	¥22.00 ($0.237)
Record date	March 31, 2013
Effective date	June 28, 2013

13. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012, amounted to ¥6,302 million ($67,763 thousand) and ¥6,592 million, respectively.

14. Income Taxes:

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 38.01% and 40.69% for the years ended March 31, 2013 and 2012, respectively. A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2013 and 2012, are as follows:

March 31	**2013**	2012
Statutory tax rate	**38.01%**	40.69%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**1.52**	2.31
Income not included for income tax purpose (ex. Dividend income)	**(0.18)**	(0.18)
Inhabitant per capita taxes	**0.61**	0.59
Tax credit for research expenses	**(3.10)**	(3.56)
Reduction of deferred tax assets due to income tax rates change	**—**	2.64
Other	**(0.28)**	0.65
Effective tax rate	**36.58%**	43.14%

Significant components of deferred tax assets as of March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
March 31	**2013**	2012	**2013**
Deferred tax assets:			
Provision for bonuses	**¥ 429**	¥ 413	**$ 4,613**
Provision for sales rebates	**201**	204	**2,161**
Loss of supplies	**123**	130	**1,323**
Revaluation of financial instruments	**39**	84	**419**
Amortization of R&D	**371**	185	**3,989**
Amortization of long-term prepaid expenses	**92**	133	**989**
Pension and severance costs	**2,369**	2,220	**25,473**
Unrealized gain of property, plant and equipment	**2,568**	2,568	**27,613**
Other	**567**	545	**6,097**
Total	**6,762**	6,485	**72,710**
Valuation allowance	**(66)**	(112)	**(710)**
Deferred tax assets	**6,696**	6,373	**72,000**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(199)**	(208)	**(2,140)**
Net unrealized holding gain on securities	**(1,072)**	(304)	**(11,527)**
Other	**(0)**	0	**(0)**
Deferred tax liabilities	**(1,271)**	(512)	**(13,667)**
Deferred tax assets, net	**¥ 5,424**	¥5,860	**$ 58,323**

Following the promulgation of the Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures and the Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake on December 2, 2011, statutory tax rates used to calculate deferred tax assets and deferred tax liabilities (limited to those settled after April 1, 2012) will be changed from 40.69% to 38.01% for temporary differences expected to be settled or realized for the period from April 1, 2012, to March 31, 2015, and 35.64% for those after April 1, 2015.

15. Related Party Transactions:

There is nothing to be noted according to the disclosure requirements in Japan for the years ended March 31, 2013 and 2012.

16. Per Share Information:

Per share information for the years ended March 31, 2013 and 2012, are as follows:

	YEN		U.S. DOLLARS (NOTE 1)
For the years ended March 31	**2013**	2012	**2013**
Net assets per share	**¥771.10**	¥702.31	**$8.291**
Net income per share	**103.30**	92.46	**1.111**

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

Calculation for net income per share for the years ended March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
For the years ended March 31	**2013**	2012	**2013**
Net income	**¥ 8,991**	¥ 8,282	**$96,677**
Net income attributable to common stock	**8,991**	8,282	**96,677**
Adjustment to net income	**—**	—	**—**
(Share data)			
Average number of share (thousand)	**87,042**	89,577	**—**

17. Comprehensive Income:

Recycling and income tax effects for each component of other comprehensive income for the years ended March 31, 2013 and 2012, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
For the years ended March 31	**2013**	2012	**2013**
Net unrealized holding gain on securities			
Amount increased for the year	**¥2,185**	¥ 339	**$23,495**
Recycling	**(31)**	128	**(333)**
Before income tax effect	**2,153**	468	**23,151**
Income tax effect	**(767)**	(147)	**(8,247)**
Net unrealized holding gain on securities	**¥1,385**	¥ 321	**$14,892**
Total other comprehensive income	**¥1,385**	¥ 321	**$14,892**

18. Segment Information:

(a) Overview of reportable segments

The Group's reportable segments are those for which separate 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, operating 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; 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 Green Court.

(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 prices.

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

As stated in Note 2. "Summary of Significant Accounting Policies, (e) Property, Plant and Equipment, (Changes in accounting policy which is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate)," effective from the year ended March 31, 2013, the Company and its consolidated subsidiaries have changed the depreciation method for tangible fixed assets acquired on or after April 1, 2012, to the method in compliance with the revised Corporation

Tax Act. Accordingly, the depreciation method for segment assets was also changed. There was no significant financial impact on segment information.

(c) Information about reportable segments

	MILLIONS OF YEN				
	Reportable segment				
	Pharmaceutical	Real estate	Total	Adjustments	Consolidated
For the year ended March 31			**2013**		
Net sales:					
Outside sales	**¥84,618**	**¥ 2,435**	**¥87,054**	**¥ —**	**¥ 87,054**
Intersegment sales or transfers	**—**	**313**	**313**	**(313)**	**—**
Total	**¥84,618**	**¥ 2,749**	**¥87,367**	**¥ (313)**	**¥ 87,054**
Segment income	**¥13,240**	**¥ 1,370**	**¥14,611**	**—**	**¥ 14,611**
Segment assets	**¥68,094**	**¥17,203**	**¥85,297**	**¥23,613**	**¥108,911**
Other items:					
Depreciation and amortization	**¥ 2,054**	**¥ 625**	**¥ 2,680**	**—**	**¥ 2,680**
Increase in property, plant and equipment and intangible assets	**3,440**	**1,075**	**4,516**	**—**	**4,516**

	MILLIONS OF YEN				
	Reportable segment				
	Pharmaceutical	Real estate	Total	Adjustments	Consolidated
For the year ended March 31			2012		
Net sales:					
Outside sales	¥85,564	¥ 2,432	¥87,997	¥ —	¥ 87,997
Intersegment sales or transfers	—	312	312	(312)	—
Total	¥85,564	¥ 2,744	¥88,309	¥ (312)	¥ 87,997
Segment income	¥13,698	¥ 1,481	¥15,180	—	¥ 15,180
Segment assets	¥63,872	¥16,753	¥80,625	¥24,482	¥105,108
Other items:					
Depreciation and amortization	¥ 1,883	¥ 625	¥ 2,508	—	¥ 2,508
Increase in property, plant and equipment and intangible assets	2,554	759	3,314	—	3,314

	THOUSANDS OF U.S. DOLLARS (NOTE 1)				
	Reportable segment				
	Pharmaceutical	Real estate	Total	Adjustments	Consolidated
For the year ended March 31			**2013**		
Net sales:					
Outside sales	**$909,871**	**$ 26,183**	**$936,065**	**$ —**	**$ 936,065**
Intersegment sales or transfers	**—**	**3,366**	**3,366**	**(3,366)**	**—**
Total	**$909,871**	**$ 29,559**	**$939,430**	**$ (3,366)**	**$ 936,065**
Segment income	**$142,366**	**$ 14,731**	**$157,108**	**—**	**$ 157,108**
Segment assets	**$732,194**	**$184,978**	**$917,172**	**$253,903**	**$1,171,086**
Other items:					
Depreciation and amortization	**$ 22,086**	**$ 6,720**	**$ 28,817**	**—**	**$ 28,817**
Increase in property, plant and equipment and intangible assets	**36,989**	**11,559**	**48,559**	**—**	**48,559**

(d) Information about products and services
Information about products and services has not been disclosed since the classification by products and services is the same as the reportable segments.

(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 there is only property, plant and equipment located in Japan.

(f) Information about major customers

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)	
	Sales			Name of the related segment
For the years ended March 31	**2013**	2012	**2013**	
Alfresa Corporation	**¥14,338**	¥15,042	**$154,172**	Pharmaceutical
SUZUKEN CO., LTD.	**13,763**	13,786	**147,989**	Pharmaceutical
MEDICEO CORPORATION	**12,936**	13,052	**139,097**	Pharmaceutical
Toho Pharmaceutical Co., Ltd.	**8,912**	9,097	**95,828**	Pharmaceutical

19. Subsequent Event:

Following acquisition of treasury stock under Article 156 of the Act, as applied pursuant to Article 165 (3) of the Act, has been resolved by the Board of Directors' meeting held on May 13, 2013.

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 stock to be acquired:
Up to 1,200,000 shares

4. Total amount of stocks to be acquired:
Up to ¥2,300 million ($24,731 thousand)

5. Schedule of acquisition:
From May 14, 2013, to December 27, 2013

Total number and total amount of stock acquired based on the above resolution on or before May 31, 2013, were 300,000 shares and ¥507 million ($5,452 thousand), respectively.

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of KAKEN PHARMACEUTICAL CO., LTD. (the "Company") and subsidiaries, which comprise the consolidated balance sheet as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries at March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter
As described in Note 19, at a meeting of the Board of Directors of the Company held on May 13, 2013, the Company approved a purchase of shares of treasury stock. Our opinion is not qualified in respect of this matter.

Convenience Translation
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 1 to the accompanying consolidated financial statements.

Hijiribashi Audit Corporation

Tokyo, Japan
June 27, 2013

Corporate Data

As of March 31, 2013

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

Licensing & Business Development

Tel: 81-3-5977-5046
Fax: 81-3-5977-5133
E-mail: licensing_bd@kaken.co.jp

Main Branches

Sapporo Branch
Sendai Branch
Tokyo Branch
Tokyo Branch II
Nagoya Branch
Osaka Branch
Hiroshima Branch
Fukuoka Branch

Plant

Shizuoka Factory

Research Laboratories

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

Company Information

Founded

March 1917

Incorporated

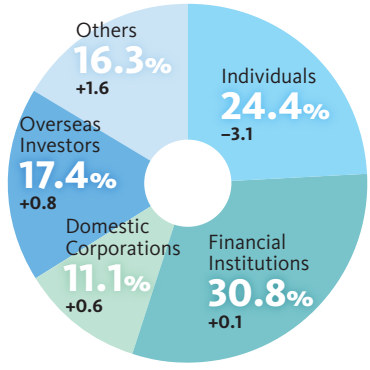
March 1948

Paid-in Capital

¥23,853 million

Common Stock

Authorized: 360,000,000 shares
Issued: 101,879,461 shares (As of August 31, 2013)
Number of Shareholders: 11,991 (As of March 31, 2013)



Major Shareholders

SHAREHOLDERS	NO. OF SHARES (THOUSANDS)	SHARE OF TOTAL (%)
The Master Trust Bank of Japan, Ltd. (Trust Ac.)	5,863	5.8
Toray Industries, Inc.	4,589	4.5
Japan Trustee Services Bank, Ltd. (Trust Ac.)	3,864	3.8
Mizuho Bank, Ltd.	3,686	3.6
The Norinchukin Bank	3,686	3.6
Nippon Life Insurance Company	1,700	1.7
Kaken Pharmaceutical Employee Stock Ownership Association	1,687	1.7
KYORIN Pharmaceutical Co., Ltd.	1,294	1.3
Mellon Bank, N.A. As Agent for its Client Mellon Omnibus US Pension	1,262	1.2
The Kyoei Fire and Marine Insurance Company, Limited	1,248	1.2

Employees (Non-Consolidated)

Administration: 104
Sales & Marketing: 1,015
Production & Technology: 212
Research & Development: 280
Regulatory Affairs: 38

Bringing Smiles to Everyone

KAKEN PHARMACEUTICAL CO., LTD.

28-8, Honkomagome 2-chome, Bunkyo-ku,
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