Annual Report 2016

Year Ended March 31, 2016

KAKEN PHARMACEUTICAL CO., LTD.

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 proprietary technologies. It has since broadened the scope of its business activities to include the manufacture and sales of drugs such as streptomycin, an antituberculosis drug, and various antifungal agents.

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

In 2001, the Company launched 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 to fully leverage the potential of bFGF going forward.

In its R&D efforts, the Company is focused on the fields of inflammation, allergies, and pain relief, as well as that of fungal infection. In addition, in 2014, Kaken commenced sales of Clenafin, a drug that contains efinaconazole, a compound discovered by Kaken's scientists, and is Japan's first topical treatment 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**	Creating joy as a **company**	Creating joy for **our employees**
We strive to create and offer effective drugs that satisfy the needs of patients and medical professionals.	We recognize our social responsibility as a pharmaceutical company with a high ethical standard and society's trust.	Our objective is to become a company with vitality and presence whose employees enjoy and take pride in their work.

Contents

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.

History

1948		Riken reorganized into Kagaku-Kenkyusho
1952		Kagaku-Kenkyusho renamed Kaken Chemicals
1961		Kaken Chemicals listed on the Second Section of the Tokyo Stock Exchange
1962		Kaken Chemicals listed on the First Section of the Tokyo Stock Exchange
1963		Construction of Shizuoka Factory (Fujieda City, Shizuoka Prefecture) completed
1982		Kaken Chemicals merged with Kakenyaku-Kako to form Kaken Pharmaceutical Co., Ltd.
1987		Artz (anti-osteoarthritis product) launched
1988		Kaken Pharma Co., Ltd., established
		Adofeed (pain- and inflammation-relieving plaster) launched
1989		Ebrantil (α1 blocker to treat dysuria and hypertension) launched
1992		Procylin (oral-use prostaglandin I_2 analog product) launched
		Mentax (anti-trichophyton product) launched
1994		40th Okochi Memorial Grand Production Prize received (Received for development of a topical antifungal agent, butenafine hydrochloride)
1996		Sales approval received from the U.S. Food and Drug Administration for Mentax (anti-trichophyton product)
1998		Bunkyo Green Court completed
		Seprafilm (anti-adhesive absorbent barrier) launched
2000		Shiga Factory closed, operations integrated with Shizuoka Factory
2001		ISO 14001 obtained by Shizuoka Factory
		Corporate philosophy and business philosophy established
		Mirol (glaucoma and ocular hypertension treatment product) launched
		Fiblast Spray (wound-healing product) launched
2002		Compliance program established
2005		GHRP Kaken (diagnostic agent for growth hormone deficiency) launched
		Worldwide rights acquired to develop, manufacture, and sell bFGF
2006		Out-licensing agreement concluded for antifungal compound KP-103 in North America and Europe
		Out-licensing agreement concluded for Fiblast Spray (wound-healing product) in South Korea
2007		Out-licensing agreement concluded for dental applications of bFGF in North America and Europe
		Berasus LA Tablet 60μg (pulmonary arterial hypertension treatment product) launched
2008		Adofeed PAP 80mg (pain- and inflammation-relieving plaster product) launched
2009		Out-licensing agreement concluded for wound-healing applications of bFGF in North America and Europe
2010		Clexane (anticoagulant product) launched
2011		Lipidil Tablet (anti-hyperlipidemia product) launched
2012		Exclusive sales license agreement concluded for SI-6603 (lumbar disc herniation treatment) in Japan
2014		Clenafin (topical onychomycosis treatment product) launched
2015		Exclusive licensing and joint development agreement concluded for BBI-4000 (primary focal hyperhidrosis product) in Japan and certain other Asian countries
		Kaken Realty & Service Co., Ltd., absorbed
2016		Exclusive rights to develop and distribute NexoBrid (burn wound eschar-specific removal product) in Japan acquired
		Out-licensing agreement concluded for Clenafin (topical onychomycosis treatment product) in South Korea

Artz

Clenafin

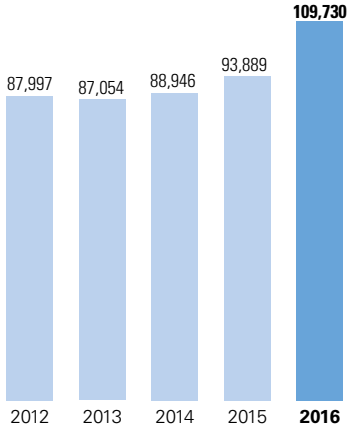
Products Overseas activities Company

Consolidated Financial Highlights

(As of or for the years ended March 31)

Net Sales

MILLIONS OF YEN

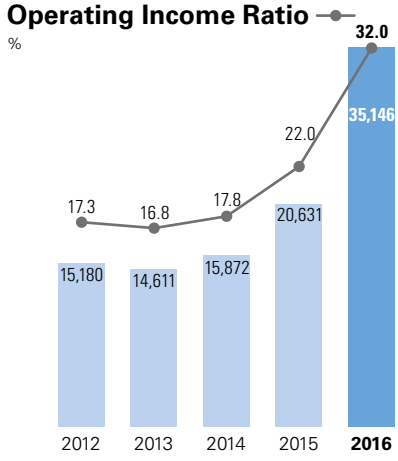


Operating Income

MILLIONS OF YEN

Operating Income Ratio

%

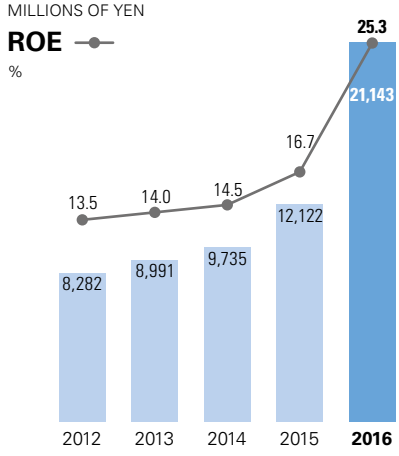


Profit Attributable to Owners of Parent

MILLIONS OF YEN

ROE

%



President's Message

Dear Stakeholders:

In the fiscal year under review, ended March 31, 2016, we posted record highs for net sales, operating income, and profit attributable to owners of the parent, thanks largely to increased sales of Clenafin as well as revenues received in relation to Jublia (trade name for Clenafin in the United States and Canada) from Valeant Pharmaceuticals International, Inc. With a few exceptions, all major products saw sales growth.

However, as the Japanese government continues to promote the usage of generic drugs, sales of long-term listed products are declining. The impacts of this trend are expected to heighten into the future. However, we nonetheless chose to increase dividend payments for the 14th consecutive year.

In the fiscal year ending March 31, 2017, additional reductions are expected with regard to the prices of Artz and other long-term listed products, and the overall impact of National Health Insurance (NHI) drug price revisions on sales is expected to be roughly 5%. Amidst these price reductions, enhancing our R&D pipeline will be of utmost importance in ensuring ongoing growth, and we will therefore need to devote even more effort than before to acquire new products through development and in-licensing. We are forecasting decreased sales and income for the fiscal year ending March 31, 2017. These decreases will be a result of the impacts of NHI drug price revisions. Regardless, we plan to once again raise dividend payments by issuing total dividend payments of ¥150.00 per share. We will also acquire treasury stock. Looking ahead, Kaken will continue to carry out flexible capital measures based on timely decisions.

Going forward, we will strive unceasingly to ensure Kaken 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 in the future.

Bringing Smiles to Everyone

Medium-Term Business Plan 2018

The Group is currently placed in a difficult position as the government drive to promote the usage of generic drugs has created an environment in which pharmaceutical companies cannot expect to grow unless they are able to continue creating new drugs. Based on this recognition, we formulated a new three-year medium-term business plan that started in April 2016. This plan defines the establishment growth foundations from a forward-looking perspective, as opposed to pursuing short-term improvements in performance, as matter of top priority and puts forth three priority measures. In consideration of the projected impacts of future NHI drug price revisions, we have set the medium-term numeric target of achieving consolidated net sales of ¥110.0 billion in the fiscal year ending March 31, 2019.

Priority Measures

❶ Putting R&D pipeline enhancement as the foremost priority and allocating management resources as much as possible

❷ Work to maximize value of Clenafin and new products, while for existing products, work toward strengthening marketing bases and efficiency

❸ Work to foster personnel with strong creativity, fitting for an era of change

Target for Fiscal Year Ending March 31, 2019

Consolidated net sales:
¥110.0 billion

Overview of Results for the Fiscal Year Ended March 31, 2016

In the fiscal year under review, ended March 31, 2016, Clenafin, a topical treatment for onychomycosis, contributed to consolidated performance (performance of the Company and its consolidated subsidiaries). As a result, consolidated net sales were up 16.9% year on year, to ¥109,730 million, and operating income increased 70.4%, to ¥35,146 million. Profit attributable to owners of parent rose 74.4%, to ¥21,143 million.

Addressing Future Challenges for Continued Growth

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

• Investing strategically in R&D

In our R&D efforts, we will continue to selectively focus the allocation of resources and constantly strive to raise efficiency

in order to expand our pipeline. At the same time, we will engage in 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 also outsource basic research procedures, utilize contract research organizations (CROs) related to clinical trials, and conduct overseas clinical trials while participating in joint global clinical trials.

● Strengthening sales activities

We will continue to 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. In providing medical information, product-related websites and the mass media will be utilized. At the same time, we will solidify our position in the orthopedics field while expanding our presence in the dermatology field.

● Optimizing operations and promoting efficiency

In production operations, we will actively work to reduce the cost of sales ratio by conducting more-efficient investment, optimizing the placement of employees, and revising product lines and standards. In addition, the production of agrochemicals will continue to be outsourced to overseas companies.

● Promoting environmental preservation

Kaken recognizes that promoting environmental preservation is one of its social responsibilities. Therefore, we are conducting Companywide environmental preservation activities under the guidance of the Environmental Committee.

As one such activity, Kaken's Shizuoka Factory has obtained ISO 14001 certification.

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. Accordingly, we have established a flexible policy of issuing dividend payments based on operating results while striking a balance between shareholder returns and the need to secure sufficient equity capital. Retained earnings, meanwhile, 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 by the Board of Directors and the year-end dividend being decided at the general meeting of shareholders.

In accordance with the aforementioned policy, we have decided to increase the interim dividend by ¥7.00 per share year on year, to ¥34.00. In regard to the year-end dividend, we have chosen to raise dividend payments to ¥78.00 per share in reflection of the 1-for-2 reverse stock split that was conducted with an effective date of October 1, 2015. This amount contains a commemorative dividend of ¥10.00 per share and represents an increase of ¥14.00 per share on a post-share consolidation basis. This made for an increase of ¥28.00 to total dividend payment per share in the fiscal year under review on a post-share consolidation basis and our 14th straight year of higher dividend payments.

In the fiscal year ending March 31, 2017, we intend to pay interim and year-end dividends of ¥75.00 per share each, for a total dividend payment of ¥150.00 per share.

June 2016

大沼 哲夫

Tetsuo Onuma
President and Representative Director

Developing New Products to Satisfy Unmet Medical Needs

Kaken's Specialty—Topical Antifungal Agent—

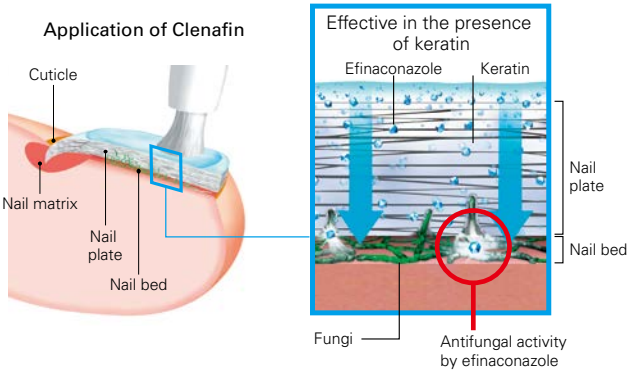
Clenafin (efinaconazole), discovered by Kaken's scientists, is the world's first triazole compound used in a topical medication for onychomycosis. This drug has potent antifungal activity and is effective against a wide spectrum of fungi. Also, its effectiveness decreased only slightly compared with other existing antifungal agents in the presence of keratin, a protective protein and the main component of nails. Exhibiting superior nail-penetrating properties, the drug has demonstrated that it can maintain its therapeutic effect in nails thickened by fungal infection or on the underside of such nails. Clenafin 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. For these reasons, Clenafin is a promising new topical treatment for persistent onychomycosis, which has been primarily treated with oral medications in the past.

In 2006, Kaken concluded a licensing agreement with U.S. company Dow Pharmaceutical Sciences, Inc. (DPS), granting it the development and marketing rights for Clenafin in Europe and the Americas. After Valeant acquired DPS in 2009, the company has continued to conduct joint clinical development activities with Kaken. In two pivotal studies (phase III), including a multinational study, in patients with mild to moderate onychomycosis of the toenails, this topical investigational drug was found to be clinically and statistically superior to a vehicle for all primary and secondary endpoints. The efficacy of this drug is also competitive when compared with that of existing oral medications, and it has demonstrated its efficacy as a topical agent with fewer side effects.

In 2014, Kaken was granted manufacturing and marketing approval for Clenafin in Japan and subsequently launched that year, making the drug the first topical medication for onychomycosis in the country. In the nearly two years since its release, Clenafin has gained an exceptional reputation among dermatologists, with domestic sales of approximately ¥20.0 billion in the fiscal year under review. In addition, Valeant acquired marketing approval for this drug in Canada in 2013 and in the United States in 2014, marketing it under the trade name Jublia in these countries. Furthermore, in May 2016, Kaken concluded a development and distribution license agreement for this drug with Dong-A ST Co., Ltd., a local company in South Korea.

We will continue to work with overseas partners to obtain approval for this drug as a treatment for onychomycosis in the global market.

Action Mechanism of Clenafin (Efinaconazole)



New Drug Development Pipeline

	PRODUCT CODE	INDICATION	STAGE	REMARKS
1	KCB-1D	Periodontitis	Filed	bFGF
2	KAG-308	Ulcerative colitis	Phase II	Developed jointly with Asahi Glass Co., Ltd.; Oral-use prostaglandin analog
3	BBI-4000	Primary focal hyperhidrosis	Preparing for Phase II	Licensed from Brickell Biotech, Inc.; Topical anticholinergic
4	SI-657	Enthesopathy	Development abandoned	Developed jointly with Seikagaku Corporation; Additional indication for Artz

Kaken's Innovative Product for Tissue Regeneration: Fiblast Spray

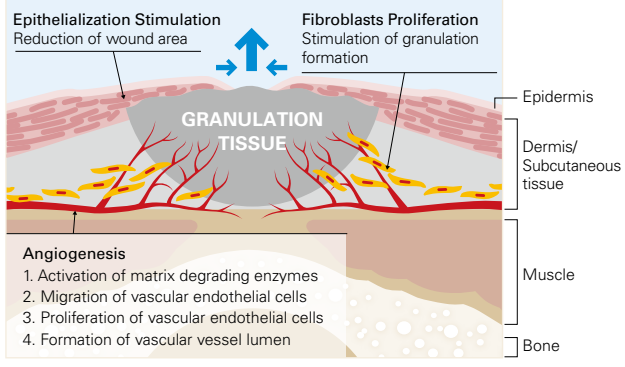
Fiblast Spray is the world's first product to be marketed for regenerative medicine treatment containing recombinant human bFGF. Present in almost all tissue in the human body, bFGF is released from the extracellular matrix once tissue is damaged and subsequently acts on various cells and tissues to stimulate tissue regeneration. While having a wide variety of functions, the most prominent features of bFGF are its powerful ability to stimulate cellular proliferation and its capacity to promote neovascularization.

In 1988, Kaken obtained exclusive licensing rights in Asia for recombinant human bFGF (trafermin) from Scios Inc., of the United States. Following this, Kaken has pushed forward with its own R&D efforts and obtained marketing approval in June 2001 for Fiblast Spray for the treatment of pressure ulcers and other skin ulcers, such as burn and leg ulcers. Furthermore, after completing a reexamination in 2010, Fiblast Spray has been re-acknowledged as a highly reliable drug. In 2015, Fiblast Spray was endorsed as an external medicinal product for primary topical therapy in the guidelines of the Japanese Society for Burn Injuries. The product is now used with confidence at a number of hospitals throughout Japan.

Not only effective in regenerating skin tissue, trafermin has also demonstrated the ability to promote the proliferation and regeneration of bone tissues. In the field of dentistry, trafermin is known for its ability to promote the regeneration of periodontal ligaments, cementum, and alveolar bone. This ability inspired Kaken to begin research and development investigating the potential for trafermin to be used in regenerating periodontal tissue lost due to periodontitis. Based on the results of two phase III clinical trials, it was confirmed that the meaningful effect of trafermin on alveolar bone regeneration demonstrated superiority in comparison with a placebo and an existing medical device. An application for this indication was submitted to the Japanese authorities in 2015, and this application is currently under review.

Kaken is pressing ahead with the development of trafermin and has concluded licensing agreements regarding its development and distribution with several companies in Japan and overseas. Going forward, Kaken will continue to expand the presence of trafermin in the global medical market. In this undertaking, we will collaborate with our domestic and overseas business partners and fully utilize the wealth of knowledge we have accumulated regarding trafermin.

Action Mechanism of Fiblast Spray



Pharmaceuticals and Medical Devices

Artz

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 of the knee by intra-articular injection. In 1989, an indication was added for the treatment of shoulder periarthritis.

In 1992, Artz was 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 rheumatoid arthritis.

Clenafin

Topical onychomycosis treatment

Launched in Japan in September 2014, Clenafin is the country's first topical treatment for onychomycosis. This drug contains efinaconazole, which was discovered by Kaken, as its active ingredient.

Clenafin does not bind well with keratin, the main component of nails, meaning that this drug has superior nail-penetrating properties. Clenafin has proven effective in treating onychomycosis through a once-daily application to the infected nails.

Clenafin comes packaged in a bottle with a connected brush, making it easy to apply the drug across the surface of nails.

In 2014, Clenafin was launched in the United States and Canada by Valeant under the trade name Julia.

Seprafilm

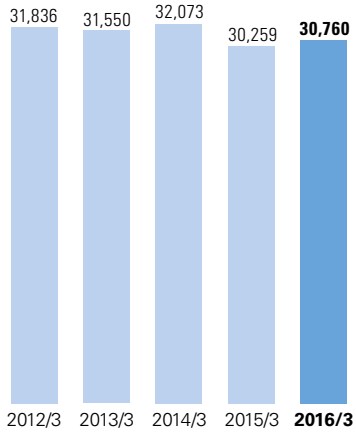
Anti-adhesive absorbent barrier

Developed by Genzyme Corporation, of the United States (which was later acquired by Sanofi SA, of France), 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 the damaged tissue and the healthy tissue surrounding it.

There are currently four sizes of Seprafilm available, thus allowing practitioners to select the size that best meets the needs at hand.

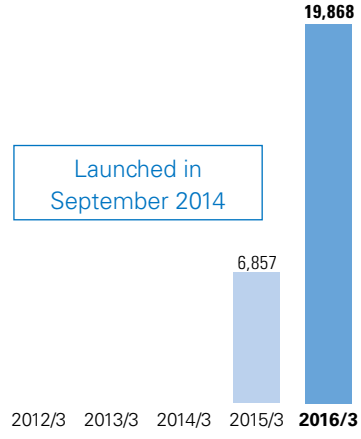
Sales: Artz

MILLIONS OF YEN



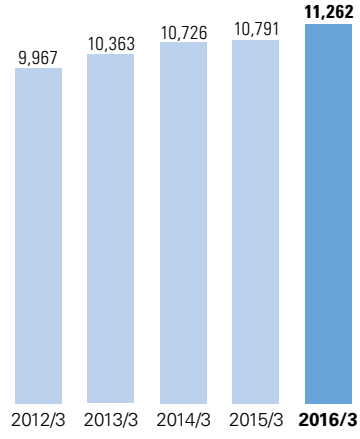
Sales: Clenafin

MILLIONS OF YEN



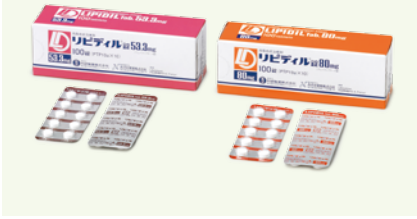
Sales: Seprafilm

MILLIONS OF YEN



Lipidil

Anti-hyperlipidemia product



Lipidil is a fibrate-type antihyperlipidemic drug with fenofibrate, which was developed by Groupe Fournier SA, of France (which was later transferred to Abbott Laboratories, of the United States, after acquisition by Solvay SA, of Belgium), as its active pharmaceutical ingredient.

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

Lipidil is currently marketed in over 90 countries, and a significant amount of 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

Wound-healing product

Fiblast Spray is a wound-healing drug containing trafermin as an active pharmaceutical ingredient. Trafermin is a recombinant human bFGF that has effects on the promotion of angiogenesis and granulation formation. The entire DNA sequence of the human bFGF gene was mapped by Scios Inc. (which was later acquired by Johnson & Johnson, of the United States), 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.

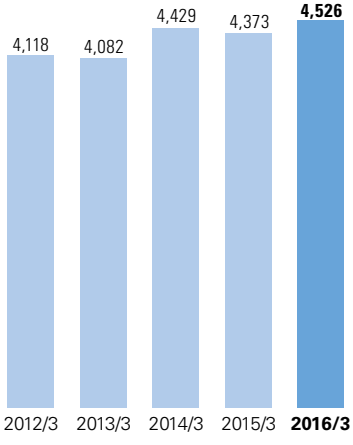
Generic Drugs

In Japan, the public is 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 toward using generic drugs in the medical field.

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

Sales: Lipidil

MILLIONS OF YEN



Sales: Fiblast Spray

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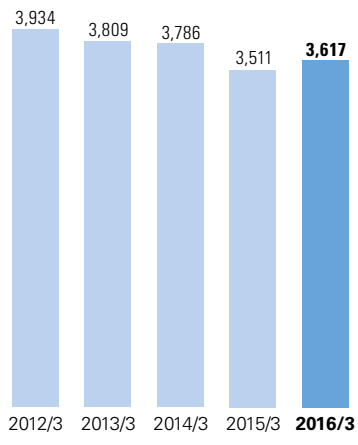

Sales: Generic Drugs

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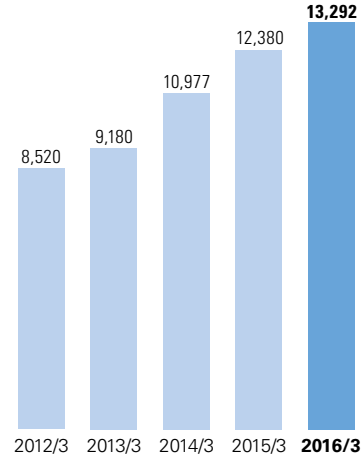


Procylin

Oral-use prostaglandin I_2 analog product

Procylin is a drug used to treat chronic artery occlusive disease and contains a prostaglandin I_2 analog beraprost sodium as an active pharmaceutical ingredient. This drug has the effects of both vascular vessel dilatation and platelet aggregation inhibition. It is the first oral-use prostaglandin I_2 analog product in the world. It was developed by Toray Industries, Inc., and commercialized through co-development with Kaken.

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

Adofeed

Pain- and inflammation-relieving plaster

Adofeed is an antiphlogistic analgetic plaster. Its active pharmaceutical ingredient is flurbiprofen, a nonsteroidal 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 conditions 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 now choose the size most appropriate for their needs.

Mentax

Anti-trichophyton product

Mentax is a topical product used to treat superficial mycosis. It contains butenafine hydrochloride, a compound developed by Kaken, as an active pharmaceutical ingredient. Mentax is provided in three forms, as a cream, a liquid (for external application), and a spray. Mentax is sold in the United States by Mylan Pharmaceuticals Inc., 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, and it is now sold in the United States by Bayer AG of Germany (which acquired the consumer care business of Merck Consumer Care, the company originally licensed to sell Mentax in this market) under the trade name Lotrimin Ultra.

Ebrantil

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 having benign prostate hypertrophy (BPH) as an additional indication. In 1999, it was approved for the treatment of dysuria caused by neurogenic bladder, making it the first α1 blocker in the world for this indication.

Berasus

Oral-use sustained-release formulation of prostaglandin I_2 analog

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

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

Clexane

Anticoagulant

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

Clexane accelerates anticoagulant effects by forming a complex with antithrombin III, which inhibits coagulation factor Xa and factor IIa.

Clexane is the first commercialized form 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.

Clexane is currently used in approximately 130 countries worldwide.

Agrochemicals

Polyoxins

Fungicides

Polyoxins are natural fungicides originating from microorganisms first discovered by Dr. Saburo Suzuki and his team at RIKEN in 1963. They are produced by culturing the actinomycete Streptomyces cacaoi var. asoensis isolated from the soil of the area around Mt. Aso in Kumamoto Prefecture, Japan. Polyoxins are not a single compound; they 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.

Polyoxins have been sold as horticultural fungicides for over 50 years, and they are still widely used today. 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. Polyoxin D zinc salt was categorized as a biochemical pesticide after it was recognized as safe for humans, livestock, and the environment and as being completely derived from natural sources through stringent inspections by the U.S. Environmental Protection Agency. It is now widely used in the United States to prevent diseases in lawns and flowers as well as in nuts, fruits, and vegetables.

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 field 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.

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 forms. For these reasons, it is an environmentally safe herbicide.

Animal Health Products

Salinomycin

Anti-coccidial antibiotics for chickens

Salinomycin sodium is a polyether antibiotic originally discovered by Kaken in a culture of Streptomyces albus, a strain of Actinomycetes in 1968. Later, it was developed as a feed additive by Kaken. Salinomycin sodium is currently the most widely used anti-coccidial for chickens in the world, having effectiveness against Clostridium and other gram-positive bacteria. Produced in accordance with Good Manufacturing Practice (GMP) guidelines, 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 discovered in 1950 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, as there is great international demand for this product, Kaken exports this product worldwide.

Commitment and Excellence

R&D Division

As a pharmaceutical manufacturer, Kaken utilizes the technologies it has accumulated throughout its long history as well as its superior research staff to advance R&D activities to continually develop new drugs. Kaken focuses its drug discovery efforts on areas where it has a strong presence, 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.

The R&D Division is presently staffed by approximately 250 employees. Kaken estimates that research and development expenses will be around ¥10.2 billion during the fiscal year ending March 31, 2017. The R&D Division also works to more actively evaluate products as potential candidates to be introduced into Kaken's clinical development pipeline. At the same time, the division employs a multifaceted approach toward its R&D activities, which entails engaging in joint research and development, in- and out-licensing of developed products, and outsourcing of its operations. To boost the efficiency of its R&D initiatives, the R&D Division was reorganized in October 2014. Details of the new organizations are as follows.

Kaken's R&D activities are conducted at the Drug Research Center located in Kyoto, the old capital of Japan, as well as at one department of the Drug Research Center and the CMC Center located in Shizuoka Prefecture. At these facilities, Kaken conducts drug discovery projects, which require long, arduous research as well as unique, specialized knowledge. 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. At the Drug Research Center in Kyoto, the Chemistry Department is responsible for the design and synthesis of chemical compounds, the "seeds" from which new drugs are created. The Pharmacology Department of this center screens synthetized compounds, and it evaluates the usefulness of developed compounds and compares these compounds to other available drugs.

Meanwhile, at the Drug Research Center in Shizuoka, the Pharmacokinetics and Safety Department assesses how candidate compounds behave within the human body and evaluates the safety of candidate compounds for use on humans through non-clinical studies in animals. At the CMC Center, the API Department develops processes related to candidate compounds and manufactures these compounds. The Formulation Department at this center identifies the physicochemical properties of candidate compounds and develops formulations of these compounds that guarantee their safety and maximize their effectiveness when used on patients. This center's Analysis Department is responsible for developing specifications for drug substances, formulations, and raw materials; establishing testing methods; and conducting related stability tests. The Drug Research Center and the CMC Center advance Kaken's R&D efforts through collaborative, coordinated efforts.

Kaken's R&D activities have earned a number of awards in recognition of the Company's superior fundamental technologies. The following are some of the awards that Kaken's scientists have received.

2009

Asahi Kasei Encouraging Award from the Academy of Pharmaceutical Science and Technology, Japan

Received for utilizing novel technology in the development of Itraconazole products

2011

Prize for the Outstanding Pharmaceutical Science Thesis from the Academy of Pharmaceutical Science and Technology, Japan

Received for work in the thesis titled "Formulation Design of Latanoprost Eye Drops to Improve the Stability at Room Temperature"

2012

Best Presentation Award at Annual Meeting of Academy of Pharmaceutical Science and Technology, Japan

Received for presentation titled "In Vitro-In Vivo Correlation of Percutaneous Drug Absorption: Prediction of Percutaneous Absorption Based on an In Vitro Skin Permeability Assay"

By leveraging such superior research technologies, the Company aims to continue to accelerate and expand its R&D efforts going forward.

Candidate drugs that have non-clinical studies are then tested to evaluate their safety and effectiveness on human subjects. The Clinical Development Department conducts clinical trials for candidate compounds that have been developed through drug discovery research or introduced from outside partners to evaluate their efficacy and safety in human subjects. In addition to developing original drugs, Kaken engages in joint clinical trials 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 with Kaken, leading to the launch of a new drug in Japan and some other countries. The Clinical Development Department also handles all areas of statistical analysis. It manages case data from clinical trials 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. It also assures the quality and reliability of the plans and data related to the non-clinical studies that are designed and conducted by research laboratories. These clinical development-related departments mutually cooperate with efforts to carry out clinical trials as quickly as possible.

In addition to in-house R&D ventures, Kaken engages in licensing activities and joint research with outside companies and organizations to expand its pipeline. The Research Planning and Collaboration Department seeks out themes for joint research with academic institutions as well as other companies in the research stage while also searching for partners with which to conduct joint research related to "seeds" developed in-house. Meanwhile, the Project Management and Licensing Department searches for promising drugs for which to acquire licenses and then advances contract negotiations with the license holders. The department is also responsible for negotiations related to out-licensing activities. With regard to R&D themes in the clinical development phase, the department carries out project management. The Alliance Management Section handles the export business as well as communications concerning alliances with partners after the out-licensing of Kaken's products.

Kaken will focus on its areas of expertise to accelerate the progression of its drug discovery research efforts. Also, the Company will collaborate with both domestic and overseas research institutions and 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 medical 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 various medical fields.

The Quality Assurance Department assesses whether or not each batch of drugs 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 the medical institutions where they are in use. 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 organizations that require it. The department also distributes this information to medical institutions in the form of proper-usage information contained in package inserts, thereby helping promote the effective use of Kaken's products. Furthermore, this department is responsible for collecting and evaluating safety-related information from the R&D phase for pharmaceuticals.

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 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 NHI Drug Price List after approval is obtained. The department is also responsible for producing product literature for approved drugs.

Production Division

Kaken's production base is the Shizuoka Factory. At this factory, we manufacture pharmaceuticals, agrochemicals, and feed additives. In the fiscal year we completed the construction of a building that dedicated for the production of Clenafin, a topical treatment for onychomycosis. In manufacturing this treatment as well as other existing pharmaceuticals, we practice strict adherence to Japanese GMP ("Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Drugs and Quasi-drugs," revised Ordinance of Ministry of Health, Labour and Welfare, No. 87, 2014). In this manner, we strive to manufacture products of the highest quality under stringent quality control and production control systems. Furthermore, we have completed technical transfers of the sophisticated agrochemical and feed additive fermentation and purification technologies we have refined over the course of many years to overseas bases, thereby creating a system that allows for increased production.

Marketing & Sales Division

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

Positioned throughout our nationwide network consisting of eight branches and 61 sub-branches, our approximately 750 MRs work in close contact with local communities, and are particularly capable with regard to the fields of orthopedics, dermatology, and general surgery.

Agrochemical & Animal Health Products Division

The Agrochemical & Animal Health Products Division is responsible for conducting research and development through 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 developing these products and expanding their sales both in Japan and also in overseas markets. Polyoxins are fungicides produced by culturing microorganisms in a culturing medium consisting of natural materials. These products are highly safe for both humans and animals and have a low environmental impact. For a number of years, these products have consistently won strong praise and support from agricultural producers around the world due to their effectiveness in preventing disease damage to vegetables, fruit trees, lawns, and flowers. In addition, Polyoxin AL has recently proven to have acaricidal properties, thus further expanding its range of use. Pentoxazone is a rice herbicide that is effective against the vast array of annual weeds found in rice paddies and has also demonstrated effectiveness against herbicide-resistant varieties of weeds. These factors make Pentoxazone indispensable for rice farmers.

The feed additives we offer include Salinomycin, an anti-coccidials for chickens, and Colistin sulfate, which helps prevent infectious diseases in livestock. We also supply a drug known as Uroston that is used to treat urolithiasis in bovine. Through the provision of feed additives and drugs for animals, Kaken is 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 business philosophy is centered on the three joys of "creating joy for patients," "creating joy as a company," and "creating joy for our 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 that compliance is essential in earning the trust of society. For this reason, we have established Kaken's Activity Principles and Guidelines, based on which we 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

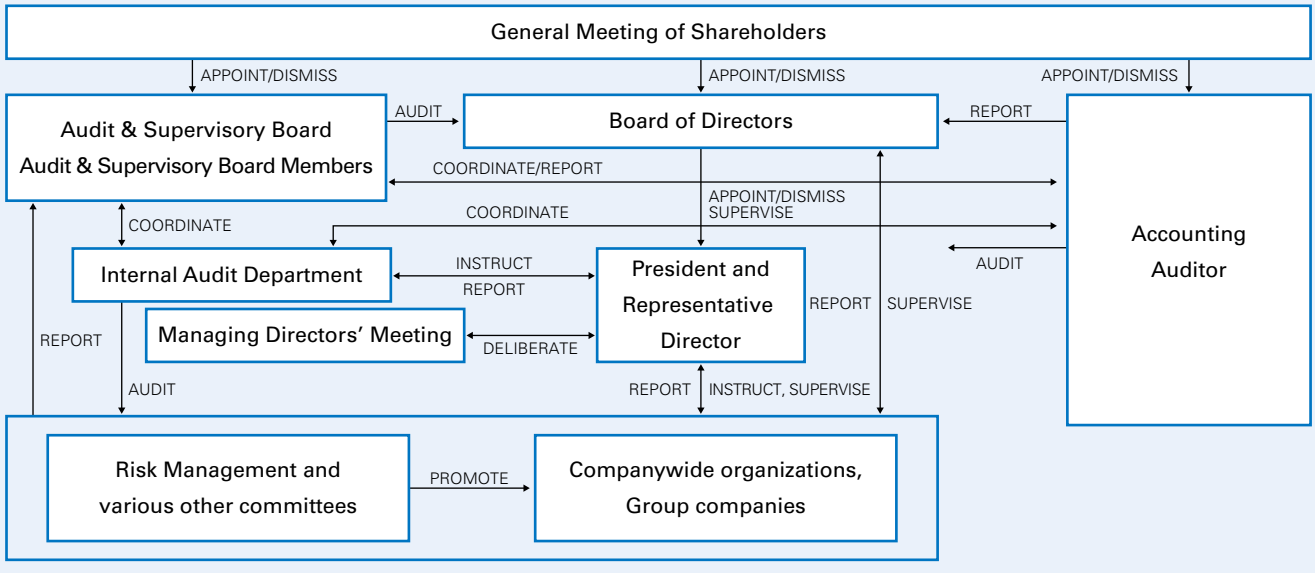
We believe that compliance-based management is the most fundamental key element in earning the trust of society and promoting the healthy development of the Company. Moreover, compliance is important in raising corporate value, from which our shareholders, other investors, business partners, and the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

Kaken's Activity Principles and Guidelines

Kaken practices compliance-based management, and each executive and employee of Kaken and its subsidiaries is strongly committed to practicing 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, other 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 or other anti-social behavior.

Corporate Governance System (As of June 29, 2016)



Environmental Protection Activities

In recent years, there has been a growing concern for various environmental issues, such as preserving biodiversity. These issues force people 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 established Environmental Measures Committees at each of its operational sites. These committees were assigned the task of addressing the need to (1) preserve the natural environment, (2) improve people's health and living environments, and (3) reduce pollution.

Further, in 2004, we developed the Kaken Basic Environmental Philosophy and the Basic Environmental Policies. In April 2009, the Environmental Measures Committees were transformed into Environmental Measures Task Forces. These task forces work in cooperation with the Environmental Committee to advance Companywide environmental preservation measures. Additionally, we have taken several steps to reinforce our environmental management activities, including acquiring ISO 14001 certification for our Shizuoka Factory in August 2001.

Looking ahead, we will continue to actively engage in environmental management and social contribution activities at the Company's headquarters and its factory and all of its research centers 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 Kaken's business operations. This includes promoting the understanding of input data related to the use of chemical substances that impact the environment and energy consumption as well as output data on the emissions into water and the atmosphere and waste production figures. Based on an understanding of this information, reductions in environmental impact are being pursued.

Water Pollution Prevention

Kaken is emphasizing initiatives that contribute to environmental 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 the wastewater standards. It is subsequently 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 impact and is practicing strict compliance with environmental laws and regulations.

In addition, as a monitor for whole effluent toxicity tests, Kaken confirmed that wastewater from the Shizuoka Factory did not have any impact on the surrounding aquatic organisms in the fiscal year ended March 31, 2014.

In a similar manner, the Drug Research Center in Kyoto treats organic wastewater using active sludge and then mixes it with wastewater from other systems before dispelling it into public sewers. When dispelling such wastewater, the Drug Research Center adheres to its own internal standards, which are stricter than the standards of Kyoto City, and periodically measures its emissions and reports the findings.

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. In the fiscal year ended March 31, 2014, the facility revised its agreement with Fujieda City regarding smoke dust concentration emissions. At this time, the Shizuoka Factory voluntarily lowered the mutually agreed limit to below 0.05g/m^3N. Smoke dust emissions are measured twice a year, and emission levels are always significantly lower than this limit.

The kerosene-fired boiler of the Drug Research Center in Kyoto was also replaced with a city gas fired boiler to prevent air pollution in May 2007, and the facility has continued to operate with zero emissions of SOx ever since. Moreover, the Drug Research Center measures soot and smoke emissions twice a year, and its emissions figures are always substantially below the level permitted by the Air Pollution Control Act.

Going forward, both the Shizuoka Factory and the Kyoto Drug Research Center will continue strengthening environmental management procedures to better prevent air pollution.

Chemical Substance Management

Both the Shizuoka Factory and the Drug Research Center in Kyoto 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 it is working to reduce the amount of solvents used and switch to less harmful substances. In addition, internal regulations have been established for handling harmful chemical substances, and the Company is working to prevent accidents and environmental pollution at all stages of handling these chemicals, from purchasing to use and then disposal. The Company also manages chemical substances in an integrated manner together with reagents. Safety data sheets (SDSs) regarding the usage of such substances are kept up to date to ensure readiness for emergencies. The Shizuoka Factory takes steps to minimize the potential accident and health risks associated with chemicals by conducting risk assessments and working environment assessments.

Waste Reduction and Recycling

The production of waste is part of the process of manufacturing pharmaceuticals that 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, 2016, the total amount of waste produced by the Shizuoka Factory was 4,743 tons. Of this, 94% was sludge produced during the treatment of wastewater and residual materials from fermentation processes (animal and plant remnants). The entire volume of this sludge and residual materials produced in the year under review 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 (a medical supplier) and its factory (a manufacturer of pharmaceuticals) maintain 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. The Quality Assurance Department evaluates and confirms these activities, which is believed will result in the creation of a more stringent quality assurance system. These activities have been expanded to the R&D Division and the 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 have been launched. 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 any issues and provides information regarding proper usage methods to medical practitioners.

Information Provision by MRs

Kaken's pharmaceuticals are used in various medical care fields. Kaken's MRs are responsible for handling all of these pharmaceuticals. For this reason, MRs are constantly taking on new challenges in a wide range of disorder fields and play an extensive role in the medical practice. MRs acquire expert knowledge and develop an in-depth understanding of products offered by Kaken so that they are always able to adapt to changes in healthcare circumstances. They also work to provide an appropriate response to the ever more complex, diverse needs of medical institutions and medical practitioners. In addition, MRs collect feedback from practitioners in various medical fields so that the feedback may be utilized in efforts to improve existing products and develop new drugs. Through these and other activities reflecting the corporate philosophy, MRs are providing medical professionals with accurate information regarding Kaken's products.

Board of Directors and Audit & Supervisory Board Members

(As of June 29, 2016)

(Standing, from left)
Eiki Enomoto, Fumihiro Watanabe, Kazuki Sekitani, Hirokazu Konishi, Atsushi Takaoka, Hiroyuki Horiuchi, Yoshio Tanabe

(Seated)
Tetsuo Onuma

President and Representative Director
Tetsuo Onuma

Managing Director
Hirokazu Konishi
(Marketing and Sales)

Managing Director
Kazuki Sekitani
(Research and Development)

Managing Director
Atsushi Takaoka
(Accounting, Purchasing and Agrochemicals)

Director
Fumihiro Watanabe
(Corporate Planning, Legal Affairs and Information System)

Director
Hiroyuki Horiuchi
(General Manager of Marketing and Sales)

Outside Director
Eiki Enomoto

Outside Director
Yoshio Tanabe

Audit & Supervisory Board Member
Masanori Aoyama
(Standing)

Audit & Supervisory Board Member
Atsutada Iwamoto
(Standing)

Audit & Supervisory Board Member
Toshio Sakurai

Audit & Supervisory Board Member
Kazuo Hara

Financial Section

Consolidated Five-Year Summary

	MILLIONS OF YEN					THOUSANDS OF U.S. DOLLARS (NOTE)
	2016	2015	2014	2013	2012	**2016**
FOR THE YEARS ENDED MARCH 31						
Net sales	**¥109,730**	¥ 93,889	¥ 88,946	¥ 87,054	¥ 87,997	**$ 979,732**
Operating income	**35,146**	20,631	15,872	14,611	15,180	**313,804**
Profit attributable to owners of parent	**21,143**	12,122	9,735	8,991	8,282	**188,777**
AT MARCH 31						
Total net assets	**89,875**	77,100	68,096	66,578	62,071	**802,455**
Total assets	**132,991**	115,135	106,465	108,911	105,108	**1,187,420**
PER SHARE DATA			YEN			U.S. DOLLARS (NOTE)
Net income (Basic)	**¥510.54**	¥290.90	¥228.27	¥206.61	¥184.93	**$4.558**
Cash dividends (Non-Consolidated)	**—**	59.00	48.00	44.00	40.00	**—**
RATIOS			%			
ROE	**25.3**	16.7	14.5	14.0	13.5	
Capital adequacy ratio	**67.6**	67.0	64.0	61.1	59.1	

Notes: 1. U.S. dollar amounts are translated, for convenience only, at the rate of ¥112 = $1.00, effective on March 31, 2016.
2. The Company conducted a 1-for-2 share consolidation on October 1, 2015. Net income per share has been calculated assuming that the share consolidation was conducted at the beginning of the fiscal year ended March 31, 2012.
3. The Company conducted a 1-for-2 share consolidation on October 1, 2015. Dividends per share figures up to and including the fiscal year ended March 31, 2015, are displayed at the values prior to the share consolidation and dividends per share for the fiscal year ended March 31, 2016, are displayed as "–." When calculated on a post-share consolidation basis, the interim dividend was ¥68 per share and the total dividend payment per share was ¥146 (including a commemorative dividend of ¥10.00 per share) in the fiscal year ended March 31, 2016.

Management Discussion and Analysis

Operating Performance

In the fiscal year under review, ended March 31, 2016, Clenafin, a topical treatment for onychomycosis, contributed to consolidated performance (performance of the Company and its consolidated subsidiaries). As a result, consolidated net sales were up 16.9% year on year, to ¥109,730 million, and operating income increased 70.4%, to ¥35,146 million. Profit attributable to owners of the parent rose 74.4%, to ¥21,143 million.

Segment Information

Pharmaceuticals

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

In pharmaceuticals, overall sales were up due to smooth sales growth for Clenafin, and higher sales of Artz, an anti-osteoarthritis product. Increased revenues from overseas Clenafin licensees also contributed to the rise in sales.

In medical devices, sales increased for Seprafilm, an antiadhesive absorbent barrier.

In agrochemicals, sales were relatively unchanged year on year.

As a result of the above, net sales in the pharmaceuticals segment increased 17.4% year on year, to ¥107,391 million, and segment income* was up 74.5%, to ¥33,633 million.

Net sales from overseas were ¥10,185 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 decreased 3.8% year on year, to ¥2,338 million, while segment income* increased 11.4% year on year, to ¥1,513 million.

* Segment income is based on operating income.

Financial Position

Total assets were ¥132,991 million as of March 31, 2016, up ¥17,856 million from the previous fiscal year-end, primarily due to an increase in cash and deposits. Total liabilities were ¥43,116 million, up ¥5,081 million, largely as a result of gains in income taxes payable. Net assets totaled ¥89,875 million, a rise of ¥12,775 million, following higher retained earnings.

Cash Flows

Cash and cash equivalents as of March 31, 2016, totaled ¥41,744 million, an increase of ¥16,976 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 was ¥27,067 million, an increase of ¥12,329 million year on year, due to factors including a rise in income before income taxes.

Net cash used in investing activities stood at ¥4,105 million, compared with net cash provided by investing activities of ¥473 million in the previous fiscal year, primarily as a result of sales of property, plant and equipment, which occurred in the previous fiscal year.

Net cash used in financing activities totaled ¥5,984 million, a decrease of ¥1,916 million year on year, largely due to reduced purchases 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 as of the end of the fiscal 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 can be 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 side effects

Clinical trials undertaken in the development stage involve the trial administration of the drug to a limited number of patients. Accordingly, after a drug is launched onto the market, we conduct post-marketing surveillance to supplement these clinical trials. In the event that new side effects are identified at this stage, sales of the drug could be halted.

(3) Risks related to policies to curtail public healthcare expenditure

As government initiatives to curtail healthcare expenditure continue, various medical system reforms are also 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 versions of Kaken products by other companies may cause declines in sales of Kaken products. 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, and delays in the procurement of raw materials. These factors could affect the Company's performance.

(6) Risks related to litigation

The Company is exposed to the possibility of litigation arising in relation to its business activities. Such litigation could affect the Company's performance.

Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
ASSETS	**2016**	2015	**2016**
CURRENT ASSETS:			
Cash and deposits (Notes 3 and 9)	**¥ 29,845**	¥ 10,553	**$ 266,473**
Marketable securities (Notes 3, 4 and 9)	**11,899**	14,214	**106,241**
Receivables:			
Notes and accounts receivable–trade (Note 9)	**29,868**	28,204	**266,679**
Accounts receivable–other	**851**	879	**7,598**
	30,720	29,084	**274,286**
Inventories (Note 5)	**14,508**	13,483	**129,536**
Deferred tax assets (Note 14)	**1,678**	1,342	**14,982**
Other	**340**	338	**3,036**
Total current assets	**88,991**	69,016	**794,563**
PROPERTY, PLANT AND EQUIPMENT (Notes 6, 7 and 8):			
Buildings and structures	**37,393**	38,550	**333,866**
Machinery, equipment and vehicles	**21,858**	22,967	**195,161**
	59,252	61,518	**529,036**
Accumulated depreciation	**(40,349)**	(42,292)	**(360,259)**
	18,902	19,225	**168,768**
Land	**4,313**	4,313	**38,509**
Construction in progress	**3,510**	2,422	**31,339**
Total property, plant and equipment	**26,726**	25,961	**238,625**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 9)	**14,400**	15,357	**128,571**
Intangible assets	**371**	474	**3,313**
Net defined benefit asset (Note 10)	**40**	—	**357**
Deferred tax assets (Note 14)	**1,319**	3,226	**11,777**
Other assets	**1,141**	1,097	**10,188**
Total investments and other assets	**17,273**	20,156	**154,223**
TOTAL ASSETS	**¥132,991**	¥115,135	**$1,187,420**

See accompanying notes to Consolidated Financial Statements.

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
LIABILITIES AND NET ASSETS	**2016**	2015	**2016**
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 9)	**¥ 3,875**	¥ 4,195	**$ 34,598**
Payables:			
Notes and accounts payable–trade (Note 9)	**12,256**	12,295	**109,429**
Notes payable–facilities	**1,132**	1,377	**10,107**
Accounts payable–other	**3,333**	4,790	**29,759**
	16,722	18,462	**149,304**
Accrued expenses	**741**	542	**6,616**
Provision for bonuses	**1,437**	1,361	**12,830**
Provision for sales returns	**524**	12	**4,679**
Provision for sales rebates	**406**	383	**3,625**
Income taxes payable (Note 14)	**8,628**	3,807	**77,036**
Other	**1,523**	1,604	**13,598**
Total current liabilities	**33,861**	30,369	**302,330**
NON-CURRENT LIABILITIES:			
Net defined benefit liability (Note 10)	**8,898**	7,162	**79,446**
Deferred tax liabilities (Note 14)	**—**	121	**—**
Other	**356**	381	**3,179**
Total non-current liabilities	**9,255**	7,665	**82,634**
NET ASSETS:			
Shareholders' equity (Notes 2 (l) and 11):			
Common stock			
Authorized: 193,000,000 shares as of March 31, 2016 and 360,000,000 shares as of March 31, 2015			
Issued: 48,439,730 shares as of March 31, 2016 and 96,879,461 shares as of March 31, 2015	**23,853**	23,853	**212,973**
Capital surplus	**11,407**	11,406	**101,848**
Retained earnings	**68,609**	52,932	**612,580**
Treasury stock, at cost: 7,033,882 shares in 2016 and 14,025,880 shares in 2015	**(16,301)**	(16,098)	**(145,545)**
Total shareholders' equity	**87,568**	72,094	**781,857**
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Note 2 (c))	**4,423**	5,478	**39,491**
Remeasurements of defined benefit plans	**(2,117)**	(472)	**(18,902)**
Total accumulated other comprehensive income	**2,306**	5,005	**20,589**
Total net assets	**89,875**	77,100	**802,455**
TOTAL LIABILITIES AND NET ASSETS	**¥132,991**	¥115,135	**$1,187,420**

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2016 and 2015

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
NET SALES	**¥109,730**	¥93,889	**$979,732**
COST OF SALES	**48,093**	44,753	**429,402**
Gross profit	**61,637**	49,136	**550,330**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**26,490**	28,504	**236,518**
OPERATING INCOME	**35,146**	20,631	**313,804**
OTHER INCOME (EXPENSES):			
Interest and dividends income	**232**	219	**2,071**
Interest expenses	**(27)**	(28)	**(241)**
Foreign exchange losses	**(32)**	—	**(286)**
Amortization of net retirement benefit obligation at transition	**—**	(524)	**—**
Gain or loss on sales of non-current assets, net (Note 13)	**—**	(1,179)	**—**
Loss on retirement of non-current assets	**(65)**	(69)	**(580)**
Amortization of long-term prepaid expenses	**—**	(525)	**—**
Loss on sale of golf club membership	**(5)**	(8)	**(45)**
Other, net	**43**	96	**384**
	145	(2,019)	**1,295**
INCOME BEFORE INCOME TAXES	**35,292**	18,611	**315,107**
INCOME TAXES (Note 14):			
Current	**11,332**	6,611	**101,179**
Deferred	**2,815**	(123)	**25,134**
	14,148	6,488	**126,321**
NET INCOME	**21,143**	12,122	**188,777**
PROFIT ATTRIBUTABLE TO OWNERS OF PARENT	**¥ 21,143**	¥12,122	**$188,777**

	YEN		U.S. DOLLARS (NOTE 1)
PER SHARE DATA:	**2016**	2015	**2016**
Net income (Note 16):			
Basic	**¥510.54**	¥290.90	**$4.558**
Diluted	**—**	—	**—**
Cash dividends applicable to the year (Note 11)	**¥112.00**	¥ 59.00	**$1.000**

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, 2016 and 2015

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
NET INCOME	**¥21,143**	¥12,122	**$188,777**
OTHER COMPREHENSIVE INCOME (Note 17):			
Net unrealized holding gain on securities	**(1,054)**	3,079	**(9,411)**
Remeasurements of defined benefit plans	**(1,644)**	1,404	**(14,679)**
Total other comprehensive income	**(2,699)**	4,484	**(24,098)**
COMPREHENSIVE INCOME	**18,444**	16,607	**164,679**
Total comprehensive income attributable to:			
Owners of the parent	**¥18,444**	¥16,607	**$164,679**

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, 2016 and 2015

MILLIONS OF YEN

	SHAREHOLDERS' EQUITY					ACCUMULATED OTHER COMPREHENSIVE INCOME			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized holding gain on securities	Remeasurements of defined benefit plans	Total	TOTAL NET ASSETS
BALANCE—March 31, 2014	¥23,853	¥11,587	¥49,789	¥(17,656)	¥67,574	¥ 2,398	¥(1,876)	¥ 521	¥68,096
Cumulative effect of changes in accounting policies			299		299				299
Restated balance	23,853	11,587	50,089	(17,656)	67,874	2,398	(1,876)	521	68,395
Changes during the year:									
Cash dividends			(4,265)		(4,265)				(4,265)
Profit attributable to owners of parent			12,122		12,122				12,122
Purchase of treasury stock				(3,637)	(3,637)				(3,637)
Sale of treasury stock		0		0	0				0
Cancellation of treasury stock		(181)	(5,013)	5,195	—				—
Other, net						3,079	1,404	4,484	4,484
Total changes during the year	—	(181)	2,843	1,557	4,220	3,079	1,404	4,484	8,704
BALANCE—March 31, 2015	¥23,853	¥11,406	¥52,932	¥(16,098)	¥72,094	¥ 5,478	¥ (472)	¥ 5,005	¥77,100
Cumulative effect of changes in accounting policies					—				—
Restated balance	**23,853**	**11,406**	**52,932**	**(16,098)**	**72,094**	**5,478**	**(472)**	**5,005**	**77,100**
Changes during the year:									
Cash dividends			**(5,467)**		**(5,467)**				**(5,467)**
Profit attributable to owners of parent			**21,143**		**21,143**				**21,143**
Purchase of treasury stock				**(203)**	**(203)**				**(203)**
Sale of treasury stock		**0**		**0**	**1**				**1**
Other, net						**(1,054)**	**(1,644)**	**(2,699)**	**(2,699)**
Total changes during the year	**—**	**0**	**15,676**	**(202)**	**15,474**	**(1,054)**	**(1,644)**	**(2,699)**	**12,775**
BALANCE—March 31, 2016	**¥23,853**	**¥11,407**	**¥68,609**	**¥(16,301)**	**¥87,568**	**¥ 4,423**	**¥(2,117)**	**¥ 2,306**	**¥89,875**

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	SHAREHOLDERS' EQUITY					ACCUMULATED OTHER COMPREHENSIVE INCOME			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized holding gain on securities	Remeasurements of defined benefit plans	Total	TOTAL NET ASSETS
BALANCE—March 31, 2015	$212,973	$101,839	$472,607	$(143,732)	$643,696	$48,911	$ (4,214)	$ 44,688	$688,393
Cumulative effect of changes in accounting policies					—				—
Restated balance	**212,973**	**101,839**	**472,607**	**(143,732)**	**643,696**	**48,911**	**(4,214)**	**44,688**	**688,393**
Changes during the year:									
Cash dividends			**(48,813)**		**(48,813)**				**(48,813)**
Profit attributable to owners of parent			**188,777**		**188,777**				**188,777**
Purchase of treasury stock				**(1,813)**	**(1,813)**				**(1,813)**
Sale of treasury stock		**0**		**0**	**9**				**9**
Other, net						**(9,411)**	**(14,679)**	**(24,098)**	**(24,098)**
Total changes during the year	**—**	**0**	**139,964**	**(1,804)**	**138,161**	**(9,411)**	**(14,679)**	**(24,098)**	**114,063**
BALANCE—March 31, 2016	**$212,973**	**$101,848**	**$612,580**	**$(145,545)**	**$781,857**	**$39,491**	**$(18,902)**	**$ 20,589**	**$802,455**

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, 2016 and 2015

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	**¥35,292**	¥18,611	**$315,107**
Adjustments for:			
Depreciation	**2,242**	2,400	**20,018**
Increase (decrease) in net defined benefit liability	**(618)**	348	**(5,518)**
Decrease (increase) in net defined benefit asset	**(40)**	—	**(357)**
Interest and dividends income	**(232)**	(219)	**(2,071)**
Interest expenses	**27**	28	**241**
Loss on retirement of non-current assets	**65**	67	**580**
Loss (gain) on sales of non-current assets	**—**	1,179	**—**
Decrease (increase) in notes and accounts receivable–trade	**(1,664)**	(2,841)	**(14,857)**
Decrease (increase) in inventories	**(1,025)**	(260)	**(9,152)**
Increase (decrease) in notes and accounts payable–trade	**(38)**	(1,418)	**(339)**
Other, net	**(393)**	3,093	**(3,509)**
Subtotal	**33,615**	20,990	**300,134**
Interest and dividends income received	**232**	219	**2,071**
Interest paid	**(27)**	(28)	**(241)**
Income taxes paid, net	**(6,752)**	(6,443)	**(60,286)**
Net cash provided by (used in) operating activities	**27,067**	14,737	**241,670**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	**(3,124)**	(1,954)	**(27,893)**
Proceeds from sales of property, plant and equipment	**—**	1,941	**—**
Purchase of intangible assets	**(93)**	(74)	**(830)**
Purchase of investment securities	**(753)**	(3)	**(6,723)**
Other, net	**(134)**	565	**(1,196)**
Net cash provided by (used in) investing activities	**(4,105)**	473	**(36,652)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in short-term loans payable	**(320)**	—	**(2,857)**
Net change in treasury stock	**(201)**	(3,636)	**(1,795)**
Cash dividends paid	**(5,463)**	(4,263)	**(48,777)**
Net cash provided by (used in) financing activities	**(5,984)**	(7,900)	**(53,429)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**16,976**	7,310	**151,571**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,767**	17,457	**221,134**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**¥41,744**	¥24,767	**$372,714**

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. In addition, certain reclassifications have been made in the 2015 financial statements to conform to the classifications used in 2016.

As permitted by the Financial Instruments and Exchange Act of Japan, 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 ¥112 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2016. 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 subsidiary. For the year ended March 31, 2016, the Company had one consolidated subsidiary as follows:

KAKEN PHARMA CO., LTD.

On March 31, 2016, KAKEN REALTY & SERVICE CO., LTD., a whollyowned subsidiary of the Company, was dissolved due to an absorption-type merger into the Company.

The financial results of KAKEN REALTY & SERVICE CO., LTD. from April 1, 2015 to March 30, 2016 were included in the consolidated financial statements. See Note 18. "Business Combination" for details.

For the years ended March 31, 2016 and 2015, 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 three 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, equipment and vehicles.

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

(g) Retirement and Pension Plan
The Company applies the benefit formula basis as the attribution method for estimated retirement benefits.

Unrecognized actuarial difference is amortized on a straight-line basis over 10 years from the year following the year in which it arises. Unrecognized prior service cost is amortized on a straight-line basis over 10 years from the year in which it arises.

(h) Income Taxes
Income taxes–deferred 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 sheets 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 contract:
The Company enters into forward foreign exchange contracts to limit risk 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 contract. 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 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) Change in accounting policy
The Company adopted the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013) and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), from the fiscal year ended March 2016. As a result, the Company changed the presentation of net income. Certain reclassifications have been made in the 2015 financial statements to conform to the classifications used in 2016.

(o) Accounting standards issued but not yet applied
"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

(1) Overview
Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes an estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for future deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance
The Company is currently evaluating the effects of application.

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)
	2016	2015	**2016**
Cash and deposits	**¥29,845**	¥10,553	**$266,473**
Marketable securities	**11,899**	14,214	**106,241**
Subtotal	**¥41,744**	¥24,767	**$372,714**
Time deposits due in more than three months	**—**	—	**—**
Marketable securities due in more than three months	**—**	—	**—**
Cash and cash equivalents	**¥41,744**	¥24,767	**$372,714**

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)
	2016			2015		
Fair values exceeding carrying amount	**¥ —**	**¥ —**	**¥—**	¥ —	¥ —	¥—
Fair values not exceeding carrying amount	**10,999**	**10,999**	**—**	6,999	6,999	—
Total	**¥10,999**	**¥10,999**	**¥—**	¥6,999	¥6,999	¥—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Carrying amount	Fair value	Unrealized gain (loss)
	2016		
Fair values exceeding carrying amount	**$ —**	**$ —**	**$—**
Fair values not exceeding carrying amount	**98,205**	**98,205**	**—**
Total	**$98,205**	**$98,205**	**$—**

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)
	2016			2015		
Carrying amounts exceeding acquisition cost						
Equity securities	**¥13,667**	**¥7,233**	**¥6,433**	¥15,295	¥ 7,208	¥8,086
Others	**—**	**—**	**—**	—	—	—
Subtotal	**13,667**	**7,233**	**6,433**	15,295	7,208	8,086
Carrying amounts not exceeding acquisition cost						
Equity securities	**671**	**728**	**(57)**	—	—	—
Others	**900**	**900**	**—**	7,214	7,214	—
Subtotal	**1,571**	**1,628**	**(57)**	7,214	7,214	—
Total	**¥15,238**	**¥8,861**	**¥6,376**	¥22,510	¥14,423	¥8,086

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Fair value	Acquisition cost	Unrealized gain (loss)
	2016		
Carrying amounts exceeding acquisition cost			
Equity securities	**$122,027**	**$64,580**	**$57,438**
Others	**—**	**—**	**—**
Subtotal	**122,027**	**64,580**	**57,438**
Carrying amounts not exceeding acquisition cost			
Equity securities	**5,991**	**6,500**	**(509)**
Others	**8,036**	**8,036**	**—**
Subtotal	**14,027**	**14,536**	**(509)**
Total	**$136,054**	**$79,116**	**$56,929**

There were no available-for-sale securities sold for the years ended March 31, 2016 and 2015.

5. Inventories:

Inventories as of March 31, 2016 and 2015, comprised the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Merchandise and finished products	**¥ 7,399**	¥ 7,323	**$ 66,063**
Work in process	**1,940**	2,244	**17,321**
Raw materials and supplies	**5,167**	3,915	**46,134**
Total	**¥14,508**	¥13,483	**$129,536**

6. Short-term Bank Loans:

Short-term bank loans outstanding as of March 31, 2016 and 2015, amounting to ¥3,875 million ($34,598 thousand) and ¥4,195 million, 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, 2016 and 2015 were 0.60% and 0.66%, 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, 2016 and 2015, assets pledged as collateral for certain short-term bank loans are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Assets pledged:			
Buildings and structures	**¥3,465**	¥2,555	**$30,938**
Machinery and vehicles	**2,659**	2,181	**23,741**
Tools, furniture and fixtures	**437**	460	**3,902**
Land	**106**	103	**946**
Total	**¥6,668**	¥5,300	**$59,536**
Liabilities secured:			
Short-term bank loans	**¥1,400**	¥1,400	**$12,500**
Total	**¥1,400**	¥1,400	**$12,500**

7. Accounting for Leases:

Operating leases

Future minimum lease payments receivable under non-cancellable operating leases subsequent to March 31, 2016 and 2015, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Due within 1 year	**¥ 239**	¥ 239	**$ 2,134**
Due after 1 year	**1,849**	2,088	**16,509**
Total	**¥2,088**	¥2,328	**$18,643**

8. Investment Properties:

The Group owns rental office buildings (including land) in Tokyo and other areas. Rental income from these properties for the years ended March 31, 2016 and 2015 was ¥1,513 million ($13,509 thousand) and ¥1,358 million (Revenue from rental properties and rent expense are reported as net sales and cost of sales, respectively).

Carrying amount, changes during the years ended March 31, 2016 and 2015, and fair value of these properties are stated as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Carrying amount:			
Balance at the beginning of the year	**¥11,520**	¥15,158	**$102,857**
Changes during the year	**(321)**	(3,637)	**(2,866)**
Balance at the end of the year	**11,199**	11,520	**99,991**
Fair value at the end of the year	**¥40,045**	¥39,406	**$357,545**

Notes: 1. The carrying amount represents the acquisition costs less accumulated depreciation.
2. The decrease for the fiscal year ended March 31, 2015 is mainly attributable to sale of Shin-Urayasu Building (Urayasu-City) (¥3,106 million).
3. Fair value at March 31, 2016 and 2015 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 the 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 the 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, 2016, 66% of all trade receivables was with specific major accounts.

2. Fair values of financial instruments

Carrying amount, fair value, and difference of the financial instruments as of March 31, 2016 and 2015 are as below. Financial instruments whose fair values are not readily determinable are excluded from the following table:

MILLIONS OF YEN

	Carrying amount	Fair value	Difference
		2016	
(1) Cash and deposits	**¥29,845**	**¥29,845**	**¥—**
(2) Notes and accounts receivable–trade	**29,868**	**29,868**	**—**
(3) Marketable and investment securities			
a. Held-to-maturity securities	**10,999**	**10,999**	**—**
b. Available-for-sale securities	**15,238**	**15,238**	**—**
Total assets	**¥85,951**	**¥85,951**	**¥—**
(1) Notes and accounts payable–trade	**¥12,256**	**¥12,256**	**¥—**
(2) Short-term bank loans	**3,875**	**3,875**	**—**
Total liabilities	**¥16,131**	**¥16,131**	**¥—**

MILLIONS OF YEN

	Carrying amount	Fair value	Difference
		2015	
(1) Cash and deposits	¥10,553	¥10,553	¥—
(2) Notes and accounts receivable–trade	28,204	28,204	—
(3) Marketable and investment securities			
a. Held-to-maturity securities	6,999	6,999	—
b. Available-for-sale securities	22,510	22,510	—
Total assets	¥68,268	¥68,268	¥—
(1) Notes and accounts payable–trade	¥12,295	¥12,295	¥—
(2) Short-term bank loans	4,195	4,195	—
Total liabilities	¥16,490	¥16,490	¥—

	THOUSANDS OF U.S. DOLLARS (NOTE 1)		
	Carrying amount	Fair value	Difference
		2016	
(1) Cash and deposits	**$266,473**	**$266,473**	**$—**
(2) Notes and accounts receivable–trade	**266,679**	**266,679**	**—**
(3) Marketable and investment securities			
a. Held-to-maturity securities	**98,205**	**98,205**	**—**
b. Available-for-sale securities	**136,054**	**136,054**	**—**
Total assets	**$767,420**	**$767,420**	**$—**
(1) Notes and accounts payable–trade	**$109,429**	**$109,429**	**$—**
(2) Short-term bank loans	**34,598**	**34,598**	**—**
Total liabilities	**$144,027**	**$144,027**	**$—**

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 due to 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 holding purpose, 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 due to 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		
	2016	2015	**2016**
Unlisted equity securities	**¥61**	¥61	**$545**

The above item is 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 schedules of monetary assets and securities with contractual maturities subsequent to

March 31, 2016 and 2015, are as follows:

	MILLIONS OF YEN
	Within one year
	2016
Cash and deposits	**¥29,845**
Notes and accounts receivable–trade	**29,868**
Marketable and investment securities:	
Held-to-maturity securities	**10,999**
Available-for-sale securities with contractual maturities	**900**
Total	**¥71,613**

	MILLIONS OF YEN
	Within one year
	2015
Cash and deposits	¥10,553
Notes and accounts receivable–trade	28,204
Marketable and investment securities:	
Held-to-maturity securities	6,999
Available-for-sale securities with contractual maturities	900
Total	¥46,657

	THOUSANDS OF U.S. DOLLARS (NOTE 1)
	Within one year
	2016
Cash and deposits	**$266,473**
Notes and accounts receivable–trade	**266,679**
Marketable and investment securities:	
Held-to-maturity securities	**98,205**
Available-for-sale securities with contractual maturities	**8,036**
Total	**$639,402**

4. Redemption schedules for long-term debt and other interest-bearing obligations subsequent to March 31, 2016 and 2015 are omitted since the Company only had short-term bank loans maturing within one year as of March 31, 2016 and 2015.

10. Retirement Benefits:

The Company has defined benefit plans, i.e., a lump-sum retirement plan and defined benefit pension plan. Retirement benefit trust is established for the lump-sum retirement plan. The Company may pay a premium in addition to the retirement benefits. The simplified method is used for the calculation of retirement benefit obligation at consolidated subsidiaries.

Defined benefit plans

(1) Changes in the retirement benefit obligation for the years ended March 31, 2016 and 2015 are as follows (excluding plans under the simplified method):

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Retirement benefit obligation–Beginning balance	**¥20,707**	¥21,551	**$184,884**
Cumulative effect of change in accounting policies	**—**	(464)	**—**
Restated balance	**20,707**	21,087	**184,884**
Service cost	**683**	701	**6,098**
Interest cost	**248**	253	**2,214**
Actuarial differences	**2,122**	94	**18,946**
Retirement benefit paid	**(1,842)**	(1,428)	**(16,446)**
Retirement benefit obligation–Ending balance	**¥21,918**	¥20,707	**$195,696**

(2) Changes in the plan assets for the years ended March 31, 2016 and 2015 are as follows (excluding plans under the simplified method):

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Plan assets–Beginning balance	**¥13,551**	¥12,064	**$120,991**
Expected return on plan assets	**317**	286	**2,830**
Actuarial differences	**(574)**	1,307	**(5,125)**
Employer's contributions	**607**	649	**5,420**
Retirement benefit paid	**(834)**	(756)	**(7,446)**
Plan assets–Ending balance	**¥13,067**	¥13,551	**$116,670**

(3) Changes in the net defined benefit liability under the simplified method for the years ended March 31, 2016 and 2015 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Net defined benefit liability–Beginning balance	**¥6**	¥5	**$54**
Retirement benefit cost	**0**	0	**0**
Net defined benefit liability–Ending balance	**¥6**	¥6	**$54**

(4) Net balance of the retirement benefit obligation and plan assets, and net balances shown on the consolidated balance sheets are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Retirement benefit obligation under funded plan	**¥ 21,918**	¥ 20,707	**$ 195,696**
Plan assets	**(13,067)**	(13,551)	**(116,670)**
	8,851	7,156	**79,027**
Retirement benefit obligation under non-funded plan	**6**	6	**54**
Net balances shown on the consolidated balance sheets	**8,857**	7,162	**79,080**
Net defined benefit liability	**¥ 8,898**	¥ 7,162	**$ 79,446**
Net defined benefit asset	**(40)**	—	**(357)**
Net balances shown on the consolidated balance sheets	**¥ 8,857**	¥ 7,162	**$ 79,080**

Notes: 1. Retirement benefit obligation and plan assets under the Company's funded plan include those for the lump-sum retirement plan.
2. A plan under simplified method is included.

(5) The components of retirement benefit cost are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Service cost	**¥ 683**	¥ 701	**$ 6,098**
Interest cost	**248**	253	**2,214**
Expected return on plan assets	**(317)**	(286)	**(2,830)**
Amortization of actuarial differences	**375**	510	**3,348**
Amortization of prior service cost	**(33)**	(33)	**(295)**
Amortization of transition amount	**—**	524	**—**
Retirement benefit cost under simplified method	**0**	0	**0**
Retirement benefit cost for defined benefit plans	**¥ 957**	¥1,669	**$ 8,545**

(6) The components of remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Prior service cost	**¥ (33)**	¥ (33)	**$ (295)**
Actuarial differences	**(2,321)**	1,723	**(20,723)**
Transition amount	**—**	524	**—**
Total	**¥(2,354)**	¥2,214	**$(21,018)**

(7) The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Unrecognized prior service cost	**¥ (171)**	¥(205)	**$ (1,527)**
Unrecognized actuarial differences	**3,227**	906	**28,813**
Total	**¥3,055**	¥ 701	**$27,277**

(8) Plan assets

(a) Plan assets consist of the following:

	2016	2015
Debt securities	**35%**	28%
Equity securities	**45%**	54%
General account	**16%**	15%
Other	**4%**	3%
Total	**100%**	100%

Note: The plan assets include retirement benefit trust which accounted for 6% of the total plan assets as of March 31, 2016 and 2015.

(b) Long-term expected rate of return on plan assets is determined based on assumptions about: (i) allocation of plan assets and (ii) long-term expected rate of returns on such assets.

(9) Major assumptions used for actuarial calculation are as follows (weighted average):

	2016	2015
Discount rate	**0.3%**	1.2%
Long-term expected rate of return	**2.5%**	2.5%

Note: The Discount rate has changed from 1.2% to 0.3% for the fiscal year ended March 31, 2016 since the market interest rate has significantly dropped and it would have an impact on the retirement benefit obligation of the Company.

11. Shareholders' Equity:

a) Class and number of shares outstanding and treasury stock

	Class of shares outstanding	Class of treasury stock
	Common stock	Common stock
Number of shares as of April 1, 2015	96,879,461	14,025,880
Increase	**—**	**38,546**
Decrease	**(48,439,731)**	**(7,030,544)**
Number of shares as of March 31, 2016	**48,439,730**	**7,033,882**

Notes: 1. Decrease in shares outstanding (48,439,731 shares) is due to share consolidation as stated below.
2. Increase in treasury stock (38,546 shares) is due to purchase of shares of less than one unit.
3. Decrease in treasury stock (7,030,544 shares) is due to share consolidation (7,030,368 shares) and purchase demand from shareholders holding shares of less than one unit (176 shares).

Based on the resolution of the Company's 95th ordinary general meeting of shareholders held on June 26, 2015, effective October 1, 2015, the Company (i) changed the number of share unit of common stock from 1,000 shares to 100 shares, (ii) executed a two-to-one share consolidation which resulted in decrease in outstanding shares to 48,439,730 shares and (iii) reduced the total number of authorized shares from 360,000,000 shares to 193,000,000 shares.

b) Matters related to dividends

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 26, 2015, were as follows:

Dividends on common stock	
Total amount of dividends	¥2,651 million ($23,670 thousand)
Dividends per share	¥32.00 ($0.29)
Record date	March 31, 2015
Effective date	June 29, 2015

Approvals by the Board of Directors' meeting held on November 6, 2015, were as follows:

Dividends on common stock	
Total amount of dividends	¥2,815 million ($25,134 thousand)
Dividends per share	¥34.00 ($0.30)
Record date	September 30, 2015
Effective date	November 30, 2015

Note: Dividends per share do not include the effects of the share consolidation on October 1, 2015, as the record date was September 30, 2015.

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2016, but become effective after the said accounting period

The Company obtained the following approval at the ordinary general meeting of shareholders held on June 29, 2016:

Dividends on common stock	
Total amount of dividends	¥3,229 million ($28,830 thousand)
Dividends per share	¥78.00 ($0.70)
Record date	March 31, 2016
Effective date	June 30, 2016

Note: Dividends per share include a commemorative dividend of ¥10.00 ($0.09).

12. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 amounted to ¥5,883 million ($52,527 thousand) and ¥7,615 million, respectively.

13. Gain or Loss on Sales of Non-Current Assets, Net

Gain or loss on sales of non-current assets, net, is as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Gain on sales of non-current assets:			
Land	**¥—**	¥ 7	**$—**
Other	**—**	0	**—**
	—	7	**—**
Loss on sales of non-current assets:			
Buildings and structures	**—**	(784)	**—**
Land	**—**	(402)	**—**
Other	**—**	(1)	**—**
	—	(1,187)	**—**
Gain or loss on sales of non-current assets, net	**¥—**	¥(1,179)	**$—**

14. Income Taxes:

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Deferred tax assets:			
Accounts receivable	**¥ 142**	¥ 263	**$ 1,268**
Loss of supplies	**113**	106	**1,009**
Adjustment of gain on sales of land	**2,638**	—	**23,554**
Unrealized gain of property, plant and equipment	**—**	2,568	**—**
Amortization of research & development	**151**	348	**1,348**
Amortization of long-term prepaid expenses	**367**	453	**3,277**
Provision for bonuses	**407**	430	**3,634**
Provision for sales rebates	**125**	126	**1,116**
Net defined benefit liability	**2,867**	2,475	**25,598**
Other	**962**	497	**8,589**
Total	**7,777**	7,271	**69,438**
Valuation allowance	**(2,682)**	(44)	**(23,946)**
Deferred tax assets	**5,094**	7,226	**45,482**
Deferred tax liabilities:			
Reserve for advanced depreciation of property, plant and equipment	**(144)**	(170)	**(1,286)**
Net unrealized holding gain on securities	**(1,952)**	(2,608)	**(17,429)**
Deferred tax liabilities	**(2,097)**	(2,778)	**(18,723)**
Deferred tax assets, net	**¥ 2,997**	¥ 4,447	**$ 26,759**

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 33.06% and 35.64% for the years ended March 31, 2016 and 2015. Reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2016 and 2015, is as follows:

	2016	2015
Statutory tax rate	**33.06%**	35.64%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (e.g. entertainment expenses)	**0.40**	0.80
Income not included for income tax purpose (e.g. dividend income)	**(0.04)**	(0.21)
Inhabitant per capita taxes	**0.24**	0.46
Tax credit for research expenses	**(1.41)**	(4.05)
Effects of merger	**7.28**	—
Adjustment to deferred tax asset due to change in statutory tax rate	**0.70**	2.18
Other	**(0.14)**	0.04
Effective tax rate	**40.09%**	34.86%

In line with the Diet session that was enacted on March 29, 2016, the "Act for Partial Revision of the Income Tax Act, etc." and the "Act for Partial Revision, etc of the Local Tax Act, etc.", the Company has changed the statutory tax rate to calculate deferred tax assets and deferred tax liabilities for the year ended March 31, 2016, from 32.26% to 30.86% for the temporary differences assumed to be reversed in the fiscal years beginning on April 1, 2016 and 2017, and to 30.62% for those assumed to be reversed in and after the fiscal year beginning on April 1, 2018.

As a result of this change, net deferred tax assets decreased ¥355 million ($3,170 thousand) whereas deferred income tax increased ¥254 million ($2,268 thousand), net unrealized holding gain on securities increased ¥104 million ($929 thousand) and remeasurements of defined benefit plans increased ¥4 million ($36 thousand), respectively.

15. Related Party Transactions:

There is nothing to be noted according to the disclosure requirements in Japan for the years ended March 31, 2016 and 2015.

16. Per Share Information:

Per share information for the years ended March 31, 2016 and 2015, is as follows:

	YEN		U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Net assets per share	**¥2,170.60**	¥1,861.12	**$19.38**
Net income per share	**510.54**	290.90	**4.56**

Notes: 1. On October 1, 2015, the Company implemented a two-to-one share consolidation.
Net assets per share and net income per share are calculated, based on the assumption that the share consolidation had been carried out at the beginning of the fiscal year ended March 31, 2015.
2. Diluted net income per share is not presented due to the absence of dilutive shares.

The basis of calculation for net income per share for the years ended March 31, 2016 and 2015 is as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Net income	**¥21,143**	¥12,122	**$188,777**
Net income attributable to common stock owners of parent	**21,143**	12,122	**188,777**
Net income not attributable to common stock	**—**	—	**—**
(Share data)			
Average number of shares (thousand)	**41,413**	41,673	**—**

17. Comprehensive Income:

Recycling and income tax effects for each component of other comprehensive income for the years ended March 31, 2016 and 2015, are as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2016	2015	**2016**
Net unrealized holding gain on securities:			
Amount increased for the year	**¥(1,710)**	¥ 4,360	**$(15,268)**
Recycling	**—**	—	**—**
Before income tax effect	**(1,710)**	4,360	**(15,268)**
Income tax effect	**656**	(1,280)	**5,857**
Net unrealized holding gain on securities	**¥(1,054)**	¥ 3,079	**$ (9,411)**
Remeasurements of defined benefit plans:			
Amount increased for the year	**¥(2,696)**	¥ 1,213	**$(24,071)**
Recycling	**342**	1,001	**3,054**
Before income tax effect	**(2,354)**	2,214	**(21,018)**
Income tax effect	**709**	(810)	**6,330**
Remeasurements of defined benefit plans	**¥(1,644)**	¥ 1,404	**$(14,679)**
Total other comprehensive income	**¥(2,699)**	¥ 4,484	**$(24,098)**

18. Business Combination:

Transaction under common control

Absorption-type merger of a consolidated subsidiary

Based on the resolution at the Board of Directors' meeting held on October 27, 2015, the Company merged its wholly-owned consolidated subsidiary, KAKEN REALTY & SERVICE CO., LTD. (hereinafter, referred to as "the Merger") on March 31, 2016.

The Merger is a simple / short-form merger applicable to a whollyowned consolidated subsidiary.

(a) Overview of the transaction

(1) Name and description of business

Surviving company

Company name: KAKEN PHARMACEUTICAL CO., LTD.

Business description: Production and sales of medical products, medical devices and agrochemicals, and rental of real estate.

Absorbed company

Company name: KAKEN REALTY & SERVICE CO., LTD.

Business description: Rental of real estate, maintenance of building, etc.

(2) Date of business combination

March 31, 2016

(3) Legal form of business combination

An absorption-type merger whereby the Company becomes the surviving company

(4) Company name after business combination

KAKEN PHARMACEUTICAL CO., LTD.

(5) Objective of business combination
KAKEN REALTY & SERVICE CO., LTD. was a whollyowned consolidated subsidiary of the Company and mainly operated a real estate business. The Company also operates a real estate business, rental office buildings. The Merger aims to improve business efficiency of the Group.

(b) Overview of the accounting treatment
The Merger is treated as a transaction under common control in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, September 13, 2013).

Since this is a merger with a whollyowned subsidiary of the Company, there are no effects on net sales, operating income and income before income taxes in the consolidated statement of income. However, as the Company had intercompany sales of fixed assets with the subsidiary before the Merger, the related deferred tax assets were reduced and income taxes were recorded accordingly. As a result, both net income attributable to owners of parent and consolidated net assets decreased ¥2,568 million ($22,929 thousand).

19. 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 within the Group.

The Group produces and sells medical products, medical devices and agrochemicals, rents real estate, and maintains buildings, operating each business by category of industry. Each business operates on its own initiative, and creates comprehensive business strategies in conducting its business activities. The Group consists of segments by category of industry based on the operation of business; therefore, it consists of two reportable segments: "Pharmaceuticals" and "Real estate."

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

"Real estate" mainly rents out Bunkyo Green Court.

On March 31, 2016, KAKEN REALTY & SERVICE CO., LTD., a whollyowned subsidiary, was merged into the Company. Accordingly, some assets held by the subsidiary and previously categorized into "Real estate" have been reclassified into "Pharmaceuticals."

Segment information for the year ended March 31, 2015 has been modified to conform to the classifications used in 2016.

(b) Method of calculating net sales, income, assets, and other items by reportable segment
Accounting policies for the reportable segments are consistent with those described in Note 2. "Summary of Significant Accounting Policies." Income by reportable segment is based on operating income.

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

(c) Information about reportable segments

MILLIONS OF YEN

	Reportable segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
			2016		
Net sales:					
Outside sales	**¥107,391**	**¥ 2,338**	**¥109,730**	**¥ —**	**¥109,730**
Intersegment sales or transfers	**—**	**—**	**—**	**—**	**—**
Total	**¥107,391**	**¥ 2,338**	**¥109,730**	**¥ —**	**¥109,730**
Segment income	**¥ 33,633**	**¥ 1,513**	**¥ 35,146**	**¥ —**	**¥ 35,146**
Segment assets	**¥ 75,248**	**¥11,057**	**¥ 86,306**	**¥46,685**	**¥132,991**
Other items:					
Depreciation and amortization	**¥ 1,975**	**¥ 346**	**¥ 2,321**	**¥ —**	**¥ 2,321**
Increase in property, plant and equipment and intangible assets	**3,115**	**20**	**3,135**	**—**	**3,135**

MILLIONS OF YEN

	Reportable segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
			2015		
Net sales:					
Outside sales	¥91,458	¥ 2,431	¥93,889	¥ —	¥ 93,889
Intersegment sales or transfers	—	—	—	—	—
Total	¥91,458	¥ 2,431	¥93,889	¥ —	¥ 93,889
Segment income	¥19,272	¥ 1,358	¥20,631	¥ —	¥ 20,631
Segment assets	¥72,032	¥11,385	¥83,417	¥31,717	¥115,135
Other items:					
Depreciation and amortization	¥ 2,445	¥ 549	¥ 2,995	¥ —	¥ 2,995
Increase in property, plant and equipment and intangible assets	2,916	20	2,936	—	2,936

THOUSANDS OF U.S. DOLLARS (NOTE 1)

	Reportable segment				
	Pharmaceuticals	Real estate	Total	Adjustments	Consolidated
			2016		
Net sales:					
Outside sales	**$958,848**	**$20,875**	**$979,732**	**$ —**	**$ 979,732**
Intersegment sales or transfers	**—**	**—**	**—**	**—**	**—**
Total	**$958,848**	**$20,875**	**$979,732**	**$ —**	**$ 979,732**
Segment income	**$300,295**	**$13,509**	**$313,804**	**$ —**	**$ 313,804**
Segment assets	**$671,857**	**$98,723**	**$770,589**	**$416,830**	**$1,187,420**
Other items:					
Depreciation and amortization	**$ 17,634**	**$ 3,089**	**$ 20,723**	**$ —**	**$ 20,723**
Increase in property, plant and equipment and intangible assets	**27,813**	**179**	**27,991**	**—**	**27,991**

(d) Information on products and services
Information on 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 all 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
	2016	2015	**2016**	
Alfresa Corporation	**¥18,276**	¥15,367	**$163,179**	Pharmaceuticals
SUZUKEN CO., LTD.	**16,959**	14,133	**151,420**	Pharmaceuticals
MEDICEO CORPORATION	**16,444**	13,546	**146,821**	Pharmaceuticals

20. Subsequent Events:

Acquisition of treasury stock
Following acquisition of treasury stock under Article 156 of the Companies Act (the "Act"), as applied pursuant to Article 165 (3) of the Act, has been resolved by the Board of Directors' meeting held on May 12, 2016.

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

(2) Class of stock to be acquired:
Common stock

(3) Number of stock to be acquired:
Up to 600,000 shares

(4) Total amount of stock to be acquired:
Up to ¥3,500 million ($31,250 thousand)

(5) Schedule for acquisition:
From May 13, 2016 to December 29, 2016

(6) Method of acquisition:
Purchase on the Tokyo Stock Exchange
Based on the aforementioned resolution, the Company acquired 43,900 shares of its common stock in a total amount of ¥266 million ($2,375 thousand) at the end of May 2016.

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, 2016, 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, 2016, 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 20, at a meeting of the Board of Directors of the Company held on May 12, 2016, the Company approved the acquisition 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 29, 2016

Corporate Data

As of March 31, 2016

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
Chugoku and Shikoku Branch
Fukuoka Branch

Plant

Shizuoka Factory

Research Laboratories

Drug Research Center (Kyoto)
Drug Research Center (Shizuoka)
CMC Center

Company Information

Incorporated

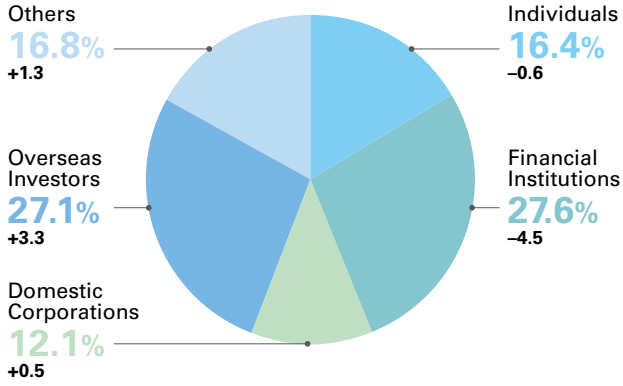
March 1948

Paid-in Capital

¥23,853 million

Common Stock

Authorized: 193,000,000 shares
Issued: 48,439,730 shares (As of August 31, 2016)
Number of Shareholders: 11,565 (As of March 31, 2016)



Major Shareholders

SHAREHOLDERS	NO. OF SHARES (THOUSANDS)	SHARE OF TOTAL (%)
Toray Industries, Inc.	2,294	4.7
The Norinchukin Bank	1,843	3.8
Mizuho Bank, Ltd.	1,474	3.0
Japan Trustee Services Bank, Ltd. (Trust Ac.)	1,375	2.8
The Master Trust Bank of Japan, Ltd. (Trust Ac.)	1,185	2.4
KYORIN Pharmaceutical Co., Ltd.	852	1.8
Nippon Life Insurance Company	680	1.4
Kaken Pharmaceutical Employee Stock Ownership Association	635	1.3
Kyoei Fire & Marine Insurance Co., Ltd.	624	1.3
MSCO CUSTOMER SECURITIES	561	1.2

Employees (Non-Consolidated)

Administration: 70
Marketing & Sales: 944
Production: 129
Research & Development: 259
Regulatory Affairs: 42

KAKEN PHARMACEUTICAL CO., LTD.

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