KAKEN

Annual Report 2009

Year Ended March 31, 2009

Bringing Smiles to Everyone

Corporate Philosophy

Bringing smiles to everyone

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

To continue realizing our corporate philosophy of "bringing smiles to everyone," it is essential that Kaken not only responds to changes in the times but also innovates and remakes itself.

Looking to create new drugs that are competitive on the global market, we will build Kaken into a company that makes our employees proud by providing much-needed, high-quality pharmaceuticals. Kaken strives to advance to the 21st century as a company that maintains a strong presence and fulfills its obligations to society as a pharmaceutical company.

Profile

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

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

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

Contents

Forward-Looking Statements

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

Business Philosophy: Three Joys

KAKEN
conducts business by

Creating joy for patients.

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

Creating joy as a company.

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

Creating joy for our employees.

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

Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars (Note)
	2009	2008	2009
For the years ended March 31,			
Net sales	¥82,930	¥79,934	$846,224
Operating income	10,629	9,842	108,459
Net income	5,579	5,106	56,929
At March 31,			
Total net assets	56,679	57,447	578,357
Total assets	94,504	93,856	964,327
Per share data:	Yen		U.S. dollars (Note)
Net income (Basic)	¥ 55.61	¥ 48.35	$ 0.567
Cash dividends (Non-Consolidated)	26.00	20.00	0.265
Ratios:	%		
ROE	9.78	8.66	—
Capital adequacy ratio	59.98	61.21	—

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥98 = $1 effective on March 31, 2009.

President's Message

As a medium-sized pharmaceutical group with management that facilitates flexible response to changes, we continued to enhance our corporate quality and strove to develop and supply effective pharmaceuticals. We also actively pursued the generic drug business as one pillar of our operations.

Upholding its corporate philosophy of "bringing smiles to everyone," the Kaken Group aims to provide superior pharmaceuticals that improve patients' quality of life. To guide our corporate actions to meet shareholders' objectives, we have formulated three basic policies for management. Through these policies, we seek to maximize corporate value to earn the trust and expectations of all our stakeholders. The three polices are as follows.

1. **Discover, manufacture and supply useful pharmaceuticals that meet the needs of patients and the medical community.**
2. **Remaining conscious of our social responsibilities as a pharmaceutical company, conduct corporate activities in a highly principled manner, and aim to be a company that is trusted by society.**
3. **Strive to create an energetic atmosphere in which employees can enjoy and take pride in their work.**

Overview of Results for the Fiscal Year Ended March 31, 2009

Although the Japanese economy went into recession, its impact on the pharmaceutical industry was relatively slight. On the other hand, Japan's National Health Insurance system introduced medical cost restraints, including drug price revisions that went into effect in April 2008, promoting the use of generic drugs at medical institutions and dispensaries, and the doubling of facilities applying the Diagnosis Procedure Combination (DPC). Under these circumstances, the Group endeavored to meet the needs of medical professionals in the field by providing information.

As a result of these efforts, we maintained growth in profits for the seventh consecutive year, with net sales and operating income reaching historic highs. Owing to steady increases in sales of mainstay products, consolidated net sales rose 3.7% during the year, to ¥82,930 million. Owing to successful efforts to use selling, general and administrative expenses more efficiently, the operating margin improved and operating income grew 8.0%, to ¥10,629 million. Net income expanded 9.3%, to ¥10,629 million, despite losses on sales and devaluation of investment securities.

Addressing Future Challenges for Continued Growth

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

Focus investments on research and development

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

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

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

Strengthen our sales force

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

Establish an internal control system and carefully manage risk

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

Optimize and streamline operations

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

Promote Environmental Protection

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

Basic Policy and Approach concerning Return to Shareholders

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

Dividends per share of common stock applicable to the fiscal year under review consisted of a ¥13.00 interim dividend and a ¥13.00 year-end dividend—each ¥3.00 higher than in the previous year, resulting in total dividends for the year of ¥26.00 per share. This amount is ¥6.00 higher than for the preceding fiscal year, making fiscal year 2008 our seventh consecutive year of dividend increases and raising our payout ratio to 46.8%.

Kaken also implements a flexible system of acquisition of treasury stock through resolutions by the Board of Directors to facilitate response to changes in the business environment.

During the year, Kaken cancelled ¥11,141 million in treasury stock and acquired an additional ¥2,821 million in the market on this basis.

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

Target Management Indicators and Long-Term Business Strategy

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

June 2009

乾　四朗

Shiro Inui
President

SPECIAL FEATURE

Developing New Products

Kaken's Innovative Product for Regeneration

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

After obtaining exclusive licensing rights in Asia in 1988 from Scios Inc. of the United States, Kaken made continued R&D efforts toward approval of the drug for the treatment of pressure ulcer and other skin ulcers (burns and leg ulcers), releasing the product onto the market for the first time as Fiblast Spray in June 2001. After more than eight years on the market as a wound healing agent, the drug has a solid reputation in numerous hospitals and clinics in Japan.

bFGF has also been found to promote the proliferation and regeneration of periodontal and bone tissues, in addition to skin tissue. In dentistry, its effectiveness has been proven in the regeneration of alveolar bone, as well as to the regeneration of periodontal ligament and cementum. We have completed two Phase II clinical trials in periodontitis patients to confirm the dose-dependent effects on the regeneration of destroyed alveolar bone,

New Drug Development Pipeline

	Product	Indication	Stage	Launch (CY)	Remarks
1	KCB-1D	Periodontitis	PIII	2012	bFGF
2	KCB-1B	Bone fractures	PII Finished	2014	bFGF Next stage of clinical trials under consideration
3	KP-102LN	Short stature	PII	2014	For growth hormone deficiency
4	TRK-100STP	Lumbar spinal canal stenosis	PII	2016	Developed jointly with Toray; New indication for sustained-release formulation of beraprost sodium
5	KP-496NS	Allergic Rhinitis	PII	2014	Nasal spray
6	KP-103	Onychomycosis	PI	2012	Topical formulation; Licensed to Dow Pharmaceutical Sciences Inc.; PII in U.S.A.
7	KP-413	Atopic dermatitis			Topical formulation; PI/ PII in U.S.A.

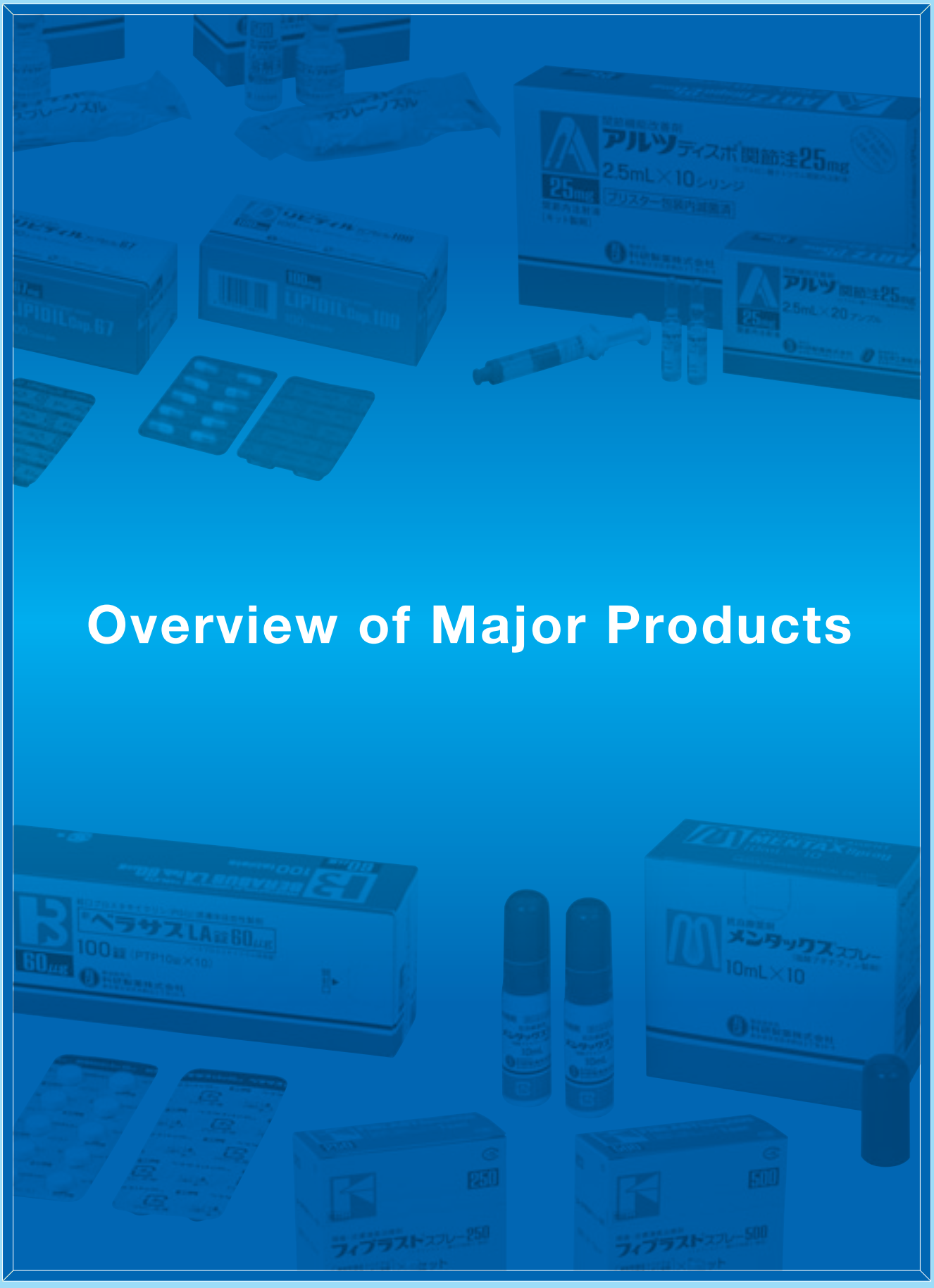
and also to identify the optimal dose for Phase III. Currently, Phase III trial is proceeding as scheduled, and we expect to obtain marketing approval in 2012. We are conducting basic research with the prospect of expansion into areas of dentistry beyond periodontitis, including implant applications.

For bone tissue, bFGF has demonstrated the ability to promote fracture repairs by enhancing bone metabolism through both the direct proliferative effect on osteoblasts and the indirect accelerative effect on osteoclasts. We recently completed Phase II clinical trials on patients with tibial shaft fractures, and we are in the process of setting our next objective.

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

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

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



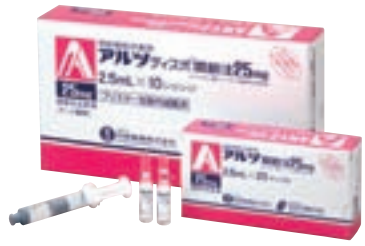
Overview of Major Products

Pharmaceuticals and Medical Devices

Artz (sodium hyaluronate)

Artz is an anti-osteoarthritis with highly purified sodium hyaluronate as the active ingredient. Hyaluronic acid is extracted from rooster combs and has viscoelastic, waterretentive and lubricating properties.

In 1987, Artz was released for the first time, indicated for osteoarthritis of the knee as a form of hyaluronic acid injectable into the joint, obtaining additional approval for the treatment of shoulder periarthritis in 1989.



Artz (Sodium hyaluronate)

In 1992, Artz Dispo—a packaging of the drug with a disposable syringe—was released with the aim of making injection procedures simpler and faster, as well as reducing the danger of infections.

In 2005, the drug was approved for the treatment of knee joint pain accompanying chronic rheumatoid arthritis.

Procylin (oral prostaglandin I2 analog)

Procylin is a prostaglandin I2 analog, beraprost sodium, as its active ingredient, which dilates blood vessels and inhibits platelet aggregation, serving as a treatment for chronic artery occlusive disease. This drug was created by Toray Industries, Inc. and commercialized through joint clinical development with Kaken. It is the only oral prostaglandin I2 analog formulation in the world.

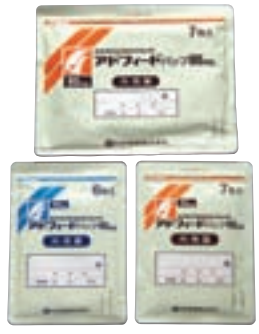
Procylin is a superior circulation enhancer with its ability to inhibit platelet aggregation and increase peripheral blood flow. The drug was launched in 1992 for its effectiveness in treating ulcers, pain and chills resulting from such conditions as arteriosclerosis obliterans (ASO) and thromboangitis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

Procylin
(oral prostaglandin I_2 analog)

Adofeed (pain- and inflammation-relieving plaster)

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

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



Adofeed
(pain- and inflammation-relieving plaster)

Mentax (anti-trichophyton agent)

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

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

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

Mentax
(anti-trichophyton agent)

Lipidil (anti-hyperlipidemia)

Lipidil (anti-hyperlipidemia)

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

Fenofibrate is a fibrate compound developed by Fournier Pharma (now Solvay S.A.) in France.

The drug improves overall lipid metabolism by activating peroxisome proliferatoractivated receptor a (PPARa) in liver cells and lowering triglycerides and cholesterol while increasing HDL-cholesterol by adjusting the expression of a variety of proteins involved in lipid metabolism.

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

Seprafilm
(synthetic-absorbent anti-adhesive barrier)

Seprafilm (synthetic-absorbent anti-adhesive barrier)

Seprafilm is a sheet-type, synthetic-absorbent and anti-adhesive medical device developed by Genzyme Corp. in the United States, consisting of sodium hyaluronate and Carboxymethylcellulose. Within 24 to 48 hours after applying Seprafilm to tissues damaged by surgery, the product becomes a hydrated gel and remains in place for approximately seven days, acting as an effective anti-adhesive by creating a physical barrier between damaged tissue and the surrounding normal tissue.

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

Fiblast Spray
(wound healing agent)

Fiblast Spray (wound healing agent)

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

Ebrantil (treatment for dysuria and the 1-selective hypertension)

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

In Japan, the drug was first marketed in 1989 as a treatment drug for hypertension, based on its peripheral vasodilating effect. In 1995 the treatment was approved for difficulty in urination caused by benign prostatic hyperplasia, and in 1999 it was approved as the world's first 1-blocker for the treatment of dysuria caused by neurogenic bladder.

Cytotec (NSAID-induced ulcer preventive drug)

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

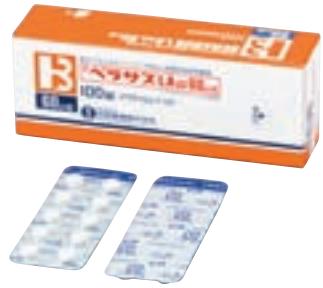
In the Guidelines for the Examination of Gastric Ulcers and Guidelines for the Treatment of Rheumatoid Arthritis in Japan, Cytotec is recommended as a drug backed by clinical evidence for the prevention and treatment of NSAID-induced ulcers.

Generic Drugs

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

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

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



(Oral Prostaglandin I_2 analog Sustained-Release Formulation)

Berasus (oral prostaglandin I2 analog sustained-release formulation)

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

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

To date, there have been few effective drugs to combat PAH and Berasus is anticipated as a high-potential possible alternative.

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

Agrochemicals

Polyoxins (fungicides)

Two different technical grade active ingredients (TGAIs), Polyoxin AL and Polyoxin Z, are produced by fermentation using a microorganism isolated from a soil of Mt. Aso in Japan. Formulations of WP, SG and WG are registered in various countries and used widely to control fungal diseases on fruit trees, vegetable, flowers, turf and ornamentals. As natural source fungicides, they are known to be highly safe for humans, animals, plants and the environment

Pentoxazone (rice herbicide)

Pentoxazone is known as a Protox inhibitor and used to control annual broad leaves, barnyard grass and monocholia in paddy fields with a long-lasting effect. GR, SC, TB and EW formulations of pentoxazone alone or in combination with sulfonylurea and other herbicidal compounds are available and can be applied before, during and after transplantation of rice seedlings due to their high crop safety.

Agrochemicals

Salinomycin (ionophore anti-coccidial for chicken)

Salinomycin was discovered and developed by Kaken and registered first in Japan in 1978. Through successful marketing and licensing, salinomycin is now the best-selling anti-coccidial feed additive in the world and is instrumental in economically producing millions of tons of healthy chicken meat. Kaken produces salinomycin under GMP and supplies worldwide technical grade material and formulated products directly and through distributors.

Colistin sulfate (polypeptide antibiotic)

Colistin sulfate is used as a veterinary medicine or feed additive to control diseases caused by gram-negative bacteria in poultry, swine, cattle and other animals. This antibiotic has been used worldwide for a long period of time because of its excellent safety and efficacy.

R&D Division

Kaken's drug discovery research focuses on such areas of strength as inflammation, immunity and allergies, in addition to its core competence of fungal infection disease. We invest substantial financial and human resources into such research activities with the aim of developing new drugs that are both effective and safe. To create innovative drugs that can compete in the world market, we maintain an active program of drug discovery research, spearheaded by outstanding research professionals and techniques refined over many years of experience in pharmaceutical development.

At present, we have a total of around 300 researchers. During the year under review, we estimate that our research and development expenses came to ¥8.3 billion. To expedite our R&D activities, we are actively pursuing strategic alliances with companies and research institutes both in Japan and overseas, including for offshore clinical development, as well as outsourcing some of our operations.

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

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

We advance R&D efforts through cooperation and coordination among five research sections. The Chemistry Laboratory handles synthesis of the compounds that are the seeds of new drugs. The Drug Discovery Research Laboratory seeks out and evaluates pharmacological activities of candidate compounds. The Pharmacology Laboratory verifies the utility of candidate compounds created through discovery research and compares them alongside other drugs. The Pharmacokinetics and Safety Research Laboratory verifies the safety of candidate compounds on animals and humans and assesses their ADME in vivo. The Drug Formulation Laboratory investigates the physical and chemical properties of the drug compound and creates a production plan to ensure maximum safety and effectiveness in the resulting drug's action on the target disease.

As a result of our research activities, in 2001 Kaken's scientists received the 23rd Young Investigator Award from the American Society for Bone and Mineral Research (ASBMR)—the most prestigious organization in the field— in recognition of our research in osteoporosis. In 2003, Kaken's scientists received the Prize for the Most Outstanding Pharmacy Thesis from the Academy of Pharmaceutical Science and Technology, Japan (APSTJ) in the field of oral solid formulation design, and in 2009, we won the APSTJ Asahi Kasei Encouraging Prize for the development of Itraconazole. These awards underscore our high level of basic technology. We are leveraging such research technologies to accelerate and expand our R&D efforts.

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

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

In our R&D division, clinical trials are studies in which drug candidates that have passed the non-clinical trials are

actually administered to humans. The Clinical Development Department verifies the efficacy of candidate compounds coming out of discovery research or from elsewhere and plans and performs clinical trials on those compounds. The Administration Department of Clinical Development oversees clinical trial quality and reliability and manages safety information for investigational drugs. These departments coordinate with the research laboratories to ensure speedy completion of clinical trials.

Regulatory Affairs Division

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

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

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

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

The Regulatory Affairs Department supervises and assists with general aspects of production and marketing. Separate from these matters, the department is also involved in drug R&D affairs. It compiles basic and clinical data produced in the

R&D Division, obtaining drug approvals as well as registration in the drug price standards after approval.

Production Division

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

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

Marketing and Sales Division

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

Distribution Division

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

Fulfilling Our Social Responsibilities

Corporate Governance

Kaken recognizes that corporate governance is one of the most important issues facing management with regard to continually enhancing corporate value. Through the implementation of appropriate systems, we have steadily raised the transparency of management, clarifying the separation of management's supervisory and business execution functions. In addition, we are fulfilling our obligation to provide stakeholders with appropriate information.

We have introduced an operating officer system to expedite decision-making and clarify supervisory and business execution functions.

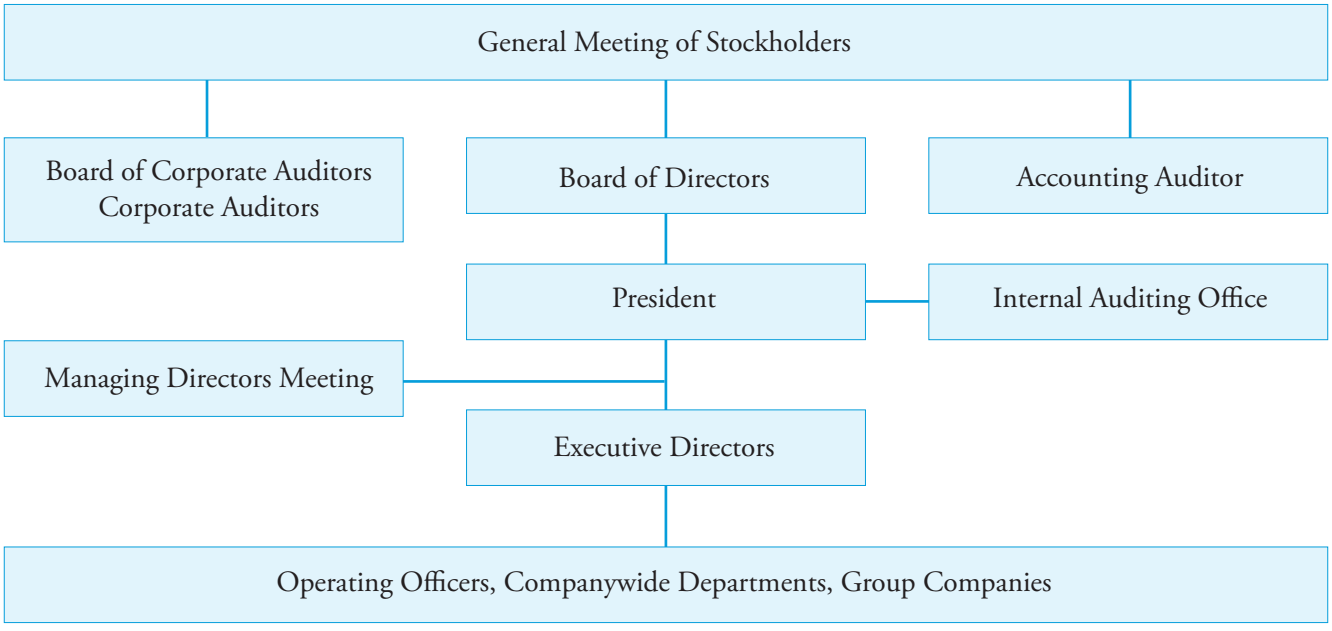
Between the "company with corporate auditors" and "company with committees" formats for Kaken's management, we have chosen our existing format of "company with corporate auditors." While we fully recognize that reinforcing the control and auditing functions is an important element of corporate governance, we believe our Board of Directors, corporate auditor system and operating officer system—under the current management format for now—are critical to the functional operation of the Company.

Our Initiatives

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

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

Corporate Governance System



Compliance

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

Kaken's Activity Principles

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

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

Environmental Protection Activities

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

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

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

Thereafter, we have fortified our environmental management activities, with our Shizuoka production and R&D facilities obtaining ISO14001 certification in August 2001 and our Kyoto research laboratories being awarded Kyoto Environmental System (KES) certification in April 2005.

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

Board of Directors and Corporate Auditors

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

President and Representative Director
Shiro Inui

Executive Managing Director
Takeshi Hirahara
(Administration)

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

Executive Managing Director
Tetsuo Onuma
(Marketing and Sales)

Executive Managing Director
Susumu Kojima
(Research and Development)

Executive Director
Masao Ishida
(Global Business Development)

Executive Director
Takao Endo
(General Affairs)

Executive Director
Hirokazu Konishi
(Marketing Planning & Coordination)

Auditor
Takeji Saito
(Standing)

Auditor
Fumio Hoshii
(Standing)

Auditor
Sumio Yoshizawa

Auditor
Keizo Nemoto

Financial Section

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars (Note)
	2009	2008	2007	2006	2005	2009
For the years ended March 31:						
Net sales	¥82,930	¥79,934	¥76,415	¥75,540	¥74,922	$846,224
Operating income	10,629	9,842	8,113	8,359	7,897	108,459
Net income	5,579	5,106	4,602	3,886	3,417	56,929
At March 31:						
Total net assets	56,679	57,447	60,433	54,637	45,490	578,357
Total assets	94,504	93,856	100,900	98,739	108,547	964,327
Per share data:	Yen					U.S. dollars (Note)
Net income (Basic)	55.61	48.35	42.42	¥40.23	¥36.54	$0.567
Cash dividends (Non-Consolidated)	26.00	20.00	17.00	15.00	12.00	0.265
Ratios:	(%)					
ROE	9.78	8.66	8.00	7.76	7.71	
Capital adequacy ratio	59.98	61.21	59.89	55.33	41.91	

Note: U.S. dollar amounts are translated, for convenience only, at the rate of ¥98 = $1 effective on March 31, 2009.

Management Discussion and Analysis

Business Climate

During the year, the Japanese economy went into recession, although its impact on the pharmaceutical industry was relatively slight. At the same time, government-induced measures to limit medical costs went into effect in April 2008, through efforts such as encouraging medical institutions and pharmacies to promote the use of generic drugs, and the number of medical facilities adopting the diagnosis procedure combination (DPC) payment system for medical treatment doubled.

Under these circumstances, the Group strove to promote sales activities closely tied to local communities by providing high-value-added information that meets the needs of medical professionals in the field.

Performance

Consolidated net sales for the year under review amounted to ¥82,930 million, up 3.7% from the preceding fiscal year. Operating income rose 8.0%, to ¥10,629 million, as we raised the operating margin through more efficient use of selling, general and administrative expenses. Net income climbed 9.3%, to ¥5,579 million, even though the Company posted a loss on devaluation of investment securities.

Segment Information

Pharmaceuticals

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

In pharmaceuticals, sales of Artz—an anti-osteoarthritic and one of our mainstay products—grew. In medical devices, sales of the anti-adhesive absorbent barrier Seprafilm expanded steadily. Sales rose for the anti-hyperlipidemia treatment Lipidil, our wound healing agent Fiblast Spray and generic drugs. However, sales of Procylin—a treatment for chronic artery occlusive disease—fell, as did sales of the pain- and inflammation-relieving plaster Adofeed and related products.

In agrochemicals, sales of Polyoxin fungicides—used to control fungal diseases on fruit trees, vegetables and lawns—and the rice herbicide Pentoxazone increased. On the other hand,

sales of feed additives Salinomycin and Colistan sulfate decreased.

As a result, net sales rose 3.7% year on year, to ¥80,448 million, and operating income grew 8.2%, to ¥9,147 million. Net sales overseas reached ¥3,840 million.

Real Estate

Rental income from Bunkyo Green Court represents the bulk of revenues from our real estate business. The completion of a sports facility at Bunkyo Green Court prompted an increase in this income during the year under review.

Consequently, sales in the real estate segment rose 4.0%, to ¥2,481 million, and operating income increased 6.9%, to ¥1,481 million.

Financial Position

Total assets at fiscal year-end stood at ¥94,504 million, up ¥647 million from a year earlier. This growth was mainly the result of an increase in cash on hand and at banks. Total liabilities amounted to ¥37,825 million, up ¥1,416 million, primarily as a result of a rise in accounts payable related to capital expenditure. Net assets totaled ¥56,679 million, a decrease of ¥768 million, due mainly to the acquisition of treasury stock.

Cash Flows

Cash and cash equivalents at the end of fiscal year 2008 stood at ¥12,556 million, up ¥170 million from a year earlier. Principal factors related to cash flow during the year are described below.

Net cash provided by operating activities amounted to ¥8,472 million, down ¥1,542 million. Contributing factors included an increase in notes and accounts receivable–trade.

Net cash used in investing activities totaled ¥2,571 million. The principal use of cash was for the acquisition of property, plant and equipment.

Net cash used in financing activities was ¥5,730 million. This was mainly the result of cash dividends paid and the acquisition of treasury stock.

Risk Factors

The factors outlined in the list below may materially affect investors' decisions relating to the Company's business activities. It should be noted that not all risks are included in the list.

(1) Risks related to new drug development

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

(2) Risks related to occurrence of side effects

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

(3) Risks related to policies to curtail medical expenses

As government initiatives to curtail medical expenses, such medical system reforms as the establishment of a medical care system for elderly patients and changes in prescription forms are under consideration. Such changes in the market environment could affect the Company's performance.

(4) Risks due to competition

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

(5) Risks related to delay or cessation of production

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

(6) Risks related to legal action

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

Consolidated Balance Sheets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2009**	2008	**2009**
Current Assets:			
Cash on hand and at banks (Note 5)	**¥10,155**	¥ 8,288	**$103,622**
Marketable securities (Notes 5 and 6)	**2,401**	4,097	**24,500**
Receivables:			
Notes and accounts receivable–trade	**28,347**	28,043	**289,255**
Accounts receivable–other	**996**	971	**10,163**
	29,344	29,014	**299,429**
Less: Allowance for doubtful receivables	**(7)**	(6)	**(71)**
	29,336	29,007	**299,347**
Inventories (Note 7)	**10,946**	9,938	**111,694**
Deferred tax assets (Note 14)	**1,319**	1,192	**13,459**
Other current assets	**771**	678	**7,867**
Total current assets	**54,931**	53,203	**560,520**
Property, Plant and Equipment (Note 8):			
Buildings and structures	**36,485**	35,543	**372,296**
Machinery and equipment	**19,476**	18,851	**198,735**
	55,962	54,395	**571,041**
Less: Accumulated depreciation	**(34,754)**	(33,150)	**(354,633)**
	21,207	21,244	**216,398**
Land	**3,762**	3,362	**38,388**
Construction in progress	**925**	543	**9,439**
Total property, plant and equipment	**25,895**	25,151	**264,235**
Investments and Other Assets:			
Investment securities (Notes 6 and 8)	**5,042**	7,733	**51,449**
Intangible assets and long-term prepaid expenses	**657**	792	**6,704**
Deferred tax assets (Note 14)	**5,276**	4,221	**53,837**
Other assets	**2,699**	2,755	**27,541**
Total investments and other assets	**13,677**	15,502	**139,561**
TOTAL ASSETS	**¥94,504**	¥93,856	**$964,327**

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

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 4) 2009
Current Liabilities:			
Short-term bank loans (Note 8)	**¥ 7,910**	¥ 5,380	**$ 80,714**
Current portion of long-term debts (Note 8)	**—**	3,000	**—**
Payables:			
Notes and accounts payable–trade	**13,172**	13,380	**134,408**
Notes and accounts payable–construction	**431**	327	**4,398**
Accounts payable–other	**4,242**	3,318	**43,286**
	17,846	17,026	**182,102**
Accrued expenses	**648**	616	**6,612**
Accrued bonuses	**1,222**	1,215	**12,469**
Accrued sales rebates	**485**	466	**4,949**
Accrued income taxes (Note 14)	**2,564**	2,092	**26,163**
Other current liabilities	**561**	484	**5,724**
Total current liabilities	**31,237**	30,282	**318,745**
Non-Current Liabilities:			
Accrued pension and severance costs (Note 11)	**5,598**	5,100	**57,122**
Accrued retirement benefits to directors	**357**	303	**3,643**
Deferred tax liabilities (Note 14)	**200**	210	**2,041**
Other long-term liabilities	**431**	511	**4,398**
Total non-current liabilities	**6,588**	6,125	**67,224**
Net Assets:			
Shareholders' Equity (Notes 2 (l) and 12):			
Common stock - no par value			
Authorized: 360,000,000 shares			
Issued: 101,879,461 shares as of March 31, 2009 and 114,879,461 shares as of March 31, 2008	**23,853**	23,853	**243,398**
Capital surplus	**11,587**	22,727	**118,235**
Retained earnings	**24,698**	21,440	**252,020**
Treasury stock, at cost: 3,695,041 shares in 2009 and 13,564,112 shares in 2008	**(3,417)**	(11,618)	**(34,867)**
Total shareholders' equity	**56,722**	56,403	**578,796**
Valuation and translation adjustments:			
Net unrealized gain on other securities, net of taxes (Note 2 (c))	**(43)**	1,045	**(439)**
Deferred gain on hedges	**—**	(0)	**—**
Total valuation and translation adjustments	**(43)**	1,044	**(439)**
Total net assets	**56,679**	57,447	**578,357**
TOTAL LIABILITIES AND NET ASSETS	**¥94,504**	¥93,856	**$964,327**

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

Consolidated Statements of Income

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Net sales	**¥82,930**	¥79,934	**$846,224**
Cost of sales	**43,144**	41,236	**440,245**
Gross profit	**39,786**	38,697	**405,980**
Selling, general and administrative expenses (Note 13)	**29,156**	28,855	**297,510**
Operating income	**10,629**	9,842	**108,459**
Other income (expenses):			
Interest and dividend income	**161**	158	**1,643**
Interest expenses	**(130)**	(145)	**(1,327)**
Amortization of net obligation at transition	**(524)**	(524)	**(5,347)**
Gain on sales of property, plant and equipment, net	**0**	448	**0**
Loss on disposal of property, plant and equipment	**(80)**	(136)	**(816)**
Gain (loss) on sales of investment securities, net	**(403)**	48	**(4,112)**
Loss on devaluation of investment securities	**(398)**	(209)	**(4,061)**
Loss on disposal of inventories	**—**	(896)	**—**
Revaluation loss of golf membership	**(56)**	(0)	**(571)**
Other, net	**157**	20	**1,602**
	(1,275)	(1,239)	**(13,010)**
Income before income taxes	**9,354**	8,603	**95,449**
Income taxes (Note 14):			
Current	**4,221**	3,496	**43,071**
Deferred	**(446)**	1	**(4,551)**
	3,774	3,497	**38,510**
Net income	**¥ 5,579**	¥ 5,106	**$56,929**

Per share data:	Yen		U.S. dollars (Note 4)
Net income (Note 16):			
Basic	**¥55.61**	¥48.35	**$0.567**
Diluted	**—**	¥48.11	**—**
Cash dividends applicable to the year (Note 12)	**¥26.00**	¥20.00	**$0.265**

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

Consolidated Statements of Changes in Net Assets

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Shareholders' equity			
Common stock			
Balance at beginning of the year	**¥23,853**	¥23,348	**$243,398**
Changes during the year:			
Shares issued on conversion of convertible bonds	**—**	504	**—**
Total changes during the year	**—**	504	**—**
Balance at end of the year	**23,853**	23,853	**243,398**
Capital surplus			
Balance at beginning of the year	**22,727**	22,226	**231,908**
Changes during the year:			
Shares issued on conversion of convertible bonds	**—**	501	**—**
Treasury stock acquired	**0**	(0)	**0**
Retirement of treasury stock	**(11,141)**	—	**(113,684)**
Total changes during the year	**(11,140)**	500	**(113,673)**
Balance at end of the year	**11,587**	22,727	**118,235**
Retained earnings			
Balance at beginning of the year	**21,440**	18,305	**218,776**
Changes during the year:			
Cash dividends	**(2,321)**	(1,971)	**(23,684)**
Net income	**5,579**	5,106	**56,929**
Total changes during the year	**3,258**	3,135	**33,245**
Balance at end of the year	**24,698**	21,440	**252,020**
Treasury stock			
Balance at beginning of the year	**(11,618)**	(5,771)	**(118,551)**
Changes during the year:			
Treasury stock acquired	**(2,966)**	(5,857)	**(30,265)**
Treasury stock sold	**26**	10	**265**
Retirement of treasury stock	**11,141**	—	**113,684**
Total changes during the year	**8,200**	(5,847)	**83,673**
Balance at end of the year	**(3,417)**	(11,618)	**(34,867)**
Total shareholders' equity			
Balance at beginning of the year	**56,403**	58,110	**575,541**
Changes during the year:			
Shares issued on conversion of convertible bonds	**—**	1,006	**—**
Cash dividends	**(2,321)**	(1,971)	**(23,684)**
Net income	**5,579**	5,106	**56,929**
Treasury stock acquired	**(2,966)**	(5,857)	**(30,265)**
Treasury stock sold	**27**	9	**276**
Retirement of treasury stock	**—**	—	**—**
Total changes during the year	**319**	(1,707)	**3,255**
Balance at end of the year	**¥56,722**	¥56,403	**$578,796**

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Valuation and translation adjustments			
Net unrealized gain (loss) on other securities			
Balance at beginning of the year	**¥ 1,045**	2,321	**$ 10,663**
Net changes in items other than shareholders' equity	**(1,088)**	(1,276)	**(11,102)**
Balance at end of the year	**(43)**	1,045	**(439)**
Deferred gain on hedges			
Balance at beginning of the year	**(0)**	1	**(0)**
Net changes in items other than shareholders' equity	**0**	(2)	**0**
Balance at end of the year	**—**	(0)	**—**
Total valuation and translation adjustment			
Balance at beginning of the year	**1,044**	2,323	**10,653**
Net changes in items other than shareholders' equity	**(1,087)**	(1,278)	**(11,092)**
Balance at end of the year	**(43)**	1,044	**(439)**
Total net assets			
Balance at beginning of the year	**57,447**	60,433	**586,194**
Changes during the year:			
Shares issued on conversion of convertible bonds	**—**	1,006	**—**
Cash dividends	**(2,321)**	(1,971)	**(23,684)**
Net income	**5,579**	5,106	**56,929**
Treasury stock acquired	**(2,966)**	(5,857)	**(30,265)**
Treasury stock sold	**27**	9	**276**
Net changes in items other than shareholders' equity	**(1,087)**	(1,278)	**(11,092)**
Total changes during the year	**(768)**	(2,985)	**(7,837)**
Balance at end of the year	**¥56,679**	¥57,447	**$578,357**

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

Consolidated Statements of Cash Flows

Kaken Pharmaceutical Co., Ltd. and Consolidated Subsidiaries.
For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes	**¥ 9,354**	¥ 8,603	**$ 95,449**
Adjustments for:			
Depreciation	**2,407**	2,280	**24,561**
Amortization of long-term prepaid expenses	**135**	327	**1,378**
Accrual for pension and severance costs, less payments	**456**	(244)	**4,653**
Interest and dividend income	**(161)**	(158)	**(1,643)**
Interest expense	**130**	145	**1,327**
Revaluation loss of golf membership	**56**	0	**571**
Gain on sale of investment securities	**403**	(48)	**4,112**
Loss on devaluation of investment securities	**398**	209	**4,061**
Loss on disposals of property, plant and equipment	**80**	136	**816**
Gain on sale of property, plant and equipment	**(0)**	(448)	**(0)**
Decrease (Increase) in notes and accounts receivable–trade	**(304)**	6,586	**(3,102)**
Decrease (Increase) in inventories	**(1,008)**	(811)	**(10,286)**
Increase (Decrease) in notes and accounts payable–trade	**(208)**	(1,766)	**(2,122)**
Other, net	**451**	(865)	**4,602**
Subtotal	**12,192**	13,948	**124,408**
Interest and dividends received	**162**	155	**1,653**
Interest paid	**(126)**	(145)	**(1,286)**
Income taxes paid, net	**(3,755)**	(3,943)	**(38,316)**
Net cash provided by operating activities	**8,472**	10,014	**86,449**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(2,577)**	(2,183)	**(26,296)**
Proceeds from sales of property, plant and equipment	**0**	528	**0**
Acquisition of investment securities	**(457)**	(2)	**(4,663)**
Proceeds from sales of investment securities	**501**	348	**5,112**
Payment of long-term prepaid expenses	**(47)**	(315)	**(480)**
Other, net	**7**	(100)	**71**
Net cash used in investing activities	**(2,571)**	(1,726)	**(26,235)**
Cash flows from financing activities:			
Proceeds from short-term loans	**2,530**	—	**25,816**
Repayment of long-term debts	**(3,000)**	—	**(30,612)**
Acquisition of treasury stock	**(2,939)**	(5,848)	**(29,990)**
Cash dividends paid	**(2,320)**	(1,967)	**(23,673)**
Net cash used in financing activities	**(5,730)**	(7,815)	**(58,469)**
Net increase in cash and cash equivalents	**170**	472	**1,735**
Cash and cash equivalents at beginning of year	**12,386**	11,914	**126,388**
Cash and cash equivalents at end of year (Note 5)	**¥12,556**	¥12,386	**$128,122**

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

1. Basis of Presenting Consolidated Financial Statements:

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

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

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

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

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

2. Summary of Significant Accounting Policies:

(a) Principles of Consolidation

The Company had three subsidiaries as of March 31, 2009 and 2008. The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The consolidated subsidiaries as of March 31, 2009 are as follows:

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

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

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

(b) Cash and Cash Equivalents

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

(c) Marketable and Investment Securities

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

(d) Inventories

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

(e) Property, Plant and Equipment

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of assets, except for buildings, structures, machinery and equipment for the Komagome office that are computed on the straight-line method. Furthermore, depreciation of buildings, except for ancillary facilities to buildings, acquired on and after April 1, 1998, is com-

puted using the straight-line method. The range of useful lives is from 3 years to 60 years for buildings and structures, and from 2 years to 8 years for machinery and equipment.

Pursuant to an amendment to the Corporate Tax Law in 2008, the Group have reviewed useful lives of machinery and equipment of the Group and consequently changed the useful lives of certain assets effective the year ended March 31, 2009. The effect of this change on the income was immaterial.

(f) Accounting for Impairment of Fixed Assets

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

(g) Pension and Retirement Benefits

Employees who terminate employment are entitled, under most circumstances, to lump-sum payments or pension payments as described below, determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The minimum payment is an amount based on voluntary retirement. In addition to the minimum payment based on voluntary retirement, employees receive additional benefits for retirement due to age limit, death or other defined reasons. The Company has a non-contributory defined benefit funded pension plan (entrusted) which covers 30% of the benefits payable under the existing retirement plan to employees.

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

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

(h) Income Taxes

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

(i) Consumption Taxes

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

(j) Derivative Financial Instruments

Derivative instruments, which include forward foreign exchange contracts and interest rate swap agreements, are used as a part of the Company's risk management of foreign currency and interest rate risk exposures of its financial assets and liabilities.

Foreign currency exchange forward contracts:

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

Interest rate swap agreements:

The Company enters into interest rate swap agreements, in order to lower funding costs and limit the Company's exposure in respect of the underlying financial instruments, resulting from adverse fluctuation in interest rates. The related interest differen-

tials paid or received under the interest rate swap agreements are recognized in interest expenses over the terms of the agreements.

Derivative financial instruments have not been implemented by consolidated subsidiaries.

(k) Appropriations of Retained Earnings

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

(l) Shareholders' Equity

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

(m) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each financial year appropriately adjusted for subsequent free distribution of shares (stock splits), if applicable.

Cash dividends per share shown for each year in the accompanying consolidated statements of income represent dividends approved or declared as applicable to the respective years.

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

3. Change in Accounting Policies:

(Accounting for Lease Transactions)

On March 30, 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. Under the previous accounting standard, finance leases that are deemed to transfer ownership of the leased assets to the lessee were to be capitalized. However, other finance leases which do not transfer ownership of the leased assets were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires lessees that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. The Group adopted this accounting standard effective from April 1, 2008. There was no effect of this change on operating income and income before income taxes.

4. United States Dollar Amounts:

The Group maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥98=U.S.$1, the approximate rate of exchange at March 31, 2009. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or any other rate.

5. Cash and Cash Equivalents:

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2009**	2008	**2009**
Cash on hand and at banks	**¥10,155**	¥ 8,288	**$103,622**
Marketable securities	**2,401**	4,097	**24,500**
	12,556	12,386	**128,122**
Marketable securities due in more than three months	**—**	—	**—**
Cash and cash equivalents	**¥12,556**	¥12,386	**$128,122**

6. Marketable Securities and Investment Securities:

The costs and aggregate market values of marketable and investment securities are as follows:

	Millions of yen					
	Cost	Market value	Unrealized loss	Cost	Market value	Unrealized gain
March 31	**2009**			2008		
Other securities:						
Market value available						
Equity securities	**¥4,523**	**¥4,450**	**¥(72)**	¥5,398	¥7,160	¥1,762
Other securities	**—**	**—**	**—**	—	—	—
	4,523	**4,450**	**(72)**	5,398	7,160	1,762
Market value not available	**2,494**	**2,494**	**—**	672	672	—
Total	**¥7,017**	**¥6,944**	**¥(72)**	¥6,070	¥7,832	¥1,762
Held-to-maturity debt securities:	**¥ 500**	**¥ 500**	**—**	¥3,997	¥3,997	—

	Thousands of U.S. dollars (Note 4)		
	Cost	Market value	Unrealized loss
March 31	**2009**		
Other securities:			
Market value available			
Equity securities	**$46,153**	**$45,408**	**$(735)**
Other securities	**—**	**—**	**—**
	46,153	**45,408**	**(735)**
Market value not available	**25,449**	**25,449**	**—**
Total	**$71,602**	**$70,857**	**$(735)**
Held-to-maturity debt securities:	**$ 5,102**	**$ 5,102**	**—**

Other securities sold during the fiscal years ended March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Proceeds from sales	**¥501**	¥348	**¥5,112**
Gross realized gains	**32**	48	**327**
Gross realized losses	**436**	—	**4,449**

7. Inventories:

Inventories as of March 31, 2009 and 2008 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2009**	2008	**2009**
Finished products	**¥ 5,670**	¥4,599	**$ 57,857**
Work in process	**1,676**	1,692	**17,102**
Raw materials and supplies	**3,599**	3,646	**36,724**
Total	**¥10,946**	¥9,938	**$111,694**

8. Short-term Bank Loans and Long-term Debts:

Short-term bank loans outstanding as of March 31, 2009 and 2008 represented the notes issued by the Group to banks. Customarily, these notes are renewed at maturity subject to renegotiation of interest rates and other factors. The weighted-average interest rates applicable to short-term bank loans as of March 31, 2009 and 2008 are 1.19% and 1.50%, respectively. Outstanding balance of short-term bank loans as of March 31, 2009 and 2008 were ¥7,910 million ($80,714 thousand) and ¥5,380 million, respectively.

Long-term debts as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2009**	2008	**2009**
Loans from banks and other financial institutions due on September 30, 2008 (interest rate 1.77%)	**¥ —**	¥3,000	**$ —**
Less: current portion	**—**	(3,000)	**—**
Total	**¥ —**	¥ —	**$ —**

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, 2009 and 2008, assets pledged as collateral for certain short-term and long-term debts, including current portion of long-term debts, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2009**	2008	**2009**
Assets pledged:			
Buildings and structures	**¥2,279**	¥2,227	**$23,255**
Machinery and equipment	**2,556**	2,539	**26,082**
Land	**103**	103	**1,051**
Investment securities	**—**	1,708	**—**
Total	**¥4,938**	¥6,578	**$50,388**
Liabilities secured:			
Short-term bank loans	**¥1,400**	¥1,400	**$14,286**
Total	**¥1,400**	¥1,400	**$14,286**

9. Accounting for leases:

As discussed in Note 3, the Companies adopted the revised accounting standard for lease transactions effective from April 1, 2008.

Prior to April 1, 2008, under the previous accounting standard, finance leases which do not transfer ownership to the lessee were accounted for as operating lease transactions. Assumed data "as if capitalized" as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which excluded the portion of interest thereon, for the year ended March 31, 2008 were summarized as follows:

March 31, 2008	Millions of yen
Acquisition cost	¥15
Accumulated depreciation	15
Net book value	—
Depreciation	¥ 0

Depreciation is computed on the straight-line method over the lease term of the leased assets with no residual value.

Periodic lease expenses on finance lease contracts without ownership-transfer for the years ended March 31, 2008 was ¥1 million.

Operating leases

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

March 31, 2009	Millions of yen	Thousands of U.S. dollars (Note 4)
Due within 1 year	**¥ 86**	**$ 878**
Due after 1 year	**1,562**	**15,939**
Total	**¥1,648**	**$16,816**

10. Derivative Financial Instruments:

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks. The Company has established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for speculative purposes.

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

11. Pension and Retirement Benefits:

The pension and retirement benefit obligation and plan assets, funded status and composition of amounts recorded in the consolidated balance sheets as of March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2009**	2008	**2009**
Projected benefit obligations	**¥(21,406)**	¥(21,474)	**$(218,429)**
Plan assets	**9,015**	10,738	**91,990**
Funded status	**(12,390)**	(10,735)	**(126,429)**
Unrecognized transition amount	**3,149**	3,674	**32,133**
Unrecognized actuarial loss	**5,282**	3,580	**53,898**
Unrecognized prior service cost	**(88)**	(110)	**(898)**
	(4,046)	(3,590)	**(41,286)**
Amounts recognized in the balance sheet consists of			
Prepaid pension cost	**1,552**	1,509	**15,837**
Accrued pension and severance costs	**¥ (5,598)**	¥ (5,100)	**$ (57,122)**

The components of net pension and severance costs for the years ended March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Service cost	**¥ 673**	¥ 683	**$ 6,867**
Interest cost	**488**	495	**4,980**
Expected return on plan assets	**(306)**	(452)	**(3,122)**
Amortization of transition amount	**524**	524	**5,347**
Amortization of actuarial loss	**565**	354	**5,765**
Amortization of prior service cost	**(22)**	(22)	**(224)**
Net pension expense	**¥1,923**	¥1,584	**$19,622**

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

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

12. Shareholders' Equity:

a) Type and number of shares outstanding and treasury stock

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of March 31, 2008	114,879,461	13,564,112
Increase in the number of shares during the accounting period ended March 31, 2009	—	3,160,866
Decrease in the number of shares during the accounting period ended March 31, 2009	13,000,000	13,029,937
Number of shares of March 31, 2009	101,879,461	3,695,041

Notes:

1. Decrease in common stock (13,000,000 shares) is due to the retirement of treasury stock based on the resolution of the Board of Directors.
2. Increase in treasury stock (3,160,866 shares) is due to the purchase of treasury stock (3,000,000 shares) and purchase of shares less than one unit (160,866 shares).
3. Decrease in treasury stock is due to the retirement of treasury stock (13,000,000 shares) based on the resolution of the Board of Directors and purchase request on shares less than one unit (29,937 shares).

b) Matters related to dividends

i) Dividend payment

Approvals by the ordinary general meeting of shareholders held on June 27, 2008 were as follows:

Dividends on common stock	
Total amount of dividends	¥1,013 million ($10,337 thousand)
Dividends per share	¥10.00
Record date	March 31, 2008
Effective date	June 30, 2008

Approvals by the Board of Directors' meeting held on November 6, 2008 were as follows:

Dividends on common stock	
Total amount of dividends	¥1,308 million ($13,347 thousand)
Dividends per share	¥13.00
Record date	September 30, 2008
Effective date	December 4, 2008

ii) Dividends whose record date is attributed to the accounting period ended March 31, 2009, but become effective after the said accounting period.

The Company obtained the following approval at the general meeting of shareholders held on June 26, 2009:

Dividends on common stock	
Total amount of dividends	¥1,276 million ($13,020 thousand)
Dividends per share	¥13.00
Record date	March 31, 2009
Effective date	June 29, 2009

13. Research and Development Costs:

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2009 and 2008 amounted to ¥7,696 million ($78,531 thousand) and ¥6,808 million, respectively.

14. Income Taxes:

The Group is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 40.69% for the years ended March 31, 2009 and 2008. A reconciliation of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2009 and 2008 is as follows:

	2009	2008
Statutory tax rate	**40.69%**	40.69%
Increase (decrease) in taxes resulting from:		
Expenses not deductible for income tax purpose (ex. Entertainment expenses)	**4.55**	4.85
Income not included for income tax purpose (ex. Dividend income)	**(0.34)**	(0.23)
Inhabitant per capita taxes	**0.92**	1.00
Tax credit for research expenses	**(6.44)**	(5.93)
Other	**0.97**	0.27
Effective tax rate	**40.35%**	40.65%

Significant components of deferred tax assets as of March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2009	2008	**2009**
Deferred tax assets:			
Reserve for bonuses	**¥ 472**	¥ 470	**$ 4,816**
Reserve for sales rebates	**197**	189	**2,010**
Loss of supplies	**162**	131	**1,653**
Devaluation of financial instruments	**204**	103	**2,082**
Amortization of R&D	**415**	285	**4,235**
Amortization of long-term prepaid expenses	**173**	282	**1,765**
Pension and severance costs	**1,827**	1,638	**18,643**
Retirement benefits to directors	**145**	123	**1,480**
Unrealized gain of property, plant and equipment	**2,568**	2,568	**26,204**
Other	**550**	434	**5,612**
Total	**6,717**	6,227	**68,541**
Valuation allowance	**(44)**	(19)	**(449)**
Deferred tax assets	**6,672**	6,207	**68,082**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(274)**	(287)	**(2,796)**
Unrealized gain on other securities	**—**	(717)	**—**
Other	**(3)**	(1)	**(31)**
Deferred tax liabilities	**(277)**	(1,005)	**(2,827)**
Deferred tax assets, net	**¥6,395**	¥ 5,201	**$65,255**

15. Related Party Transactions:

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

16. Per Share Information:

Per share information for the years ended March 31, 2009 and 2008 is as follows:

	Yen		U.S. dollars (Note 4)
	2009	2008	**2009**
Net assets per share	**¥577.27**	¥567.02	**$5.891**
Net income per share	**55.61**	48.35	**0.567**
Diluted net income per share	**—**	48.11	**—**

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
For the years ended March 31, 2009 and 2008	**2009**	2008	**2009**
Net income	**¥5,579**	¥5,106	**$56,929**
Net income attributable to common stock	**5,579**	5,106	**56,929**
Adjustment to net income	**—**	—	**—**
(Share data)			
Average number of share (thousand)	**100,340**	105,608	**—**
Additional number of share (thousand)	**—**	515	**—**

17. Segment Information:

Information about operations in industry segments of the Group for the years ended March 31, 2009 and 2008 is as follows:

Millions of yen

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

Millions of yen

Year ended March 31, 2008	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	¥77,547	¥ 2,386	¥79,934	¥ —	¥79,934
Inter-segment	—	305	305	(305)	—
Total	77,547	2,691	80,239	(305)	79,934
Operating expenses	69,090	1,306	70,396	(305)	70,091
Operating income	¥ 8,457	¥ 1,385	¥ 9,842	¥ —	¥ 9,842
II. Assets, depreciation and capital expenditure					
Assets	¥57,020	¥16,508	¥73,528	¥20,328	¥93,856
Depreciation	¥ 1,939	¥ 669	¥ 2,608	¥ —	¥ 2,608
Capital expenditure	¥ 2,227	¥ 436	¥ 2,663	¥ —	¥ 2,663

Thousands of U.S. dollars (Note 4)

Year ended March 31, 2009	Pharmaceutical	Real estate	Total	Elimination or Corporate	Consolidated
I. Sales and operating income					
Outside customers	**$820,898**	**$ 25,316**	**$846,224**	**$ —**	**$846,224**
Inter-segment	**—**	**3,122**	**3,122**	**(3,122)**	**—**
Total	**820,898**	**28,439**	**849,347**	**(3,122)**	**846,224**
Operating expenses	**727,561**	**13,316**	**740,888**	**(3,122)**	**737,755**
Operating income	**$ 93,337**	**$ 15,112**	**$108,459**	**$ —**	**$108,459**
II. Assets, depreciation and capital expenditure					
Assets	**$590,224**	**$162,439**	**$752,673**	**$211,653**	**$964,327**
Depreciation	**$ 18,878**	**$ 7,061**	**$ 25,939**	**$ —**	**$ 25,939**
Capital expenditure	**$ 32,347**	**$ 255**	**$ 32,612**	**$ —**	**$ 32,612**

18. Subsequent Event:

There was no significant subsequent event to be noted herein as of June 26, 2009.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of KAKEN PHARMACEUTICAL CO., LTD. and its consolidated subsidiaries (collectively, the "Group") as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years ended , all expressed in Japanese yen.
These consolidated financial statements are the responsibility of the Company's management.
Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years ended in conformity with accounting principles and practices generally accepted in Japan (See Note 1).

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

Hijiribashi Audit Corporation

Hijiribashi Audit Corporation

Tokyo, Japan
June 26, 2009

Corporate Data

(As of March 31, 2009)

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Tokyo-2 Branch
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Osaka-1 Branch
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Company Information

Founded
March 1917

Incorporated
March 1948

Paid-in Capital
¥23,853 million

Common Stock
Authorized: 360,000,000 shares
Issued: 101,879,461 shares (As of Aug. 31, 2009)
Number of Shareholders: 14,281 (As of Mar. 31, 2009)

Employees (Non-Consolidated)
Administration: 118
Sales & Marketing: 991
Production & Technology: 252
Research & Development: 293
Regulatory Affairs: 35

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