KISSEI

Looking Towards Tomorrow's Health

Annual Report 2017

For the Year Ended March 31, 2017

Management Philosophy

Contribute to society through high-quality, innovative pharmaceutical products
Serve society through our employees

Management Vision

We aim to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative pharmaceutical products.

The Kissei Group's history began with the founding of Tachibana Seikagaku Institute Co., Ltd. in 1946. Since then, we have operated under two management philosophies: "contribute to society through high-quality, innovative pharmaceutical products" and "serve society through our employees." In 1982 we launched Rizaben®, the first oral drug for the treatment of allergic diseases in Japan. We later developed and launched Utemerin®, a drug for the treatment of threatened premature labor and threatened abortion; Bezatol®, a drug for the treatment of hyperlipidemia; and a variety of other high-quality new drugs.

In addition to these innovative pharmaceutical products, we also offer other successful pharmaceutical products that have earned top shares, including Urief®, a drug for the treatment of dysuria associated with benign prostatic hyperplasia (BPH); Epoetin Alfa BS Injection [JCR], a drug for the treatment of renal anemia; and P-TOL®, a drug for the treatment of hyperphosphatemia, in our priority areas of urology, and renal diseases and dialysis, where we perform strongly. We are also growing our nutritional business through development and sales of special therapeutic food products represented by the Yume Series of protein controlled foods.

We firmly believe that a pharmaceutical company cannot exist without R&D, an idea which has been passed on since our founding, and continue to develop and provide original pharmaceuticals to further improve global health.

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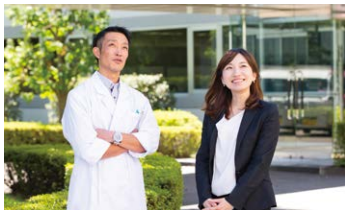


Cover photo: Aoki Lake and Mt. Shiroumadake in the Northern Japanese Alps (Nagano)

Cautionary Notice regarding Forward-Looking Statements

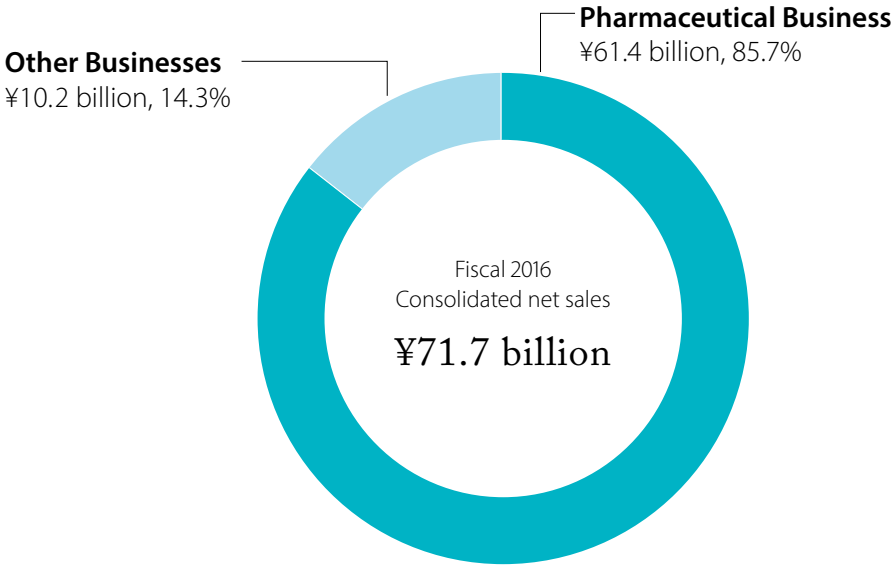
The financial forecasts, R&D plans, and other forward-looking statements that appear in this report are based on information available to the Company at the time of disclosure. In other words, such information forms the basis of our future outlooks. For that reason, projections may differ from actual financial and R&D results.

Numerical Data

Amounts in this report are rounded down. As a result, the sum and breakdown of data may not equal the total amounts.

Kissei's Business

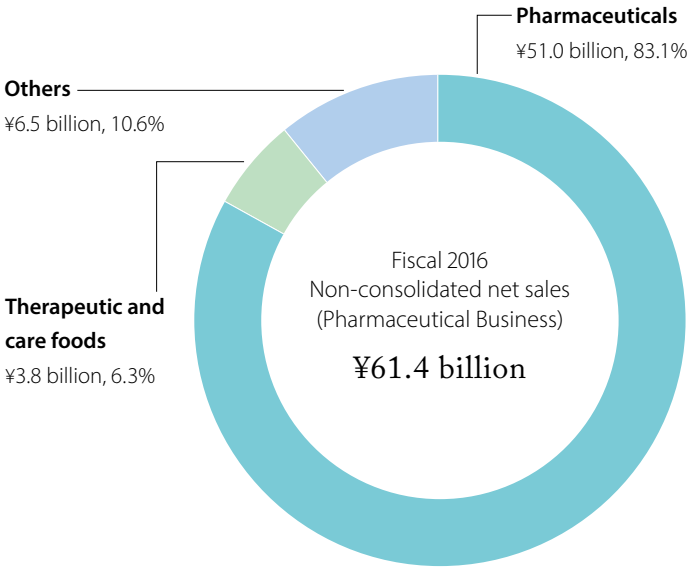
The Kissei Group consists of five companies, including a consolidated financial statement submitting company, three consolidated domestic subsidiaries, and one unconsolidated overseas subsidiary. The main focus of the Kissei group is the manufacture and sale of ethical drugs, and the related materials. We are developing business activities such as purchase / sales, system development / information processing, construction contracting, facility / facility management, information gathering / development support service, and other services.



Pharmaceutical Business

Kissei is guided by its firm belief that a pharmaceutical company cannot exist without R&D, which has been passed on since its founding. As an R&D oriented pharmaceutical company, Kissei is conducting research and development, manufacturing, and sales of mainly ethical drugs to improve the quality of life for patients and their families around the world.

Furthermore, based on the principle that a healthy diet leads to a healthy body, we are also developing our nutritional business in order to contribute to medical care through food.



Pharmaceuticals

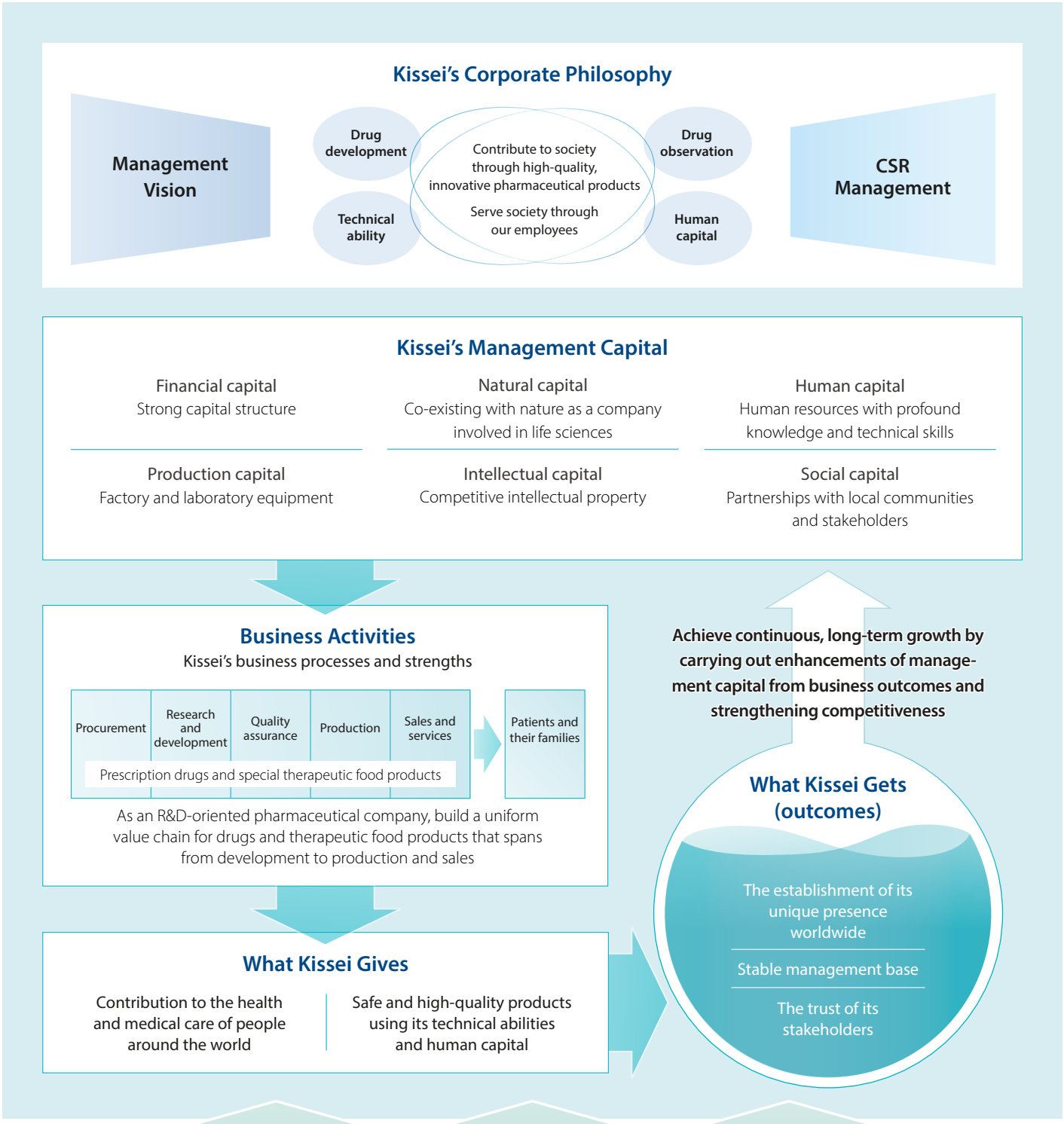
In the pharmaceutical business, we are conducting research and development on pharmaceutical products in the priority areas of urology, renal diseases including dialysis, and unmet medical needs. We aim to develop innovative pharmaceutical products that contribute to the improvement of medicine and the health of people around the world by aggressive incorporation of leading-edge technology and joint research and collaborations with our foreign and domestic partners.

Therapeutic and care foods

We develop and sell various food products, such as protein controlled foods and energy supply foods, so that people who have restricted dietary habits, such as the elderly and patients suffering from renal diseases, will feel comforted by our foods and be able to enjoy eating them. By leveraging the technology and development knowhow cultivated over many years in the pharmaceutical business, we are creating food products that are tasty, nutritionally balanced, easy to eat, and appropriate to a therapeutic diet.

Kissei's Value Creation Process

Kissei conducts business activities while responding to changing external environments in pursuit of its management vision—to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative pharmaceutical products. We are working to improve corporate value by sharing results with a range of stakeholders, building relationships of trust, and further enhancing management capital. Our goal is to achieve continuous growth as a company that is invaluable to society by means of enhancing this cycle throughout the medium to long term.



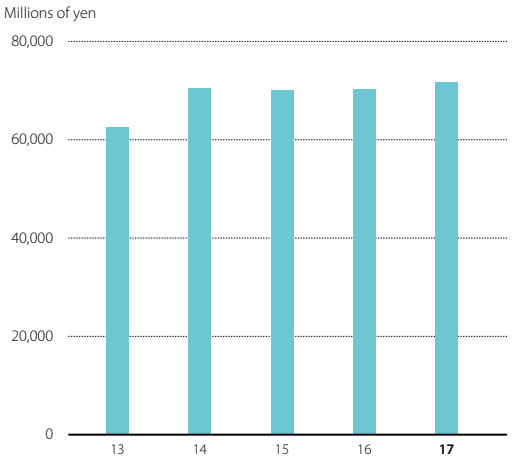
Financial and Non-Financial Highlights

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
Years ended March 31

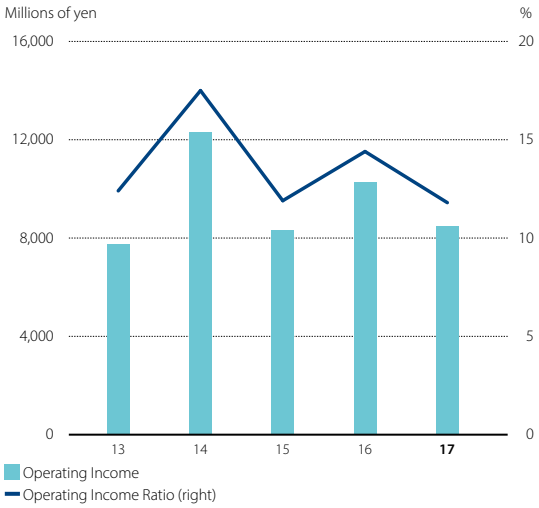
	Millions of yen, except per share data					Thousands of U.S. dollars, except per share data*1
	2013	2014	2015	2016	**2017**	**2017**
For the Year:						
Net Sales	¥62,491	¥70,399	¥70,110	¥71,294	**¥71,706**	**$640,232**
R&D Expenses	10,312	11,298	14,488	14,106	**13,877**	**123,902**
Capital Investment	1,664	2,382	1,825	1,942	**1,477**	**13,188**
Operating Income	7,761	12,301	8,334	10,274	**8,491**	**75,813**
Profit Attributable to Owners of Parent	5,019	9,093	7,165	8,165	**7,726**	**68,982**
At Year-End:						
Total Assets	¥160,028	¥172,649	¥181,484	¥193,345	**¥186,801**	**$1,667,866**
Total Net Assets	134,784	142,821	150,720	158,125	**157,783**	**1,408,777**
Per Share (Yen and U.S. Dollars)**:**						
Profit Attributable to Owners of Parent*2:						
Primary	¥97.52	¥176.67	¥142.14	¥166.89	**¥158.74**	**$1.417**
Fully Diluted	—	—	—	—	**—**	**—**
Cash Dividends	38.0	40.0	42.0	44.0	**46.0**	**0.411**
Key Ratios (%)**:**						
Operating Income Ratio	12.4	17.5	11.9	14.4	**11.8**	
R&D Expenses Ratio	16.5	16.0	20.7	19.8	**19.4**	
Return on Assets (ROA)	3.1	5.5	4.0	4.4	**4.1**	
Return on Equity (ROE)	3.9	6.6	4.9	5.3	**4.9**	
Shareholders' Equity Ratio	84.1	82.6	82.9	81.6	**84.3**	
Dividend Payout Ratio	39.0	22.6	29.5	26.4	**29.0**	
Others:						
Number of Employees	1,894	1,883	1,883	1,908	**1,905**	
Number of Shares Issued	56,911,185	56,911,185	56,911,185	54,311,185	**54,311,185**	
Non-Financial Data:						
Energy Used (kL)	9,092	9,232	9,256	9,281	**8,945**	
CO_2 Emissions (tons)	20,306	20,843	20,916	20,695	**19,701**	
Amount of Waste Generated (tons)	415	406	439	398	**366**	

*1: U.S. dollar amounts are translated at the rate of ¥112=U.S.$1, the approximate effective rate of exchange at March 31, 2017.
*2: Profit attributable to owners of parent per share is computed based on the weighted-average number of shares of common stock after subtracting the weighted-average number of shares of treasury stock for the year.

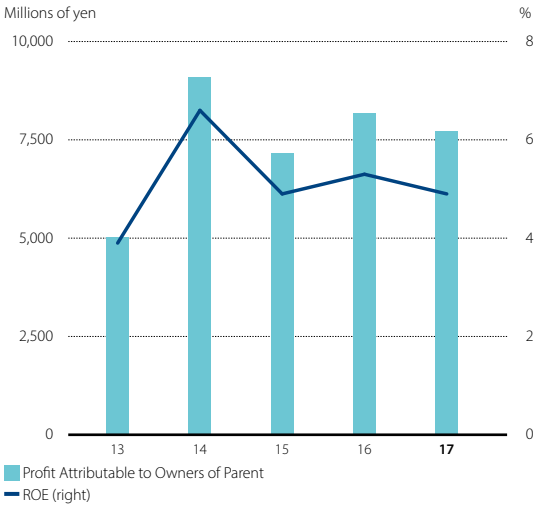
Net Sales



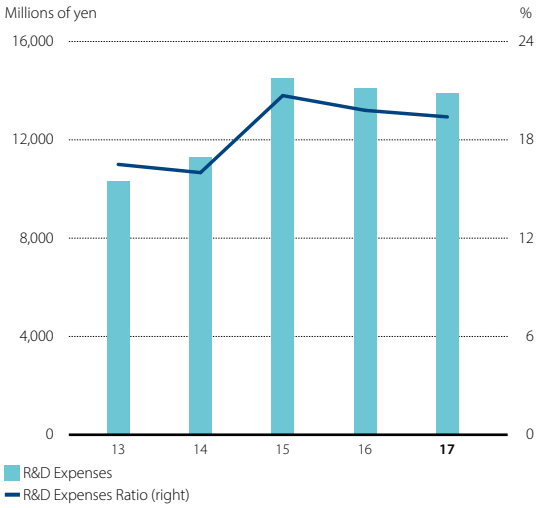
Operating Income / Operating Income Ratio



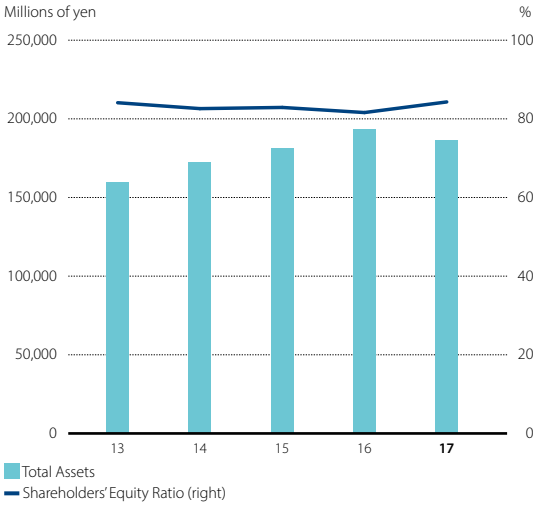
Profit Attributable to Owners of Parent / ROE



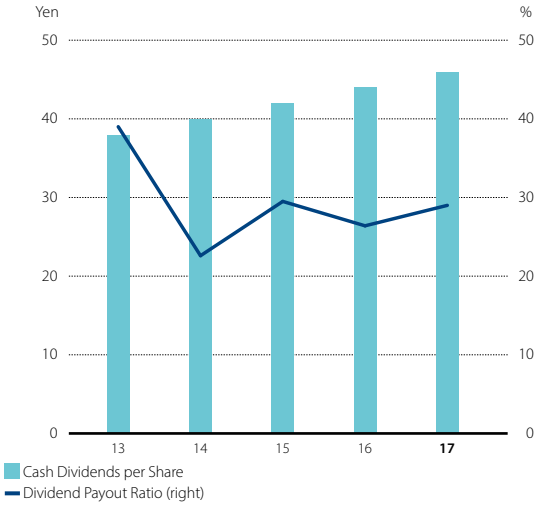
R&D Expenses / R&D Expenses Ratio



Total Assets / Shareholders' Equity Ratio



Cash Dividends per Share / Dividend Payout Ratio



New Medium-Term Management Plan

In a drastically changing business environment, new drug creation is becoming indispensable to achieving growth moving forward. In the previous medium-term management plan—"PROGRESS 3"—we worked to enhance and strengthen our product portfolio. In the new medium-term management plan—"Co-Creation"—we will take steps to further fortify business foundations based on our four basic policies.

PROGRESS 3

The Previous Medium-Term Management Plan (fiscal 2014 to 2016)

Financial Results

	"PROGRESS 3" Targets	Results from the final year (ended March 31, 2017)
Consolidated net sales	Over ¥70.5 billion	¥71.7 billion
Non-consolidated net sales	Over ¥61.0 billion	¥61.4 billion
Pharmaceuticals*1	Over ¥47.3 billion	¥51.0 billion
Therapeutic and care foods	Over ¥ 4.3 billion	¥ 3.8 billion
Other*2	Over ¥ 9.4 billion	¥ 6.5 billion
Consolidated operating income	Over ¥ 9.5 billion	¥ 8.4 billion

*1: Including pharmaceutical ingredients and bulk exports
*2: Supply to domestic sales partners + Revenue from technical fees (contract fees from out-licensing of R&D themes, milestone income, and running royalties)

Regarding net sales, sales of Pharmaceuticals, including pharmaceutical ingredients and bulk exports, as a portion of non-consolidated net sales performed beyond expectations due to sales growth of P-TOL®, a drug for the treatment of hyperphosphatemia launched in November 2015, as well as other factors. On the other hand, sales in the Other category underperformed as a result of the failure to achieve an anticipated overseas licensing partner milestone due to the discontinuation of development for KUX-1151 (development code), a drug for the treatment of hyperuricemia.

As a result, consolidated and non-consolidated net sales both performed on par with targets.

Meanwhile, consolidated operating income fell below expectations due to active investment in research and development.

New Drug Development Activities

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Launch	● Launch of Savene®	● Launch of Salagen® Granules Launch of P-TOL® ●	● Launch of Glufast® OD tablets ● Launch of Urief® OD tablets
Introduction		● Introduction of AJG511 and AJM300	Introduction of MR13A9 ● ● Introduction of KRP-114V
Licensing		● Out-licensing of KLH-2109	
Progress of development stage		Start of phase I trials for KDT-3594 ● Start of phase IIb trials for KLH-2109 ●	● Start of additional phase III trials for KPS-0373 Application for approval of Glubes® OD tablets* ● ● Start of phase III trials for JR-131 Application for approval of AJG511 ● Start of phase I and II trials for YS110 ●

* Application for approval was temporarily withdrawn in June 2017 to conduct additional studies.

"PROGRESS 3" focused on strengthening and enhancing our product portfolio as well as the efficient promotion of development themes and the steady acquisition of drug approval. We launched five new products, including additional dosage forms, and introduced four development themes. Furthermore, we made efforts to advance all our projects.

As a result, we were able to put together five products in clinical Phase III and beyond and so make progress in enhancing our portfolio in pursuit of sustained growth.

Co-Creation

The New Medium-Term Management Plan (fiscal 2017 to fiscal 2021)

Basic Policy

Our mission is to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative pharmaceutical products. To that end, we will work to strengthen business foundations to achieve stable growth into the future through the following policies laid out in the "Co-Creation" plan we began in fiscal 2017.

1.

Further strengthen drug research capabilities and continuously create innovative and highly competitive drugs.

2.

Expand our product portfolios to spur future growth through promotion of R&D projects and active in-licensing.

3.

Increase our presence in the areas of urology and renal diseases including dialysis and maximize domestic sales of medical drugs by steadily acquiring approval for drugs in the later stages of development and through smooth market introduction.

4.

Construct stable earnings base overseas through out-licensing of innovative drugs.

Financial Targets for the Final Year (fiscal 2021)

	"Co-Creation" Targets
Consolidated net sales	Over ¥73.0 billion
Non-consolidated net sales	Over ¥61.0 billion
Pharmaceuticals*1	Over ¥50.5 billion
Therapeutic and care foods	Over ¥ 4.5 billion
Other*2	Over ¥ 6.0 billion
Consolidated operating income	Over ¥ 6.5 billion
R&D expenses	¥13.0 billion

*1: Including pharmaceutical ingredients and bulk exports
*2: Supply to domestic sales partners + Revenue from technical fees (contract fees from out-licensing of R&D themes, milestone income, and running royalties)

The period covered by our "Co-Creation" plan will see the expiration of the patent for Urief®, one of our main products. For that reason, we expect to see a drop in domestic and overseas earnings for that drug. In the midst of such a business environment, we have secure plans to introduce into the market products in the later stages of development which were expanded under the previous medium-term management plan: "PROGRESS 3." By maximizing sales early on, we will overcome any temporary decreases in earnings. Our plan is to raise consolidated net sales to its current level by the final fiscal year of the new plan.

Moving forward, our priority is to invest management resources in research and development, expand our product portfolio, and recover growth by the start of the next medium-term management plan.

Letter from the CEO

Mutsuo Kanzawa
Chairman and Chief Executive Officer

As an R&D-oriented company, we will work to create new, original value in order to contribute to the healthy and affluent lifestyles of people around the world.

Guided by its management philosophy, the Kissei Group is aiming to make significant contributions to society. The Group promotes management policies that emphasize the importance of shareholders, employees, local communities, history and culture, and the environment. The management vision underpinning its core pharmaceutical business challenges Kissei Pharmaceuticals Co., Ltd. (Kissei) to be an R&D-oriented pharmaceutical company that contributes to the health of people around the world through innovative pharmaceutical products. To that end, Kissei is pushing forward with patient-centered measures including the undertaking of R&D activities, high-quality manufacturing, the collection and provision of information necessary for the optimum use of its products, the implementation of efficient operations, and the construction of a total marketing system. In addition, each Kissei Group company assists in our pharmaceutical business and leverages its technologies to help develop our operations both domestically and internationally.

In a rapidly changing world, Japan has entered

an age of population decline brought on by a shrinking birthrate and aging population and is in urgent need of social system reform. These issues have greatly impacted social security systems, particularly the health insurance and medical care provision systems, and the pharmaceutical industry is forced to change. Amid rising national healthcare expenses, and in an attempt to limit drug costs, implementation and research of policies to promote the use of generic drugs, yearly national health insurance price revisions, and additional revisions based on cost-efficiency are underway. New drug manufacturers are experiencing harsher changes than expected.

In this environment, new drug manufacturers are expected to satisfy the role of creating new, innovative drugs that can be expanded worldwide as stated in the Ministry of Health, Labour and Welfare's comprehensive strategy to strengthen the pharmaceutical industry. In addition, policies are being hammered out to support the further creation of new and innovative drugs, such as the establishment of the Japan Agency for Medical Research and Development. Accordingly, it has now become the mission of new drug manufacturers to develop high-quality new drugs and continually deliver them to patients. To reflect a reality where creation of new drugs is an essential condition, we have formulated our medium-term management plan, "Co-Creation" (fiscal 2017–fiscal 2021) to serve as a concrete roadmap for realizing our management vision and are engaging in a variety of initiatives under this plan. The period covered by this plan will see the expiration of the patent for one of the Company's main products, Urief®, a drug treatment for dysuria. In anticipation of this, our previous medium-term management plan, "PROGRESS 3," included expanding and strengthening our product portfolio as an objective. The goal of "Co-Creation" is to steadily introduce products that are currently in the later stages of our development pipeline into the market. Kissei is striving for sustained growth as an R&D-oriented pharmaceutical company by continuing in-licensing activities and R&D made possible by aggressive upfront investments.

Our aim is to always be a highly trusted company that lives up to the expectations of all our stakeholders, including patients, their families, and healthcare professionals as well as our shareholders and employees and the local communities we serve. To accomplish this goal, we will relentlessly pursue our quest to realize Kissei's management vision while forging a path for creating future value through never-ending innovation.

I ask for the ongoing understanding and support of all our stakeholders moving forward.

June 2017

Mutsuo Kanzawa
Chairman and Chief Executive Officer

Message from the COO

Review of Operations

Overview of Operations in the Year under Review

The outlook for the Japanese economy became unclear in fiscal 2016, the year ended March 31, 2017, due to concerns over the feasibility of the new U.S. government's economic policies, despite improved confidence in developed countries in North America and Europe and a pickup in economies in China and developing countries in Asia.

In addition to the national health insurance price revisions enacted by the Japanese government in April 2016, premiums for the promotion of new drug creation and resolution of unapproved drugs/indications were introduced. Meanwhile, in an effort to improve policies aimed at curbing public medical expenses, generic drug use is being promoted in addition to implementation of special repricing for market expansion and special case reductions of long-listed drugs for which change-overs to generic drugs have not advanced. These and other factors contribute to the continued harshness of business conditions in the pharmaceutical industry. Moreover, despite increases in corporate demand for IT and capital investments in the information services, merchandising, and construction industries, consumer spending is recovering at a crawl and the economy is still shrouded in a fiercely competitive atmosphere.

In the pharmaceutical business, net sales decreased 0.6% year on year, to ¥61,454 million. Owing to such efforts as actively promoting activities to spread medical information about our mainstay products, sales of P-TOL® chewable tablets for the treatment of hyperphosphatemia; Urief® and Urief® oral disintegration (OD) tablets for the treatment of dysuria associated with benign prostatic hyperplasia (BPH); Glubes® Combination Tablet, Glufast®, and Glufast® OD tablets for the treatment of type 2 diabetes; and other drugs increased. However, revenue from technical fees and supply to domestic business partners fell, leading to a decrease in net sales. Furthermore, Allergan plc (U.S.), with which we entered into a licensing agreement regarding silodosin (generic name, brand name in Japan: Urief®), a drug for the treatment of dysuria associated with BPH, for North America and Latin America, and Recordati S.p.A (Italy), with which we entered into an agreement for Europe, the Middle East, and Africa,

have continued to promote this product in their respective licensed areas in fiscal 2016. In addition, we completed a co-promotion agreement in December 2016 regarding Imuran® Tablets, an immunosuppressant, with Aspen Japan K.K., which manufactures and sells the product. Activities to circulate product information in Japan began in January 2017.

In other businesses, net sales increased 8.2% year on year, to ¥10,251 million, with the information services, merchandising, and construction industries all reporting revenue increases.

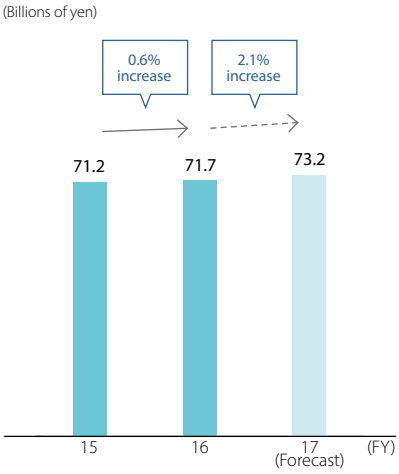
Turning to income, the cost of sales ratio increased while selling, general and administrative (SG&A) expenses, primarily selling expenses, also increased. As a result, the Company saw a decrease in both operating income and profit attributable to owners of parent.

As for R&D, in addition to applying for approval for an additional dosage form of Glubes® (OD tablets) in July 2016*, EA Pharma Co., Ltd., with which we conducted joint development, applied for approval of AJG511 (development code, generic name: budesonide), a drug for the treatment of ulcerative colitis, in October of the same year. Furthermore, we began a phase III clinical trial of JR-131 (development code), a biosimilar for a long-acting erythropoiesis-stimulating agent, darbepoetin alfa (generic name), and an additional phase III trial of KPS-0373 (development code, generic name: rovatirelin), a drug for the treatment of spinocerebellar ataxia. Moreover, we have completed a collaboration agreement with Maruishi Pharmaceutical Co., Ltd. for the development and marketing in Japan of MR13A9 (development code) a kappa opioid receptor agonist for the treatment of uremic pruritus in dialysis patients. Additionally, we decided to discontinue joint development (phase III clinical trial) of KCT-0809 (development code), a therapeutic drug for dry eye associated with Sjögren's syndrome, conducted with Teika Pharmaceutical Co., Ltd. The project was cancelled because the drug did not clearly show the expected efficacy.

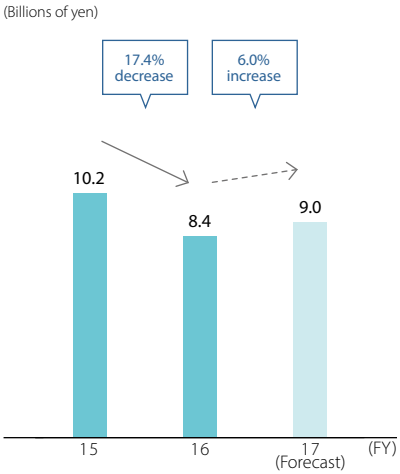
* Application for approval was temporarily withdrawn in June 2017 to conduct additional studies.

Business Results and Forecast For Fiscal 2017

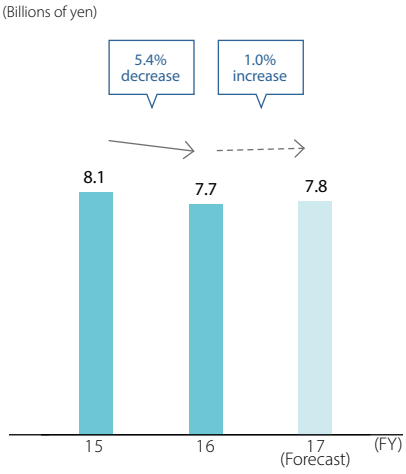
Net Sales



Operating Income



Profit Attributable to Owners of Parent



Outlook for the Current Fiscal Year

In the domestic pharmaceutical market, business conditions will likely remain difficult as the Japanese government continues the promotion of policies to reduce public medical treatment costs, such as encouraging the use of generic drugs. As for other businesses, while the economy is showing signs of recovery, harsh economic environments are expected to continue in their respective industries.

Amid these circumstances, the Kissei Group will focus its efforts on strengthening its management base through the creation of synergies among Group companies. At the same time, the Group will work to improve profitability going forward by fully capitalizing on the milestones it has made in investments toward R&D and other areas.

Net Sales

In the pharmaceutical business, we will continue efforts to cultivate Urief®, Glubes®, P-TOL®, and other drugs as part of our plan to increase in net sales. For other businesses, we forecast an increase in sales.

Income

For the pharmaceutical business, we are expecting increases in both operating income and profit attributable to owners of parent as well as increases in sales coupled with decreases in R&D expenses. As for other businesses, while we anticipate an increase in sales, income will likely decline as a result of the rising cost of sales ratio. Furthermore, we do not anticipate any noteworthy changes to non-operating income and extraordinary income.

Management Strategy

Kissei aims to contribute to society as an R&D-oriented pharmaceutical company that develops and offers innovative pharmaceutical products to support the health of people around the world. The five-year medium-term management plan—"Co-Creation"—begins with fiscal 2017. By advancing the basic strategies of the plan, listed on page 7, we will work to strengthen our business foundations in order to achieve stable growth into the future.

In fiscal 2017, the first year of the new management plan, we will continue to devote maximum managerial resources to expand our R&D pipeline. Our new research system, which became active in April, sets up conditions to consistently push drug development themes to the clinical trial stage. Furthermore, not only we are steadily improving the overarching themes of our development pipeline and actively introducing development themes and products that correspond to area-and product-specific strategies, we are also expanding product portfolios capable of driving growth.

In the domestic pharmaceutical business, we will work to strategically allocate sales resources, acquire prescriptions as planned for products newly entering the market, and focus on priority areas to maximize sales. In the urology area, we will enhance promotions of Urief® OD tablets and take steps to entrench Urief® as the top brand in BPH treatment drugs. In the renal diseases and dialysis area, we will strive to establish a P-TOL® and Epoetin Alfa BS injection [JCR] synergy to achieve market expansion for both products. In the diabetes area, as the patent for Glufast® reaches expiration, we will refocus those resources on Glubes® and secure sales in the mitiglinide family (Glubes® and Glufast®).

In fiscal 2017, the first year of the new management plan, we will continue to devote maximum managerial resources to expand our R&D pipeline.

In the nutritional business, another pillar of earnings, in addition to pursuing development of new products in the renal diseases, nursing care, and eldercare areas, we will advance our marketing activities and raise brand power to strengthen business foundations, and expand our scale of operations.

Furthermore, in fiscal 2017, we will be taking stock of our entire operation and pursuing streamlining and consolidation from the perspective of optimizing the Company as a whole in order to strengthen business foundations that support investments centered on R&D. In addition, to increase the faith and trust society holds in the Company, we will respect relevant laws and regulations, provide a stable supply of high-quality products, and deliver accurate information. We will also work to achieve business objectives through strengthening organizational capacity internally by means of substantive communication, cultivating human resources that will oversee the Company's future, and establishing a business environment where each and every employee can display their skills to the best of their ability.

Our aim for profit allocation is to continue making stable dividend payouts while taking care to secure lasting business foundations, a process based on ensuring that payouts are in line with earnings while working to improve capital efficiency.

Moreover, we will strive to fulfill our mission as a company involved in life sciences through the appropriate management of corporate governance and internal control systems, as well as the promotion of our Compliance Program.

Going forward, we would like to ask for the continued understanding and support of our stakeholders.

June 2017

Masaki Morozumi
President and Chief Operating Officer

Research and Development (R&D)

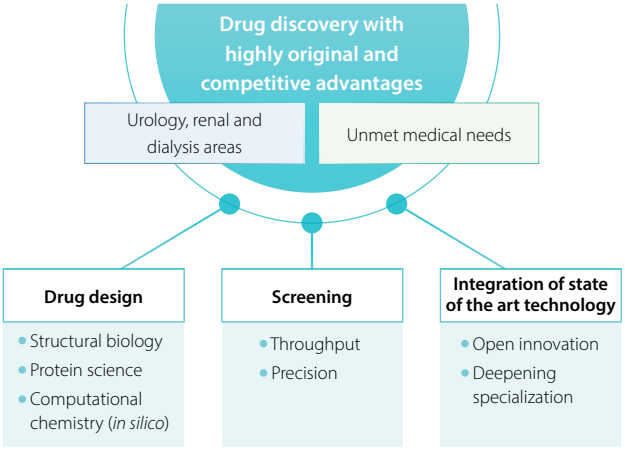
Basic Policy

As an R&D-oriented pharmaceutical company, Kissei aims to develop and provide innovative drugs by investing management resources predominately in research on drug discovery. The driving force behind the Company's R&D efforts is the desire to help patients who are suffering from illnesses and contribute to the health of people around the world.

Kissei has adopted "further strengthen drug research capabilities" as the first strategic theme of our medium-term management plan, "Co-Creation," which went into effect in April 2017. Based on this theme, we are focusing on the key areas of urology, and renal diseases and dialysis, as well as the field of unmet medical needs, where satisfaction with treatment is low, in pursuit of the development theme of creating highly original and competitive small-molecule pharmaceutical products.

In addition, we are reinforcing our research foundation and are promoting R&D for biopharmaceuticals in order to create highly competitive products that display the Company's significance.

Kissei's strength in regard to drug development is a drug design process that unites researchers of all types, including those in computational science and structural biology, particularly medicinal chemistry. We are working to further enhance research foundations using new technology developed via open innovation conducted in the realms of academia and venture capital to continuously produce new drug seeds while subjecting compounds discovered through this process to precise screening.



Kissei's Initiatives in Each Stage of the R&D Process

Discovery research—Pre-clinical studies: We focus our efforts on selecting highly original targets that can contribute to medical care, in addition to creating superior substances and establishing evaluation systems for those substances. For the establishment of cutting-edge, *in silico* drug-design technologies and screening systems, structural biology, pharmacology, pharmacokinetics, and safety assessments, we incorporate external information from academic institutions and JPMA (Japan Pharmaceutical Manufacturer's Association) consortiums. At the same time, we make proactive efforts to introduce the latest technologies, including those related to iPS cells. Furthermore, in addition to our own research we actively promote collaboration with research institutions, including universities both in Japan and overseas, as well as cooperation with venture companies that possess innovative technologies, in order to continuously create new drugs. Through these means, we endeavor to create innovate medicine based on advanced science.

Clinical trial—Approval for Manufacturing and Sales: From the early stages of development we establish a target product profile (TPP) based on scientific analysis of clinical trial results. After ascertaining a substance's marketability and probability of success, we decide which substances to prioritize and advance development accordingly. In addition, we effectively utilize outside resources such as contract research organizations. In these ways, we aim to promptly and steadily receive approval for our substances.

Kissei strictly adheres to the Good Laboratory Practice, Good Manufacturing Practice for Investigational Medicinal Products, and Good Clinical Practice standards as set by Japanese authorities. At the same time, Kissei has enacted Rules Regarding the Research Ethics Committee in accordance with the "Ethical Guidelines for Medical and Health Research Involving Human Subjects" and is engaging in R&D under high ethical standards.

After having undergone inspections by the third-party entity Japan Health Sciences Foundation, the Central Research Laboratories have been certified as organizations that conduct humane animal testing, appropriately breeding, protecting, and caring for test animals. Furthermore, in March 2015, our Safety Research Laboratories received full accreditation from the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC International), indicating that this facility is operating at a level that meets international standards for humane experimental animal testing.

Preparing a Drug Development Research System

In April 2017, Kissei reorganized its R&D departmental systems to strengthen drug development research functions by accelerating and streamlining the research process.

The new organization is a cross-functional matrix-type system that consists of separate organizations with differing specialties that have been established in each laboratory overseen by the Research Strategy and Planning Department, which is responsible for project management. Our aim is to change the organization to a matrix-type system and evaluate and accelerate drug discovery and development activities in the whole research department.

Project managers belonging to the Research Strategy and Planning Department take leadership roles and propel project work while making in-laboratory adjustments. In addition, they work to properly distribute resources while supporting researchers with different areas of expertise in each laboratory. We will enhance the level of expertise of our researchers and actively introduce improved and specialized research techniques and apply these techniques to all research.

External Collaborations

We are involved in joint research with other corporations and members of academia as part of our efforts to explore the development of promising drugs. In collaboration with Shinshu University, we established a joint department on new drug discovery. Through this collaboration, we have strengthened our cooperative relationship with the Shinshu University School of Medicine and created systems for working together with the local community. By pursuing medical seeds and striving to meet medical needs, we hope to increase opportunities for new drug creation and cultivate human resources capable of research and development of pharmaceutical products. Our ultimate goal is to contribute to the promotion of science and technology as well as the development of both the medical industry and society itself. Furthermore, we are conducting joint development of an aflibercept biosimilar, a vascular endothelial growth factor (VEGF) inhibitor, with the South Korean biotech company Alteogen.

Status of Main Research and Development Activities

The features of the main R&D themes we are currently pursuing and status of our R&D activities in fiscal 2016 are as follows.

KPS-0373 (development code, generic name: rovatirelin), an orally administered drug for the treatment of spinocerebellar ataxia, is a derivative of thyrotropin-releasing hormone discovered by Shionogi & Co., Ltd. As the result of repeated discussion with the Pharmaceuticals and Medical Devices Agency, it was decided in May 2016 that phase III clinical trials should be conducted, and they are currently ongoing.

In July 2016, we began phase III clinical trials of JR-013 (development code), a drug treatment for renal anemia and biosimilar of darbepoetin alfa (generic name), a long-acting Erythropoiesis-stimulating agent, in cooperation with JCR Pharmaceuticals Co. Ltd.

AJG511 (development code), a drug for the treatment of ulcerative colitis, is a rectal foam containing budesonide as an active ingredient and is the first of its kind in Japan. In October 2016, an application for approval to manufacture and sell AJG511 was made through the drug's co-developer EA Pharma Co., Ltd.

Based on the results of a clinical trial focused on malignant mesothelioma held in France, we have begun phase I and II clinical trials on YS110 (development code), a humanized anti-CD26 monoclonal antibody, on patients in Japan.

KRP-114V (development code, generic name: vibegron), a drug for the treatment of overactive bladder, is a once daily medication having selective beta 3 adrenergic receptor agonist activity. All domestic phase III clinical trials conducted jointly by Kissei and KYORIN Pharmaceutical Co., Ltd. have concluded, and preparations for the new drug application are currently underway.

In March 2017, Kissei and Maruishi Pharmaceutical Co., Ltd. entered into a collaboration agreement for domestic development and sales of the kappa opioid receptor agonist MR13A9 (development code), a drug for the treatment of uremic pruritus in dialysis patients. This drug is administered intravenously, making it more convenient for patients and contributing to improvements in drug compliance. It offers a new option in the treatment of pruritus.

Due to a failure to clearly produce expected levels of efficacy, we have chosen to discontinue development of KCT-0809 (development code), a drug for the treatment of dry eye associated with Sjögren's syndrome that we had been jointly developing with Teika Pharmaceutical Co., Ltd. and which had proceeded to phase III clinical trials.

R&D Pipeline As of August 2017

In-House

Development Code (Generic Name)	Expected indications	Category	Development Classification	Stage: Phase 1	Phase 2	Phase 3	NDA preparation	NDA filed	Remarks
Urology									
KRP-114V (Vibegron)	Overactive bladder	Beta 3 adrenergic receptor agonist	In-licensed / Co-development with KYORIN Pharmaceutical (Japan)						
Renal and dialysis									
JR-131	Renal anemia	Increase the red blood cell (RBC) count	In-licensed / Co-development with JCR Pharmaceuticals (Japan)						Biosimilar "darbepoetin alfa"
MR13A9 (Difelikefalin)	Uremic pruritus in dialysis patients	Kappa opioid receptor agonist	In-licensed / Co-development with Maruishi Pharmaceutical (Japan)						
Unmet medical needs									
AJG511 (Budesonide)	Ulcerative colitis	Locally active steroid	In-licensed / Co-development with EA Pharma (Japan)						Rectal foam product
KPS-0373 (Rovatirelin)	Spinocerebellar ataxia	Product mimetic of TRH action	In-licensed / Shionogi (Japan)						
AJM300 (Carotegrast Methyl)	Ulcerative colitis	Alpha 4 integrin antagonist	In-licensed / Co-development with EA Pharma (Japan)						
YS110	Malignant mesothelioma	Humanized anti-CD26 monoclonal antibody	In-licensed / Y's AC, University of Tokyo, AMED (Japan)			Phase 1/2			
Other									
KLH-2109	Endometriosis / Uterine fibroids	GnRH antagonist	Kissei						
KDT-3594	Parkinson's disease	Dopamine receptor stimulation	Kissei						

Out-Licensing

Development Code (Generic Name)	Expected indications	Category	Territory	Stage: Phase 1	Phase 2	Phase 3	NDA preparation	NDA filed	Development Company
Urology									
Silodosin	Dysuria associated with benign prostatic hyperplasia	Alpha 1A-adrenoceptor blocker	ASEAN*1, India*1, Sri Lanka*1						Eisai (Japan)
Diabetes									
Mitiglinide	Type 2 diabetes mellitus	Rapid-acting insulin secretagogue	ASEAN*2						Eisai (Japan)
Other									
KLH-2109	Uterine fibroids	GnRH antagonist	Worldwide, excluding some Asian countries such as Japan						ObsEva SA (Switzerland)
KLH-2109	Endometriosis	GnRH antagonist	Worldwide, excluding some Asian countries such as Japan						ObsEva SA (Switzerland)
Bedoradrine	Acute exacerbation of asthma / Preterm labor	Beta 2 adrenergic receptor agonist	Worldwide, except for Japan						MediciNova (U.S.)
Bedoradrine	COPD	Beta 2 adrenergic receptor agonist	Worldwide, except for Japan						MediciNova (U.S.)

*1: Launched in Thailand, India, Indonesia, the Philippines, Cambodia; Approved in Myanmar; NDA in 3 ASEAN countries
*2: Launched in Thailand, the Philippines, Cambodia, Myanmar; NDA in 2 countries

Progress after August 2016 covers the area inside the dashed lines.

Close Up

Central Research Laboratories

Kissei has four research facilities: the Central Research Laboratories, Safety Research Laboratories, Pharmaceutical Laboratories, and Joetsu Chemical Laboratories. Kissei's Central Research Laboratories, Safety Research Laboratories, and Pharmaceutical Laboratories are located in Azumino-city, Nagano Prefecture, at the foot of the Japanese Alps.

The Central Research Laboratories oversee three main functions: discovery research, pharmacological research, and pharmacokinetics research.

Discovery research is the beginning of the new drug research process and explores new substances that could be the basis for new drugs, including in the field of biologics. First, through wide-ranging exploratory research, key factors that play an important role in the progress of the diseases are identified. Once these key factors are determined to be valid targets for the discovery themes, a project team is formed, composed of medicinal chemists and biologists, and we enter the stage of creating compounds that act on these key factors. Molecular design algorithms are applied to design candidate substances for new drugs and synthesize them, and the biological activities of the compounds are efficiently evaluated using biological methods, incorporating cutting-edge technology. When narrowing down the candidate substances for new drugs, pharmacokinetic and physicochemical evaluations are conducted in addition to evaluations of the effectiveness and safety, and a search is conducted for the compounds that meet the necessary characteristics for drugs. Kissei's drug discovery team attempts to create "innovative new drugs" that contribute to medicine through the synergy of "research," "focus," "creativity," and "decision making" on the part of the researchers.

Pharmacological research is research into the efficacy of new substances. The mechanisms underlying the efficacy of new drug candidate substances that are selected through the screening process outlined above are analyzed and compared to existing drugs. This research stage also incorporates research into the possible side effects of the drugs, or on what effects the drugs will have on the body other than their expected drug efficacy.

Pharmacokinetic research involves investigation of the kinetics of new drug candidate substances in vivo, including their absorption, distribution, metabolism, and excretion. This research provides additional knowledge about the efficacy and safety of candidate substances for new drugs.

These three functions performed at the Central Research Laboratories are conducted in close collaboration with one another to meet the needs of medical facilities and in the hopes of developing therapeutic drugs as new forms of treatment.

Shinji Kikuchi, Ph.D.
Director,
General Manager of
Research and Development Division

In the Research and Development Division, we strive to create original and competitive candidate substances that can be developed globally in pursuit of Kissei's management vision and philosophy. While the Company officially focuses on small-molecule compounds, we have been actively researching biologics in recent years. We are working to strengthen the knowledge, technology, and research foundations necessary in order to move forward with drug development research in this field.

Because of the recent increase in the difficulty of drug development, I believe it is important to expand our initiatives from closed innovation alone, which occurs within the Company, to those that seek external ideas through open innovation. One such initiative is the joint department on new drug discovery we established in the Shinshu University School of Medicine, through which we evaluate development themes solicited from within the school. This initiative is proceeding smoothly, with one of the themes we evaluated being added to the Research Department's drug development theme pipeline.

My belief is that to meet today's diverse and advanced medical needs, we need to amass our knowledge and skills and combine them with the wisdom and technology of the world of academia and of venture companies in order to advance the progress of drug discovery.

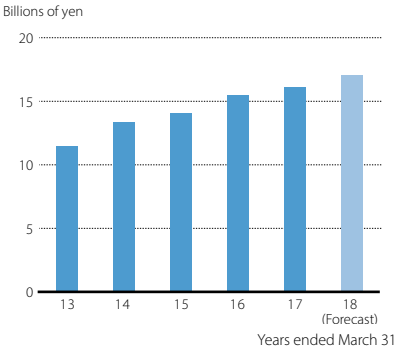
Major Domestic Pharmaceuticals

Dysuria treatment:

Urief® Tablet and OD Tablet

Urief® is a selective alpha 1A-adrenoceptor blocker developed by Kissei for the treatment of dysuria associated with benign prostatic hyperplasia (BPH). By blocking alpha 1A-adrenoceptors in the prostate gland, it removes the tension of the prostate gland to improve urethral resistance. It has been co-marketed with Daiichi Sankyo Co., Ltd., since sales began in May 2006. Sales of Urief® in the form of an orally disintegrating (OD) tablet commenced in January 2016.

Urief® Sales

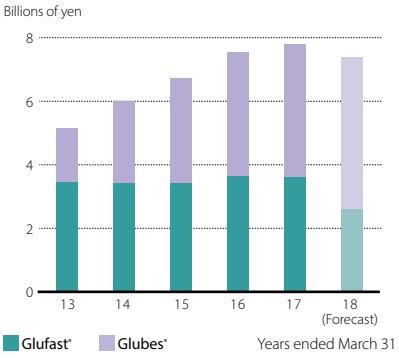


Diabetes treatment:

Glufast® Tablet and OD Tablet

Glufast® is a rapid-acting insulin secretagogue developed by Kissei that has been co-marketed with Takeda Pharmaceutical Co., Ltd., since May 2004. In September 2013, a partial revision to the indication for this agent was approved. It is now approved for treatment of type 2 diabetes, and can be used in conjunction with all oral hypoglycemic agents except sulfonylurea derivatives. Sales of Glufast® in the form of an OD tablet commenced in June 2016.

Glufast® and Glubes® Sales



Glubes® Combination Tablet

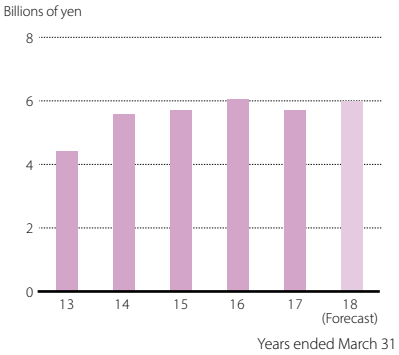
The Glubes® Combination Tablet, a combination of Glufast® and voglibose (generic name), was first sold in July 2011 by Kissei Pharmaceutical, acting independently. The tablet has been highly praised for providing aggressive treatment of postprandial glucose increases as well as being easy to administer and for reducing the economic burden on patients.

Renal anemia treatment:

Epoetin Alfa BS Injection [JCR]

Epoetin Alfa BS Injection [JCR] is a biosimilar recombinant human erythropoietin co-developed by Kissei Pharmaceutical Co., Ltd. and JCR Pharmaceuticals Co., Ltd. It has been co-marketed since May 2010.

Epoetin Alfa BS Injection [JCR] Sales

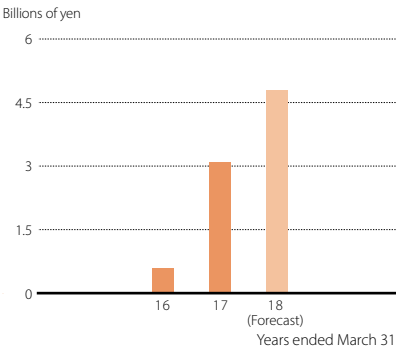


Hyperphosphatemia treatment:
P-TOL® Chewable Tablet

In November 2015, Kissei launched P-TOL® chewable tablets in Japan through Swiss-based Vifor Fresenius Medical Care Renal Pharma Ltd. (VFMCRP). P-TOL® decreases serum phosphate concentration by binding oxyhydroxide with phosphoric acid in the gastrointestinal tract and reducing internal phosphate absorption to treat hyperphosphatemia in patients on dialysis.

Overseas, VFMCRP, the licensing company of P-TOL®, has received approval for P-TOL® in 37 countries around the world, not including Japan, and is currently marketing the drug under the brand name Velphoro® in the United States, Europe, and other countries and regions.

P-TOL® Chewable Tablet Sales



Maximizing Domestic Sales of Prescription Drugs

In the Japanese prescription drug market, particularly the priority areas of urology, and renal diseases and dialysis, Kissei is striving to maximize sales of patented pharmaceutical products and bring new drugs to market, strategically allot sales resources, and establish a presence.

In the area of urology, we are strengthening promotional activities, for Urief® OD Tablet in particular, with the goal of establishing ourselves as the top brand in drug treatments for benign prostatic hyperplasia (BPH). We also hope to leverage this brand power to bring KRP-114V, a drug for the treatment of overactive bladder that is still in the midst of the approval process, to market and so maximize value.

In the area of renal diseases and dialysis, we are expanding the market share of both P-TOL® and Epoetin Alfa BS by synergistically promoting these drugs. We are also bringing two drugs under clinical development—MR13A9, a drug for the treatment of uremic pruritus in dialysis patients, and JR-131, a drug for the treatment of renal anemia—onto the market early, further strengthening our presence in this field.

In the area of diabetes, as the patent for Glufast® has expired, we are concentrating its resources on Glubes® and working to sell it within the mitiglinide family.

Additionally, we are moving ahead with development of drugs in the field of unmet medical needs, such as AJG511, a drug for the treatment of ulcerative colitis, which was approved in October 2016, as part of our efforts to maximize domestic sales of ethical drugs and secure profits.

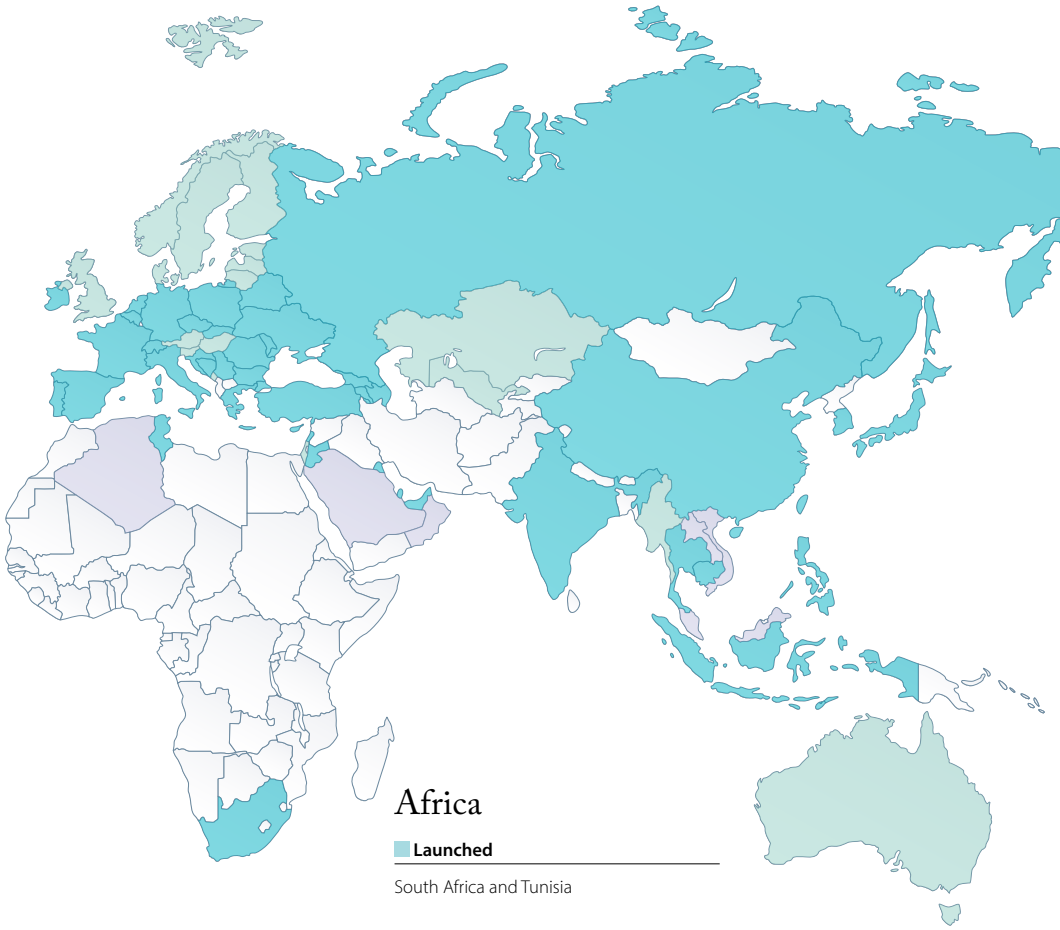
Strategically Allot Sales Resources and Establish a Presence in Key Fields

	Existing products		Theme for the plan to bring drugs to market laid out in the medium-term management plan	
Urology	Drug to alleviate dysuria Urief®	Establish top brands in drug treatments for BPH	Drug for the treatment of overactive bladder	KRP-114V
Kidneys and dialysis	Drug treatment for hyperphosphatemia P-TOL®	Drug treatment for renal anemia Epoetin Alfa BS	Drug for the treatment of uremic pruritus in dialysis patients	MR13A9
	Market expansion via synergistic effects of the two drugs		Drug treatment for renal anemia	JR-131
Diabetes	Drug treatment for diabetes Glubes®	Drug treatment for diabetes Glufast®	**Unmet medical needs** Drug for the treatment of spinocerebellar ataxia	KPS-0373
			Drug for the treatment of ulcerative colitis	AJG511, AJM300

Promoting Overseas Development

Overseas Development of Silodosin As of August 2017

Brand name:
Urief® / UROREC® / SILODYX™ / SILOSIN® / Youlifu® / Thrupas® / RAPAFLO®



Europe

Launched

Germany, Ireland, Spain, France, Portugal, Belgium, Romania, Italy, Greece, the Netherlands, Russia, the Czech Republic, Slovakia, Bulgaria, Cyprus, Turkey, Poland, the Ukraine, Georgia, Belarus, Croatia, Armenia, Serbia, Moldova, Azerbaijan, Bosnia and Herzegovina, Liechtenstein, and Switzerland

Approval acquired but not yet launched

Denmark, Estonia, Latvia, Lithuania, Luxembourg, Hungary, Malta, Austria, Slovenia, Finland, Sweden, the U.K., Norway, Iceland, Uzbekistan, Kazakhstan, and Montenegro

Africa

Launched

South Africa and Tunisia

Filed an NDA but not yet approved

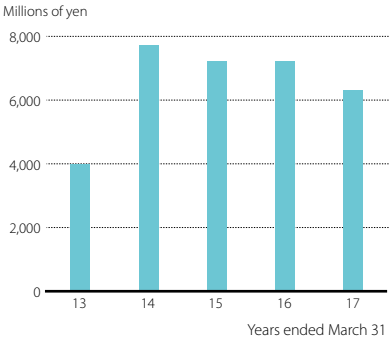
Algeria

Overseas Development of Silodosin

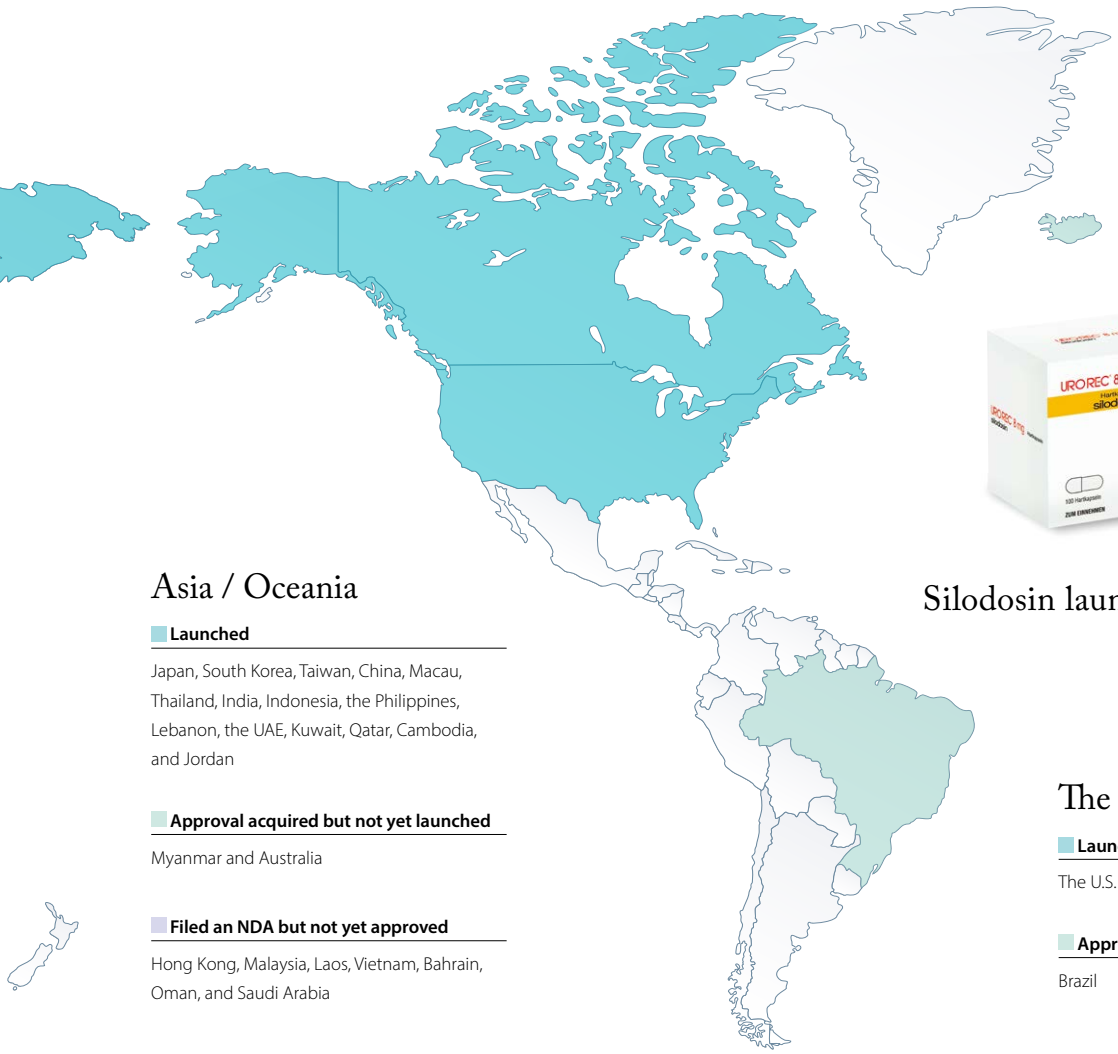
Silodosin is sold by the brand name of Urief® in Japan. It is a therapeutic drug for the treatment of dysuria associated with benign prostatic hyperplasia, and has earned a strong reputation around the world for its superior ability to relieve symptoms shortly after application. This drug was launched in the United States in April 2009 by licensing partner Watson Pharmaceuticals, Inc. (currently Allergan plc), under the brand name RAPAFLO®. To date, this company has received additional licensing rights to develop and sell the drug in 19 countries throughout the Americas. Futhermore, the drug was introduced in Germany in June 2010 under the brand name UROREC® by licensing partner Recordati S.p.A., of Italy. Recordati has received additional licensing rights to develop and sell the drug in 84 countries and regions such as Europe, the Middle East, Africa, and Oceania. In April 2013, licensing partner Daiichi Sankyo (Japan) began selling the drug in China through a local subsidiary under the name Youlifu®.

Silodosin has now been launched in 47 countries, including Japan, and is thus contributing to improving the quality of life of patients around the world.

Past Exports*



* "Exports" is the total for overseas sales and revenue from dispensing fees (based on financial results).



Asia / Oceania

Launched

Japan, South Korea, Taiwan, China, Macau, Thailand, India, Indonesia, the Philippines, Lebanon, the UAE, Kuwait, Qatar, Cambodia, and Jordan

Approval acquired but not yet launched

Myanmar and Australia

Filed an NDA but not yet approved

Hong Kong, Malaysia, Laos, Vietnam, Bahrain, Oman, and Saudi Arabia

Silodosin launched in 47 countries

The Americas

Launched

The U.S. and Canada

Approval acquired but not yet launched

Brazil

Out-Licensing of KLH-2109 (Development Code) to ObsEva SA

Kissei promotes out-licensing of new drugs and aims to build future overseas earnings bases following Silodosin.

In November 2015, Kissei granted exclusive rights to Switzerland-based ObsEva SA to develop and commercialize the novel investigational drug KLH-2109 (development code), a GnRH antagonist discovered by the Company, to all regions worldwide, excluding some countries in Asia, such as Japan. Moving forward, the Company will receive an upfront payment from ObsEva and will be eligible to receive milestone payments according to the development stage. In addition, the Company will supply drug substances to ObsEva.

ObsEva is a pharmaceutical company that specializes in the development of new drugs in the area of obstetrics and gynecology. The company is pursuing development of this drug (international development code: OBE2109) for European and North American markets. The agent is currently under phase II clinical trials for use as treatment for endometriosis as well as phase III trials as a treatment for uterine fibroids.

KLH-2109 is a new orally administrable GnRH (gonadotropin-releasing hormone) antagonist. The agent acts by antagonizing GnRH at the GnRH receptor located in the pituitary gland, thereby suppressing the secretion of gonadotropin, a gonadotropic hormone.

Kissei is focusing its efforts on R&D for new drugs and aims to expand globally by out-licensing original products overseas. Kissei will continue to actively develop new drugs that can contribute to the health of people around the world.

Corporate Governance

Board of Directors and Board of Corporate Auditors
As of June 29, 2017

Standing, From Left: Kando Nakagawa, Hidetoshi Kanai, Minoru Nomura, Shinji Kikuchi, Hiroshi Kusama, Kenji So, Tetsu Takayama, Eiichi Matsushita, Shigetaka Shimizu, Makoto Yonekubo, Hiroshi Ueno
Seated, From Left: Yasuo Takehana, Keiji Fukushima, Hiroe Sato, Mutsuo Kanzawa, Masaki Morozumi, Masayuki Isaji, Yoshio Furihata

Board of Directors

Mutsuo Kanzawa
Chairman and CEO

1976 Joined the Company
1982 Director
1992 President and CEO
2014 Chairman and CEO (current position)

Masaki Morozumi
President and COO

1980 Joined the Company
2008 Director
2010 General Manager of Sales & Marketing Division
2014 President and COO (current position)

Hiroe Sato
Executive Vice President

1975 Joined the Company
2006 Director, Department Manager of Corporate Finance & Management Dept.
2016 Executive Vice President (current position)

Masayuki Isaji
Managing Director

1980 Joined the Company
2010 Director, Department Manager of Research and Development Planning Dept.
2012 Managing Director (current position)

Keiji Fukushima
Managing Director
General Manager of Sales & Marketing Division

1979 Joined the Company
2012 Director
2014 Managing Director (current position)

Yoshio Furihata
Managing Director
General Manager of Clinical Development Division

1984 Joined the Company
2008 Director
2016 Managing Director (current position)

Yasuo Takehana
Managing Director
Department Manager of Corporate Strategy & Planning Department

1984 Joined the Company
2012 Director
2016 Managing Director (current position)

Kenji So
Director
Department Manager of Sales Planning Department

1977 Joined the Company
2014 Director (current position)

Tetsu Takayama
Director
Department Manager of Human Resources Department

1985 Joined the Company
2014 Director (current position)

Hiroshi Kusama
Director
General Manager of Pharmaceutical Manufacturing Division

1983 Joined the Company
2016 Director (current position)

Eiichi Matsushita
Director
Department Manager of General Administration Department

1983 Joined the Company
2016 Director (current position)

Shinji Kikuchi
Director
General Manager of Research and Development Division

1988 Joined the Company
2016 Director (current position)

Shigetaka Shimizu
Outside Director (independent)

1972 Joined THE HACHIJUNI BANK, LTD.
2011 President and CEO at Hachijuni Lease, Co., Ltd. & Hachijuni Auto Lease, Co., Ltd.
2013 Auditor at THE HACHIJUNI SECURITIES Co., Ltd.
2014 Director at the Company (current position)

Minoru Nomura
Outside Director (independent)

1969 Joined Nomura Kogyo Co., Ltd.
1989 President and Representative Director of Nomura Kogyo Co., Ltd.
President and Representative Director of SN SEIKI Co., Ltd.
1998 Chairman of NOMURA CORPORATION OF TAIWAN (current position)
2005 President and Representative Director of NOMURA UNISON Co., Ltd. (current position)
2008 President and Representative Director of Domaine de la Sénéchalière (current position)
2016 Director at the Company (current position)

Board of Corporate Auditors

Makoto Yonekubo
Corporate Auditor (full-time)

1970 Joined the Company
2004 Deputy Department Manager of Corporate Finance & Management Dept.
2011 Corporate Auditor (current position)

Hidetoshi Kanai
Corporate Auditor

1979 Joined the Company
2014 Director, Department Manager of Sales Planning Dept.
2016 Corporate Auditor (current position)

Hiroshi Ueno
Outside Corporate Auditor (independent)

1969 Certified Public Accountant
1974 Certified Tax Accountant
2008 Outside Corporate Auditor (current position)

Kando Nakagawa
Outside Corporate Auditor (independent)

1976 Attorney at Law
2011 Outside Corporate Auditor (current position)

Our Basic Approach to Corporate Governance

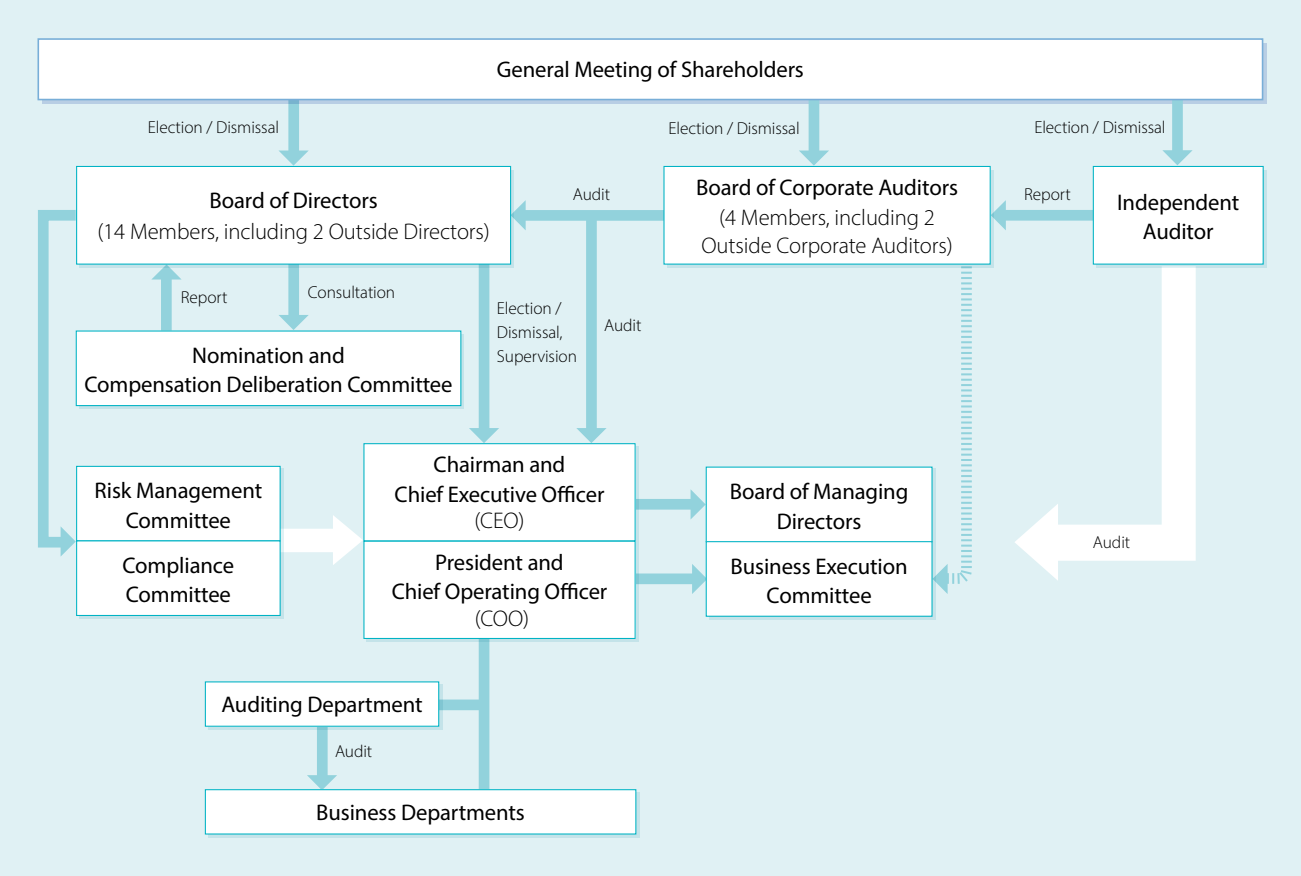
Kissei aims to improve its corporate value and realize sustainable growth as a company with a clear raison d'être. At the same time, the Company positions the enhancement and reinforcement of corporate governance as a core management issue in order to maintain a positive relationship with all of its stakeholders, including shareholders and other investors, customers, local communities, business partners, and employees, as well as to fulfill its social responsibility. As such, the Company established the Kissei Basic Policy on Corporate Governance in October 2015, which represents the Company's basic framework for corporate governance. To improve corporate value, Kissei continuously and periodically revises this policy at Board of Directors' meetings.

Overview of Bodies

Kissei's Board of Directors sets basic strategies for Kissei and makes decisions on all important matters while also providing oversight of business execution. The Board of Directors strives to make prompt business decisions and increase the transparency of operations.

The Company employs a corporate governance management system under which the Board chairman serves as chief executive officer (CEO), given authority over all matters pertaining to management, and the president serves as chief operating officer (COO), responsible for all matters related to business execution. This system delegates certain business execution responsibilities from the Board of Directors, and it was instituted with the aim of strengthening management systems and allowing for management to be conducted more flexibly. In addition, the CEO is responsible for convening meetings of the Board of Managing Directors, which consists of managing directors and directors of a higher rank and is responsible for discussing and ruling on items from a predetermined agenda. Furthermore, the Business Execution Committee has been established as an advisory

Corporate Governance Bodies and Internal Control System



committee to the COO to aid the COO in decision making and to assist in examining the management matters to be proposed or reported to the Board of Directors.

The Company has adopted a corporate auditor system. This system was deemed rational as the corporate auditors together with the appointed outside directors effectively facilitate improvements in the functionality of the Board of Directors while strengthening management oversight functions. The Company has 2 internal and 2 outside corporate auditors. Corporate auditors attend meetings of the Board of Directors and actively state opinions. One outside corporate auditor is a licensed attorney and the other is a certified public accountant. Consequently, they are able to conduct audits from a specialist perspective. Moreover, the 2 outside directors and 2 outside auditors are designated independent officers in accordance with regulations of the Tokyo Stock Exchange, to which they report.

Analysis and Evaluation of the Effectiveness of the Board of Directors as a Whole

In an effort to maintain and improve effectiveness, all directors and auditors perform yearly self-evaluations, which are shared with the Board along with results of the analysis and evaluation of the effectiveness of the entire Board of Directors. The analysis and evaluation focuses on eight different areas: (1) establishment of roles for the Board of Directors, directors, and auditors; (2) organizational frameworks for the Company as a whole; (3) content of proposals made by Board members and corresponding deliberation times; (4) information that should be pursued by the Board; (5) leadership shown by the Chairman of the Board; (6) directors' skills; (7) diversity of Board of Directors members; and (8) performance of the Board of Directors and directors.

In fiscal 2016, the Board was evaluated as being sufficiently effective, displaying effectiveness in decision-making, business execution, and supervisory functions. Meanwhile, in discussions on medium- to long-term business challenges, the Board showed effectiveness in presenting constructive feedback and in corroborating and identifying these challenges.

Internal Control System and Risk Management Structure

Kissei operates under the management philosophy of "contribute to society through high-quality, innovative pharmaceutical products" and "serve society through our employees." The Kissei Code of Conduct guides employee conduct, with the aim of upholding high ethical standards in R&D, manufacturing, and sales activities, all of which are fundamental to our business as a company involved in life sciences. In addition, Kissei has established the Compliance Committee to provide advice to the Board of Directors to help ensure that all laws and regulations are followed both in letter and spirit. The Company's Compliance Program is conducted on a regular basis, and as part of this program Kissei Pharmaceutical's Compliance Program Manual is continually updated with employees receiving regular instruction on compliance-related issues. Kissei also created the Kissei Basic Policy on Internal Controls, in which every employee is trained. Based on this policy, in addition to maintaining all Company rules, the Risk Management Committee—which is an advisory body to the Board of Directors—was established, and risk management and other internal systems are consequently promoted.

Internal Audits

Kissei has established the Auditing Department, an independent body that reports directly to the Chief Operating Officer (COO). This 4-member body conducts internal audits for each department and all internal systems in Kissei based on the yearly auditing plan, ensuring that all departments are carrying out business activities in an appropriate manner. The Board of Corporate Auditors and the Auditing Department discuss the auditing systems and auditing plan at the beginning of each fiscal year. In addition, they meet each month to exchange opinions on the status of the audits being conducted.

Independent Auditor

Kissei regularly undergoes outside auditing by an independent auditor. The independent auditor engages in discussions with members of the Board of Directors, finance officers, and the Board of Corporate Auditors, which aids the strengthening and maintenance of the corporate governance structure. In addition, the Tripartite Auditing Council convenes periodically, providing an opportunity for corporate auditors, Auditing Department staff, and the independent auditor to work together to make joint audit engagements more effective.

Furthermore, 2 certified public accountants belonging to Ernst & Young ShinNihon LLC provide the Company with accounting services. As well, 10 certified public accountants and 6 other audit personnel provide assistance in the auditing of the Company.

Nomination and Compensation Deliberation Committee

To ensure the independence and objectivity of the Board of Directors' deliberations related to director compensation or the nomination of candidates for director and corporate auditor, as well as enhance the transparency of these processes, the Company established the Nomination and Compensation Deliberation Committee as an advisory body to the Board of Directors. This committee holds meetings where it engages in debate on nominating director and corporate auditor candidates as well as on determining director compensation. In addition, when nominating a candidate for the corporate auditor position, the Company has an outside corporate auditor attend these meetings as a committee member.

Policies for Determining Director Compensation Amounts and Calculation Methods

Director compensation comprises a base salary and a bonus. Base salary is determined by director rank, and also includes an additional amount based on individual experience. Bonus is determined by director rank, and takes into account the director's performance for the period.

Total Compensation of Officers by Type and Classification and Number of Applicable Officers

	Millions of yen					
		Totals by compensation type				
Classification	Total compensation	Base compensation	Stock options	Bonuses	Retirement benefits	Number of applicable officers
Directors (excluding outside directors)	351	330	—	20	—	16
Corporate auditors (excluding outside corporate auditors)	28	25	—	2	—	3
Outside officers	27	25	—	1	—	4

Message from Outside Directors

Shigetaka Shimizu
Outside Director

The expiration of the patent for Urief® is a major issue Kissei needs to address. In addition, from my perspective as an outside director, I would like to raise three other issues.

Kissei is actively taking on new drug creation in the areas of urology, renal diseases and dialysis, and unmet medical needs. Amid a climate of sudden technological innovations and intensifying competition worldwide, quicker management decisions and business execution are necessary to stay ahead of the competition in terms of drug creation. That is the first issue.

The second issue is proper environmental awareness. Agenda items to be addressed by the Board of Directors are sufficiently examined beforehand via corporate cross-functional organizations. However, amid increasing uncertainty in the global economy, it is necessary for directors with diverse backgrounds and experiences to achieve an accurate understanding of the current environment and expand active debate in order to arrive at conclusions of high validity in pursuit of new growth.

The final issue is the inheritance of our corporate philosophy. This philosophy, which we have held since the beginning, is based on the continued creation of new drugs that are of use to patients. I hope to share this philosophy with each of our stakeholders.

These issues have been shared with the Board of Directors and we keep them in mind as we deliberate. Moving forward, I will work hard to carry out my role as an outside director and contribute to more long-term and strategic decision-making.

Minoru Nomura
Outside Director

I see Kissei as a great company. Its corporate governance system functions smoothly and there is a sense of unity between management and employees. The desire to provide relief to patients grappling with illnesses, which is the heart and soul of the Company, comes across in a powerful way. We are working to make Kissei an even greater company through strengthening its corporate governance.

To achieve continuous growth and improve corporate value in the mid to long term, it will be important to guarantee soundness, which means ensuring sufficient risk management predicated on compliance, and improve efficiency, which involves effective use of corporate resources and investing in the continuous development of the Company. It is the directors' responsibility to achieve sufficient understanding of proposals and expand grounded deliberations to quickly set out a management strategy that emphasizes both soundness and efficiency, and we are proceeding accordingly.

Kissei provides information in as much advance as it is able so outside directors can participate in the decision-making process, which requires expert knowledge. Furthermore, the Board has created an atmosphere that enables the easy exchange of opinions and fosters cooperation and information sharing between directors through debates, making for a highly efficient body.

Corporate Social Responsibility (CSR)

CSR Management

Based on its management philosophy and vision, the Kissei Group has used its pharmaceutical products to contribute to the health of its customers for many years in addition to conducting a variety of initiatives as a corporate citizen and deepening its relationships of trust with each and every stakeholder. We are pushing ahead with CSR management as part of efforts to expand our business activities and our goal for continuous growth as a company that is vital to society.

Contributions to the Development of Medical Treatments and Sciences

Public Interest Incorporated Foundation Kanzawa Medical Research Foundation

Established in 1997, the Kanzawa Medical Research Foundation offers grants, awards, and lectures for multifaceted research on various diseases affecting women of reproductive age, particularly at the perinatal stage, and those of advanced age. In a society with declining birth rates and an aging population, developing medicine to maintain and improve the health of women is a vital contribution to improving the health and welfare of the population.

Number and Total Amounts of Awards and Grants Offered between Fiscal 1997 and 2016

	Number	Total amount
Kanzawa Medical Award	18	¥ 53 million
Research Grants	197	¥212 million
Overseas Study Grants	74	¥ 37 million

Establishment of Privately Funded University Course

We established a privately funded university course under the Shinshu University School of Medicine in 2010 to explore the etiology and pathology of intractable neurological diseases, such as spinocerebellar ataxia (SCA) and amyotrophic lateral sclerosis (ALS). In 2012, we worked together with the university to hold a lecture with the aim of cultivating human resources and exploring possibilities for new drug creation. This lecture was different from the other highly dependable courses we have sponsored in that both university and Company resources were offered. Through such lectures, we are promoting R&D to facilitate education, information exchange, possibilities for new drug creation, and commercialization.

Another privately funded course we established, also in 2012, is on cutting-edge treatment of immunological diseases and cancer at the Graduate School of Medicine at Juntendo University. Our goal is to contribute to the development of research and new treatments for patients with cancer, immunological diseases, and allergies.

Contribution to Music Culture

We believe that supporting and encouraging cultural activities that move people is one of a company's crucial roles. As such, we have acted as a sponsor for the Seiji Ozawa Matsumoto Festival (formerly the Saito Kinen Festival Matsumoto), an international music festival held at the beginning of fall every year in Matsumoto City, since its inception in 1992.

Concert by the Saito Kinen Orchestra
©Takeshi Yamada

Activities to Spread Medical Information

Spreading Information on the Proper Use of Pharmaceutical Products

To ensure that pharmaceutical products are used accurately and properly, medical representatives (MRs) cooperate with the support departments, which are highly knowledgeable and experienced in the medical and pharmaceutical sciences, to deliver valid and precise information on pharmaceutical products to healthcare professionals. MRs also collect information on the safety and effectiveness of pharmaceutical products used at medical sites and offer feedback to the pharmacovigilance and post-marketing surveillance / R&D sections, which is applied to the development of better pharmaceutical products and product information updates.

MRs add to their rich knowledge by means of education and training. Through use of tablets equipped for the safety information system, which offers quick access to safety information, and the K-Net Conferencing system, a service for online meetings and training sessions, MRs can deliver higher quality information.

Establishment of the Product Customer Service Center

We have established the Product Customer Service Center to encourage proper use of pharmaceutical products and thus improve their efficacy. In fiscal 2016, we responded to 11,403 questions from patients and healthcare professionals.

In addition, we are working to build more responsive systems, such as a dedicated phone line for urgent questions on pharmaceutical products that must be administered immediately after the appearance of symptoms.

Relationships with Our Employees

Our Stance on Human Resources

We are taking steps to cultivate human resources and create an environment where our diverse employees can display their skills to their utmost based on the stance that intellectual stimulation results from mutual respect for a variety of mindsets and values, inciting creativity and dynamism in the Company.

Creating a Comfortable Work Environment

The Kissei Group is striving to create a work environment where all employees can adequately display their abilities. To that end, we are introducing a personnel selection system that takes into account employee aptitude and life plans and a flexible working hour system including a de-facto working hours system and a flextime system so that employees can achieve work-life balance.

Cultivating Human Resources

The Kissei Group has set "enabling employees to demonstrate their strengths to the utmost degree as both an individual and a part of an organization" as an objective in its vision for human resources cultivation. To achieve this vision, we are developing policies for human resource cultivation based on employee-centered self-improvement, Company-centered environment creation, and management-centered guidance.

Vision for Human Resources Cultivation

1. Cultivate independent employees that understand the Company's social mission, contribute to the Company's development, and are highly creative, responsible, and capable.
2. Cultivate competent businesspeople capable of promoting organizational objectives for efficiency and work to enhance in them the knowledge and skills necessary to perform Company duties in light of management and technology reform.
3. Cultivate members of society with open-minded, refined, and amiable personalities who are capable of building strong relationships and are full of honesty and humanity.

Workplace Health and Safety

In order to guarantee a safe working environment where employees can do their jobs with peace of mind, we have established the Environment, Health and Safety Committee and are implementing safety- and health-related activities. The health and safety subcommittees at each respective workplace head up these initiatives and maintain safe working environments by training new hires in safety and disaster prevention, conducting regular patrols of worksites and work environment assessments, and through educational activities to raise safety awareness.

In fiscal 2016, there were five incidences of work-related accidents and zero incidences of accidents resulting in time off from work.

Work-Related Accidents

(FY)	2012	2013	2014	2015	2016
Incidences of work-related accidents (resulting in time off from work)	3 (0)	3 (0)	4 (0)	2 (1)	5 (0)
Rate of frequency*1	0.00	0.00	0.00	0.31	0.00
Rate of severity*2	0.00	0.00	0.00	0.00	0.00

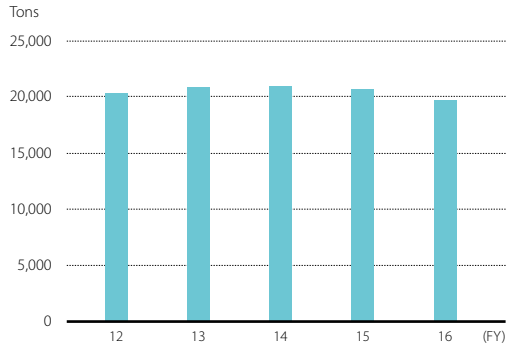
*1: Number of injuries resulting in one or more days off per 1 million hours worked
*2: Number of work days lost due to injury per 1,000 hours worked

Environmental Initiatives

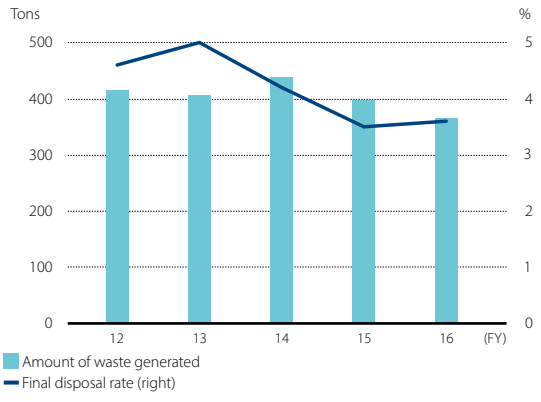
Basic Stance

Initiatives to address environmental problems are the responsibility of all of humanity and are an essential element of a company's survival and operations. In recognition of this, the Kissei Group is working to preserve the environment and reduce the environmental impact of all its business activities. Our basic environmental policy lays out our fundamental philosophy and six key principles. Every year, we establish specific environmental objectives on the basis of this policy. Some of those include efforts to reduce energy use and CO_2 emissions, as well as the amount of waste generated.

CO_2 Emissions



Amount of Waste Generated and Final Disposal Rate



Financial Position

At the end of the fiscal year under review, ended March 31, 2017, total assets stood at ¥186,801 million, down ¥6,544 million from the previous fiscal year-end. Total current assets fell ¥2,832 million, to ¥97,218 million, due to a decrease in marketable securities, inventories, and notes and accounts receivable, which offset an increase in cash on hand and in banks as well as deferred tax assets. Total non-current assets were down ¥3,711 million, to ¥89,582 million, reflecting a decrease in investments in securities.

Total liabilities amounted to ¥29,017 million at the fiscal year-end, down ¥6,202 million from the previous fiscal year-end. Total current liabilities stood at ¥15,656 million, down ¥3,951 million, due to a decrease in payables included in other current liabilities, notes and accounts payable, and income taxes payable. Total long-term liabilities were down ¥2,251 million, to ¥13,361 million, due to a decrease in deferred tax liabilities and retirement benefit liabilities.

Total net assets amounted to ¥157,783 million at the fiscal year-end, a decrease of ¥341 million compared with the previous fiscal year-end. This decrease reflected a decrease in unrealized holding gains on securities in addition to fluctuations following the acquisition of treasury stock despite a rise in retained earnings.

As a result, the shareholders' equity ratio was 84.3%, up from 81.6% at the previous fiscal year-end.

Financial Results

Net sales for the fiscal year ended March 31, 2017 increased 0.6% year on year, to ¥71,706 million. Accounting for the majority of net sales, the segment sales of the Kissei Group's core pharmaceutical business were down ¥366 million, or 0.6%, to ¥61,454 million. The reason for this decrease is that while sales of P-TOL® Chewable Tab, Urief® and Urief® OD Tab, Glubes® Combination Tablet, Glufast® and Glufast® OD Tab increased, revenue from technical fees and supply to domestic business partners fell. In other business segments, net sales were up ¥779 million, or 8.2% year on year, to ¥10,251 million due to increased revenues in information services, merchandising, and construction industries.

The cost of sales ratio was up 1.8 percentage points in the pharmaceutical business due to impacts from drug price revisions and other factors while it fell in other businesses. As a result, gross profit decreased ¥1,082 million, or 2.3% year on year, to ¥46,631 million.

In selling, general and administrative expenses, while R&D expenses decreased, selling and general and administrative expenses increased. As a result, operating income fell ¥1,783 million, or 17.4% year on year, to ¥8,491 million.

In the pharmaceutical business in particular, the Company recorded a rise in foreign exchange losses in contrast to increased gain on valuation of securities and gain on sales of investment securities. As a result, the net of other income (expenses) resulted in net other income of ¥1,625 million, up ¥763 million year on year.

As a result of the above, profit before income taxes and non-controlling interests was down ¥1,020 million, or 9.2% year on year, to ¥10,116 million, and profit attributable to owners of parent fell ¥439 million, or 5.4% year on year, to ¥7,726 million.

Basic Policy on the Distribution of Profits / Dividends for the Current and Coming Fiscal Years

Kissei aims to secure a solid management base while providing stable, consistent returns to shareholders through cash dividends. Kissei considers working to make efficient use of capital while paying fair dividends to shareholders in accordance with profit levels to be a key management issue.

Kissei's basic dividend policy is to make twice-yearly dividend payments, comprised of interim and year-end cash dividends. The Board of Directors decides the amount of the interim cash dividend, while the General Meeting of Shareholders decides the amount of the year-end cash dividend. Also, Kissei's articles of incorporation stipulate that a resolution of the Board of Directors enables the payment of interim cash dividends with a date of record of September 30 each year.

For the fiscal year under review, Kissei will pay a year-end cash dividend of ¥23.0 per share, which when combined with an interim cash dividend of ¥23.0 per share gives a full-year cash dividend of ¥46.0 per share.

For the coming fiscal year, the Group plans to pay an interim cash dividend of ¥24.0 per share and a year-end cash dividend of ¥24.0 per share, giving a full-year cash dividend of ¥48.0 per share.

Giving first priority to increasing shareholder value, Kissei will acquire and dispose of treasury stock, based on resolutions of the Board of Directors, flexibly and as necessary in light of operational developments.

In fiscal 2016, Kissei repurchased 610,000 shares, equivalent to ¥1,647 million based on a decision by the Board of Directors.

Internal funds are maintained to respond to expected changes in government policy, system reforms, and the challenges of increasing globalization. At the same time, Kissei will actively invest in R&D to develop drugs that patients need. Kissei believes this policy will not only contribute to future profits but also enable Kissei to distribute profits to its shareholders appropriately.

Business Risks

The following are the most significant risks which could potentially affect the Kissei Group's operating results and financial position. Forward-looking statements are based on the judgments the Kissei Group has made from the consolidated financial statements for fiscal 2016.

1 R&D

The process of developing pharmaceuticals—from the R&D stage to approval and sales—requires large investments of both time and funds. When developing new drugs, the chances of discovering beneficial indications are limited. In addition, Kissei can guarantee neither that a new drug undergoing development or an additional indication will have its intended benefit nor predict when or if the drug will be approved.

2 Medical System Reform

The prices of pharmaceuticals in Japan are set based on the government's NHI drug prices and are revised on a regular basis. There may be revisions to Japan's health insurance system or reforms that go beyond Kissei's assumptions, such as the introduction of diagnosis procedure combinations or the promotion of generic drugs, which would negatively impact Kissei's operating results and financial position.

3 Competition with Other Companies' Products

The Kissei Group faces competition from companies selling products with the same application as its own. In addition, once a patent expires, price competition with generic products of the same composition intensifies. This competition could have a serious impact on the sales of existing drugs.

4 Unexpected Side-Effects

Unexpected side effects undiscovered at the R&D stage sometimes appear after a drug has already been marketed. If unexpected side effects or serious adverse events occur, the use of a drug may be limited, or sales of the drug may be terminated completely.

5 Manufacturing and Procurement

Malfunctions with production equipment or the inability to procure raw materials in a timely fashion could delay or shut down drug manufacturing. In addition, a quality problem may cause a drug to be recalled, which would negatively impact Kissei's operating results and financial position.

6 Intellectual Property Rights

In the event that the Kissei Group is unable to appropriately protect its intellectual property, a third party may be able to use the Kissei Group's technology, which would undermine its competitive superiority in the market.

7 Litigation

At present, there is no outstanding litigation affecting the Kissei Group's management. There is the possibility, however, that in the course of its business activities, the Kissei Group could face lawsuits in the future both at home and abroad regarding patent, product liability, environment, and labor matters.

8 Environmental Conservation

Pharmaceutical chemical substances used in research and manufacturing processing could have an impact on the environment. Every department and work site in the Kissei Group is working diligently to follow stringent substance management rules to protect the environment. However, if chemical substances were found to have polluted areas around a work site, legal action may be taken against the work site, and Kissei may be faced with large costs to restore the environment, which would negatively impact Kissei's operating results and financial position.

9 Information Management

The Kissei Group is paying close attention to the need to protect information by establishing strict rules for the management of personal and confidential information as well as providing education on this issue to employees. However, if an unexpected incident occurred in which information was improperly disclosed, the Kissei Group's image may be tarnished, which could negatively impact Kissei's operating results and financial position.

Besides the business risks mentioned above, there are various other risks faced by the Kissei Group.

Consolidated Balance Sheets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 03)
Assets	**2017**	2016	**2017**
Current Assets:			
Cash on hand and in banks (Notes 04 and 05)	**¥ 27,109**	¥ 25,666	**$ 242,045**
Notes and accounts receivable (Note 05)	**24,730**	24,966	**220,804**
Marketable securities (Notes 04, 05 and 06)	**21,039**	24,476	**187,848**
Inventories (Note 07)	**16,726**	17,376	**149,339**
Deferred tax assets—current (Note 10)	**2,179**	2,038	**19,455**
Other current assets	**5,434**	5,528	**48,518**
Allowance for doubtful accounts	**(1)**	(1)	**(9)**
Total current assets	**97,218**	100,051	**868,018**
Property, Plant and Equipment:			
Buildings and structures (Note 14)	**37,915**	37,830	**338,527**
Less: accumulated depreciation	**(27,326)**	(26,780)	**(243,982)**
Buildings and structures, net	**10,589**	11,050	**94,545**
Land (Note 14)	**12,933**	12,984	**115,473**
Construction in progress	**59**	—	**527**
Other	**14,742**	14,695	**131,625**
Less: accumulated depreciation	**(12,016)**	(11,971)	**(107,286)**
Other, net	**2,725**	2,724	**24,330**
Total property, plant and equipment	**26,308**	26,758	**234,893**
Intangible Assets:			
Software for internal use	**1,082**	774	**9,661**
Other	**763**	38	**6,813**
Total intangible assets	**1,845**	813	**16,473**
Investments and Other Assets:			
Investment securities (Notes 05 and 06)	**58,344**	62,300	**520,929**
Long-term loans receivable	**119**	115	**1,063**
Long-term prepaid expenses	**1,454**	1,690	**12,982**
Deferred tax assets—non-current (Note 10)	**517**	553	**4,616**
Other	**1,045**	1,116	**9,330**
Allowance for doubtful accounts	**(53)**	(53)	**(473)**
Total investments and other assets	**61,428**	65,722	**548,464**
Total assets	**¥186,801**	¥193,345	**$1,667,866**

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 03) 2017
Current Liabilities:			
Notes and accounts payable	**¥ 4,849**	¥ 5,829	**$ 43,295**
Short-term bank loans (Note 08)	**1,730**	1,730	**15,446**
Current portion of long-term debt (Note 08)	**70**	85	**625**
Income taxes payable (Note 10)	**1,055**	1,668	**9,420**
Accrued bonuses to employees	**2,088**	2,185	**18,643**
Accrued bonuses to directors and corporate auditors	**25**	25	**223**
Reserve for sales returns	**11**	12	**98**
Reserve for sales rebates	**356**	376	**3,179**
Reserve for sales promotion expenses	**189**	194	**1,688**
Other current liabilities	**5,278**	7,499	**47,125**
Total current liabilities	**15,656**	19,608	**139,786**
Long-Term Liabilities:			
Long-term debt (Note 08)	**1,656**	1,488	**14,786**
Deferred tax liabilities—non-current (Note 10)	**5,645**	7,395	**50,402**
Net defined benefit liability (Note 11)	**5,379**	6,013	**48,027**
Accrued retirement benefits to directors and corporate auditors	**134**	126	**1,196**
Asset retirement obligations	**112**	110	**1,000**
Other long-term liabilities	**433**	477	**3,866**
Total long-term liabilities	**13,361**	15,612	**119,295**
Total liabilities	**29,017**	35,220	**259,080**
Contingent Liabilities (Note 13)			
Net Assets:			
Shareholders' equity:			
Common stock:			
Authorized: 227,000,000 shares			
Issued: 54,311,185 shares and 54,311,185 shares at March 31, 2016 and 2017, respectively	**24,356**	24,356	**217,464**
Additional paid-in capital	**24,226**	24,247	**216,304**
Retained earnings	**101,755**	96,230	**908,527**
Treasury stock (5,383,634 shares and 5,994,175 shares at March 31, 2016 and 2017, respectively)	**(12,838)**	(11,189)	**(114,625)**
Total shareholders' equity	**137,499**	133,644	**1,227,670**
Accumulated other comprehensive income:			
Unrealized holding gains on securities	**21,268**	25,945	**189,893**
Retirement benefits liability adjustments	**(1,313)**	(1,730)	**(11,723)**
Total accumulated other comprehensive income	**19,954**	24,214	**178,161**
Non-controlling interests	**329**	265	**2,938**
Total net assets	**157,783**	158,125	**1,408,777**
Total liabilities and net assets	**¥186,801**	¥193,345	**$1,667,866**

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
At March 31, 2016 and 2017

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 03)
	2017	2016	**2017**
Net Sales	**¥71,706**	¥71,294	**$640,232**
Cost of Sales	**25,075**	23,579	**223,884**
Gross profit	**46,631**	47,714	**416,348**
Selling, General and Administrative Expenses (Note 17)	**38,140**	37,439	**340,536**
Operating income	**8,491**	10,274	**75,813**
Other Income (Expenses):			
Interest and dividend income	**963**	990	**8,598**
Interest expense	**(24)**	(31)	**(214)**
Gain on sales of investment securities	**652**	0	**5,821**
Loss on sales or disposal of property, plant and equipment	**(31)**	(27)	**(277)**
Income (loss) from investments in partnerships	**10**	(39)	**89**
Gain on sales of property, plant and equipment	**18**	1	**161**
Gain on valuation of securities	**226**	132	**2,018**
Impairment loss	**(47)**	(108)	**(420)**
Foreign exchange gain (loss)	**(94)**	(40)	**(839)**
Loss on valuation of stocks of subsidiaries and affiliates	**(53)**	(60)	**(473)**
Loss on valuation of investments in capital of subsidiaries and affiliates	**(59)**	(22)	**(527)**
Other, net	**66**	68	**589**
Total other income (expenses)	**1,625**	862	**14,509**
Profit before income taxes and non-controlling interests	**10,116**	11,136	**90,321**
Income Taxes (Note 10)**:**			
Current	**2,291**	2,969	**20,455**
Deferred	**59**	(28)	**527**
	2,351	2,940	**20,991**
Profit	**7,765**	8,195	**69,330**
Profit Attributable to Non-Controlling Interests	**39**	30	**348**
Profit Attributable to Owners of Parent (Note 18)	**¥ 7,726**	¥ 8,165	**$ 68,982**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 03)
	2017	2016	**2017**
Profit	**¥ 7,765**	¥ 8,195	**$ 69,330**
Other Comprehensive Income:			
Unrealized holding gains on securities	**(4,677)**	4,427	**(41,759)**
Retirement benefits liability adjustments	**420**	(3,112)	**3,750**
Total other comprehensive income (Note 12)	**(4,256)**	1,315	**(38,000)**
Comprehensive Income	**¥ 3,508**	¥ 9,510	**$ 31,321**
Comprehensive income attributable to:			
Shareholders of Kissei Pharmaceutical Co., Ltd.	**¥ 3,463**	¥ 9,524	**$ 30,920**
Non-controlling interests	**45**	(13)	**402**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2016 and 2017

	Millions of yen								
		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2015	56,911,185	¥24,356	¥24,254	¥ 95,565	¥(16,591)	¥21,517	¥ 1,337	¥279	¥150,720
Profit attributable to owners of parent for the year	—	—	—	8,165	—	—	—	—	8,165
Cash dividends paid	—	—	—	(2,103)	—	—	—	—	(2,103)
Treasury stock purchased (711 shares)	—	—	—	—	(2)	—	—	—	(2)
Unrealized holding gains on securities	—	—	—	—	—	4,427	—	—	4,427
Retirement benefits liability adjustments	—	—	—	—	—	—	(3,068)	—	(3,068)
Gain on sales of treasury stock (34 shares)	—	—	—	—	0	—	—	—	0
Cancellation of treasury stock (2,600,000 shares)	(2,600,000)	—	(7)	(5,396)	5,403	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	—	—	(13)	(13)
Balance at April 1, 2016	54,311,185	¥24,356	¥24,247	¥ 96,230	¥(11,189)	¥25,945	¥(1,730)	¥265	¥158,125
Profit attributable to owners of parent for the year	**—**	**—**	**—**	**7,726**	**—**	**—**	**—**	**—**	**7,726**
Cash dividends paid	**—**	**—**	**—**	**(2,201)**	**—**	**—**	**—**	**—**	**(2,201)**
Treasury stock purchased (610,541 shares)	**—**	**—**	**—**	**—**	**(1,649)**	**—**	**—**	**—**	**(1,649)**
Unrealized holding gains on securities	**—**	**—**	**—**	**—**	**—**	**(4,677)**	**—**	**—**	**(4,677)**
Retirement benefits liability adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**416**	**—**	**416**
Changes in equity of consolidated subsidiaries	**—**	**—**	**(21)**	**—**	**—**	**—**	**—**	**—**	**(21)**
Net changes in items other than those in shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**64**	**64**
Balance at March 31, 2017	**54,311,185**	**¥24,356**	**¥24,226**	**¥101,755**	**¥(12,838)**	**¥21,268**	**¥(1,313)**	**¥329**	**¥157,783**

	Thousands of U.S. dollars (Note 03)								
		Shareholders' equity				Accumulated other comprehensive income			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized holding gains on securities	Retirement benefits liability adjustments	Non-controlling interests	Total net assets
Balance at April 1, 2016	54,311,185	$217,464	$216,491	$859,196	$ (99,902)	$231,652	$(15,446)	$2,366	$1,411,830
Profit attributable to owners of parent for the year	**—**	**—**	**—**	**68,982**	**—**	**—**	**—**	**—**	**68,982**
Cash dividends paid	**—**	**—**	**—**	**(19,652)**	**—**	**—**	**—**	**—**	**(19,652)**
Treasury stock purchased (610,541 shares)	**—**	**—**	**—**	**—**	**(14,723)**	**—**	**—**	**—**	**(14,723)**
Unrealized holding gains on securities	**—**	**—**	**—**	**—**	**—**	**(41,759)**	**—**	**—**	**(41,759)**
Retirement benefits liability adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**3,714**	**—**	**3,714**
Changes in equity of consolidated subsidiaries	**—**	**—**	**(188)**	**—**	**—**	**—**	**—**	**—**	**(188)**
Net changes in items other than those in shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**571**	**571**
Balance at March 31, 2017	**54,311,185**	**$217,464**	**$216,304**	**$908,527**	**$(114,625)**	**$189,893**	**$(11,723)**	**$2,938**	**$1,408,777**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kissei Pharmaceutical Co., Ltd. and its subsidiaries
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 03)
	2017	2016	**2017**
Cash Flows from Operating Activities:			
Profit before income taxes and non-controlling interests	**¥10,116**	¥11,136	**$ 90,321**
Depreciation and amortization	**2,370**	2,343	**21,161**
Increase (decrease) in allowance reserves	**(115)**	112	**(1,027)**
Decrease in net defined benefit liability	**(28)**	(789)	**(250)**
Impairment loss	**47**	108	**420**
Interest and dividend income	**(963)**	(990)	**(8,598)**
Interest expense	**24**	31	**214**
Foreign exchange (gain) loss	**0**	(20)	**0**
Gain on valuation of securities	**(226)**	(132)	**(2,018)**
Gain on sales of property, plant and equipment	**(18)**	(1)	**(161)**
Loss (gain) on sales of investment securities	**(652)**	(0)	**(5,821)**
Loss on sales or disposal of property, plant and equipment	**31**	27	**277**
(Increase) decrease in notes and accounts receivable	**236**	(1,290)	**2,107**
(Increase) decrease in inventories	**650**	(2,730)	**5,804**
(Increase) decrease in other current assets	**342**	(733)	**3,054**
Increase (decrease) in notes and accounts payable	**(979)**	(215)	**(8,741)**
Increase (decrease) in other current liabilities	**(1,941)**	872	**(17,330)**
Increase (decrease) in other long-term liabilities	**(13)**	(0)	**(116)**
Loss on valuation of stocks of subsidiaries and affiliates	**53**	60	**473**
Loss on valuation of investments in capital of subsidiaries and affiliates	**59**	22	**527**
Other	**(3)**	49	**(27)**
Sub total	**8,990**	7,860	**80,268**
Receipt of interest and dividends	**883**	922	**7,884**
Payment of interest	**(24)**	(31)	**(214)**
Payment of income taxes	**(3,406)**	(2,988)	**(30,411)**
Net cash provided by operating activities	**6,441**	5,763	**57,509**
Cash Flows from Investing Activities:			
Time deposits received	**77**	84	**688**
Time deposits paid	**(79)**	(83)	**(705)**
Reduction of investments in specified trusts	**56**	49	**500**
Proceeds from sales of marketable securities	**—**	100	**—**
Acquisition of property, plant and equipment	**(1,201)**	(1,978)	**(10,723)**
Proceeds from sales of property, plant and equipment	**28**	1	**250**
Acquisition of intangible assets	**(1,331)**	(303)	**(11,884)**
Acquisition of investment securities	**(4,347)**	(2,690)	**(38,813)**
Proceeds from sales of investment securities	**2,069**	538	**18,473**
Payments for loans	**(111)**	(93)	**(991)**
Collection of loans	**113**	113	**1,009**
Long-term advance payment costs	**(7)**	(1,357)	**(63)**
Other	**60**	(65)	**536**
Net cash used in investing activities	**(4,671)**	(5,685)	**(41,705)**
Cash Flows from Financing Activities:			
Short-term bank loans received	**—**	100	**—**
Repayment of short-term bank loans	**—**	(100)	**—**
Long-term debt received	**238**	110	**2,125**
Repayment of long-term debt	**(85)**	(85)	**(759)**
Repayment of finance lease obligation	**(68)**	(64)	**(607)**
Cash dividends paid	**(2,201)**	(2,103)	**(19,652)**
Treasury stock purchased	**(1,649)**	(2)	**(14,723)**
Treasury stock sale	**—**	0	**—**
Net cash used in financing activities	**(3,766)**	(2,146)	**(33,625)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(0)**	20	**(0)**
Increase (Decrease) in Cash and Cash Equivalents	**(1,996)**	(2,047)	**(17,821)**
Cash and Cash Equivalents at Beginning of Year (Note 04)	**50,094**	52,142	**447,268**
Cash and Cash Equivalents at End of Year (Note 04)	**¥48,098**	¥50,094	**$429,446**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd. and its subsidiaries

Note 01 Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. (the Company) and its subsidiaries (the Companies) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to 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.

Note 02 Summary of Significant Accounting Policies

(1) Scope of Consolidation

The numbers of subsidiaries the Company had for the years ended March 31, 2016 and 2017 were six and four, respectively, of which three were consolidated in the respective years. The subsidiaries that have been consolidated with the Company are listed below:

Name of subsidiaries	% of voting rights owned	Paid-in capital, millions of yen
Kissei Shoji Co., Ltd.	**100%**	**¥ 50**
Kissei Comtec Co., Ltd.	**83%**	**¥334**
Hashiba Technos Co., Ltd.	**100%**	**¥ 45**

(2) Consolidation and Elimination

In preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances, and unrealized profits between the Companies have been eliminated, and the portion thereof attributable to non-controlling interests is charged to non-controlling interests.

In eliminating investments in the common stock of the consolidated subsidiaries against the underlying equity in the net assets of the subsidiaries, differences between the cost of the investments and the underlying equity in net assets were not recognized for the two years ended March 31, 2017.

(3) Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are carried at cost, cost being determined by the moving average method, as there would be no significant effect in the consolidated statements of income if they were accounted for by the equity method.

(4) Valuation of Securities

Held-to-maturity debt securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. The cost of securities sold is primarily determined by the moving average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving average method.

Short-term investments in specified trusts are stated at market value.

(5) Inventory Valuation

Inventories are mainly valued at cost using the gross average method (the amount on the balance sheet is reduced to reflect decreased profitability).

(6) Method of Depreciation of Significant Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures.

Depreciation for buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) and for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 is computed on the straight-line method.

(ii) Intangible assets (excluding lease assets)

Depreciation is computed on the straight-line method.

Software costs for internal use are amortized over their expected useful lives (mainly 5 years) on a straight-line basis.

(iii) Lease assets (pertaining to lease transactions not involving the transfer of ownership)

Lease assets are depreciated by the straight-line method with the respective lease period and the residual value being zero.

(7) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 8% on all domestic consumption of goods and services (with certain exemptions).

Consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services are not included in the respective revenue and cost or expenses in the accompanying consolidated statements of income.

(8) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

Investments in unconsolidated subsidiaries denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

(9) Income Taxes

Income taxes of the Companies consist of corporate income tax, local inhabitants taxes and enterprise tax.

The asset and liability approach is used to recognize deferred tax assets and liabilities in respect of temporary differences between the carrying amounts and the basis of assets and liabilities.

(10) Allowances, Accrued Bonuses to Employees and Reserves for Certain Expenses

(i) Allowance for doubtful accounts

The Companies provide an "Allowance for doubtful accounts" based on the percentage of their historical bad debt loss incurred against the balance of total receivables in addition to the amount of uncollectable receivables estimated on an individual basis.

(ii) Accrued bonuses to employees

"Accrued bonuses to employees" is provided for based on estimated amounts which the Companies should pay to employees for their services rendered during the six-month period ended on the balance sheet date.

(iii) Accrued bonuses to directors and corporate auditors
"Accrued bonuses to directors and corporate auditors" is provided for based on estimated payments for their performance during the year ended March 31.
(iv) Reserve for sales returns
"Reserve for sales returns" is estimated based on the percentage of the Companies' own actual return history against sales.
(v) Reserve for sales rebates
"Reserve for sales rebates" is provided for in an amount equivalent to the expected amount payable by the Companies to dealers in respect of the balance of accounts receivable at the balance sheet date based on current applicable rebate rates.

(11) Accounting Method for Retirement Benefits
Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the plan assets as of balance sheet date.
(i) Allocation of expected benefit payments
When calculating retirement benefit obligation, the benefit formula method is used to allocate expected benefit payments to the period.
(ii) Actuarial differences and prior service cost
Prior service cost is amortized through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).
Net actuarial gains or losses are amortized from the following year through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).
(iii) Accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service cost
Unrecognized actuarial gains and losses and unrecognized prior service cost are adjusted for tax effects and then recorded in retirement benefits liability adjustments under accumulated other comprehensive income in the net assets portion of the consolidated balance sheets.

(12) Profit and Dividends per Share
Profit attributable to owners of the parent per share is based upon the weighted-average number of shares of common stock outstanding during each fiscal year.
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.

(13) Reclassification of Accounts
Prior years' amounts have been reclassified to conform with the current year's presentation.

(14) Research and Development Expenses
Research and development expenses are recognized as an expense when incurred in accordance with Japanese accounting standards.

(15) Accounting Changes
(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)
Due to revisions to corporate tax law, Practical Solution on a change in depreciation method due to Tax Reform 2016 (ASBJ PITF No. 32, June 17, 2016) is being applied during this consolidated accounting period. The depreciation method for both facilities attached to buildings and other non-building structures acquired after April 1, 2016 is being changed from the declining-balance method to the straight-line method. For this reason, impact on operating income, and profit before income taxes and non-controlling interests for this consolidated accounting period is minimal.

(16) Additional Information
(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) is being applied to this consolidated accounting period.

Note 03 United States Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥112=U.S.$1, the approximate rate of exchange prevailing at March 31, 2017. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 04 Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash on hand and in banks	**¥27,109**	¥25,666	**$242,045**
Marketable securities	**21,039**	24,476	**187,848**
Time deposits with original maturities of over three months	**(50)**	(47)	**(446)**
Cash and cash equivalents	**¥48,098**	¥50,094	**$429,446**

Note 05 Financial Instruments

Overview

(1) Policy for financial instruments

The Companies manage temporary cash surpluses through low-risk financial assets. Further, the Companies raise short-term capital through bank borrowings. The Companies use derivatives for the purpose of reducing risk arising from fluctuations in foreign currency exchange rates and do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—notes and accounts receivable—are exposed to credit risk in relation to customers. In accordance with the internal policies for managing credit risk of the Companies arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Companies have business relationships. The market value of these securities is periodically reported to the Board of Directors.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of March 31, 2016 and 2017 and unrealized gains (losses) are shown in the following tables. The following does not include financial instruments for which it is extremely difficult to determine the fair value.
(Please refer to *2 in the following.)

	Millions of yen		
As of March 31, 2017	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets:			
Cash on hand and in banks	**¥ 27,109**	**¥ 27,109**	**¥—**
Notes and accounts receivable	**24,730**	**24,730**	**—**
Marketable securities and investment securities	**78,310**	**78,310**	**—**
Total	**¥130,150**	**¥130,150**	**¥—**
Derivatives	**¥ —**	**¥ —**	**¥—**

	Millions of yen		
As of March 31, 2016	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets:			
Cash on hand and in banks	¥ 25,666	¥ 25,666	¥—
Notes and accounts receivable	24,966	24,966	—
Marketable securities and investment securities	85,033	85,033	—
Total	¥135,666	¥135,666	¥—
Derivatives	¥ —	¥ —	¥—

	Thousands of U.S. dollars		
As of March 31, 2017	Carrying value	Estimated fair value	Unrealized gains (losses)
Assets:			
Cash on hand and in banks	**$ 242,045**	**$ 242,045**	**$—**
Notes and accounts receivable	**220,804**	**220,804**	**—**
Marketable securities and investment securities	**699,196**	**699,196**	**—**
Total	**$1,162,054**	**$1,162,054**	**$—**
Derivatives	**$ —**	**$ —**	**$—**

*1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash on hand and in banks and notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Marketable securities and investment securities

The fair value of stocks is based on quoted market prices. For information on securities classified by holding purpose, please refer to Note 06 Securities.

*2: Financial instruments for which it is extremely difficult to determine the fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted stocks	**¥572**	¥1,023	**$5,107**
Investments in partnerships	**33**	139	**295**
Investments in unconsolidated subsidiaries	**467**	580	**4,170**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in "Marketable securities and investment securities."

*3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2016 and 2017 are as follows:

	Millions of yen			
As of March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets:				
Cash on hand and in banks	**¥27,109**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**24,730**	**—**	**—**	**—**
Marketable securities and investment securities	**21,040**	**1,588**	**1,647**	**1,417**
Total	**¥72,879**	**¥1,588**	**¥1,647**	**¥1,417**

	Millions of yen			
As of March 31, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets:				
Cash on hand and in banks	¥25,666	¥ —	¥ —	¥ —
Notes and accounts receivable	24,957	9	—	—
Marketable securities and investment securities	24,477	838	1,456	417
Total	¥75,101	¥847	¥1,456	¥417

	Thousands of U.S. dollars			
As of March 31, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Assets:				
Cash on hand and in banks	**$242,045**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**220,804**	**—**	**—**	**—**
Marketable securities and investment securities	**187,857**	**14,179**	**14,705**	**12,652**
Total	**$650,705**	**$14,179**	**$14,705**	**$12,652**

Note 06 Securities

The acquisition cost, carrying amount, and gross unrealized holding gains and losses for securities with fair value by security type at March 31, 2016 and 2017 are as follows:

	Millions of yen			
	2017			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥18,266**	**¥48,128**	**¥29,867**	**¥ 5**
Corporate debt securities	**1,350**	**1,320**	**—**	**29**
Other	**28,362**	**28,861**	**558**	**59**
Total	**¥47,979**	**¥78,310**	**¥30,426**	**¥94**

	Millions of yen			
	2016			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥18,399	¥55,247	¥37,221	¥373
Corporate debt securities	100	100	0	—
Other	29,443	29,685	267	25
Total	¥47,942	¥85,033	¥37,490	¥399

	Thousands of U.S. dollars			
	2017			
	Acquisition cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$163,089**	**$429,714**	**$266,670**	**$ 45**
Corporate debt securities	**12,054**	**11,786**	**—**	**259**
Other	**253,232**	**257,688**	**4,982**	**527**
Total	**$428,384**	**$699,196**	**$271,661**	**$839**

Unlisted stocks are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

Sales proceeds of securities classified as other securities and the gross realized gains and losses for the years ended March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales proceeds	**¥1,449**	¥0	**$12,938**
Gross realized gains	**652**	0	**5,821**
Gross realized losses	**—**	—	**—**

Note 07 Inventories

Inventories at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise	**¥ 1,340**	¥ 1,372	**$ 11,964**
Finished goods	**3,109**	3,405	**27,759**
Work-in-process	**1,540**	2,624	**13,750**
Raw materials	**10,439**	9,877	**93,205**
Supplies	**296**	96	**2,643**
Total	**¥16,726**	¥17,376	**$149,339**

Note 08 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding at March 31, 2016 and 2017 represent one-year notes issued by the Companies to banks. Short-term bank loans made during the years ended March 31, 2016 and 2017 bore interest at an average annual rate of 1.11% and 1.08%, respectively.

Long-term debt outstanding of the Companies at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Non-secured loans with financial institutions, bearing interest at rates ranging from 0.00% to 2.20% due from 2016 to 2020	**¥1,726**	¥1,573	**$15,411**
Less: current maturities due within one year	**(70)**	(85)	**(625)**
Total	**¥1,656**	¥1,488	**$14,786**

The aggregate annual maturities of long-term debt outstanding at March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥27	$241
2020	18	161
2021	—	—
2022	—	—

Note: As approval dates for successful development projects and the like are not yet fixed, borrowings from the Japan Agency for Medical Research and Development, a National Research and Development Agency, are not included in the preceding scheduled repayment amounts.

Note 09 Lease Obligations

Lease obligations outstanding of the Companies at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Lease obligations due from 2016 to 2022	**¥120**	¥169	**$1,071**
Less: current maturities due within one year	**(44)**	(65)	**(393)**
Total	**¥ 76**	¥103	**$ 679**

* The average interest rate of lease obligations is not stated because lease obligations appear in the consolidated balance sheets as total amounts before deductions of interest equivalents included in lease payments.

The aggregate annual maturities of lease obligations (excluding current portion) outstanding at March 31, 2017 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥30	$268
2020	26	232
2021	18	161
2022	0	0

Note 10 Income Taxes

Deferred tax assets (both current and non-current) at March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred Tax Assets:			
Prepaid research and development expenses	**¥ 2,675**	¥ 2,490	**$ 23,884**
Net defined benefit liability	**1,659**	1,838	**14,813**
Accrued bonuses to employees	**641**	670	**5,723**
Inventory assets	**441**	408	**3,938**
Write-down of securities	**438**	624	**3,911**
Impairment loss	**206**	192	**1,839**
Payment of retirement benefits to directors and corporate auditors	**148**	150	**1,321**
Accrued enterprise tax	**117**	178	**1,045**
Reserve for sales rebates	**109**	115	**973**
Other	**801**	870	**7,152**
Total gross deferred tax assets	**7,240**	7,540	**64,643**
Valuation allowance	**(1,102)**	(1,159)	**(9,839)**
Total deferred tax assets	**¥ 6,137**	¥ 6,381	**$ 54,795**
Deferred Tax Liabilities:			
Unrealized gains on available-for-sale securities	**¥(9,071)**	¥(11,171)	**$(80,991)**
Other	**(14)**	(14)	**(125)**
Total deferred tax liabilities	**(9,085)**	(11,185)	**(81,116)**
Deferred tax assets (liabilities), net	**¥(2,947)**	¥ (4,803)	**$(26,313)**

Reconciliation of the actual tax rate for the years ended March 31, 2016 and 2017 are as follows:

	2017	2016
Effective statutory tax rate	**30.7%**	32.9%
Adjustments:		
Entertainment expenses and other non-deductibles	**0.9**	0.9
Dividend income not taxable	**(0.7)**	(0.5)
Tax benefits due to research and development expenses	**(8.5)**	(9.9)
Per capital levy of local inhabitants taxes	**0.8**	0.7
Valuation allowance	**(0.6)**	0.6
Tax effect from change in tax rate by tax reform, etc.	**—**	2.3
Other	**0.5**	(0.6)
Actual tax rate	**23.2%**	26.4%

Note 11 Funded Defined Benefits Plans

General Outline of Retirement Benefits Plans Implemented

The Companies have introduced cash balance plans into their defined benefits corporate pension plans. In certain cases, the Group pays additional retirement benefits for employees that are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits.

For the years ended March 31, 2016 and 2017

(i) Reconciliation of defined benefit obligation at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Defined benefit obligation at beginning of period	**¥20,652**	¥16,522	**$184,393**
Service cost	**792**	741	**7,071**
Interest cost	**61**	173	**545**
Actuarial gains and losses incurred this period	**93**	3,700	**830**
Retirement benefits paid	**(579)**	(486)	**(5,170)**
Defined benefit obligation at end of period	**¥21,021**	¥20,652	**$187,688**

(ii) Reconciliation of balance of plan assets at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Plan assets at beginning of period	**¥14,638**	¥14,243	**$130,696**
Expected return on plan assets	**365**	356	**3,259**
Actuarial gains and losses incurred this period	**201**	(570)	**1,795**
Employer contribution	**1,014**	1,013	**9,054**
Retirement benefits paid	**(579)**	(403)	**(5,170)**
Plan assets at end of period	**¥15,641**	¥14,638	**$139,652**

(iii) Reconciliation of defined benefit obligation and plan assets with net defined benefit liability and asset reflected on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Defined benefit obligation for funded plan	**¥ 21,021**	¥ 20,652	**$ 187,688**
Plan assets	**(15,641)**	(14,638)	**(139,652)**
Net amount of defined benefit liability and asset on the consolidated balance sheets	**¥ 5,379**	¥ 6,013	**$ 48,027**
Defined benefit liability	**5,379**	6,013	**48,027**
Net amount of defined benefit liability and asset on the consolidated balance sheets	**¥ 5,379**	¥ 6,013	**$ 48,027**

(iv) The components of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service cost	**¥ 792**	¥ 741	**$ 7,071**
Interest cost	**61**	173	**545**
Expected return on plan assets	**(365)**	(356)	**(3,259)**
Amortization of actuarial gains and losses	**753**	267	**6,723**
Amortization of prior service cost	**(255)**	(520)	**(2,277)**
Other	**35**	10	**313**
Retirement benefit expense	**¥1,021**	¥ 316	**$ 9,116**

(v) The components of retirement benefit liability adjustment included in other comprehensive income (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Prior service cost	**¥(255)**	¥ (520)	**$(2,277)**
Actuarial gains and losses	**860**	(4,003)	**7,679**
Total	**¥ 605**	¥(4,524)	**$ 5,402**

(vi) The components of retirement benefit liability adjustment included in accumulated other comprehensive income (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service cost	**¥(1,786)**	¥(2,041)	**$(15,946)**
Unrecognized actuarial gains and losses	**3,717**	4,578	**33,188**
Total	**¥ 1,931**	¥ 2,537	**$ 17,241**

(vii) Plan assets information

Breakdown of plan assets

Ratio of each component of plan assets to amount of total pension assets

	2017	2016
Debt securities	**21%**	21%
Equity securities	**26**	26
General accounts	**52**	52
Other	**1**	1
Total	**100%**	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

(viii) Assumptions used in accounting for the above plans (discount rate is displayed as a weighted average)

	2017	2016
Discount rate	**0.5%**	0.4%
Expected rate of return on plan assets	**2.5%**	2.5%

Note 12 Other Comprehensive Income

Amounts of recycling and income tax relating to other comprehensive income for the years ended March 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrealized holding gains on securities:			
Amount recognized in the year under review	**¥(6,124)**	¥ 5,819	**$(54,679)**
Amount of recycling	**(652)**	(0)	**(5,821)**
Before income tax effect adjustment	**(6,777)**	5,819	**(60,509)**
Amount of income tax effect	**2,100**	(1,392)	**18,750**
Unrealized holding gains on securities	**(4,677)**	4,427	**(41,759)**
Retirement benefits liability adjustments:			
Amount recognized in the year under review	**107**	(4,271)	**955**
Amount of recycling	**497**	(252)	**4,438**
Before income tax effect adjustment	**605**	(4,524)	**5,402**
Amount of income tax effect	**(184)**	1,411	**(1,643)**
Retirement benefits liability adjustments	**420**	(3,112)	**3,750**
Total other comprehensive income	**¥(4,256)**	¥ 1,315	**$(38,000)**

Note 13 Contingent Liabilities

For the year ended March 31, 2017

No corresponding items.

For the year ended March 31, 2016

No corresponding items.

Note 14 Government Grants

For the years ended March 31, 2016 and 2017

Government grants of ¥798 million ($7,125 thousand) for buildings and ¥113 million ($1,009 thousand) for land are deducted in calculating the carrying amounts of these assets.

Note 15 Segment Information

(1) Overview of Business Segments

The business segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess their performance.

As the Companies' primary business is the pharmaceutical business, its reportable segment is the pharmaceuticals segment.

(2) Method of Calculating Sales and Profit (Loss), Identifiable Assets / Liabilities, and Other Items by Business Segment

The accounting procedure for business segments reported is the same as that described in Note 02 Summary of Significant Accounting Policies.

Segment profit is calculated based on operating income.

Intersegment sales are recognized based on the price in an arm's-length transaction.

Because the depreciation method for both facilities attached to buildings and other non-building structures acquired after April 1, 2016 is being changed from the declining-balance method to the straight-line method as a result of changes in accounting policies due to revisions to corporate tax law, as described, depreciation methods for business segments are likewise being changed.

For this reason, impact on segment profits for this consolidated accounting period is minimal.

(3) Information on Sales and Profit (Loss), Identifiable Assets / Liabilities, and Other Items by Business Segment

	Millions of yen			
	Business segments			
As of March 31, 2017	Pharmaceuticals	Total	Other*1	Total
Net sales:				
Sales to third parties	**¥ 61,454**	**¥ 61,454**	**¥10,251**	**¥ 71,706**
Intersegment sales and transfers	**—**	**—**	**4,975**	**4,975**
Total	**¥ 61,454**	**¥ 61,454**	**¥15,227**	**¥ 76,682**
Segment profit	**¥ 7,670**	**¥ 7,670**	**¥ 744**	**¥ 8,415**
Segment assets	**¥178,393**	**¥178,393**	**¥10,618**	**¥189,011**
Other items:				
Depreciation*2	**¥ 2,182**	**¥ 2,182**	**¥ 337**	**¥ 2,519**
Increase of property, plant and equipment and intangible assets*2	**2,419**	**2,419**	**411**	**2,830**

*1: The Other segment is not a reportable segment; it includes sales of materials and other goods, information solution services, and construction subcontracting.
*2: Depreciation includes the amortization of long-term prepaid expenses. Increase of property, plant and equipment and intangible assets reflects the increase in long-term prepaid expenses.

	Millions of yen			
	Business segments			
As of March 31, 2016	Pharmaceuticals	Total	Other*1	Total
Net sales:				
Sales to third parties	¥ 61,821	¥ 61,821	¥ 9,472	¥ 71,294
Intersegment sales and transfers	—	—	5,494	5,494
Total	¥ 61,821	¥ 61,821	¥14,967	¥ 76,789
Segment profit	¥ 9,609	¥ 9,609	¥ 668	¥ 10,278
Segment assets	¥184,209	¥184,209	¥11,144	¥195,354
Other items:				
Depreciation*2	¥ 2,142	¥ 2,142	¥ 340	¥ 2,482
Increase of property, plant and equipment and intangible assets*2	3,478	3,478	306	3,784

*1: The Other segment is not a reportable segment; it includes sales of materials and other goods, information solution services, and construction subcontracting.
*2: Depreciation includes the amortization of long-term prepaid expenses. Increase of property, plant and equipment and intangible assets reflects the increase in long-term prepaid expenses.

	Thousands of U.S. dollars			
	Business segments			
As of March 31, 2017	Pharmaceuticals	Total	Other*1	Total
Net sales:				
Sales to third parties	**$ 548,696**	**$ 548,696**	**$ 91,527**	**$ 640,232**
Intersegment sales and transfers	**—**	**—**	**44,420**	**44,420**
Total	**$ 548,696**	**$ 548,696**	**$135,955**	**$ 684,661**
Segment profit	**$ 68,482**	**$ 68,482**	**$ 6,643**	**$ 75,134**
Segment assets	**$1,592,795**	**$1,592,795**	**$ 94,804**	**$1,687,598**
Other items:				
Depreciation*2	**$ 19,482**	**$ 19,482**	**$ 3,009**	**$ 22,491**
Increase of property, plant and equipment and intangible assets*2	**21,598**	**21,598**	**3,670**	**25,268**

*1: The Other segment is not a reportable segment; it includes sales of materials and other goods, information solution services, and construction subcontracting.
*2: Depreciation includes the amortization of long-term prepaid expenses. Increase of property, plant and equipment and intangible assets reflects the increase in long-term prepaid expenses.

(4) Reconciliation Items between Segment Information and the Consolidated Financial Statements

(i) Major items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net sales:			
Total of business segments	**¥ 61,454**	¥ 61,821	**$ 548,696**
Other business sales	**15,227**	14,967	**135,955**
Elimination of intersegment transactions	**(4,975)**	(5,494)	**(44,420)**
Reported on consolidated financial statements	**¥ 71,706**	¥ 71,294	**$ 640,232**
Segment profit:			
Total of business segments	**¥ 7,670**	¥ 9,609	**$ 68,482**
Other business profit	**744**	668	**6,643**
Elimination of intersegment transactions	**54**	36	**482**
Adjustments to depreciable assets	**17**	(25)	**152**
Other adjustments	**4**	(15)	**36**
Reported on consolidated financial statements	**¥8,491**	¥ 10,274	**$ 75,813**
Segment assets:			
Total of business segments	**¥178,393**	¥184,209	**$1,592,795**
Other business assets	**10,618**	11,144	**94,804**
Elimination of intersegment transactions	**(2,210)**	(2,008)	**(19,732)**
Reported on consolidated financial statements	**¥186,801**	¥193,345	**$1,667,866**

(ii) Other items for adjustments

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Depreciation:			
Total of business segments	**¥2,182**	¥2,142	**$19,482**
Other segments	**337**	340	**3,009**
Adjustments	**(148)**	(139)	**(1,321)**
Reported on consolidated financial statements	**¥2,370**	¥2,343	**$21,161**
Increase of property, plant and equipment and intangible assets:			
Total of business segments	**¥2,419**	¥3,478	**$21,598**
Other segments	**411**	306	**3,670**
Adjustments	**(14)**	(180)	**(125)**
Reported on consolidated financial statements	**¥2,815**	¥3,603	**$25,134**

(5) Related Information

(i) Product and service information

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Pharmaceuticals	**¥61,454**	¥61,821	**$548,696**
Other	**10,251**	9,472	**91,527**
Total	**¥71,706**	¥71,294	**$640,232**

(ii) Geographical information

(1) Net sales

Because net sales from customers outside Japan account for over 90% of net sales reported on the consolidated statements of income, attributions have been abbreviated.

(2) Property, plant and equipment

There are no corresponding items as the Companies does not possess any property, plant or equipment outside of Japan.

(iii) Major customer information

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Alfresa Corporation	**¥11,539**	¥11,436	**$103,027**
SUZUKEN CO., LTD.	**10,178**	9,826	**90,875**
MEDICEO CORPORATION	**8,026**	8,023	**71,661**

* Related segment for each major customer is the pharmaceuticals segment.

Note 16 Related Party Transactions

For the year ended March 31, 2017
No corresponding items.

For the year ended March 31, 2016
No corresponding items.

Note 17 Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2016 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Payroll costs	**¥ 9,512**	¥ 9,666	**$ 84,929**
Research and development expenses	**13,877**	14,106	**123,902**
Depreciation	**695**	611	**6,205**
Other	**14,054**	13,055	**125,482**
Total	**¥38,140**	¥37,439	**$340,536**

Note 18 Amounts Per Share

Amounts per share as of March 31, 2016 and 2017 are as follows:

	Yen		U.S. dollars
	2017	2016	**2017**
Net assets excluding non-controlling interests	**¥3,258.76**	¥3,226.40	**$29.096**
Profit attributable to owners of parent	**158.74**	166.89	**1.417**
Cash dividends	**46.0**	44.0	**0.411**

Diluted profit attributable to owners of parent per share is not presented because there are no dilutive potential of shares of common stock.

Net assets excluding non-controlling interests per share are computed based on the net assets excluding non-controlling interests and the number of common stock outstanding at the year end.

Profit attributable to owners of parent per share is computed based on the profit attributable to owners of parent and the average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors together with the interim cash dividends paid.

Note 19 Subsequent Events

For the year ended March 31, 2017
No corresponding items.

For the year ended March 31, 2016
No corresponding items.

Independent Auditor's Report

Ernst & Young ShinNihon LLC
3-1-1 Ote, Matsumoto-shi
Nagano, Japan 390-0874

TEL: +81 263 31 8720
FAX: +81 263 31 8721

Independent Auditor's Report

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the 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 Kissei Pharmaceutical Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 03.

June 28, 2017
Matsumoto, Japan

Ernst & Young ShinNihon LLC

Corporate Data

As of March 31, 2017

Head Office

19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
Tel: +81-263-25-9081

Tokyo Head Office

8-9, Nihonbashi-Muromachi 1-chome, Chuo-ku, Tokyo 103-0022, Japan
Tel: +81-3-3279-2761

Tokyo Head Office (Koishikawa)

1-3, Koishikawa 3-chome, Bunkyo-ku, Tokyo 112-0002, Japan
Tel: +81-3-5684-3530

Company Name

KISSEI PHARMACEUTICAL CO., LTD.

Established

August 9, 1946

Capital

¥24,356 million

Number of Employees

1,518 (Non-consolidated)

URL

http://www.kissei.co.jp/e_contents/

Laboratories

Central Research Laboratories	Azumino City, Nagano
Safety Research Laboratories	Azumino City, Nagano
Pharmaceutical Laboratories	Azumino City, Nagano
Joetsu Chemical Laboratories	Joetsu City, Niigata

Plants

Matsumoto Plants	Matsumoto City, Nagano
Shiojiri Plants	Shiojiri City, Nagano

Centers

Nutritional Business Center	Shiojiri City, Nagano
Information Center	Matsumoto City, Nagano

Subsidiaries

Consolidated Subsidiaries

Kissei Shoji Co., Ltd.

Kissei Comtec Co., Ltd.

Hashiba Technos Co., Ltd.

Unconsolidated Subsidiaries

Kissei America, Inc.

Investor Information

As of March 31, 2017

Stock Exchange Listing

Tokyo

Stock Code

4547

Common Stock

Authorized
227,000,000 shares

Issued
54,311,185 shares

Number of Shareholders
3,826

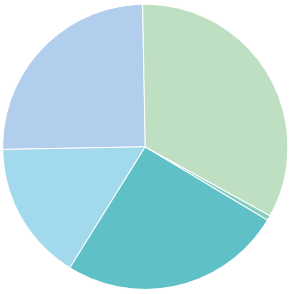
(Year-on-year change: 267 decrease)

Principal Shareholders

	Number of shares held (hundreds)	Voting rights (%)
The Dai-ichi Life Insurance Company, Limited	32,000	6.6
Kanzawa Limited	31,782	6.6
Japan Trustee Services Bank, Ltd. (Trust account)	25,010	5.2
The Hachijuni Bank, Ltd.	24,435	5.1
Mizuho Bank, Ltd.	18,334	3.8
The Master Trust Bank of Japan, Ltd. (Trust account)	16,358	3.4
Mutsuo Kanzawa	15,385	3.2
Kissei Group Employee Stockholders Committee	12,974	2.7
Nabelin Co., Ltd.	12,223	2.5
STATE STREET BANK AND TRUST COMPANY 505223	11,456	2.4

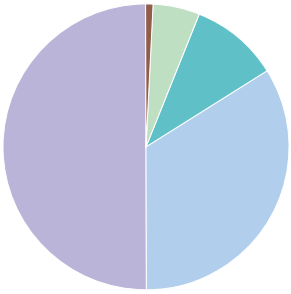
Note: Kissei holds 59,941 hundred shares of treasury stock but is not included in the above list of principal shareholders. Further, the calculation of voting rights percentages is based on total shares issued net of treasury stock.

Composition of Shareholders by Category



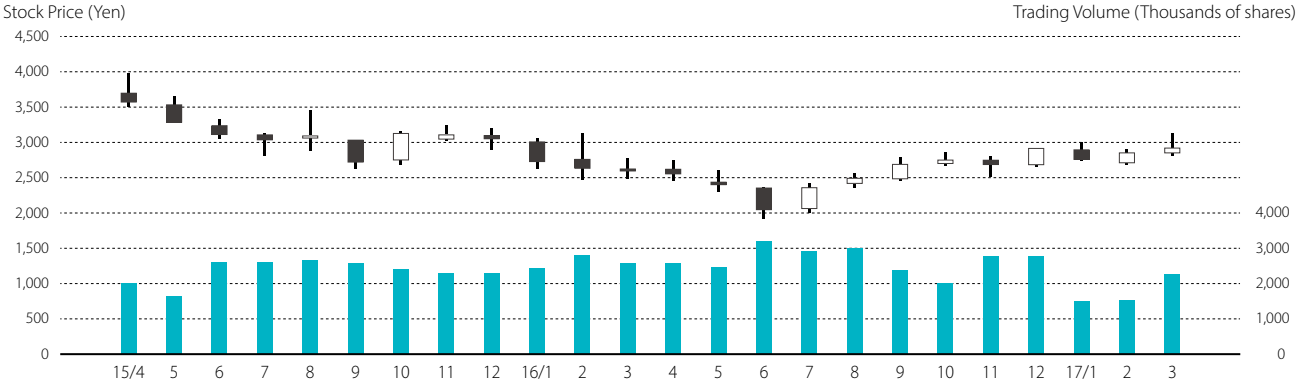
- Financial institutions: 52 / 18,161 thousands shares (33.4%)
- Securities companies: 22 / 332 thousands shares (0.6%)
- Other companies: 189 / 13,794 thousands shares (25.4%)
- Non-Japanese institutions and individuals: 228 / 8,460 thousands shares (15.6%)
- Individuals and others: 3,335 / 13,562 thousands shares (25.0%)

Composition of Shareholders by Number of Shares Held



- 1–999 shares: 2,281 / 536 thousands shares (1.0%)
- 1,000–9,999 shares: 1,294 / 2,903 thousands shares (5.3%)
- 10,000–99,999 shares: 179 / 5,370 thousands shares (9.9%)
- 100,000–999,999 shares: 60 / 18,385 thousand shares (33.9%)
- 1,000,000 and over shares: 12 / 27,116 thousand shares (49.9%)

Stock Price Range / Trading Volume



KISSEI PHARMACEUTICAL CO., LTD.
19-48, Yoshino, Matsumoto City, Nagano 399-8710, Japan
URL: http://www.kissei.co.jp/

In consideration of environmental concerns, this report is printed on FSC®-certified paper using the waterless printing process and vegetable oil ink.

Printed in Japan