

**Consolidated Financial Statements for the Year Ended March 31, 2011**  
**<under Japanese GAAP>**

May 13, 2011

Listed Company Name: TAISHO PHARMACEUTICAL CO., LTD.      Stock Listing: TSE  
 Security Code: 4535      (URL <http://www.taisho.co.jp/>)  
 Representative: Akira Uehara, Chairman and CEO  
 Contact: Masaki Tsuboi, General Manager of Public Relations Section  
 TEL: +81-3-3985-1111

Scheduled date for annual shareholders' meeting: June 29, 2011  
 Scheduled date of dividend payments: June 30, 2011  
 Scheduled date for filing Securities Report: June 29, 2011  
 Supplementary material on financial results: Yes  
 Financial results briefing: Yes (for analysts)

\* All amounts in this report are rounded down to the nearest million yen.

**1. Consolidated Financial Results Fiscal 2010 (April 1, 2010 to March 31, 2011)**

(1) Consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

|                    | Net sales       |     | Operating income |       | Ordinary income |       | Net income      |       |
|--------------------|-----------------|-----|------------------|-------|-----------------|-------|-----------------|-------|
|                    | Millions of yen | %   | Millions of yen  | %     | Millions of yen | %     | Millions of yen | %     |
| For the year ended |                 |     |                  |       |                 |       |                 |       |
| March 31, 2011     | 268,632         | 3.9 | 44,082           | 27.1  | 54,077          | 47.5  | 34,892          | 79.1  |
| March 31, 2010     | 258,441         | 0.9 | 34,686           | (8.6) | 36,671          | (8.1) | 19,485          | 121.0 |

Note: Comprehensive income      Fiscal 2010: 31,451 million yen (7.3%)      Fiscal 2009: 29,308 million yen (- %)

|                    | Net income per share | Net income per share, diluted | Return on equity | Ordinary income to total assets | Operating income to net sales |
|--------------------|----------------------|-------------------------------|------------------|---------------------------------|-------------------------------|
|                    | Yen                  | Yen                           | %                | %                               | %                             |
| For the year ended |                      |                               |                  |                                 |                               |
| March 31, 2011     | 124.90               | –                             | 6.7              | 8.8                             | 16.4                          |
| March 31, 2010     | 67.98                | –                             | 3.8              | 6.1                             | 13.4                          |

Reference: Equity income (loss) from affiliates      Fiscal 2010: 3,698 million yen      Fiscal 2009: (3,876) million yen

(2) Consolidated Financial Position

|                | Total assets    | Net assets      | Equity ratio | Net assets per share |
|----------------|-----------------|-----------------|--------------|----------------------|
|                | Millions of yen | Millions of yen | %            | Yen                  |
| As of          |                 |                 |              |                      |
| March 31, 2011 | 618,434         | 535,231         | 84.8         | 1,901.74             |
| March 31, 2010 | 606,443         | 527,760         | 85.3         | 1,816.68             |

Reference: Equity      As of March 31, 2011: 524,502 million yen      As of March 31, 2010: 517,550 million yen

(3) Consolidated Cash Flows

|                    | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at the end of period |
|--------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|                    | Millions of yen                      | Millions of yen                      | Millions of yen                      | Millions of yen                                |
| For the year ended |                                      |                                      |                                      |  |
| March 31, 2011     | 46,493                               | (792)                                | (18,377)                             | 123,602  |
| March 31, 2010     | 39,475                               | 11,244                               | (18,837)                             | 96,956   |

## 2. Cash Dividends

|                        | Annual dividends |                |               |                 |       | Total cash dividends | Dividend payout ratio (Consolidated) | Ratio of dividends to net assets (Consolidated) |
|------------------------|------------------|----------------|---------------|-----------------|-------|----------------------|--------------------------------------|---|
|                        | First quarter    | Second quarter | Third quarter | Fiscal year-end | Total |                      |                                      |   |
|                        | Yen              | Yen            | Yen           | Yen             | Yen   | Millions of yen      | %                                    | %   |
| Fiscal 2009            | –                | 12.00          | –             | 15.00           | 27.00 | 7,720                | 39.7                                 | 1.5   |
| Fiscal 2010            | –                | 12.00          | –             | 15.00           | 27.00 | 7,512                | 21.6                                 | 1.5   |
| Fiscal 2011 (Forecast) | –                | 12.00          | –             | –               | –     |                      | –                                    |   |

Note: The year-end cash dividend forecast for fiscal 2011 (year ending March 31, 2012) is undecided. Please refer to the following page “\* Disclaimer regarding appropriate use of forecasts and related points of note” for details on the cash dividend forecast for fiscal 2011.

## 3. Forecasts of Consolidated Operating Results for Fiscal 2011 (April 1, 2011 to March 31, 2012)

Note: Percentages indicate changes over the same period in the previous fiscal year.

|           | Net sales       |     | Operating income |        | Ordinary income |        | Net income      |        | Net income per share |
|-----------|-----------------|-----|------------------|--------|-----------------|--------|-----------------|--------|----------------------|
|           | Millions of yen | %   | Millions of yen  | %      | Millions of yen | %      | Millions of yen | %      | Yen                  |
| Half year | 136,500         | 2.6 | 21,000           | (14.8) | 23,500          | (12.4) | 14,000          | (13.7) | 50.76                |
| Full year | 274,000         | 2.0 | 39,500           | (10.4) | 45,500          | (15.9) | 28,000          | (19.8) | 101.52               |

## 4. Other

- (1) Changes in significant subsidiaries during the period (or changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Changes in accounting policies, procedures, and methods of presentation (changes described in the section of “Changes in significant matters forming the basis of preparing the consolidated financial statements”)
  - a. Changes due to revisions to accounting standards: Yes
  - b. Changes due to other reasons: No
- (3) Number of issued shares (common stock)
  - a. Total number of issued shares at the end of the period (including treasury stock)
    - As of March 31, 2011: 300,465,510 shares
    - As of March 31, 2010: 300,465,510 shares
  - b. Number of shares of treasury stock at the end of the period
    - As of March 31, 2011: 24,664,356 shares
    - As of March 31, 2010: 15,577,100 shares
  - c. Average number of shares during the period
    - For the year ended March 31, 2011: 279,366,869 shares
    - For the year ended March 31, 2010: 286,642,206 shares

## Reference: Summary of Non-consolidated Results

### 1. Non-consolidated Financial Results for Fiscal 2010 (April 1, 2010 to March 31, 2011)

#### (1) Non-consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

|                    | Net sales       |       | Operating income |        | Ordinary income |        | Net income      |      |
|--------------------|-----------------|-------|------------------|--------|-----------------|--------|-----------------|------|
|                    | Millions of yen | %     | Millions of yen  | %      | Millions of yen | %      | Millions of yen | %    |
| For the year ended |                 |       |                  |        |                 |        |                 |      |
| March 31, 2011     | 197,322         | 1.0   | 36,605           | 32.1   | 44,867          | 31.1   | 29,990          | 36.6 |
| March 31, 2010     | 195,288         | (1.8) | 27,708           | (13.4) | 34,226          | (12.2) | 21,948          | 85.0 |

|                    | Net income per share | Net income per share, diluted |
|--------------------|----------------------|-------------------------------|
|                    | Yen                  | Yen                           |
| For the year ended |                      |                               |
| March 31, 2011     | 107.27               | –                             |
| March 31, 2010     | 76.52                | –                             |

#### (2) Non-consolidated Financial Position

|                | Total assets    | Net assets      | Equity ratio | Net assets per share |
|----------------|-----------------|-----------------|--------------|----------------------|
|                | Millions of yen | Millions of yen | %            | Yen                  |
| As of          |                 |                 |              |                      |
| March 31, 2011 | 596,519         | 540,306         | 90.6         | 1,957.54             |
| March 31, 2010 | 589,084         | 535,857         | 91.0         | 1,879.54             |

Reference: Equity As of March 31, 2011: 540,306 million yen As of March 31, 2010: 535,857 million yen

### 2. Forecasts of Non-consolidated Operating Results for Fiscal 2011 (April 1, 2011 to March 31, 2012)

Note: Percentages indicate changes over the same period in the previous fiscal year.

|           | Net sales       |     | Operating income |        | Ordinary income |        | Net income      |        | Net income per share |
|-----------|-----------------|-----|------------------|--------|-----------------|--------|-----------------|--------|----------------------|
|           | Millions of yen | %   | Millions of yen  | %      | Millions of yen | %      | Millions of yen | %      | Yen                  |
| Half year | 100,000         | 1.2 | 17,000           | (18.3) | 21,500          | (15.2) | 14,000          | (17.4) | 50.72                |
| Full year | 198,500         | 0.6 | 31,500           | (13.9) | 39,000          | (13.1) | 26,000          | (13.3) | 94.20                |

#### \* Indication regarding execution of audit procedures

This financial results report is exempt from the audit procedures pursuant to the Financial Instruments and Exchange Act. At the time of disclosure of this financial results report, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act are incomplete.

#### \* Disclaimer regarding appropriate use of forecasts and related points of note

(Note on forward-looking statements)

The forecast statements shown in these materials are based on the information available at the time of preparation and certain assumptions that Taisho deems rational. Actual performance and other factors may differ materially from these forecasts due to various factors.

(Cash dividend forecast for fiscal 2011)

Planned cash dividends at the end of the second quarter of fiscal 2011 will be paid by Taisho Pharmaceutical Inc. and planned cash dividends at the end of fiscal 2011 will be paid by Taisho Pharmaceutical Holdings Co., Ltd.. The year-end dividend forecast will be announced promptly after the effective date of the transfer of shares described in today's news release "Notice of Incorporation of Holding Company through Sole-Share Transfer" (planned effective date: October 3, 2011).

## Attached Material

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## 1. Operating Results

### (1) Analysis of Operating Results

#### (i) Overview of the Fiscal 2010

During the consolidated fiscal year under review, the Japanese economy showed signs of a pickup in exports and production on the back of a recovery in overseas economies. However, employment conditions remained difficult, including a high unemployment rate, and the outlook for the economy remained unclear. This outlook was clouded further by the Great East Japan Earthquake that occurred in March 2011.

During the consolidated fiscal year under review, the Self-Medication Operation Group's main business field, the over-the-counter (OTC) drug market, remained weak overall. Although sales of products such as general cold remedies, nasal inflammation treatments and energy drinks performed steadily, there was a sharp drop in sales of cold prevention related products resulting from a reactive lull from the sharp demand spike for these products that accompanied the outbreak of the new strain of influenza in the previous fiscal year.

The difficult business environment continued also for the Prescription Pharmaceutical Operation Group as a result of the steady penetration of various government measures designed to curb healthcare costs and the huge impact from the revision to NHI drug prices that took effect in April last year.

Against this backdrop, the Self-Medication Operation Group focused on the provision of information on drugs and on strengthening in-store sales promotions. It also actively launched new products in the growing field of lifestyle diseases, and worked to energize the market. The Prescription Pharmaceutical Operation Group also, while strengthening marketing capabilities by focusing on the provision of information, dedicated itself to the ongoing development of its original development substances and the acceleration of research and development efforts.

As a result of these business activities, consolidated net sales for the year ended March 31, 2011 increased by ¥10.190 billion, or 3.9%, from the same period of the previous fiscal year, to ¥268.632 billion (Please take note that all amounts given in billions of yen are rounded down to the nearest hundred-million yen).

Performance by segment is provided below.

| Segment / Category                                 | Amount | Increase (Decrease) |        |
|--|--------|---------------------|--------|
|  |        | Amount              | %      |
| <b>Self-Medication Operation Group</b>             | 167.1  | 8.3                 | 5.3    |
| Over-the-counter drugs, etc.                       | 152.0  | 6.9                 | 4.8    |
| Foods for Specified Health Use and foods, etc.     | 12.5   | 1.6                 | 15.2   |
| Others   | 2.5    | (0.3)               | (10.6) |
| <b>Prescription Pharmaceutical Operation Group</b> | 101.4  | 1.8                 | 1.9    |
| Ethical drugs                                      | 93.1   | 3.5                 | 4.0    |
| Intermediate products, etc.                        | 7.9    | (1.5)               | (16.3) |
| Royalty income                                     | 0.3    | (0.1)               | (33.7) |

Sales of major products of the two segments were as follows:

#### < Self-Medication Operation Group >

Consolidated net sales for the fiscal year under review increased by ¥8.3 billion, or 5.3% year on year, to ¥167.1 billion.

With regard to the Lipovitan series of energy drinks, sales of mainstay Lipovitan D were slightly down, or 1.1% decrease, but Lipovitan Fine, Lipovitan Half, and Lipovitan FB which appealed to consumers who prefer low-calorie drinks expanded steadily, partly aided by the heat wave last summer. Sales for the Lipovitan series rose 0.4% to ¥71.1 billion overall.

Sales of the Pabron series of cold remedies fell sharply in the first half of the fiscal year in reaction to the sharp demand spike for cold prevention related products that accompanied the outbreak of the new strain of influenza in the previous fiscal year. However, moving into the second half of the year, mainstay general cold remedies performed solidly and sales of nasal inflammation related products grew strongly in the final quarter of the fiscal year owing to high quantities of airborne pollens in early spring. As a result, overall sales for the Pabron series increased by 3.1% to ¥25.6 billion.

Sales of the RiUP series of hair regrowth treatments remained solid, growing 17.2% to ¥14.8 billion. A contributing factor behind this was the continued strong sales of RiUP X5 launched in the previous fiscal year, despite category 1 medicines generally struggling in the OTC drug market. Sales of the NARON series, which

marked the 50th anniversary since its launch, rose 6.0% to ¥4.6 billion. However, with regard to other brands, sales showed slight declines for the ZENA series of mini-drinks, down 3.6% to ¥3.3 billion, the Gastrointestinal Treatment series, down 1.0% to ¥4.2 billion, and the Colac series, down 1.5% to ¥3.8 billion. Sales of the Livita series of Foods for Specified Health Use and foods, etc. rose 15.8% to ¥3.6 billion thanks to effective efforts towards the Glucocare Powder Stick and other powder series.

< Prescription Pharmaceutical Operation Group >

Consolidated net sales for the fiscal year under review rose by ¥1.8 billion, or 1.9% year on year, to ¥101.4 billion.

There were strong sales from beta-lactamase inhibitor-penicillin antibacterial agent ZOSYN released in October 2008, which rose 37.6% to ¥14.7 billion and the new quinolone antibacterial agent OZEX which rose 46.5% to ¥4.0 billion due to the contribution by OZEX fine granules for pediatric use that was launched in January last year.

On the other hand, as being affected by the NHI drug price revisions that took effect in April last year, our mainstay macrolide antibiotic Clarith fell by 1.6% to ¥22.9 billion despite an increase in the number of units sold. Sales of peripheral vasodilator Palux was down 5.5% to ¥10.2 billion, quinolone antibacterial agent Geninax was down 7.3% to ¥4.4 billion, nonsteroidal anti-inflammatory drug Lorcam dropped 4.6% to ¥3.5 billion, injectable penicillin antibiotic PENTCILLIN fell 12.7% to ¥3.7 billion, and cephem antibiotic TOMIRON was down 1.8% to ¥2.4 billion.

Sales of intermediate products, etc. decreased by 16.3% to ¥7.9 billion.

Elsewhere, royalty income decreased by 33.7% to ¥0.3 billion.

With regard to income, because of a large drop in costs due to the disappearance of temporary rise in costs in the same period of the previous fiscal year, which included payment of a major milestone fee related to the in-licensing of new product candidates and an increase in advertising expenses accompanying the large-scale launches of new products, as well as all-out cost management efforts and the like, selling, general & administrative expenses declined considerably. As a result, operating income increased 27.1% to ¥44.082 billion.

Ordinary income increased 47.5% to ¥54.077 billion, owing to an improvement in equity income (loss) from affiliates.

Net income rose 79.1% to ¥34.892 billion, due to the booking of ¥1.0 billion for losses related to the Great East Japan Earthquake under extraordinary losses, and other factors.

(ii) Forecasts for Fiscal 2011

**– Self-Medication Operation Group sales forecast**

Regarding the Self-Medication Operation Group, through securing stable and sustained profits by focusing on mainstay brands and building the partnership with business partners in the potentially profitable field of lifestyle diseases, the Company will work towards maintaining its status as the No. 1 brand and developing new brands to follow Lipovitan, Pabron, and RiUP.

For Fiscal 2011, Taisho forecasts net sales of ¥171.5 billion for the Self-Medication Operation Group, up 2.6% year on year.

Sales of OTC drugs are expected to increase by 2.0% to ¥155.1 billion. Sales targets of Taisho's mainstay products are as follows: the Lipovitan series up 0.7% at ¥71.6 billion; the Pabron series up 0.1% to ¥25.7 billion; and the RiUP series up 2.4% to ¥15.2 billion. Plans are also underway to launch a number of products.

Sales of Foods for Specified Health Use, etc. are expected to increase by 3.6% to ¥3.7 billion because of the expansion of core products targeting life-style related diseases by the Livita series, while we project overseas energy drinks sales to rise 3.5% to ¥6.5 billion.

**– Prescription Pharmaceutical Operation Group sales forecast**

In the Prescription Pharmaceutical Operation Group, Taisho Toyama Pharmaceutical Co., Ltd. shall work on bolstering its provision of information and marketing strength in order to solidify its position as the leader in the infectious disease field. For the entire Group, Taisho forecasts full-term net sales of ¥102.7 billion (up 1.2%).

Sales targets compared to the previous fiscal year for Taisho's mainstay products are as follows: Clarith down 4.0% at ¥22.0 billion; Palux down 2.2% at ¥10.0 billion; Lorcam down 7.0% at ¥3.3 billion; PENTCILLIN down 9.4% at ¥3.4 billion; and with respect to ZOSYN up 9.8% at ¥16.2 billion and Geninax up 12.3% at ¥5.0 billion. Also, the Company projects sales of ¥3.4 billion from osteoporosis agent Edirol, launched in April, 2011. Taisho expects sales of intermediate products, etc. to fall 0.2% to ¥7.9 billion, and royalty income to fall 13.0% to ¥0.3 billion.

### –Consolidated earnings forecast

On the earnings front, after taking into consideration the above net sales forecasts, the selling, general and administrative expenses (such as an increase in research and development expenses, etc. accompanying the progress of research and development and an increase in sales promotion costs in connection with the launch of new products), and other factors such as a likely decline in equity in earnings of affiliates using the equity accounting method, Taisho forecasts the full-year earnings forecast as follows.

(Billions of yen)

|                  | Fiscal 2011 (full year) | Changes (%) |
|------------------|-------------------------|-------------|
| Net sales        | 274.0                   | 2.0         |
| Operating income | 39.5                    | (10.4)      |
| Ordinary income  | 45.5                    | (15.9)      |
| Net income       | 28.0                    | (19.8)      |

## (2) Analysis of Financial Position

### (i) Assets, liabilities and net assets

Total assets as of March 31, 2011, stood at ¥618.4 billion, up ¥11.9 billion from the previous fiscal year-end. This mainly reflected an increase in cash and deposits of ¥27.7 billion and an increase in stocks of subsidiaries and affiliates of ¥3.2 billion owing to equity in earnings of affiliates using the equity accounting method, despite a decrease in intangible fixed assets of ¥3.9 billion owing to depreciation of sales rights and trademarks.

Liabilities amounted to ¥83.2 billion, an increase of ¥4.5 billion from the previous year-end. This mainly reflected an increase of ¥2.3 billion for notes and accounts payable–trade and ¥1.0 billion for provision for loss on disaster.

Net assets amounted to ¥535.2 billion, an increase of ¥7.4 billion from the previous year-end. Net income of ¥34.8 billion was the main factor of increase, while purchase of treasury stock of ¥16.0 billion and dividends paid of ¥7.6 billion were the main factors of decrease.

### (ii) Cash flows

Cash and cash equivalents (hereinafter, “net cash”) stood at ¥123.6 billion as of March 31, 2011, representing an increase of ¥26.6 billion from the previous fiscal year-end.

Cash flows during the consolidated fiscal year under review and their causes are as follows.

#### (Cash flows from operating activities)

Net cash provided by operating activities was ¥46.4 billion, a year-on-year increase of ¥7.0 billion mainly attributable to income before income taxes and minority interests of ¥53.0 billion.

#### (Cash flows from investing activities)

Net cash used in investing activities was ¥0.7 billion, a year-on-year increase of ¥12.0 billion mainly attributable to payments for purchases of tangible fixed assets of ¥7.3 billion and investment securities of ¥15.9 billion.

#### (Cash flows from financing activities)

Net cash used in financing activities was ¥18.3 billion, a year-on-year decrease of ¥0.4 billion mainly attributable to payments for acquiring treasury stock of ¥16.0 billion and payments for dividends of ¥7.6 billion.

#### (Reference) Indicators related to cash flows

|  | Year ended<br>March 2007 | Year ended<br>March 2008 | Year ended<br>March 2009 | Year ended<br>March 2010 | Year ended<br>March 2011 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Equity ratio (%)                                   | 86.3                     | 86.1                     | 85.4                     | 85.3                     | 84.8                     |
| Equity ratio on a fair<br>value basis (%)          | 101.8                    | 93.7                     | 89.4                     | 79.9                     | 80.3                     |
| Interest-bearing debt<br>to cash flow ratio<br>(%) | 0.8                      | 2.6                      | 4.6                      | 3.2                      | 0.5                      |
| Interest coverage<br>ratio (times)                 | 3,704.8                  | 3,903.5                  | 1,022.3                  | 1,409.8                  | 5,811.6                  |

(Notes)

Equity ratio = Equity / Total assets

Equity ratio on a fair value basis = Market capitalization / Total assets

Interest-bearing debt to cash flow ratio= Interest-bearing debt / Cash flow

Interest coverage ratio = Cash flow / Interest paid

\* The above indicators are calculated based on consolidated financial figures.

\* Market capitalization is calculated using the closing stock price at the end of the fiscal year multiplied by the number of issued shares at the end of the fiscal year (excluding treasury stock).

\* Cash flow represents net cash provided by operating activities.

\* Interest-bearing debt represents all liabilities posted on the consolidated balance sheets subject to interest payments. Interest paid is the amount of interest paid as shown on the consolidated statements of cash flows.

### **(3) Policy for Deciding Dividends of Retained Earnings**

As stated in today's news release "Notice of Incorporation of Holding Company through Sole-Share Transfer", it is resolved that subject to approval at the Annual Shareholders' Meeting to be held on June 29, 2011, Taisho Pharmaceutical Holdings Co., Ltd., a wholly owning parent company of Taisho (hereinafter, the "Holding Company"), will be established by the method of sole-share transfer and Taisho will move into a holding company structure.

Although the basic policy for deciding cash dividends and the usage of retained earnings by the planned Holding Company is undecided at present, up until now, Taisho has been working to increase its retained earnings to maintain stable dividends over the long term at a high level while strengthening the Company. In line with Taisho's policy to strengthen the competitiveness and expand and develop businesses, these retained earnings have been appropriated for investments that include R&D, capital investment, licensing-in of products, equity-based business alliances and new business development. Furthermore, Taisho has acquired treasury stock in a flexible manner with the aims of improving capital efficiency and achieving a dynamic financial policy, while comprehensively assessing fund requirements.

Taisho's dividend policy has been set to roughly correspond to the non-consolidated operating results for each business term. The goal has been a dividend payout ratio of 30% of net income excluding extraordinary gains and losses.

Although net sales and income both exceeded the initial forecasts in the fiscal year under review, because of the uncertainty surrounding the business environments as a result of the impact of the Great East Japan Earthquake and of other factors, we would like to keep the announced dividend level, which is a dividend payout ratio of 24.7%.

Dividends to be paid by the planned Holding Company are to be resolved at the Shareholders' Meeting. However, in order to ensure return of profits to shareholders are conducted in a flexible manner, it will be set in the Articles of Incorporation that the amount of interim dividend (dividends from surplus as provided by Article 454, paragraph 5 of the Companies Act) can be resolved solely at a meeting of the Board of Directors, without the approval at a Shareholders' Meeting.

### **(4) Business and Other Risks**

Of the potential risks encountered by Taisho during the course of developing its business activities, those deemed to have the greatest likelihood of occurring are highlighted as follows. Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgment as of March 31, 2011.

#### **(i) Legal risks and risks related to healthcare policy**

Taisho's operations are subject to laws and regulations governing pharmaceutical affairs. A number of different approval and permission systems exist at each stage of pharmaceutical operations, including development, manufacturing, import and distribution. Consequently, there is a risk that Taisho's products could fail to conform to regulations at one of these stages, or that a previously granted approval could be revoked. Depending on trends in healthcare policy, health insurance systems and other changes, Taisho may also face the risk of a decline in pharmaceutical prices, among other risks.

#### **(ii) Risks involving pharmaceutical quality, side effects and other issues**

Taisho does its utmost to guarantee the reliability and quality of its products. Nevertheless, unanticipated side effects, accidents and other factors could force Taisho to recall or halt the sales of the products affected or incur claims for damages.

#### **(iii) Risks involving pharmaceutical development and commercialization**

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is uncertainty concerning the possibility of successfully launching products and businesses.

(iv) Risks involving the proper protection of intellectual property rights

If Taisho cannot properly protect its intellectual property rights, there is the risk that a third party might use Taisho's technology and other intellectual property and undermine the Company's competitiveness in the market. Similarly, there is also the risk that Taisho might encroach on the intellectual property rights of third parties.

(v) Risks related to expiration of patents

Although Taisho strives to extend product life cycles, sales could be negatively impacted, for example, by the emergence of generic drugs or the switch to over-the-counter drugs produced following the expiration of patents.

(vi) Risks from lawsuits

Taisho faces the possibility of lawsuits during the course of its business activities related to product liability, environmental issues and other matters.

(vii) Risks from fluctuations in foreign exchange rates

Fluctuations in foreign currency exchange rates could affect royalties denominated in foreign currencies received from outside Japan, commercial transactions and other factors, thus impacting Taisho's operating results.

(viii) Other risks

Sudden occurrence of natural disasters such as earthquakes and tsunami, deterioration in sociopolitical stability overseas, and other events could cause Taisho suffer damage, such as the destruction of overseas business sites or business infrastructures, or downsizing or withdrawal from its businesses.

In addition, the Company is faced with various other risks, including risks related to the external procurement of raw materials and risks associated with dependency on licenses for products developed by other companies. The above-described risks do not constitute all the risks inherent in Taisho's business activities.

## **2. Management Policies**

### **(1) Taisho's Basic Management Philosophy**

Taisho's company mission is to contribute to the society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty. In line with this mission, Taisho is building a stronger business foundation so that it can steadily grow and develop even in the face of international competition.

### **(2) Medium- and Long-Term Management Strategies**

Taisho is working to expand its Self-Medication Operation Group, which handles OTC drugs and health-related products, and its Prescription Pharmaceutical Operation Group, which handles ethical drugs and related businesses, and to expand its business operations.

Taisho aims to maximize corporate value by generating synergies between these two operation groups, while facilitating their growth in a well-balanced manner.

### **(3) Issues to be Addressed**

Taisho expects the operating environment in the pharmaceuticals industry to become more challenging owing to a sluggish economy, the intensification of competition and changes in market structure. In addition, the Great East Japan Earthquake is likely to affect economic activity in various ways. In this market environment, Taisho will work to further strengthen business performance by reinforcing its business base and increasing management efficiency.

In the Self-Medication Operation Group (which handles OTC drugs and health-related products), Taisho will broaden its product lineup of category 1 drugs by introducing switch compounds (ethical drug compounds developed for the OTC market), and also aggressively develop products to meet demand in new fields such as lifestyle diseases, metabolic syndrome, and lifestyle drugs. In the area of sales, we will strive to increase the brand value it has built over many years, including the Lipovitan series, Pabron series, and RiUP series, and work to nurture new brands such as Livita. Taisho will also focus on further strengthening proposal sales activities leveraging our direct selling system and try to enhance direct communication with consumers by expanding new channels such as a mail order system.

The operating environment of the Prescription Pharmaceutical Operation Group (which handles ethical drugs and related businesses) has become even more difficult. To successfully win out against the tough competition in this field, Taisho will focus R&D on highly original new branded drugs that can be successful internationally, as well as work to enhance its pipeline (product development pipeline) by promoting the introduction of promising drug candidates and collaborative development by strengthening alliances with both domestic and overseas companies. Our consolidated subsidiary Taisho Toyama Pharmaceutical Co., Ltd. aims to strengthen its visits and promotional activities and enhance the productivity of its MRs, while buttressing its areas of specialization with the aim of solidifying its position as the leader in the field of infectious diseases.

In overseas business activities, Taisho will work to solidify the business base for energy drinks centered on Asia to establish Taisho as a leading name in the energy drinks business. Also, in the OTC business, Taisho is further strengthening its business base in Singapore, which it is using as a generalization office, in Indonesia, which it is using as a manufacturing base, in the Philippines, and in Thailand. Moreover, in April 2011, Taisho reached agreement to acquire Hoepharm Holdings Sdn. Bhd. (HOE), a Malaysian drug company, from Goldis Berhad and other shareholders. Going forward, the Company plans to continue expanding its OTC drug business further in Southeast Asia.

The operating environment in the pharmaceuticals industry becomes increasingly challenging. In order to respond more promptly to changes in the environment, the Group will actively tackle the above management issues while reviewing management systems to create a new Group management framework that will maximize the collective strengths of the Group and support stronger business performance.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheets

(Millions of yen)

|  | As of March 31, 2010 | As of March 31, 2011 |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                |                      |                      |
| Current assets                               |                      |                      |
| Cash and deposits                            | 105,625              | 133,422              |
| Notes and accounts receivable–trade          | 60,379               | 65,171               |
| Marketable securities                        | 7,598                | –                    |
| Merchandise and finished goods               | 14,190               | 12,669               |
| Work in process                              | 2,173                | 2,489                |
| Raw materials and supplies                   | 7,298                | 7,882                |
| Deferred tax assets                          | 7,711                | 8,094                |
| Other  | 10,858               | 3,752                |
| Allowance for doubtful accounts              | (149)                | (311)                |
| Total current assets                         | 215,686              | 233,170              |
| Fixed assets                                 |                      |                      |
| Tangible fixed assets                        |                      |                      |
| Buildings and structures                     | 129,109              | 129,760              |
| Accumulated depreciation and impairment loss | (81,972)             | (85,156)             |
| Buildings and structures, net                | 47,136               | 44,604               |
| Machinery, equipment and vehicles            | 78,459               | 79,322               |
| Accumulated depreciation and impairment loss | (69,951)             | (71,907)             |
| Machinery, equipment and vehicles, net       | 8,508                | 7,415                |
| Land   | 30,828               | 32,508               |
| Construction in progress                     | 292                  | 2,396                |
| Other  | 33,103               | 33,504               |
| Accumulated depreciation and impairment loss | (29,123)             | (30,179)             |
| Other, net                                   | 3,979                | 3,325                |
| Total tangible fixed assets                  | 90,746               | 90,249               |
| Intangible fixed assets                      |                      |                      |
| Goodwill                                     | 14,254               | 13,400               |
| Sales rights                                 | 11,252               | 10,067               |
| Trademarks                                   | 4,202                | 3,186                |
| Software                                     | 4,210                | 3,363                |
| Other  | 376                  | 369                  |
| Total intangible fixed assets                | 34,296               | 30,386               |
| Investments and other assets                 |                      |                      |
| Investment securities                        | 202,814              | 198,390              |
| Stocks of subsidiaries and affiliates        | 47,057               | 50,351               |
| Long-term prepaid expenses                   | 996                  | 998                  |
| Deferred tax assets                          | 10,130               | 10,729               |
| Other  | 4,939                | 4,355                |
| Allowance for doubtful accounts              | (225)                | (198)                |
| Total investments and other assets           | 265,714              | 264,626              |
| Total fixed assets                           | 390,756              | 385,263              |
| Total assets                                 | 606,443              | 618,434              |

(Millions of yen)

|  | As of March 31, 2010 | As of March 31, 2011 |
|--|----------------------|----------------------|
| <b>LIABILITIES</b>                           |                      |                      |
| Current liabilities                          |                      |                      |
| Notes and accounts payable–trade             | 22,689               | 25,064               |
| Short-term loans                             | 1,275                | 235                  |
| Accounts payable                             | 10,228               | 11,756               |
| Accrued income taxes                         | 7,972                | 8,019                |
| Accrued expenses                             | 7,578                | 8,038                |
| Adjustment allowance for returns             | 545                  | 486                  |
| Allowance for bonuses                        | 4,433                | 4,497                |
| Provision for loss on disaster               | –                    | 1,044                |
| Other  | 957                  | 717                  |
| Total current liabilities                    | 55,680               | 59,859               |
| Long-term liabilities                        |                      |                      |
| Reserves for retirement benefits             | 16,911               | 17,260               |
| Reserves for directors' retirement payments  | 1,385                | 1,464                |
| Deferred tax liabilities                     | 529                  | 476                  |
| Other  | 4,175                | 4,141                |
| Total long-term liabilities                  | 23,002               | 23,343               |
| Total liabilities                            | 78,682               | 83,203               |
| <b>NET ASSETS</b>                            |                      |                      |
| Shareholders' equity                         |                      |                      |
| Common stock                                 | 29,804               | 29,804               |
| Additional paid-in capital                   | 14,935               | 14,935               |
| Retained earnings                            | 506,725              | 533,969              |
| Treasury stock                               | (30,767)             | (46,772)             |
| Total shareholders' equity                   | 520,697              | 531,936              |
| Accumulated other comprehensive income       |                      |                      |
| Unrealized gain on securities                | 4,176                | 1,939                |
| Foreign currency adjustment accounts         | (7,323)              | (9,373)              |
| Total accumulated other comprehensive income | (3,147)              | (7,434)              |
| Minority interests                           | 10,210               | 10,728               |
| Total net assets                             | 527,760              | 535,231              |
| Total liabilities and net assets             | 606,443              | 618,434              |

**(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
(Consolidated Statements of Income)

(Millions of yen)

|   | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Net sales   | 258,441                              | 268,632                              |
| Cost of sales   | 91,815                               | 96,460                               |
| Gross profit on sales   | 166,626                              | 172,171                              |
| Reversal of provision for sales returns                             | 622                                  | 552                                  |
| Provision for sales returns   | 545                                  | 486                                  |
| Gross profit  | 166,703                              | 172,237                              |
| Selling, general & administrative expenses                          | 132,017                              | 128,154                              |
| Operating income  | 34,686                               | 44,082                               |
| Non-operating income  |                                      |                                      |
| Interest income   | 5,013                                | 5,059                                |
| Dividend income   | 941                                  | 1,121                                |
| Equity in earnings of affiliates using the equity accounting method | –                                    | 3,698                                |
| Rental income on real estate  | 29                                   | 40                                   |
| Other   | 810                                  | 528                                  |
| Total non-operating income  | 6,795                                | 10,448                               |
| Non-operating expenses  |                                      |                                      |
| Interest expenses   | 28                                   | 8                                    |
| Investment loss in affiliates using the equity accounting method    | 3,876                                | –                                    |
| Other   | 903                                  | 445                                  |
| Total non-operating expenses  | 4,809                                | 453                                  |
| Ordinary income   | 36,671                               | 54,077                               |
| Extraordinary gains   |                                      |                                      |
| Gain on sales of fixed assets                                       | 15                                   | 7                                    |
| Profit on sales of investment securities                            | –                                    | 82                                   |
| Total extraordinary gains   | 15                                   | 90                                   |
| Extraordinary losses  |                                      |                                      |
| Evaluation loss on investment securities                            | 268                                  | 35                                   |
| Loss on disposal of fixed assets                                    | 104                                  | 51                                   |
| Asset impairment loss   | 523                                  | –                                    |
| Loss on disaster  | –                                    | 1,074                                |
| Total extraordinary losses  | 896                                  | 1,160                                |
| Income before income taxes and minority interests                   | 35,790                               | 53,006                               |
| Income taxes–current  | 16,616                               | 16,897                               |
| Income taxes–deferred   | (1,436)                              | 314                                  |
| Total income taxes  | 15,180                               | 17,212                               |
| Income before minority interests                                    | –                                    | 35,794                               |
| Minority interest gain of consolidated subsidiaries                 | 1,125                                | 901                                  |
| Net income  | 19,485                               | 34,892                               |

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

|  | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Income before minority interests   | –                                    | 35,794                               |
| Other comprehensive income   |                                      |                                      |
| Unrealized gain (loss) on securities   | –                                    | (2,002)                              |
| Foreign currency adjustment accounts   | –                                    | (2,054)                              |
| Share of other comprehensive income of associates<br>accounted for using equity method | –                                    | (286)                                |
| Total other comprehensive income   | –                                    | (4,342)                              |
| Comprehensive income   | –                                    | 31,451                               |
| (Comprehensive income attributable to)   |                                      |                                      |
| Comprehensive income attributable to owners of the<br>parent                           | –                                    | 30,605                               |
| Comprehensive income attributable to minority<br>interests                             | –                                    | 845                                  |

### (3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

|  | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Shareholders' equity   |                                      |                                      |
| Common stock   |                                      |                                      |
| Balance at the end of the previous period  | 29,804                               | 29,804                               |
| Changes during the period  |                                      |                                      |
| Total changes during the period  | –                                    | –                                    |
| Balance at the end of the current period   | 29,804                               | 29,804                               |
| Additional paid-in capital   |                                      |                                      |
| Balance at the end of the previous period  | 14,935                               | 14,935                               |
| Changes during the period  |                                      |                                      |
| Total changes during the period  | –                                    | –                                    |
| Balance at the end of the current period   | 14,935                               | 14,935                               |
| Retained earnings  |                                      |                                      |
| Balance at the end of the previous period  | 535,393                              | 506,725                              |
| Changes during the period  |                                      |                                      |
| Retirement of treasury stock   | (40,365)                             | –                                    |
| Dividends paid   | (7,787)                              | (7,649)                              |
| Net income   | 19,485                               | 34,892                               |
| Total changes during the period  | (28,667)                             | 27,243                               |
| Balance at the end of the current period   | 506,725                              | 533,969                              |
| Treasury stock   |                                      |                                      |
| Balance at the end of the previous period  | (63,183)                             | (30,767)                             |
| Changes during the period  |                                      |                                      |
| Purchase of treasury stock   | (7,927)                              | (16,004)                             |
| Retirement of treasury stock   | 40,365                               | –                                    |
| Change in number of shares of treasury stock<br>due to change in interests in equity method<br>application company | (22)                                 | 0                                    |
| Total changes during the period  | 32,416                               | (16,004)                             |
| Balance at the end of the current period   | (30,767)                             | (46,772)                             |
| Total shareholders' equity   |                                      |                                      |
| Balance at the end of the previous period  | 516,948                              | 520,697                              |
| Changes during the period  |                                      |                                      |
| Purchase of treasury stock   | (7,927)                              | (16,004)                             |
| Dividends paid   | (7,787)                              | (7,649)                              |
| Net income   | 19,485                               | 34,892                               |
| Change in number of shares of treasury stock<br>due to change in interests in equity method<br>application company | (22)                                 | 0                                    |
| Total changes during the period  | 3,748                                | 11,239                               |
| Balance at the end of the current period   | 520,697                              | 531,936                              |

(Millions of yen)

|  | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Accumulated other comprehensive income   |                                      |                                      |
| Unrealized gain (loss) on securities   |                                      |                                      |
| Balance at the end of the previous period  | (3,752)                              | 4,176                                |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net   | 7,928                                | (2,236)                              |
| Total changes during the period  | 7,928                                | (2,236)                              |
| Balance at the end of the current period   | 4,176                                | 1,939                                |
| Foreign currency adjustment accounts   |                                      |                                      |
| Balance at the end of the previous period  | (8,030)                              | (7,323)                              |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net   | 706                                  | (2,050)                              |
| Total changes during the period  | 706                                  | (2,050)                              |
| Balance at the end of the current period   | (7,323)                              | (9,373)                              |
| Total accumulated other comprehensive income   |                                      |                                      |
| Balance at the end of the previous period  | (11,782)                             | (3,147)                              |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net   | 8,635                                | (4,286)                              |
| Total changes during the period  | 8,635                                | (4,286)                              |
| Balance at the end of the current period   | (3,147)                              | (7,434)                              |
| Minority interests   |                                      |                                      |
| Balance at the end of the previous period  | 9,344                                | 10,210                               |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net   | 865                                  | 517                                  |
| Total changes during the period  | 865                                  | 517                                  |
| Balance at the end of the current period   | 10,210                               | 10,728                               |
| Total net assets   |                                      |                                      |
| Balance at the end of the previous period  | 514,511                              | 527,760                              |
| Changes during the period  |                                      |                                      |
| Purchase of treasury stock   | (7,927)                              | (16,004)                             |
| Dividends paid   | (7,787)                              | (7,649)                              |
| Net income   | 19,485                               | 34,892                               |
| Change in number of shares of treasury stock<br>due to change in interests in equity method<br>application company | (22)                                 | 0                                    |
| Changes in other than shareholders' equity<br>during the period, net   | 9,500                                | (3,768)                              |
| Total changes during the period  | 13,249                               | 7,470                                |
| Balance at the end of the current period   | 527,760                              | 535,231                              |

**(4) Consolidated Statements of Cash Flows**

(Millions of yen)

|   | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Cash flows from operating activities                                    |                                      |                                      |
| Income before income taxes and minority interests                       | 35,790                               | 53,006                               |
| Depreciation and amortization   | 11,533                               | 11,725                               |
| Amortization of goodwill  | 281                                  | 730                                  |
| Evaluation loss (gain) on investment securities                         | 268                                  | 35                                   |
| Loss (gain) on sales of fixed assets                                    | (15)                                 | (7)                                  |
| Loss (gain) on disposal of fixed assets                                 | 104                                  | 51                                   |
| Asset impairment loss   | 523                                  | –                                    |
| Loss (gain) on sales of investment securities                           | –                                    | (82)                                 |
| Interest and dividend income  | (5,954)                              | (6,180)                              |
| Interest expenses   | 28                                   | 8                                    |
| Investment loss (gain) in affiliates using the equity accounting method | 3,876                                | (3,698)                              |
| Gain (loss) in allowance for doubtful accounts                          | (87)                                 | 136                                  |
| Increase (decrease) in reserves for retirement benefits                 | 847                                  | 355                                  |
| Decrease (increase) in prepaid pension costs                            | 32                                   | (857)                                |
| Increase (decrease) in reserves for directors' retirement payments      | 55                                   | 79                                   |
| Increase (decrease) in allowance for bonuses                            | 106                                  | 65                                   |
| Loss on disaster  | –                                    | 1,074                                |
| Decrease (increase) in notes and accounts receivable–trade              | 3,085                                | (4,932)                              |
| Decrease (increase) in inventories                                      | (1,202)                              | 575                                  |
| Increase (decrease) in notes and accounts payable–trade                 | 2,447                                | 2,416                                |
| Increase (decrease) in long-term accounts payable–other                 | (22)                                 | (58)                                 |
| Other   | (49)                                 | 2,587                                |
| Subtotal  | 51,650                               | 57,029                               |
| Interest and dividends income received                                  | 5,859                                | 6,289                                |
| Interest paid   | (28)                                 | (8)                                  |
| Income taxes paid   | (18,006)                             | (16,816)                             |
| Net cash provided by operating activities                               | 39,475                               | 46,493                               |

(Millions of yen)

|   | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Cash flows from investing activities  |                                      |                                      |
| Decrease (increase) in time deposits  | 39,698                               | (638)                                |
| Proceeds from sales/redemption of marketable securities   | 2,936                                | 7,500                                |
| Payments for purchases of tangible fixed assets   | (5,781)                              | (7,397)                              |
| Proceeds from sales of tangible fixed assets  | 47                                   | 16                                   |
| Payments for purchases of intangible fixed assets   | (15,284)                             | (557)                                |
| Proceeds from sales of intangible fixed assets  | 0                                    | 5                                    |
| Payments for purchases of investment securities   | (44,520)                             | (15,941)                             |
| Proceeds from sales/redemption of investment securities   | 52,068                               | 16,606                               |
| Payments for purchases of investments in subsidiaries resulting in change in scope of consolidation | (13,999)                             | –                                    |
| Payments for purchases of stocks of subsidiaries and affiliates                                     | (4,182)                              | –                                    |
| Proceeds from sales of investments in subsidiaries  | –                                    | 10                                   |
| Payments for purchases of long-term prepaid expenses  | (405)                                | (555)                                |
| Other   | 664                                  | 156                                  |
| Net cash provided by (used in) investing activities   | 11,244                               | (792)                                |
| Cash flows from financing activities  |                                      |                                      |
| Increase in short-term loans payable  | 375                                  | 285                                  |
| Decrease in short-term loans payable  | (762)                                | (275)                                |
| Decrease in long-term loans payable   | –                                    | (1,050)                              |
| Repayments of finance lease obligations   | (240)                                | (267)                                |
| Payments for acquiring treasury stock   | (7,927)                              | (16,004)                             |
| Decrease (increase) in money held in trust for acquiring treasury stock                             | (2,172)                              | 6,886                                |
| Payments for dividends  | (7,752)                              | (7,623)                              |
| Cash dividends paid to minority shareholders  | (357)                                | (328)                                |
| Net cash used in financing activities   | (18,837)                             | (18,377)                             |
| Effect of exchange rate changes on cash and cash equivalents  | 212                                  | (677)                                |
| Net increase (decrease) in cash and cash equivalents  | 32,094                               | 26,645                               |
| Cash and cash equivalents at the beginning of period  | 64,862                               | 96,956                               |
| Cash and cash equivalents at the end of period  | 96,956                               | 123,602                              |



#### 4. Non-consolidated Financial Statements

##### (1) Non-consolidated Balance Sheets

(Millions of yen)

|  | As of March 31, 2010 | As of March 31, 2011 |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                |                      |                      |
| Current assets                               |                      |                      |
| Cash and deposits                            | 72,154               | 9,984                |
| Notes receivable–trade                       | 229                  | 210                  |
| Accounts receivable–trade                    | 44,223               | 45,943               |
| Marketable securities                        | 7,502                | –                    |
| Merchandise and finished goods               | 13,493               | 11,941               |
| Work in process                              | 2,047                | 2,362                |
| Raw materials and supplies                   | 6,587                | 7,203                |
| Advance payments–trade                       | 75                   | 156                  |
| Prepaid expenses                             | 677                  | 746                  |
| Money held in trust                          | 6,886                | –                    |
| Deferred tax assets                          | 5,954                | 6,276                |
| Other  | 3,637                | 2,670                |
| Allowance for doubtful accounts              | (126)                | (299)                |
| Total current assets                         | 163,343              | 174,196              |
| Fixed assets                                 |                      |                      |
| Tangible fixed assets                        |                      |                      |
| Buildings                                    | 110,548              | 111,223              |
| Accumulated depreciation and impairment loss | (70,340)             | (72,952)             |
| Buildings, net                               | 40,207               | 38,271               |
| Structures                                   | 7,470                | 7,535                |
| Accumulated depreciation and impairment loss | (5,526)              | (5,760)              |
| Structures, net                              | 1,943                | 1,775                |
| Machinery and equipment                      | 69,042               | 70,056               |
| Accumulated depreciation and impairment loss | (62,458)             | (64,308)             |
| Machinery and equipment, net                 | 6,583                | 5,748                |
| Vehicles                                     | 823                  | 783                  |
| Accumulated depreciation and impairment loss | (762)                | (712)                |
| Vehicles, net                                | 61                   | 70                   |
| Tools, furniture and fixtures                | 30,726               | 31,037               |
| Accumulated depreciation and impairment loss | (27,632)             | (28,392)             |
| Tools, furniture and fixtures, net           | 3,094                | 2,644                |
| Land   | 25,386               | 27,061               |
| Lease assets                                 | 1,024                | 1,062                |
| Accumulated depreciation                     | (327)                | (581)                |
| Lease assets, net                            | 697                  | 480                  |
| Construction in progress                     | 283                  | 2,353                |
| Total tangible fixed assets                  | 78,257               | 78,404               |

(Millions of yen)

|   | As of March 31, 2010 | As of March 31, 2011 |
|---|----------------------|----------------------|
| Intangible fixed assets                               |                      |                      |
| Sales rights  | 11,252               | 10,067               |
| Goodwill  | 16                   | 3                    |
| Trademarks  | 4,198                | 3,184                |
| Software  | 4,201                | 3,325                |
| Telephone subscription right                          | 56                   | 56                   |
| Other   | 13                   | 11                   |
| Total intangible fixed assets                         | 19,739               | 16,648               |
| Investments and other assets                          |                      |                      |
| Investment securities                                 | 196,933              | 195,147              |
| Stocks of subsidiaries and affiliates                 | 114,183              | 114,070              |
| Investments in capital of subsidiaries and affiliates | 3,087                | 3,087                |
| Long-term loans receivable                            | 0                    | —                    |
| Long-term loans receivable from employees             | 34                   | 34                   |
| Long-term prepaid expenses                            | 951                  | 954                  |
| Deferred tax assets                                   | 9,542                | 10,149               |
| Other   | 3,235                | 4,023                |
| Allowance for doubtful accounts                       | (224)                | (198)                |
| Total investments and other assets                    | 327,743              | 327,369              |
| Total fixed assets                                    | 425,741              | 422,322              |
| Total assets  | 589,084              | 596,519              |

(Millions of yen)

|   | As of March 31, 2010 | As of March 31, 2011 |
|---|----------------------|----------------------|
| <b>LIABILITIES</b>                                  |                      |                      |
| Current liabilities                                 |                      |                      |
| Accounts payable–trade                              | 12,807               | 12,940               |
| Lease obligations                                   | 266                  | 275                  |
| Accounts payable                                    | 7,351                | 8,860                |
| Accrued expenses                                    | 4,243                | 4,580                |
| Accrued income taxes                                | 6,225                | 6,064                |
| Deposits received                                   | 275                  | 269                  |
| Unearned revenue                                    | 2                    | 3                    |
| Adjustment allowance for returns                    | 526                  | 462                  |
| Allowance for bonuses                               | 3,019                | 3,033                |
| Provision for loss on disaster                      | –                    | 1,044                |
| Total current liabilities                           | 34,718               | 37,534               |
| Long-term liabilities                               |                      |                      |
| Lease obligations                                   | 465                  | 229                  |
| Long-term accounts payable                          | 1,150                | 1,089                |
| Reserves for retirement benefits                    | 14,204               | 14,600               |
| Reserves for directors' retirement payments         | 1,103                | 1,141                |
| Long-term guarantee deposits received               | 1,585                | 1,617                |
| Total long-term liabilities                         | 18,508               | 18,678               |
| Total liabilities                                   | 53,227               | 56,212               |
| <b>NET ASSETS</b>                                   |                      |                      |
| Shareholders' equity                                |                      |                      |
| Common stock  | 29,804               | 29,804               |
| Additional paid-in capital                          |                      |                      |
| Capital reserve                                     | 14,935               | 14,935               |
| Total additional paid-in capital                    | 14,935               | 14,935               |
| Retained earnings                                   |                      |                      |
| Legal reserve                                       | 7,451                | 7,451                |
| Other retained earnings                             |                      |                      |
| Reserve for advanced depreciation of fixed assets   | 2,541                | 2,460                |
| General reserve                                     | 483,063              | 483,063              |
| Retained earnings brought forward                   | 23,316               | 45,738               |
| Total retained earnings                             | 516,372              | 538,713              |
| Treasury stock                                      | (30,319)             | (46,324)             |
| Total shareholders' equity                          | 530,792              | 537,129              |
| Valuation, translation adjustments and others       |                      |                      |
| Unrealized gain on securities                       | 5,064                | 3,177                |
| Total valuation, translation adjustments and others | 5,064                | 3,177                |
| Total net assets                                    | 535,857              | 540,306              |
| Total liabilities and net assets                    | 589,084              | 596,519              |

**(2) Non-consolidated Statements of Income**

(Millions of yen)

|  | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Net sales                                  |                                      |                                      |
| Net sales of finished goods                | 161,861                              | 164,268                              |
| Net sales of goods                         | 33,426                               | 33,053                               |
| Total net sales                            | 195,288                              | 197,322                              |
| Cost of sales                              |                                      |                                      |
| Beginning merchandise and finished goods   | 11,755                               | 13,493                               |
| Cost of products manufactured              | 52,494                               | 48,173                               |
| Cost of purchased goods                    | 17,285                               | 17,098                               |
| Total                                      | 81,535                               | 78,766                               |
| Transfer to other account                  | 910                                  | 1,261                                |
| Ending merchandise and finished goods      | 13,493                               | 11,941                               |
| Total cost of sales                        | 67,131                               | 65,563                               |
| Gross profit on sales                      | 128,156                              | 131,758                              |
| Reversal of provision for sales returns    | 601                                  | 526                                  |
| Provision for sales returns                | 526                                  | 462                                  |
| Gross profit                               | 128,231                              | 131,822                              |
| Selling, general & administrative expenses | 100,523                              | 95,216                               |
| Operating income                           | 27,708                               | 36,605                               |
| Non-operating income                       |                                      |                                      |
| Interest income                            | 141                                  | 34                                   |
| Interest income on securities              | 4,437                                | 4,687                                |
| Dividend income                            | 1,446                                | 2,910                                |
| Rental income on real estate               | 359                                  | 369                                  |
| Other                                      | 938                                  | 653                                  |
| Total non-operating income                 | 7,322                                | 8,654                                |
| Non-operating expenses                     |                                      |                                      |
| Interest expenses                          | 3                                    | 1                                    |
| Foreign exchange losses                    | 391                                  | 24                                   |
| Loss on valuation of partnership           | 233                                  | 57                                   |
| Commission fee                             | 140                                  | 138                                  |
| Other                                      | 35                                   | 171                                  |
| Total non-operating expenses               | 804                                  | 393                                  |
| Ordinary income                            | 34,226                               | 44,867                               |
| Extraordinary gains                        |                                      |                                      |
| Gain on sales of fixed assets              | 3                                    | 4                                    |
| Profit on sales of investment securities   | –                                    | 82                                   |
| Total extraordinary gains                  | 3                                    | 86                                   |
| Extraordinary losses                       |                                      |                                      |
| Loss on disposal of fixed assets           | 89                                   | 44                                   |
| Evaluation loss on investment securities   | 268                                  | 7                                    |
| Asset impairment loss                      | 523                                  | –                                    |
| Loss on disaster                           | –                                    | 1,074                                |
| Total extraordinary losses                 | 881                                  | 1,126                                |

(Millions of yen)

|                            | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|----------------------------|--------------------------------------|--------------------------------------|
| Income before income taxes | 33,348                               | 43,827                               |
| Income taxes—current       | 13,280                               | 13,481                               |
| Income taxes—deferred      | (1,880)                              | 355                                  |
| Total income taxes         | 11,399                               | 13,837                               |
| Net income                 | 21,948                               | 29,990                               |

**(3) Non-consolidated Statements of Changes in Net Assets**

(Millions of yen)

|   | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Shareholders' equity  |                                      |                                      |
| Common stock  |                                      |                                      |
| Balance at the end of the previous period                     | 29,804                               | 29,804                               |
| Changes during the period                                     |                                      |                                      |
| Total changes during the period                               | –                                    | –                                    |
| Balance at the end of the current period                      | 29,804                               | 29,804                               |
| Additional paid-in capital                                    |                                      |                                      |
| Capital reserve   |                                      |                                      |
| Balance at the end of the previous period                     | 14,935                               | 14,935                               |
| Changes during the period                                     |                                      |                                      |
| Total changes during the period                               | –                                    | –                                    |
| Balance at the end of the current period                      | 14,935                               | 14,935                               |
| Total additional paid-in capital                              |                                      |                                      |
| Balance at the end of the previous period                     | 14,935                               | 14,935                               |
| Changes during the period                                     |                                      |                                      |
| Total changes during the period                               | –                                    | –                                    |
| Balance at the end of the current period                      | 14,935                               | 14,935                               |
| Retained earnings   |                                      |                                      |
| Legal reserve   |                                      |                                      |
| Balance at the end of the previous period                     | 7,451                                | 7,451                                |
| Changes during the period                                     |                                      |                                      |
| Total changes during the period                               | –                                    | –                                    |
| Balance at the end of the current period                      | 7,451                                | 7,451                                |
| Other retained earnings                                       |                                      |                                      |
| Reserve for advanced depreciation of fixed assets             |                                      |                                      |
| Balance at the end of the previous period                     | 2,622                                | 2,541                                |
| Changes during the period                                     |                                      |                                      |
| Reversal of reserve for advanced depreciation of fixed assets | (81)                                 | (80)                                 |
| Total changes during the period                               | (81)                                 | (80)                                 |
| Balance at the end of the current period                      | 2,541                                | 2,460                                |
| General reserve   |                                      |                                      |
| Balance at the end of the previous period                     | 523,063                              | 483,063                              |
| Changes during the period                                     |                                      |                                      |
| Reversal of general reserve                                   | (40,000)                             | –                                    |
| Total changes during the period                               | (40,000)                             | –                                    |
| Balance at the end of the current period                      | 483,063                              | 483,063                              |

(Millions of yen)

|   | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|---|--------------------------------------|--------------------------------------|
| Retained earnings brought forward                             |                                      |                                      |
| Balance at the end of the previous period                     | 9,439                                | 23,316                               |
| Changes during the period                                     |                                      |                                      |
| Reversal of reserve for advanced depreciation of fixed assets | 81                                   | 80                                   |
| Reversal of general reserve                                   | 40,000                               | –                                    |
| Retirement of treasury stock                                  | (40,365)                             | –                                    |
| Dividends paid  | (7,787)                              | (7,649)                              |
| Net income  | 21,948                               | 29,990                               |
| Total changes during the period                               | 13,876                               | 22,422                               |
| Balance at the end of the current period                      | 23,316                               | 45,738                               |
| Total retained earnings                                       |                                      |                                      |
| Balance at the end of the previous period                     | 542,576                              | 516,372                              |
| Changes during the period                                     |                                      |                                      |
| Retirement of treasury stock                                  | (40,365)                             | –                                    |
| Dividends paid  | (7,787)                              | (7,649)                              |
| Net income  | 21,948                               | 29,990                               |
| Total changes during the period                               | (26,204)                             | 22,341                               |
| Balance at the end of the current period                      | 516,372                              | 538,713                              |
| Treasury stock  |                                      |                                      |
| Balance at the end of the previous period                     | (62,757)                             | (30,319)                             |
| Changes during the period                                     |                                      |                                      |
| Purchase of treasury stock                                    | (7,927)                              | (16,004)                             |
| Retirement of treasury stock                                  | 40,365                               | –                                    |
| Total changes during the period                               | 32,438                               | (16,004)                             |
| Balance at the end of the current period                      | (30,319)                             | (46,324)                             |
| Total shareholders' equity                                    |                                      |                                      |
| Balance at the end of the previous period                     | 524,558                              | 530,792                              |
| Changes during the period                                     |                                      |                                      |
| Purchase of treasury stock                                    | (7,927)                              | (16,004)                             |
| Dividends paid  | (7,787)                              | (7,649)                              |
| Net income  | 21,948                               | 29,990                               |
| Total changes during the period                               | 6,234                                | 6,336                                |
| Balance at the end of the current period                      | 530,792                              | 537,129                              |

(Millions of yen)

|  | For the year ended<br>March 31, 2010 | For the year ended<br>March 31, 2011 |
|--|--------------------------------------|--------------------------------------|
| Valuation, translation adjustments and others                        |                                      |                                      |
| Unrealized gain (loss) on securities                                 |                                      |                                      |
| Balance at the end of the previous period                            | (2,563)                              | 5,064                                |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net | 7,627                                | (1,887)                              |
| Total changes during the period                                      | 7,627                                | (1,887)                              |
| Balance at the end of the current period                             | 5,064                                | 3,177                                |
| Total valuation, translation adjustments and<br>others               |                                      |                                      |
| Balance at the end of the previous period                            | (2,563)                              | 5,064                                |
| Changes during the period  |                                      |                                      |
| Changes in other than shareholders' equity<br>during the period, net | 7,627                                | (1,887)                              |
| Total changes during the period                                      | 7,627                                | (1,887)                              |
| Balance at the end of the current period                             | 5,064                                | 3,177                                |
| Total net assets   |                                      |                                      |
| Balance at the end of the previous period                            | 521,995                              | 535,857                              |
| Changes during the period  |                                      |                                      |
| Purchase of treasury stock   | (7,927)                              | (16,004)                             |
| Dividends paid   | (7,787)                              | (7,649)                              |
| Net income   | 21,948                               | 29,990                               |
| Changes in other than shareholders' equity<br>during the period, net | 7,627                                | (1,887)                              |
| Total changes during the period                                      | 13,861                               | 4,449                                |
| Balance at the end of the current period                             | 535,857                              | 540,306                              |