

Financial Report 2008

(Year ended March 31, 2009)

May 15, 2009

(Any fraction sum of less than a million yen is discarded.)

1. Consolidated Business Performance FY 2008 (From April 1, 2008 to March 31, 2009)

(1) Consolidated Operating Results

(% indicates percent change to the previous fiscal year.)

(Amount in millions except *)

	Net Sales		Operating Income		Ordinary Income		Net Income	
FY 2008	¥ 12,082	1.8 %	¥ 546	93.8 %	¥ 641	(7.7) %	¥ 539	35.0 %
FY 2007	¥ 11,871	38.9 %	¥ 281	—	¥ 695	—	¥ 399	—

	Earning Per Share *	Diluted Earning Per Share *	Return On Equity	Return On Assets	Ordinary Profit Ratio
FY 2008	¥ 20.09	¥ 20.09	3.2 %	2.6 %	4.5 %
FY 2007	¥ 14.74	¥ 14.74	2.3 %	2.9 %	2.4 %

Note: Equity in earnings or losses of affiliates

FY2008 - million yen

FY 2007 - million yen

(2) Consolidated Financial Condition

(Amount in millions except *)

	Total Assets	Total Net Assets	Equity Ratio	Book Value Per Share*
FY 2008	¥ 24,767	¥ 16,984	68.2 %	¥ 635.20
FY 2007	¥ 24,218	¥ 16,852	69.5 %	¥ 623.22

Note: Equity

FY2008 16,879 million yen

FY 2007 16,840 million yen

(3) Consolidated Cash Flows

(Amount in millions)

	Cash Flows From Operations	Cash Flow From Investments	Cash Flow From Financial Activities	Ending Cash And Cash Equivalents
FY 2008	¥ 1,825	¥ 121	¥ (1,276)	¥ 5,620
FY 2007	¥ 1,923	¥ (571)	¥ (512)	¥ 4,984

2. Dividends

(Amount in millions except *)

(Record date)	Dividend Per Share *					Total Dividend Amount (Annual)	Dividend Payout (Consolidated)	Dividend On Equity Ratio (Consolidated)
	Q1 -end	Q2 -end	Q3 -end	Year -end	Full			
FY 2007		¥ 5.00		¥ 5.00	¥ 10.00	¥ 270	67.8 %	1.6 %
FY 2008		¥ 5.00		¥ 5.00	¥ 10.00	¥ 267	49.8 %	1.6 %
FY 2009 (Forecast)		¥ 5.00		¥ 5.00	¥ 10.00	—	78.2 %	—

3. Consolidated Business Forecast FY 2009 (From April 1, 2009 to March 31, 2010)

(% indicates percentage change to the same period of the previous fiscal year)

(Amount in millions except *)

	Net sales		Operating Income		Ordinary Income		Net Income		Earning Per Share *
Interim fiscal year ended Sep. 30, 2009	¥ 6,000	15.9 %	¥ 150	—	¥ 170	—	¥ 110	—	¥ 4.14
Full fiscal year	¥ 12,300	1.8 %	¥ 590	8.0 %	¥ 590	(8.1) %	¥ 340	(37.0) %	¥ 12.79

(Reference) Summary of Nonconsolidated Business Performance**1. Nonconsolidated Business Performance FY 2008 (From April 1, 2008 to March 31, 2009)**

(1) Nonconsolidated Operating Results (% indicates percent change to the previous fiscal year.)

*(Amount in millions except *)*

	Net Sales	Operating Income	Ordinary Income	Net Income
FY 2008	¥ 11,770 4.3 %	¥ 432 280.8 %	¥ 553 4.4 %	¥ 462 84.2 %
FY 2007	¥ 11,284 38.5 %	¥ 113 —	¥ 530 —	¥ 251 —

	Earning Per Share *	Diluted Earning Per Share *
FY 2008	¥ 17.22	¥ 17.22
FY 2007	¥ 9.26	¥ 9.26

(2) Nonconsolidated Financial Condition

*(Amount in millions except *)*

	Total Assets	Total Net Assets	Equity Ratio	Book Value Per Share*
FY 2008	¥ 24,480	¥ 17,172	69.7 %	¥ 642.44
FY 2007	¥ 23,880	¥ 17,075	71.5 %	¥ 631.93

Note: Equity

FY2008 17,072 million yen

FY 2007 17,075 million yen

2. Nonconsolidated Business Forecast FY 2009 (From April 1, 2009 to March 31, 2010)

(% indicates percentage change to the same period of the previous fiscal year)

*(Amount in millions except *)*

	Net sales	Operating Income	Ordinary Income	Net Income	Earning Per Share*
Six months ended September 30, 2009	¥ 5,800 15.5 %	¥ 110 —	¥ 130 —	¥ 80 —	¥ 3.01
Full fiscal year	¥ 11,900 1.1 %	¥ 500 15.7 %	¥ 510 (7.9) %	¥ 280 (39.5) %	¥ 10.54

※ Explanation on appropriate use of “Business Forecast” and other special instructions
 The aforementioned forecast is based on available data as at the issue date of this document.
 Actual results may differ from those anticipated in the forecast due to various factors.

I. Operating results

1. Analysis of operating results

1.1 Operating results of FY2008 (need space between 1.1 and Operating)

The Japanese pharmaceutical industry was in a harshly restrictive environment with the enactment of the fundamental reform of the healthcare system repeated repression of medical expenditures, rising R&D expenditures and aggressive penetration of foreign companies into the Japanese market. Given this situation, the Company strengthened the sales activities of its main product, Growject® (a recombinant human growth hormone product), together with Dainippon Sumitomo Pharmaceutical Co., Ltd, its business partner. It also started preparations to promote Growject®'s supplementary indication for adult growth hormone deficiency (JR-401A), for which an approval is expected in mid 2009.

As to the Company's R&D, the application for marketing approval for JR-013, a recombinant erythropoietin for treatment of renal anemia, was successfully filed with the PMDA (Pharmaceuticals and Medical Devices Agency in Japan) in November 2008. (According to the report published by The Japanese Society for Dialysis Therapy, the number of chronic dialysis patients in Japan in 2007 reached 270,000, an increase by more than 10,000 from that of the previous year.) Furthermore, clinical development of JR-031, human mesenchymal stem cells for suppression of graft versus host disease (GVHD) progressed to Phase I/II and is expected to be the first cell-based drug in Japan. Clinical trial of JR-401S, a supplementary indication of Growject® for short stature due to small for gestational age, entered into Phase III. It is apparent from these achievements that our R&D activities are bearing meaningful results.

The Company is also actively engaged in the development of drugs for lysosomal diseases for a very small patient population.

As a result of these business activities, the consolidated sales of JCR Group at fiscal year-end reached ¥12,082 million (increase of 1.8 % from the previous fiscal year), and generated an operating income of ¥546 million (an increase of 93.8 % from the previous fiscal year), ordinary income of ¥641 million (decrease of 7.7 % from the previous fiscal year) and net income of ¥539 million (increase of 35.0 % from the previous fiscal year).

The sales and status of each business segment are as shown below:

(1) Pharmaceutical business

Sales of Growject® continued to make a steady increase reaching ¥8,049 million, an increase of 4.2% increase from the previous fiscal year. Furthermore, sales of active pharmaceutical ingredient (API) for oncology and other APIs increased favorably. As a result, pharmaceutical business sales recorded ¥11,727 million, an increase of 4.0% from the previous fiscal year.

(2) Medical device/laboratory equipment business

The sales performance of subsidiaries, Family Health Rental Co., Ltd. and Chromatech Co., Ltd., for infant respiratory monitor and physicochemistry equipments, respectively, decreased considerably from that of the previous year. As a result, total sales of our medical device/laboratory equipment business recorded ¥355 million, a decrease of 40.8 % from the previous fiscal year.

The sales and status of each business segment is as shown in the table.

Sales by business segments

Business segment	Consolidated Fiscal Year 2007 (Apr.1, 2007-Mar. 31, 2008)		Consolidated Fiscal Year 2008 (Apr.1, 2008-Mar. 31, 2009)		Increase and decrease
	JPY Thousand	Composition ratio (%)	JPY Thousand	Composition ratio (%)	JPY Thousand
Pharmaceuticals	11,271,944	95.0	11,727,449	97.1	455,504
Endocrinological & Gastrointestinal	7,726,724	65.1	8,049,951	66.6	323,227
Metabolic & Cardiovascular	1,368,943	11.6	1,079,478	8.9	(289,464)
Revenue from licenses	907,155	7.6	750,000	6.2	(157,155)
Others	1,269,122	10.7	1,848,018	15.4	578,896
Medical devices & laboratory equipment	599,941	5.0	355,269	2.9	(244,672)
Total	11,871,886	100.0	12,082,718	100.0	210,832

1.2 Forecast for FY2009

The Company expects steady revenues from Growject® and APIs. We anticipate sales from the pharmaceutical business to reach ¥11,900 million, an increase of 1.9 % from the FY2008, while sales from medical device/laboratory equipment business to remain at the same level as the FY 2008. The overall sales forecast of JCR Group is anticipated ¥12,300 million, an increase of 1.8% from the FY2008. In terms of profits, although R&D expenditures are expected to decrease, selling and general administrative expenses related to preparations for the distribution of recombinant erythropoietin are expected to increase. The Company anticipates operating income of ¥590 million (increase of 8.0% from the FY2008), ordinary income of ¥590 million (decrease of 8.1% from the FY2008) and net come of ¥340 million (decrease of 37.0% from the FY2008).

The forecast described above does not include sales from recombinant erythropoietin, for treatment of renal anemia, of which application for marketing approval was filed in November 2008. As it is the first follow-on biologic in Japan, the Company anticipates launching it in FY 2010 with the aim to capture 15-20 % share of the erythropoietin market.

2. Financial Position

2.1 Assets, liabilities and net assets

Consolidated statements at the fiscal year-end resulted in total assets of ¥24,767 million (increase of ¥548 million from the previous fiscal year-end), liabilities of ¥7,782 million (increase of ¥415 million from the previous fiscal year-end), net assets of ¥16,984 million (increase of ¥132 million from the previous fiscal year-end).

Current assets and fixed assets increased ¥548 million from the previous fiscal year-end, the result of tabulating the total decrease of ¥550 million in marketable securities, trust beneficiary right and investment securities, the increase of ¥972 million in cash and deposits, and the lease assets of ¥771 million.

Current liabilities increased by ¥430 million from the previous fiscal year-end, due to tabulating the decrease in short-term loans payable, the increase in account payable-trade as well as lease obligations. Fixed liabilities remained at a similar level as the previous fiscal year-end, a decrease of ¥14 million from the previous fiscal year-end, the result of tabulating the lease obligations and decrease in long-term loans payable.

Net assets increased ¥132 million from the previous fiscal year-end, the result of tabulating the increase in treasury stock acquired from the market, the decrease in marketable securities valuation difference due to stock market conditions, and the increase in retained earnings. As a result, equity ratio at the fiscal year-end fell by 1.3 points from the previous fiscal year-end or 68.2%.

2.2 Cash flow

Cash and cash equivalents at the fiscal year-end increased ¥635 million from that of the previous fiscal year-end or ¥5,620 million. The status of each cash flow and primary factors are as described below.

Cash flow from operations

Cash flow from operations resulted in proceeds of ¥1,825 million, a decrease of ¥97 million as compared with the same period of the previous year, primarily due to tabulating income before income taxes-deferred of ¥562 million, depreciation and amortization of ¥692 million, and increase in notes and accounts payable-trade of ¥370 million.

Cash flow from investments

Cash flow from investments resulted in proceeds of ¥121 million, an increase of ¥693 million as compared with the same period of the previous year, primarily due to tabulating the disbursement for purchase of short-term investment securities of ¥499 million, disbursement for purchase of investment securities of ¥1,596 million, and proceeds of ¥2,700 million from redemption of securities.

Cash flow from financial activities

Cash flow from financial activities resulted in proceeds of ¥1,276 million, an increase of ¥764 million as compared with the same period of the previous year, primarily due to net decrease in short-term loans payable of ¥630 million, repayment of long-term loans payable of ¥367 million, and repayment of lease obligations of ¥306 million.

Reference: Transition of cash flow-related indices

	FY2004 (ended Mar. 2005)	FY2005 (ended Mar. 2006)	FY2006 (ended Mar. 2007)	FY2007 (ended Mar. 2008)	FY2008 (ended Mar. 2009)
Equity ratio	65.3%	74.4%	70.7%	69.5%	68.2%
Market base equity ratio	65.2%	72.5%	57.5%	58.7%	33.3%
Ratio of cash flow and interest-bearing debts	8.2 years	5.7 years	4.6 years	2.6 years	2.4 years
Interest coverage ratio	12.2 fold	14.3 fold	18.9 fold	29.4 fold	29.1 fold

Note: Equity ratio means equity / total assets

Market base equity ratio means total market value of shares / total assets

Ratio of cash flow and interest-bearing debts means interest-bearing debts / cash flow

Interest coverage ratio means cash flow / interest payment

* Calculations were based on consolidated financial figures.

* Total market value of shares was calculated based on the number of outstanding shares at the end of the fiscal year after deduction of treasury stock.

* Cash flow is the cash flow from operations of consolidated cash flow statement. Interest-bearing debts are all the debts listed on the balance sheet for which interest is paid. Interest payment is the amount of interest indicated in the cash flow statement

2.3 Basic policy on the distribution of profits/dividends for FY2008 and FY2009

The Company regards the distribution of profits to shareholders as an important management policy and maintains the basic policy to pay dividends in a continuous and stable manner by taking into consideration the condition of business performance and cash flow while securing internal funds for strengthening management practices and new drug development that may generate future profits.

For FY2008, the Board of Directors on May 15, 2009 approved a resolution for a year-end dividend of ¥5 per share. Together with the distributed interim dividend, this will result in a total dividend of ¥10 per share for the year. For the current fiscal year, we anticipate distributing a full-year dividend of ¥10 per share.

2.4 Risk Factors

The following risk factors could potentially affect the JCR Group's operating results and financial position.

(1) Government policy toward pharmaceuticals (“Toward” can be changed to “regarding” if you wish)

The business engaged in by the JCR Group is subject to the Pharmaceutical Affairs Laws (PAL). PAL regulates matters related to pharmaceutical drugs, quasi-drugs, cosmetics and medical devices and stipulates manufacturing approval, re-evaluation, manufacturing control, standards and inspections, handling thereof, etc. of such products in order to assure quality, efficacy and safety of the same. In the event that the Company's manufacturing method or indication of its products cannot adapt to regulatory changes, such a situation is expected to disable the sales and supply of those products.

Furthermore, prices of pharmaceuticals and such handled by the JCR Group are based on the government's National Health Insurance (NHI) drug price standards. Reduction of such NHI drug price standards potentially reduces the transfer price in the distribution level and would negatively impact our selling prices.

(2) New product development and commercialization

The Company is engaged in R&D of pharmaceuticals and state-of-the-art medical technology. R&D costs in such fields require large investments of time and funds. If, prior to commercialization, the ongoing R&D projects are discontinued or delayed, the operating results and financial position of the JCR Group would be negatively impacted.

(3) Dependency on Growject®

Among the products, 66.6 % (65.1 % in the previous fiscal year) of the JCR Group's annual sales is generated by Growject®, its human growth hormone product. Should an event leading to significant decrease of Growject® sales occur, such a situation would negatively impact the operating activities of the JCR Group.

(4) Financial market situation

JCR Group holds shares of its business partners and alliances (including foreign shares) over a long period. Therefore significant decrease in the price of stocks on the stock market as well as fluctuations in the foreign exchange quotation can negatively impact the JCR Group's operating results.

(5) Others

In addition to the above, there are other risk factors such as delays, stoppage in manufacture due to natural disasters, intense competition with other companies, occurrence of side effects, dissolution of license or partnership, interruption of material supply from overseas, initiation of lawsuits, fluctuation of foreign exchange, etc. that would negatively impact the JCR Group's operating results and financial position.

II. Corporate Group

JCR Group is comprised of the Company and three subsidiaries. The main business description and position of each group company are as given below.

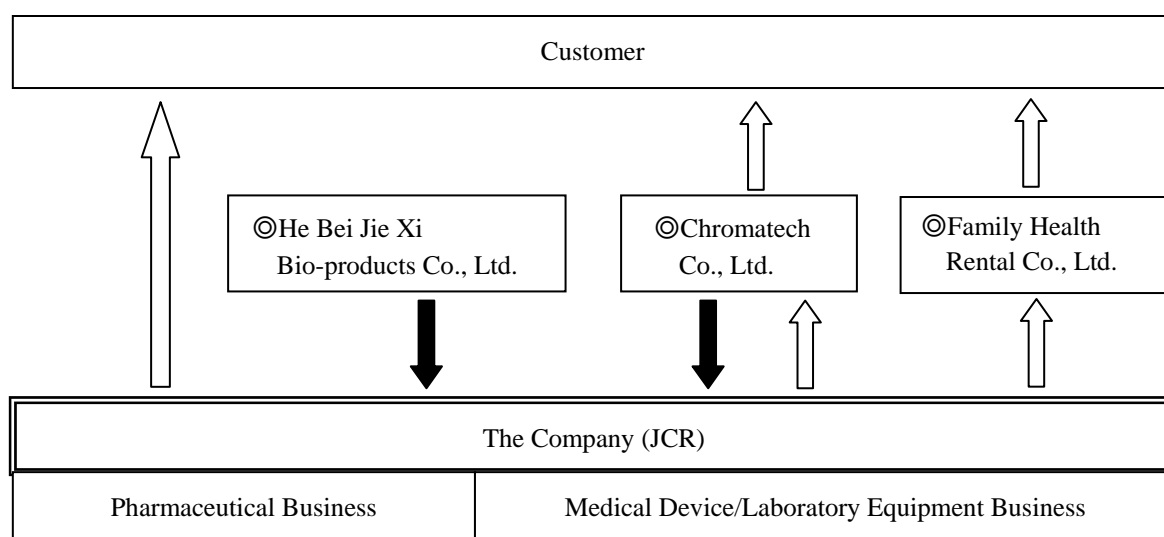
Pharmaceutical business

The Company is engaged in the manufacture, buying and selling of pharmaceuticals, active pharmaceutical ingredient and pharmaceutical raw materials. The Company receives supplies of certain pharmaceutical raw materials processed by He Bei Jie Xi Bio-products Co., Ltd. and certain equipments and disposables, etc. purchased by Chromatech Co., Ltd.

Medical device/laboratory equipment business

Family Health Rental Co., Ltd. and Chromatech Co., Ltd. are engaged in the selling of medical devices and laboratory equipment. For certain products, the Company buys and resells to Family Health Rental and Chromatech.

A schematic diagram of the above operation is as shown below.



◎ Consolidated subsidiary

→ Selling of products/merchandise

→ Supply of raw materials, equipments, disposables, etc.

III Management

3.1 Basic Corporate Policy of the Company

Under the corporate philosophy, “Contributing to People’s Healthcare Through Pharmaceutical Products”, the JCR Group conducts its business activities with the aim to become a profitable corporation so that it can continue to provide useful and novel pharmaceuticals products through continuous R&D, manufacture, and sales. The JCR Group complies with corporate governance, laws and rules, and strives to establish a well-balanced relationship with its shareholders, customers, employees and society in general. In addition, the JCR Group strives toward transparency of company information and upgrading of its corporate values.

3.2 Objectives and managerial index

JCR Group’s objectives are reflected in the following managerial index and values:

Operating profit on sales : 10% and above

Return on Assets (ROA) : 4% and above

3.3 Tasks and mid to long term management strategy

The outlook for the pharmaceutical industry continues to be severe in FY 2009, following the NHI price reduction (by an average 5.2%) in April 2008. In order to maintain a stable profit and continue development of new products despite the shrinking domestic market, we have identified the following important tasks that need to be addressed.

(1) Expansion of Growject® market share

The domestic growth hormone market has shrunk on a value basis due to frequent NHI price reduction. As a countermeasure, the Company increased the number of medical representatives and sales locations and reinforced its Scientific Services & Sales Planning Division to support the Sales Division. These efforts have led us to capture a solid and bigger share of the growth hormone market. However, given the situation that the future market is likely to be flat, our strategy to boost sales has become an important task. In this connection, the Company will strengthen its in-house sales structure while strengthening alliance with Dainippon Sumitomo Pharmaceutical Co., Ltd., our contract distributor of Growject®. Marketing approvals for supplementary indications of adult growth hormone deficiency (filed) and short stature due to small for gestational age (Phase III) are expected to bring us new business opportunities, thus resulting in a bigger market share and sales. Moreover, the Company will promote the establishment of an efficient logistics and sales system to improve its profitability ratio.

(2) Aiming to be a global player in biosimilar field (follow-on biologics)

The promotion of generic drugs has accelerated the same trend in the field of biotechnology/biological drugs. In response to this, the Japanese guideline for application for marketing approval of follow-on biologics (biosimilars) was issued in March 2009. In the meantime, the Company proactively took an R&D strategy which was focused on the biosimilar field from an early stage. As a result, in November 2008, the Company submitted an application for marketing approval of a recombinant erythropoietin for treatment of renal anemia with supportive documents to

qualify as a follow-on biologic by the PMDA and anticipates commercialization in FY 2010. The Company continues to engage in the development of other biosimilars to follow erythropoietin.

On the other hand, looking at the world situation in regard to biosimilars, in Europe, biosimilar products are already commercially distributed while in the United States, biosimilar products (except simple proteins) are not yet approved. However, developments in the area of biosimilars may likely become active under the Obama administration. Therefore, the outlook of the biosimilar field appears to be promising with expansion of worldwide sales anticipated. Under these circumstances, the Company aims to take a global leadership by supplying its biosimilar products domestically as well as worldwide. In order to achieve this goal, our efforts are focused on establishing alliances with potential partners who would serve as our overseas sales force.

(3) Establishment of production system toward the future

Given the current trend of the pharmaceutical industry, higher productivity significantly affects corporate earnings. In this consideration, the Company utilizes its proprietary serum-free cultivation technology for the development of biosimilar products. The said technology, which eliminates the use of animal-derived ingredients, leads to a high safety profile and streamlined process for purification, and thus provides higher productivity. Moreover, the Company actively takes on challenges to develop innovative manufacturing methods to achieve continuous improvements in productivity. One such is the utilization of disposable technology for cell cultivation process instead of the conventional large-sized metal fermentors.

Furthermore, the Company plans to construct additional manufacturing facilities for the formulation of recombinant erythropoietin and manufacturing of human mesenchymal stem cells.

In recognition of the pharmaceutical drugs for public healthcare, we strive to bring to the people high-quality products with emphasis on safety and reliability as well as productivity.

IV. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

Yen in thousands

	FY2007 (As of March 31, 2008)	FY2008 (As of March 31, 2009)
Assets		
Current assets		
Cash and deposits	1,059,922	2,032,785
Notes and accounts receivable-trade	2,906,730	3,000,487
Marketable securities	5,925,527	3,919,851
Trust beneficiary right	—	1,448,558
Inventories	3,339,475	—
Merchandise and finished goods	—	1,352,911
Work in process	—	822,692
Raw materials and supplies	—	1,038,937
Other	1,373,652	618,879
Allowance for doubtful accounts	(305)	(178)
Total current assets	14,605,002	14,234,926
Noncurrent assets		
Property, plant and equipment		
Building and structures	2,381,106	2,322,233
Machinery, equipment and vehicles	488,481	475,402
Land	3,504,924	3,492,049
Lease assets	—	766,788
Construction in process	29,820	73,198
Other	317,707	305,366
Total noncurrent assets	6,722,040	7,435,038
Intangible assets	18,722	59,336
Investment and other assets		
Investment securities	1,721,758	2,503,379
Other	1,305,007	714,756
Allowance for doubtful accounts	(153,761)	(180,250)
Total investments and other assets	2,873,003	3,037,885
Total noncurrent assets	9,613,767	10,532,261
Total assets	24,218,770	24,767,187

(Continued)

Yen in thousands

	FY2007 (As of March 31, 2008)	FY2008 (As of March 31, 2009)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	438,306	808,920
Short-term loans payable	1,877,200	1,547,200
Lease obligations	—	345,958
Provision for bonuses	189,630	198,783
Provision for directors' bonuses	20,000	37,500
Other	1,538,081	1,555,265
Total current liabilities	4,063,218	4,493,627
Noncurrent liabilities		
Bonds payable	2,000,000	2,000,000
Long-term loans payable	1,199,200	832,000
Lease obligations	—	358,432
Provision for retirement benefits	36,968	46,872
Other	67,269	51,541
Total noncurrent liabilities	3,303,437	3,288,846
Total liabilities	7,366,655	7,782,473
Net assets		
Shareholders' equity		
Capital stock	7,504,866	7,504,866
Capital surplus	8,411,315	8,411,316
Retained earnings	1,204,378	1,474,082
Treasury stock	(338,856)	(515,545)
Total shareholders' equity	16,781,703	16,874,721
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	14,035	(38,327)
Deferred gains or losses on hedges	(52,060)	(18,751)
Foreign currency translation adjustment	96,600	62,265
Total valuation and translation adjustments	58,574	5,186
Subscription rights to shares	—	100,000
Minority interests	11,836	4,805
Total net assets	16,852,114	16,984,713
Total liabilities and net assets	24,218,770	24,767,187

(2) Consolidated Statements of Income (For the years ended March 31, 2008 and 2009)

Yen in thousands

	FY2007	FY2008
Net sales	11,871,886	12,082,718
Cost of sales	3,824,724	3,555,732
Gross profit	8,047,162	8,526,985
Selling, general and administration expenses	7,765,196	7,980,515
Operating income	281,965	546,470
Non-operating income		
Interest income	52,553	58,419
Dividends income	14,555	16,071
Income from development investment	400,000	100,000
Other	49,735	24,937
Total non-operating income	516,843	199,427
Non-operating expenses		
Interest expenses	65,150	62,966
Foreign exchange losses	—	21,945
Other	38,211	19,305
Total non-operating expenses	103,362	104,217
Ordinary income	695,446	641,680
Extraordinary income		
Gain on sales of noncurrent assets	2,330	—
Reversal of allowance for doubtful accounts	—	127
Other	212	—
Total extraordinary income	2,542	127
Extraordinary loss		
Loss on abandonment of inventories	69,874	—
Loss on disposal of noncurrent assets	72,797	3,384
Impairment loss	—	13,794
Loss on valuation of investment securities	81,164	36,015
Directors' retirement benefits	30,400	—
Provision of allowance for doubtful accounts	—	22,638
Other	6,860	3,850
Total extraordinary loss	261,097	79,682
Income before income taxes	436,891	562,125
Income taxes-current	12,864	13,807
Income taxes-deferred	21,518	7,391
Income taxes	34,383	21,198
Minority interests in income	2,536	1,016
Net income	399,972	539,911

(3) Consolidated Statements of Cash Flow (For the years ended March 31, 2008 and 2009)

Yen in thousands

	FY2007	FY2008
Net cash provided by (used in) operating activities		
Income before income taxes-deferred	436,891	562,125
Depreciation and amortization	575,921	694,771
Income (gain) on valuation of investment securities	81,164	36,015
Increase (decrease) in allowance for doubtful accounts	4,456	26,360
Increase (decrease) in provision for bonuses	1,117	9,153
Interest and dividends income	(67,108)	(74,490)
Interest expenses	65,150	62,966
Foreign exchange losses (gains)	8,909	(1,710)
Directors' retirement benefits	30,400	—
Decrease (increase) in notes and accounts receivable-trade	126,304	(93,757)
Decrease (increase) in inventories	320,124	112,503
Increase (decrease) in notes and accounts payable-trade	92,816	370,613
Increase (decrease) in accounts payable-other	87,751	(135,391)
Other	179,973	266,758
Subtotal	1,943,873	1,835,919
Interest and dividends income received	69,219	76,567
Interest expenses paid	(65,411)	(62,724)
Payments for directors' retirement benefits	(12,080)	(12,080)
Income taxes paid (paid) refund	(12,087)	(12,096)
Net cash provided by (used in) operating activities	1,923,514	1,825,586
Net cash provided by (used in) Investment activities		
Payments into time deposits	(100,000)	(300,000)
Proceeds from withdrawal of time deposits	—	100,000
Purchase of short-term investment securities	(1,000,326)	(499,208)
Proceeds from redemption of securities	1,100,000	2,700,000
Purchase of trust beneficiary right	(1,346,000)	(323,939)
Proceeds from redemption of trust beneficiary right	2,247,021	600,115
Purchase of property, plant and equipment	(745,556)	(523,202)
Purchase of investment securities	(749,448)	(1,596,219)
Purchase of long-term prepaid expenses	(20,107)	(12,948)
Purchase of investments in subsidiaries	—	(8,888)
Other	42,898	(13,886)
Net cash provided by (used in) investment activities	(571,518)	121,821

(Continued)

Yen in thousands

	FY2007	FY2008
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	180,000	(630,000)
Proceeds from long-term loans payable	700,000	300,000
Repayment of long-term loans payable	(985,811)	(367,200)
Proceeds from sale and leaseback transactions	—	174,883
Repayments of lease obligations	—	(306,266)
Net decrease (increase) in treasury stock	(228,455)	(176,687)
Cash dividends paid	(273,296)	(270,194)
Other	95,392	(764)
Net cash provided by (used in) financing activities	(512,170)	(1,276,228)
Effect of exchange rate change on cash and cash equipments	(16,340)	(35,443)
Net increase (decrease) in cash and cash equipments	823,484	635,735
Beginning cash and cash equipments	4,161,303	4,984,788
Ending cash and cash equipments	4,984,788	5,620,523

V. Nonconsolidated Financial Statements**(1) Nonconsolidated Balance Sheets**

	Yen in thousands	
	FY2007	FY2008
	(As of March 31, 2008)	(As of March 31, 2009)
Assets		
Current assets		
Cash and deposits	929,167	1,792,319
Notes receivable-trade	20,810	—
Accounts receivable-trade	2,767,929	2,925,717
Marketable securities	5,925,527	3,919,851
Trust beneficiary right	775,028	1,448,558
Merchandise	128,927	—
Finished goods	877,744	—
Merchandise and finished goods	—	1,039,521
Raw materials	463,521	—
Work in process	804,912	822,692
Supplies	656,121	—
Raw materials and supplies	—	1,072,626
Prepaid expenses	345,073	64,132
Short-term loans receivable	373,150	13,950
Accounts receivable-other than subsidiaries and affiliates	—	354,620
Other	140,717	70,630
Allowance for doubtful accounts	(127)	(116)
Total current assets	14,208,505	13,524,504
Noncurrent assets		
Property, plant and equipment		
Buildings	5,105,334	5,240,593
Accumulated depreciation	(2,823,830)	(3,015,209)
Buildings, net	2,281,504	2,225,384
Structures	144,244	159,954
Accumulated depreciation	(107,531)	(112,297)
Structures, net	36,712	47,656
Machinery and equipment	2,098,613	2,146,321
Accumulated depreciation	(1,641,688)	(1,693,212)
Machinery and equipment, net	456,924	453,109
Vehicles	2,404	2,161
Accumulated depreciation	(2,305)	(2,096)
Vehicles, net	98	64
Tools, furniture and fixtures	1,294,267	1,332,027
Accumulated depreciation	(1,035,411)	(1,085,479)
Tools, furniture and fixtures, net	258,856	246,547
Land	3,504,924	3,492,049
Lease assets	—	979,610
Accumulated depreciation	—	(207,860)
Lease assets, net	—	771,749
Construction in process	29,820	73,198
Total noncurrent assets	6,568,840	7,309,760

(Continued)		Yen in thousands	
	FY2007	FY2008	
	(As of March 31, 2008)	(As of March 31, 2009)	
Intangible assets			
Patent right	—	8,468	
Software	12,526	40,246	
Lease assets	—	4,368	
Telephone subscription right	5,392	5,392	
Total intangible assets	17,919	58,475	
Investment and other assets			
Investment securities	1,721,758	2,503,379	
Stocks of subsidiaries and affiliates	4,950	13,838	
Investments in capital	2,100	2,100	
Investment in capital of subsidiaries and affiliates	226,992	226,992	
Long-term loans receivable	32,600	381,050	
Claims provable in bankruptcy, claims provable in rehabilitation and other	207,574	208,124	
Long-term prepaid expenses	39,242	29,790	
Long-term time deposit	600,000	—	
Other	404,009	413,288	
Allowance for doubtful accounts	(153,761)	(191,152)	
Total investments and other assets	3,085,466	3,587,411	
Total noncurrent assets	9,672,226	10,955,647	
Total assets	23,880,732	24,480,151	
Liabilities			
Current liabilities			
Accounts payable-trade	357,969	739,156	
Short-term loans payable	1,030,000	490,000	
Current portion of long-term loans payable	367,200	667,200	
Lease obligations	—	345,102	
Accounts payable-other	943,271	865,126	
Accrued expenses	43,842	247,649	
Income taxes payable	25,409	31,451	
Deferred tax liabilities	951	17,203	
Advances received	200	200	
Deposits received	327,266	326,168	
Unearned revenue	367	702	
Provision for bonuses	185,930	194,607	
Provision for directors' bonuses	20,000	37,500	
Other	189,498	55,164	
Total current liabilities	3,491,907	4,017,233	
Noncurrent liabilities			
Bonds payable	2,000,000	2,000,000	
Long-term loans payable	1,199,200	832,000	
Lease obligations	—	358,014	
Deferred tax liabilities	9,793	2,164	
Provision for retirement benefits	36,968	46,872	

(Continued)		Yen in thousands	
	FY2007	FY2008	
	(As of March 31, 2008)	(As of March 31, 2009)	
Other	67,269	51,541	
Total noncurrent liabilities	3,313,231	3,290,592	
Total liabilities	6,805,138	7,307,825	
Net assets			
Shareholders' equity			
Capital stock	7,504,866	7,504,866	
Capital surplus			
Legal capital surplus	8,270,788	6,270,788	
Other capital surplus	140,527	2,140,528	
Total capital surplus	8,411,315	8,411,316	
Retained earnings			
Legal retained earnings	279,181	279,181	
Other retained earnings			
General reserves	951,000	951,000	
Retained earnings brought forward	306,112	498,585	
Total retained earnings	1,536,293	1,728,766	
Treasury stock	(338,856)	(515,545)	
Total shareholders' equity	17,113,619	17,129,404	
Valuation and translation adjustment			
Valuation difference on available-for-sale securities	14,035	(38,327)	
Deferred gains or losses on hedge	(52,060)	(18,751)	
Total valuation and translation adjustments	(38,025)	(57,078)	
Subscription rights to shares	—	100,000	
Total net assets	17,075,593	17,172,326	
Total liabilities and net assets	23,880,732	24,480,151	

(2) Nonconsolidated Statements of Income (For the years ended March 31, 2008 and 2009)

Yen in thousands

	FY2007	FY2008
Net sales		
Net sales of finished goods	9,952,612	10,126,649
Net sales of goods	1,332,254	1,644,168
Net sales	11,284,866	11,770,817
Cost of sales		
Beginning finished goods	575,697	877,744
Cost of products manufactured	2,785,869	2,506,643
Total	3,361,566	3,384,388
Finished goods transfer to other account	9,849	78,940
Ending finished goods	877,744	889,092
Cost of finished goods sold	2,473,972	2,416,354
Beginning goods	127,254	128,927
Cost of purchased goods	1,113,583	1,146,314
Total	1,240,837	1,275,242
Goods transfer to other account	194	—
Ending goods	128,927	150,428
Cost of goods sold	1,111,715	1,124,814
Cost of sales	3,585,688	3,541,168
Gross profit	7,699,178	8,229,649
Selling, general and administration expenses		
Packing and haulage	14,410	14,154
Promotion	652,566	467,111
Provision of allowance for doubtful accounts	127	—
Sales consignment expenses	2,061,844	2,047,401
Directors' compensations	102,720	101,940
Salaries and allowance	838,950	942,248
Provision for bonuses	84,975	89,594
Provision for directors' bonuses	20,000	37,500
Retirement benefit	35,478	43,204
Welfare	58,557	60,788
Traveling and transportation	174,946	174,047
Entertainment	61,900	67,692
Taxes and dues	53,966	57,401
Depreciation	30,054	105,814
Rents	76,331	95,591
Lease fee	21,876	—
Commission fee	118,431	144,248
Contribution	34,494	40,089
Consulting	25,721	25,129
Research and development	2,776,304	2,804,187
Other	342,024	479,314
Selling, general and administration expenses	7,585,681	7,797,459
Operating income	113,496	432,189

(Continued)

Yen in thousands

	FY2007	FY2008
Non-operating income		
Interest income	15,981	19,511
Interest on securities	36,498	38,172
Dividends income	14,555	16,071
Income from deduction of R&D	400,000	100,000
Other	44,132	30,277
Total non-operating income	511,168	204,033
Non-operating expenses		
Interest expenses	36,565	35,186
Interest on bonds	20,000	20,000
Provision of allowance for doubtful accounts	—	10,902
Other	37,859	16,586
Total non-operating expenses	94,424	82,674
Ordinary income	530,239	553,547
Extraordinary income		
Gain on sales of noncurrent assets	2,330	—
Reversal of allowance for doubtful account	—	11
Other	212	—
Total extraordinary income	2,542	11
Extraordinary loss		
Loss on abandonment of inventories	69,874	—
Loss on disposal of noncurrent assets	61,041	3,384
Impairment loss	—	13,794
Loss on valuation of investment securities	81,164	36,015
Loss on valuation of stocks of subsidiaries and affiliates	22,957	—
Directors' retirement benefits	30,400	—
Provision of allowance for doubtful account	—	22,638
Provision of allowance for doubtful accounts of golf club membership	—	3,850
Other	6,860	—
Total extraordinary loss	272,298	79,682
Income before income taxes	260,483	473,876
Income taxes-current	9,260	11,198
Income taxes-deferred	—	—
Income taxes	9,260	11,198
Net income	251,223	462,678

6. R&D Pipeline**(i) Pharmaceuticals**

Code Nonproprietary Name	Status (Japan)	Indication	Remarks
JR-401A Somatropin (rDNA origin)	Filed	Adult growth hormone deficiency	Supplementary indication of Growject® In-house development
JR- 401S Somatropin (rDNA origin)	Phase III preparation	Short stature due to small for gestational age	Supplementary indication of Growject® In-house development
JR- 013 Erythropoietin (rDNA origin)	Filed	Renal anemia during dialysis	Manufactured using serum-free culture technology Co-developed with Kissei Pharmaceutical Co., Ltd.
JR- 041 Follicle stimulating hormone (rDNA origin)	Preclinical	Infertility	Manufactured using serum-free culture technology Out-licensed to ASKA Pharmaceutical Co., Ltd.
JR- 032 Iduronate-2-sulfatase (rDNA origin)	Preclinical	Hunter syndrome (lysosomal disease)	ERT Manufactured using serum-free culture technology
JR- 051 Alpha-galactosidase A (rDNA origin)	Preclinical	Fabry disease (lysosomal disease)	ERT Manufactured using serum-free culture technology

(Note) ERT= Enzyme Replacement Therapy

(ii) Cellular Therapy

Code Nonproprietary Name	Status (Japan)	Indication	Remarks
JR-031 Human mesenchymal stem cells	Phase I/II	Suppression of graft versus host disease (GVHD) associated with hematopoietic stem cell transplantation	Licensed in from Osiris Therapeutics, Inc. (USA) Allo-transplantation of hMSCs Co-developed with Mochida Pharmaceutical Co., Ltd.