



# ANNUAL REPORT 2013

Year ended March 31, 2013 KYORIN Holdings, Inc.

# Consolidated Financial Highlights

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
(Fiscal years ended March 31)

	Millions of yen				
	FY2008	FY2009	FY2010	FY2011	FY2012
<b>Results of Operations</b>					
Net sales	90,889	99,764	104,069	103,232	<b>107,031</b>
Operating income	8,952	13,261	16,443	14,464	<b>17,948</b>
Operating income/Net sales ratio (%)	9.8	13.3	15.8	14.0	<b>16.8</b>
Net income	2,037	8,848	10,927	9,231	<b>12,422</b>
Net income/Net sales ratio (%)	2.2	8.9	10.5	8.9	<b>11.6</b>
Net cash provided by operating activities	4,575	12,027	6,805	8,913	<b>11,544</b>
Net cash used in investing activities	(4,229)	412	(1,806)	(4,926)	<b>(7,187)</b>
Free cash flow	346	12,439	4,999	3,987	<b>4,357</b>
R&D expenses	10,531	11,807	12,495	13,964	<b>11,059</b>
R&D expenses/Net sales ratio (%)	11.6	11.8	12.0	13.5	<b>10.3</b>
Capital expenditure	1,612	1,291	1,668	1,952	<b>6,576</b>
Depreciation and amortization	3,799	2,810	2,458	2,363	<b>2,738</b>
ROE (%)	2.1	8.8	10.1	8.0	<b>10.0</b>
ROA (%)	1.6	6.8	7.7	6.3	<b>8.3</b>
<b>Financial Position at Year-end</b>					
Total assets	124,552	137,190	147,234	145,673	<b>154,968</b>
Total net assets	96,501	104,911	111,706	118,201	<b>129,099</b>
Total shareholders' equity ratio (%)	77.5	76.5	75.9	81.1	<b>83.3</b>
Yen					
<b>Amounts per Share</b>					
Net assets	1,290.67	1,403.60	1,494.83	1,581.94	<b>1,727.86</b>
Basic net income	27.24	118.37	146.21	123.54	<b>166.25</b>
Cash dividends	13.00	50.00	45.00	45.00	<b>50.00</b>
Cash dividends payout ratio (%)	47.7	42.2	30.8	36.4	<b>30.1</b>

## Net sales

Consolidated net sales increased 3.7% year on year to ¥107.0 billion, reaching an all-time high. Sales growth was driven by sales contributions from KYORIN Pharmaceutical Facilities Co., Ltd., which commenced operations on October 1, 2012, as well as year-on-year increases in ethical drug and generic drug sales in the pharmaceutical business.

## Operating income

Operating income amounted to ¥17.9 billion, up 24.1% year on year and reaching an all-time high. Among the main factors behind this growth was a year-on-year increase in gross profit of ¥600 million in line with higher sales, although the cost-of-sales ratio rose 1.7 percentage points mainly due to the impact of an official drug price reduction in Japan's National Health Insurance drug price list and the conversion of KYORIN Pharmaceutical Facilities Co., Ltd. into a consolidated subsidiary. Another factor was lower selling, general and administrative (SG&A) expenses, primarily because R&D expenses decreased by 20.8% year on year.

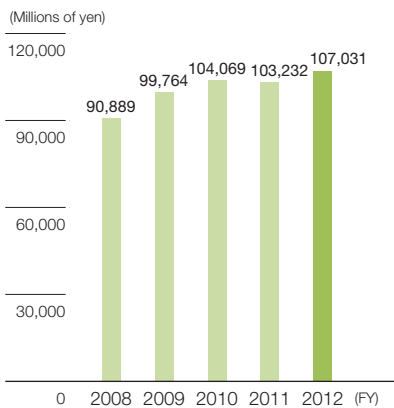
## Net income

Net income increased 34.6% year on year to ¥12.4 billion.

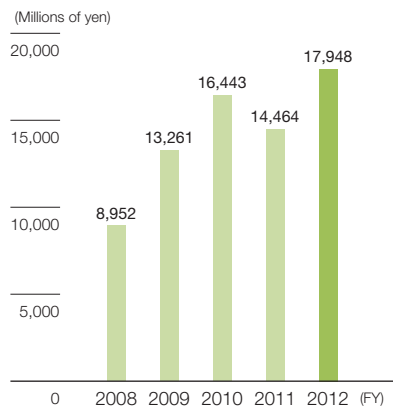
## ROE

With growth on the profit side, ROE rose to 10.0% (2.0 percentage points above the previous fiscal year).

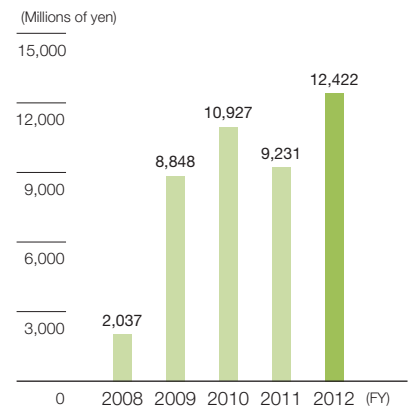
### Net sales



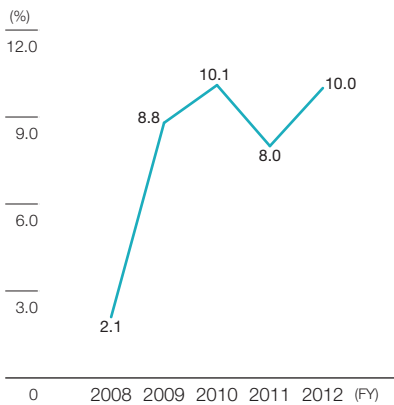
### Operating income



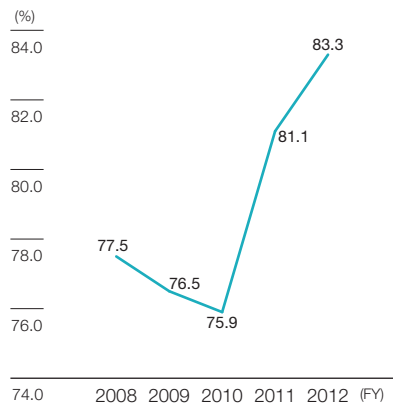
### Net income



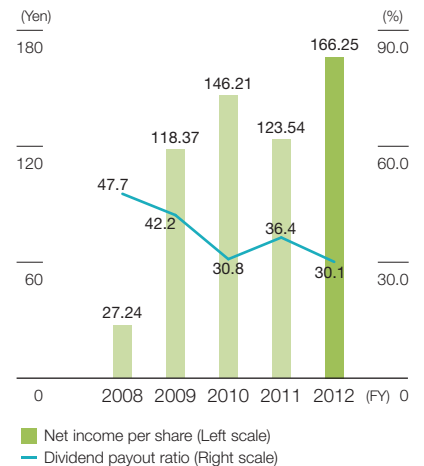
### ROE



### Total shareholders' equity ratio



### Net income per share/ Dividend payout ratio



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## Profile

Since the founding of its core subsidiary, KYORIN Pharmaceutical, the Kyorin Group has taken its mission of contributing to better health seriously. Today, Kyorin is working to discover, produce, and sell pharmaceuticals through its pharmaceutical business and to develop a consumer healthcare business based on skincare. By promoting the faster development of superior new drugs and diversifying its businesses to respond to expanding healthcare needs, the Kyorin Group aims to realize its role as an organization supporting healthy living and to further enhance its corporate value.

### [ Our Philosophy ]

**Kyorin continues to fulfill its mission of cherishing life, and benefiting society by contributing to better health.**

### Our Milestones

#### 1923

1923  
Toyo Shinyaku Sha, the predecessor of KYORIN Pharmaceutical Co., Ltd., was founded.



#### 1931

1931  
Kyorin Chemical Laboratory was established.

#### Kyorin Legend

The name Kyorin originated from two Chinese characters that represent a truly virtuous way of practicing medicine.

Long ago, a Chinese physician named Dong Feng treated the sick free of charge, and asked those who recovered from serious illness to plant five apricot tree saplings and those cured of minor illness to plant one. As time went by, a thick forest of apricot trees was formed in the area. (A story that comes from a Chinese legend named Shinsen-den). "Kyorin" is a compound of "kyo," the Chinese word for "apricot" and "rin" the Chinese word for "woods."

Praising the virtue of Dong Feng, the characters were transported from China to Japan as those representing medicine and medical treatment in general.



#### 1940

1940  
The company was renamed KYORIN Pharmaceutical Co., Ltd., and Kyorin Yakuhin Co., Ltd. was organized as an independent marketing division.

#### 1946

1946  
The Okaya Plant was started.

#### 1957

1957  
The medical journal bulletin *Doctor Salon* was started.

#### 1961

1961  
Behyd, a diuretic and anti-hypertensive agent, was launched.

#### 1962

1962  
Kyorin Chemical Laboratory (later Technical Center of Development) was established.

#### 1965

1965  
KYORIN AP-2, an analgesic, was launched.

1965  
Deamelin-S, an oral hypoglycemic agent, was launched.

1965  
The Head Office was completed.



#### 1967

1967  
The Nogi Plant was started (now closed).

#### 1971

1971  
Cholexamin, a lipid metabolism and peripheral circulation improving agent, was launched.

#### 1974

1974  
Hespander, a plasma substitute and extracorporeal circulation flow improver, was launched.

#### 1976

1976  
Hydroxyethylstarch (HES) was licensed to Pfrimmer (Germany, present Baxter Deutschland).

#### 1977

1977  
Central Research Laboratories (present Discovery Research Laboratories) was established.



#### 1980

#### 1980

1980  
Norfloxacin (NFLX), an antibacterial agent, was licensed to Merck & Co., Inc. (U.S.A.).

#### 1981

1981  
Mucodyne, a mucoregulant, was launched.

#### 1982

1982  
Norfloxacin (NFLX) was licensed to Astra (Sweden, present AstraZeneca) and Boots (U.K., present Abbott).

#### 1983

1983  
Norfloxacin (NFLX) was licensed to American Home Products (USA, present Pfizer).

#### 1984

1984  
Baccidal (NFLX), a broad-spectrum oral antibacterial agent, was launched.

#### 1986

1986  
Fleroxacin (FLRX), an antibacterial agent, was licensed to F. Hoffmann-La Roche (Switzerland). Aplace, an agent for gastritis and gastric ulcers, was launched.

#### 1989

1989  
Ketas, for bronchial asthma and cerebrovascular disorders, was launched. Baccidal Eyedrops, a broad-spectrum ophthalmic antibacterial agent, was launched.

#### 1991

1991  
Baccidal Tablets for Children was launched.

#### 1992

1992  
KYORIN Pharmaceutical Co., Ltd. and Kyorin Yakuhin Co., Ltd. were merged, and the new KYORIN Pharmaceutical Co., Ltd. was founded.

#### 1993

1993  
Megalocin (FLRX), a long-acting new quinolone agent, was launched.

#### 1995

1995  
The Research Center (now Development Research Laboratories) was founded by integrating the Research Center of Organic Syntheses, Technical Center of Development, Technical Center of Product Formulation and Technical Center of Safety Assessment. The Noshiro Plant was started.



#### 1996

1996  
A joint venture, Nisshin KYORIN Pharmaceutical Co., Ltd., was established with Kyorin's capital participation. Gatifloxacin (GFLX) was licensed to Bristol-Myers Squibb (U.S.A.).

#### 1998

1998  
Milton, an effervescent disinfectant business, was acquired from P&G.

#### 1999

1999  
The company's stock was issued on the Tokyo Stock Exchange, Second Section.

[ Long-term vision HOPE100 ]

## Aim for Health Of People and our Enterprises

HOPE100 is a long-term vision looking forward to 2023, the 100th anniversary of the founding of subsidiary KYORIN Pharmaceutical Co., Ltd. It encompasses our powerful goal of supporting healthy lifestyles through our business in the treatment and prevention of disease and the maintenance and promotion of good health. Our long-term vision HOPE100 embodies the Group's corporate philosophy and sets out the Group's future development objectives. This philosophy is the statement of our business objective and the basic rationale for the Group's business. The future of the Group is expressed in the statement, "The Kyorin Group will promote diversified business expansion and development of the consumer healthcare business, and by 2023 will be recognized both within and outside the Group as a company that supports sound and healthy lifestyles." Guided by this vision, the Group will spread its business risks and aim to achieve sound, stable, and sustainable growth.

### 2000

**2000**

The company's stock was issued on the Tokyo Stock Exchange, First Section. Gatifloxacin-eyedrops was licensed to Allergan (U.S.A.).

**2001**

Kipres, the leukotriene receptor antagonist and bronchial asthma treatment medicine, was launched. A subsidiary company, Kyorin USA, Inc. (U.S.A.), was established.

**2002**

A subsidiary company, Kyorin Europe GmbH (Germany), was established. Gatiflo (GFLX), a broad-spectrum, oral antibacterial agent, was launched.

**2004**

ActivX Biosciences, Inc. (U.S.A.) became a wholly owned subsidiary.

**2005**

The stocks of Toyo Pharmar Co., Ltd. (present KYORIN Rimedio Co., Ltd.) were acquired, making it into a subsidiary company. Dr. Program Co., Ltd. became a wholly owned subsidiary.

**2006**

The Kyorin Group shifts to a holding company structure through a share exchange with KYORIN Co., Ltd. (currently KYORIN Holdings, Inc.). (KYORIN Pharmaceutical Co., Ltd. is delisted, and KYORIN Co., Ltd. is listed on the First Section of the

Tokyo Stock Exchange market.) The new Noshiro Plant began operating.



**2007**

A business transfer agreement was made with the Fresenius Kabi AG Group in Germany concerning Hespander and Salinhes, plasma substitutes and hemodilution agents. Uritos Tablets 0.1 mg, an overactive bladder drug, was launched. Kipres fine Granules 4 mg, a bronchial asthma treatment drug, was launched.

**2008**

Kipres Tablets 5 mg, a bronchial asthma and allergic rhinitis treatment drug, was launched. Domestic licensing agreement for Flutiform signed with Skye Pharma PLC (U.K.). KYORIN Pharmaceutical merged with Nissin Kyorin Pharmaceutical. Ulcerative colitis and Crohn's disease therapeutic agent Pentasa Tablets 500 mg was launched.

**2009**

Marketing rights in China were granted to Senju Pharmaceutical for Gatifloxacin Ophthalmic Solution. A license agreement for Nera-mexane, a tinnitus drug, was

made with Merz Pharmaceuticals (Germany) for the Japan region.

**2010**

KYORIN Co., Ltd. changed its name to KYORIN Holdings, Inc. Mucodyne DS50%, a mucoregulant, was launched.

**2011**

A license agreement for Aclidinium Bromide, a COPD drug, was made with Almirall (Spain) for the Japan region. Uritos Orally Disintegrating (OD) Tablets 0.1 mg, an overactive bladder drug, was launched.

**2012**

RUBYSTA, a multipurpose disinfectant cleaner, was launched. Acquisition (conversion into subsidiary) of the Shiga Plant of MSD K.K. (currently KYORIN Pharmaceutical Facilities Co., Ltd.).



Transfer of business related to a topical antifungal prescription drug Pekiron cream 0.5% to Galderma S.A. (Switzerland).

**2013**

Head office moved to Ochano-mizu sola city in Kanda Surugadai. Pentasa Suppositories 1 g, a treatment for ulcerative colitis, was launched.

### 2013

### Corporate Mark

The corporate mark, consists of three curved lines that form a heart-shaped apricot. The lines represent the smiles of patients, their families, and workers in medical services, as well as Kyorin's three core businesses, namely prevention, treatment, and prognosis.

**Orange:** Honesty and warmth

**Violet:** The technology that brings confidence

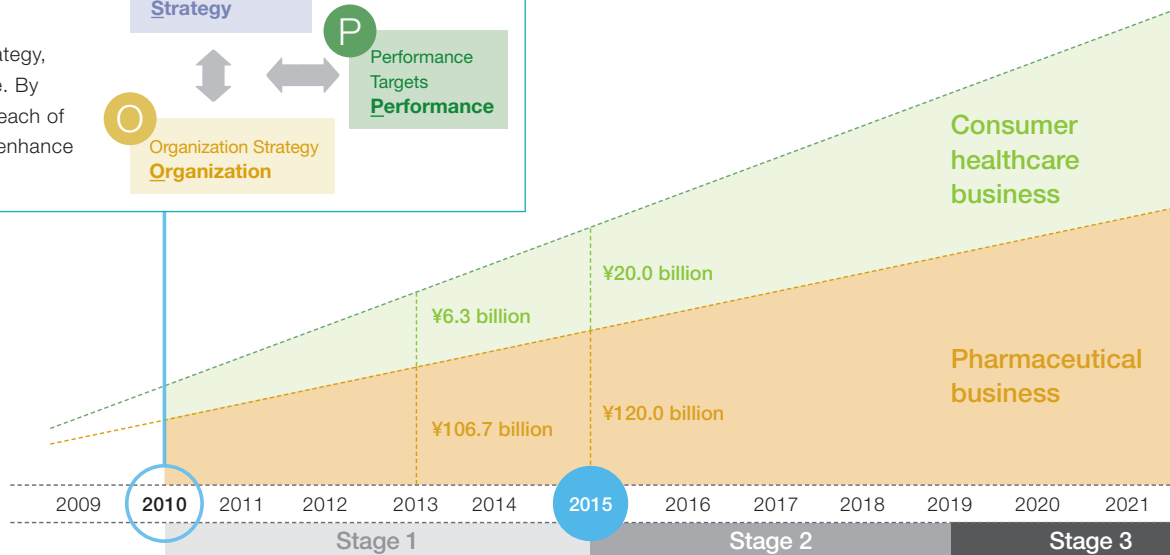
**Light green:** Free and lively creativity





Long-term growth

**Structure of HOPE100 Stage 1**  
 HOPE100 Stage 1, the Kyorin Group's medium-term business plan for achieving its long-term vision, comprises three elements: Strategy, Organization, and Performance. By working to steadily implement each of these components, we aim to enhance corporate value even further.



## Working to Achieve Our Long-term Vision HOPE100 and Medium-term Business Plan HOPE100 Stage 1

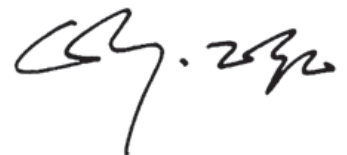
Based on its corporate philosophy “to cherish life and benefit society by contributing to better health,” the Kyorin Group is determined to contribute to disease treatment through the provision of superior drugs. To this end, the Group is building a portfolio of consumer healthcare businesses that can respond to diversifying health needs, from health maintenance and advancement to disease prevention, as we aim to grow as a company with a recognized identity.

Under HOPE100, the long-term vision formulated in 2010 to embody the corporate philosophy of the Kyorin Group, we are promoting the diversification of our consumer healthcare business, centered on the pharmaceutical business. At the same time, we place great value on the idea that “a business is only as good as its people.” In line with HOPE100, we are working to become a leading company for pursuing fulfilling careers, a place in which employees can bring passion to their work.

In the midst of significant changes in business conditions, the Kyorin Group achieved record sales and earnings in fiscal 2012, ended March 31, 2013.

In fiscal 2013, ending March 31, 2014, KYORIN Pharmaceutical, a core company in the Kyorin Group, will mark its 90th anniversary. The year will also mark the turning point for HOPE100 Stage 1 (2010–2015), the medium-term business plan positioned as the first step in achieving our long-term vision HOPE100 (2010–2023). As we work toward reaching our exit objectives for fiscal 2015, the final year of the medium-term plan, the entire Kyorin Group will work together to set new records for sales and earnings, and to make steady progress with our program of business execution.

July 2013



Masahiro Yamashita  
Representative Director, President and Chief Executive Officer



2022      2023 (FY)

# Q1

Please describe the business environment in the last fiscal year, and your financial results in general.

## Answer: 01

Despite a tough business climate due to drug price revisions and other factors, the Group set new records for sales and earnings.

Business conditions in fiscal 2012 grew even more challenging as various measures were enacted to reduce drug costs, including a lowering of prices on the National Health Insurance drug price list by about 6% for the whole industry on average, and in the 6% range for KYORIN Pharmaceutical.

Under these conditions, fiscal 2012 saw sales in our pharmaceutical business grow for Kipres, a drug used to treat bronchial asthma and allergic rhinitis, and for Uritos, an overactive bladder drug; KYORIN Pharmaceutical Facilities Co., Ltd., a consolidated subsidiary launched in October 2012, also contributed to increased revenue. In the generic drug business, sales to dispensing pharmacies, and sales for products manufactured under outsourcing contracts both increased. Sales in the consumer healthcare business dropped, however, reflecting reduced consumer spending in a lackluster economy. As a result, consolidated sales reached a record ¥107,031 million, an increase of 3.7% year on year.

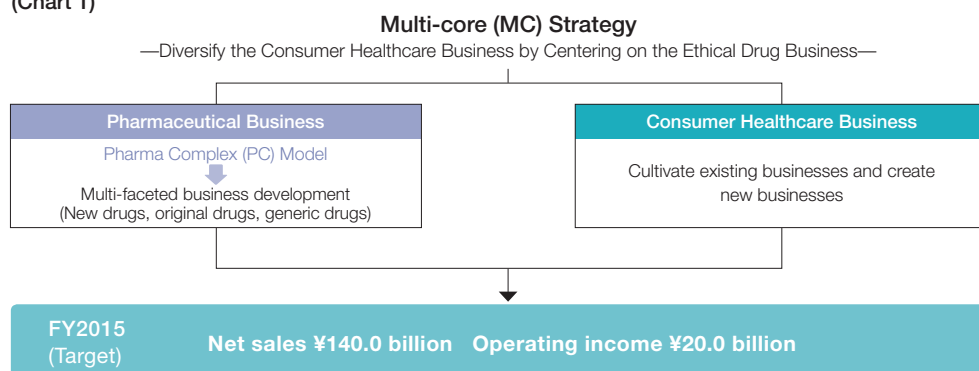
Operating income rose 24.1% year on year, to ¥17,948 million, also a new record. In a rebound from the previous year, when spending rose with progress in the development pipeline, R&D expenses fell by a significant 20.8% year on year, which also brought SG&A expenses below the previous year's levels.

### Sales of Mainstay Products

	FY2011 (Actual)	FY2012 (Actual)	FY2013 (Projected)	YoY Change	YoY (%)	FY2015 (Projected)
Kipres	36.8	<b>39.6</b>	40.8	1.2	3.2	40.0
Mucodyne	21.5	<b>19.1</b>	18.7	(0.4)	(2.0)	24.0
Pentasa	18.0	<b>17.6</b>	18.6	1.0	5.6	19.0
Uritos	6.3	<b>7.5</b>	8.4	0.9	13.4	10.0

(Billions of yen)

(Chart 1)





## Q2

How would you rate your progress in program execution through the last fiscal year, and what are some of your issues going forward?

### Answer: 02

**With steady progress in its execution of programs aimed at sustainable growth, the Kyorin Group continues working to build a robust business portfolio.**

Among our achievements over the past three years, we saw steady progress in our new drug development pipeline. In our generic drug business, we also made progress toward building a new business model for generic drugs, built on collaboration within the Group and also in-house development. In production operations, we established a foothold for building new production capacity with the launch of KYORIN Pharmaceutical Facilities Co., Ltd., another significant achievement. In the consumer healthcare business, we were able to take the first step toward expanding our environmental hygiene business as we began sales of RUBYSTA, a multi-purpose disinfectant cleaner.

At the same time, we realize that we must accelerate our efforts to build a robust business portfolio, based on our multi-core (MC) strategy (Chart 1) aimed at diversifying our consumer healthcare business, centered on the pharmaceutical business. To accomplish this, the Group will unite as never before in the aggressive development of our business.

## Q3

Tell us about issues you face with HOPE100 Stage 1, your medium-term business plan, and your fiscal 2013 initiatives looking forward to fiscal 2015, the plan's exit year.



### Answer: 03

**We are working to post new records both in consolidated sales and operating income, and to enhance our operating base.**

In fiscal 2013, we aim to again post record consolidated sales and operating income. At the same time, we will take on the challenge of bringing KYORIN Pharmaceutical Co., Ltd. to ¥100,000 million in sales, on a non-consolidated basis, for the first time.

In the pharmaceuticals business, our top priorities include maximizing the adoption of our existing principle products, and steadily preparing for the approval and launch of Flutiform (KRP-108), the bronchial asthma treatment for which an application was filed in September 2012. In addition, we must quickly work to penetrate the market for Pentasa, our suppository treatment for ulcerative colitis launched in June 2013, and to develop it into a key product. We will continue moving forward with our franchise customer (FC) strategy, which focuses sales resources on the doctors that our medical representatives visit regularly, primarily in the specific treatment areas we promote (respiratory medicine, otolaryngology, and urology).

In our research and development (R&D) activities, we see our most pressing issue as the need to build an even more robust set of new drug research and development themes, in order to drive discovery of new drugs that can be licensed worldwide under our HOPE100 Stage 3 (fiscal 2020–2023) long-term vision. Under our new R&D framework, we will continue improving the R&D process, working to speed up new drug development, and push ahead with building an appealing product pipeline in our specific fields. We will also soon begin construction of a new R&D facility, scheduled to commence operations in

fiscal 2015. By consolidating all of our domestic R&D functions in one location, we will work to streamline personnel, organizations, and systems, and enhance collaboration.

In production, we will continue to promote the overall optimization of our production infrastructure, working to further enhance manufacturing efficiency through low-cost operations.

In generic drugs, with the push provided by the government's measures to encourage generic drug use and other factors, we will continue to focus on promoting our alliance strategy, including joint development and licensed production.

We also aim to expand our consumer healthcare business, and will continue to develop the market for the Milton brand of baby bottle disinfectants, work to build a path for regrowth and profitability in the skincare business, and quickly gain market penetration for RUBYSTA, the multi-purpose disinfectant cleaner in the environmental hygiene business.

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## Q4

Tell us about your approach to human resource management.



### Answer: 04

**An energized workforce and organization are what drives corporate growth. This is why we are rebuilding our human resource management systems, with the aim of becoming a leading company for pursuing fulfilling careers.**

In other words, the true driver of corporate growth lies in the enhancement of human assets, represented by the collective knowledge, skills, and individual qualities of each and every employee. I believe that to become the kind of company we have set out in our long-term vision, it is important that everyone at the Kyorin Group brings self-awareness and initiative to their work, continuously focus on improving their own capabilities, and use active communication to work together as one.

At the Kyorin Group, we believe the relationship between the company and its employees is a long-term, reciprocal one of cooperation and co-existence. Going forward, we will work to rebuild our human resource management systems, putting in place an environment rich in motivation and an employee-friendly workplace where people feel rewarded for their efforts.

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## Q5

What are your expectations as you welcome your new outside directors?

### Answer: 05

**I would like to see them contribute their experience and insight to enhancing our corporate value.**

In June, 2013, we appointed two outside directors. As we work to improve management transparency and further strengthen our corporate governance, we will make proactive use of their broad insight, experience, and expert advice, incorporating their opinions in our efforts to further streamline management and enhance corporate value.

## Q6

What is your stance regarding shareholder returns?

### Answer: 06

The Kyorin Group targets a consolidated payout ratio of 30%, by balancing investments for growth, investments for business continuity, and shareholder returns.

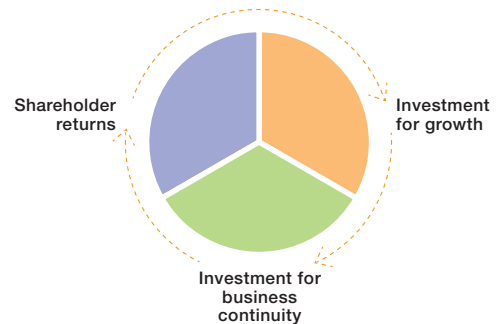
The Kyorin Group will work to strengthen its management base through balanced implementation of investments for growth, investments for business continuity, and shareholder returns.

Investments for growth include promotion of efforts to license new products and to expand the R&D pipeline in the Group's core pharmaceuticals business. We are also considering strategic, proactive investments with an eye toward the future of our consumer healthcare business. As for shareholder returns, we target a consolidated payout ratio of 30% when deciding dividends.

The dividend per share for fiscal 2013 was ¥50, an increase of ¥5 from the previous year, representing a consolidated payout ratio of 30.1%. In fiscal 2013, we aim to increase the dividend per share by ¥2, to ¥52 (including a ¥10 interim dividend), for a consolidated payout ratio of 30.6%.

#### Performance Targets

#### Balance between Investment and Shareholder Returns



FY2015 (Target)	(Billions of yen)
Consolidated net sales	140.0
Pharmaceutical business	120.0
Consumer healthcare business*	20.0
Consolidated operating income	20.0

\* Skincare, over-the-counter drugs and others

## Q7

Do you have a message for your stakeholders?

### Answer: 07

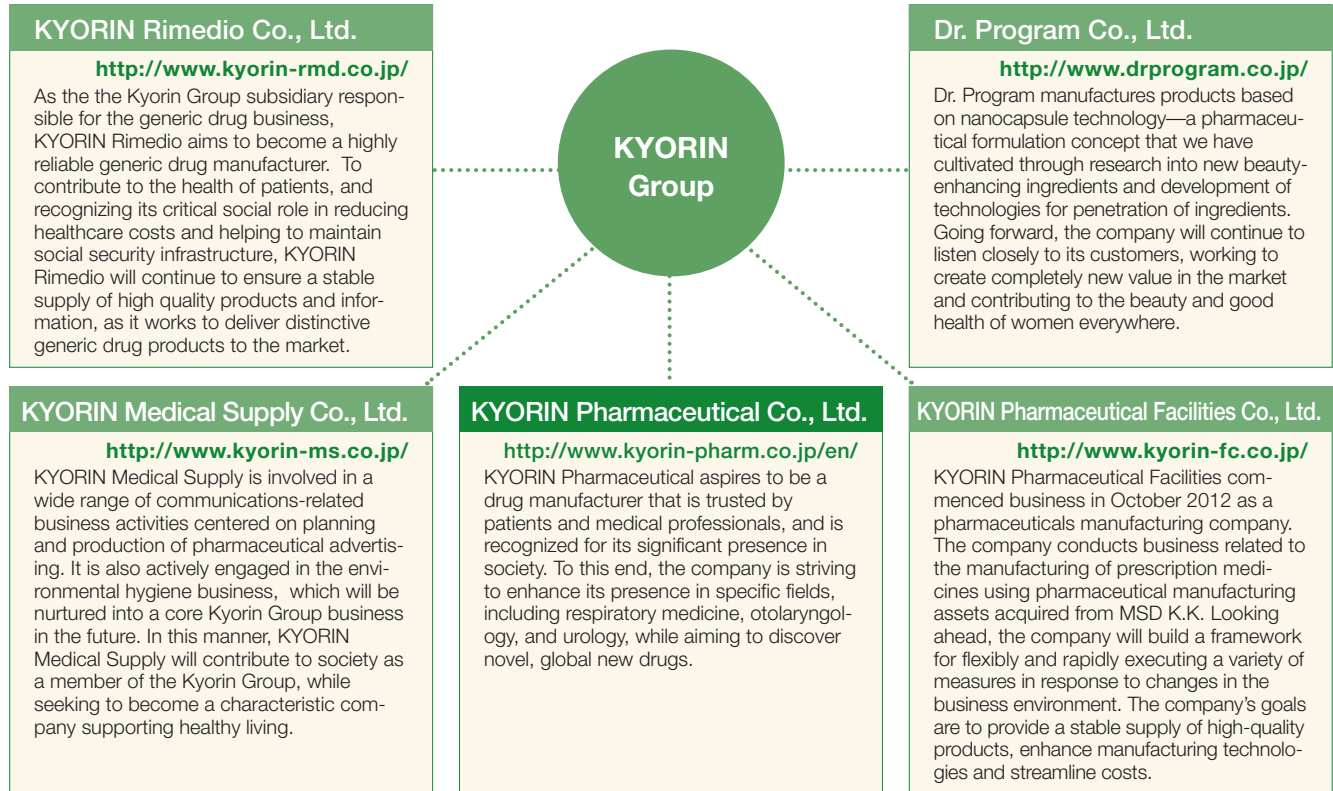
KYORIN Pharmaceutical, a core company in the Kyorin Group, will mark its 90th anniversary this year. As it approaches its 100th anniversary over the next ten years, we will renew our resolve to become the kind of company set forth in our HOPE100 long-term vision, and continue to build on our achievements.

Going forward, the Kyorin Group will continue to provide proactive disclosure, informing our stakeholders of the progress we make in terms of business performance and in bringing HOPE100 to fruition. I look forward to the continued understanding and support of all our stakeholders.

# The Source of Value Creation

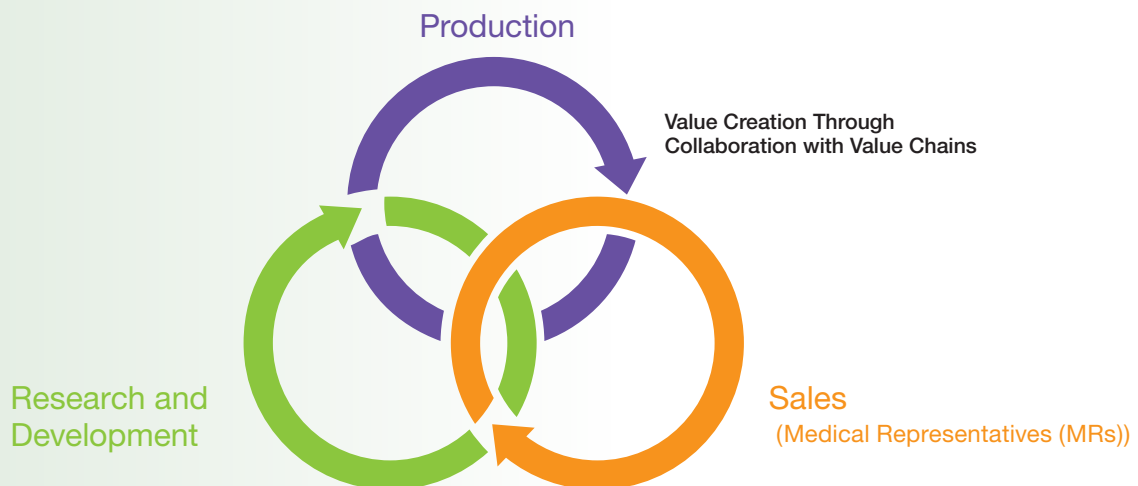
A unified Group that produces results as an organization

## Collaboration with the Kyorin Group



The Kyorin Group aims to achieve sustainable growth, and by creating attractive, high-quality products and services, hopes to become a company that its customers can count on and trust. To accomplish this, we believe that all of our employees must come together, striving to enhance their abilities as individuals so that we can strengthen our capabilities as an organization.

By enabling R&D, production, and sales to collaborate and thus grow together, we will generate even better new products and services.



Strengthening collaboration with value chains to improve the organization's capabilities of creating value



**Kazuhiro Marubayashi**  
KYORIN Pharmaceutical Co., Ltd.  
Executive Director and Head of  
Production & Manufacturing  
Headquarters



**Masakatsu Komuro**  
KYORIN Pharmaceutical Co., Ltd.  
Senior Executive Director and Head of  
Research & Development Headquarters  
KYORIN Holdings, Inc.  
Executive Director



**Masahide Sugibayashi**  
KYORIN Pharmaceutical Co., Ltd.  
Senior Corporate Officer and Head of  
Sales & Marketing Headquarters

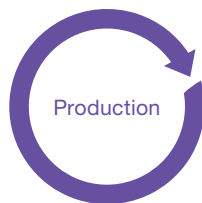
Fiscal 2013 marks the turning point for the HOPE100 Stage 1 medium-term business plan. As we push ahead to diversify the consumer healthcare business at the same time as conducting our core pharmaceutical business, the Kyorin Group is placing particular emphasis on viewing each employee as a human asset, enhancing individual ability as we work earnestly to energize our people and our organization.

We believe that employee effort represents an unshakeable path toward achieving the goals of HOPE100 Stage 1, and will also lead to bringing our corporate philosophy to fruition as we contribute to the health of the world's people through R&D, manufacture, and sales of superior products.



▶ P.12

Providing attractive and high quality products by discovering novel, global and original new drugs, by introduced product development and by cure research, is the mission of R&D at the Kyorin Group. To accomplish this, it is important that we enhance our drug creation activities, speed up new drug development, and focus on selected projects. In this context, we are implementing initiatives to accelerate and improve the quality of drug discovery research by utilizing small scale advantages such as information-sharing enabled through open communication.



▶ P.14

Quality assurance systems in the manufacturing process are critical to producing a stable supply of high-quality products at low cost. To this end, all of the Kyorin Group's plants are working to enhance good manufacturing practice (GMP) levels, while a quality assurance system under direct supervision of the head office ensures a stable supply of high-quality products.



▶ P.16

To enhance our presence in specific fields, it is vital that we create an organization that has a precise grasp of the needs of doctors and healthcare institutions in those areas, and can quickly respond to them. KYORIN Pharmaceutical is pushing ahead with a franchise customer (FC) strategy that places priority on activities in specific fields, and thus is able to engage in efficient and effective marketing activities.



## Feature: The Source of Value Creation

### Research and Development



The discovery of new drugs that can be provided to the world's people can enhance the Kyorin Group's profile and presence as a new drug manufacturer, and lead to sustainable growth. Recognizing this, the Group is pursuing more efficient and effective drug discovery activities focused on respiratory medicine, urology, and otolaryngology.



## Leveraging Our Strength in Small-Scale Advantages

The Kyorin Group's strength in research and development lies in the advantages of our smaller scale. In particular, excellent cross-departmental collaboration and the ability to nurture staff with diverse research capabilities able to handle a broad range of exploratory, development, and clinical research, are the source of our competitiveness in new drug discovery, and enable us to bring a multi-faceted knowledge to our research activities. In core technologies, our strengths also come from our drug discovery technologies, based on foundational research in inflammation, immunology, and infectious diseases, which we exploit to efficiently synthesize new compounds. Our research into optimized low molecular weight (LMW) drugs is also highly regarded, and by leveraging the Group's attributes in this area, we will continue to meet the challenge of discovering new and innovative LMW drugs.

### Focus on Timelines in the Discovery, Development, and Life Cycle Management (LCM) R&D Process

The Kyorin Group promotes research and development with an emphasis on timelines. We have established a timeline for each role in the process, beginning with HOPE100 Stage 1, which emphasizes maximizing product value through LCM. Stages 1 and 2 focus on bringing products to market through development, while in Stage 3 and beyond, the emphasis is on the creation of new drugs that can contribute to the health of the world's people. The direction of our drug discovery efforts is focused on creation of innovative new drugs in Stage 3, with a focus on the development of LMW drugs under the key concept of creating drugs that will change existing therapeutic systems.

In the development process, our goal is to bring a "developer-producer's" awareness to

creating products. This refers to formulating development policies with a strong awareness of our vision for a product after launch, based on which we work to accelerate and improve the quality of development. In short, we envision the patients who will actually use the product, and endeavor to meticulously meet their needs.

In LCM, we work to build evidence by implementing high-quality research, maximizing product value by incorporating that evidence into guidelines for medical care and therapeutic policies.

In this way, by clearly delineating each department's functions and goals and enhancing collaboration, we aim to conduct research and development that will win the trust of medical professionals and patients alike.



## Framework to Support Employees Making Efforts to Polish Their Skills

In drug discovery and research and development, it is important to retain advanced knowledge and technology at any age. Employees must think for themselves, and make an effort to polish their skills. At the Research & Development Headquarters, we are engaged in systematic efforts to formulate human resource management policies and provide ongoing education.

Foundational education is implemented on separate levels, including training through the Human Resources Department, R&D training, training by facility (systematic training provided at individual facilities), and workplace training (task-specific on-the-job training, or OJT). R&D training is conducted for the first three years upon hire, providing new employees with basic

professional skills and a general overview of drug creation. By also holding more free-wheeling “*waigaya*” sessions, we work to ensure employees learn to diversify their thinking and gain the creativity needed to generate new value.

Management employees undergo training in status quo analysis and strategic organizational reform, including next-generation human resource (asset) development. To support individuals and their career paths and develop independent careers, the Group also offers opportunities to employees to conduct research at or be assigned to work with domestic and foreign universities and research institutions.

### Employee Message



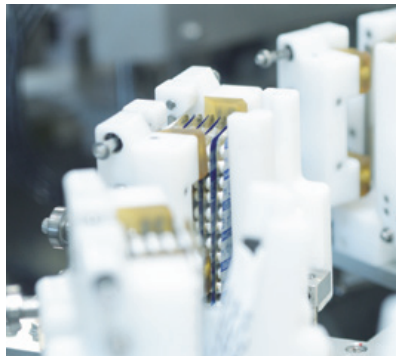
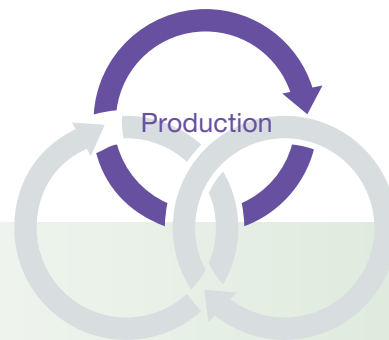
### Pursuing Research and Development That Always Keeps Medical Professionals and Patients in Mind

Even after launching a product, the aim guiding our research and development activities is to have patients consistently use the drugs we bring to market. When setting research and development themes, we give ample consideration to marketability, profitability and feasibility, pursuing drug designs that emphasize effectiveness, safety and convenience. We are working to understand the needs of medical professionals and patients, and to create new drugs acceptable worldwide in an open environment in which anyone can proactively establish new research themes and take action.

## Feature: The Source of Value Creation

### Production

By introducing leading-edge production equipment, as well as flow bin production systems that automate the transfer of raw materials and intermediates, the Kyorin Group works to improve production efficiency and reliability, promoting the creation of highly productive, worker-friendly plants. Under the slogan "Protecting this wonderful planet through our actions," our goal is for all plants to run on the concepts of possessing enhanced good manufacturing practices (GMP) and a flexible production infrastructure, and to become worker-friendly, highly efficient, and highly reliable facilities.



## An Organization Designed to Deliver Quality Assurance, Supply Stability, and Cost Reductions

Day after day, our efforts focus on the pursuit of quality assurance, supply stability, and cost reductions. In addition to maintaining and continually improving our production infrastructure to provide a stable supply of high-quality products at low cost, the Kyorin Group aims to create a product division that is trusted not only where our plants are located, but also everywhere in the world that our products are made available. To achieve this, we must maintain a positive, energetic workplace, and act as a Group to exploit our full creativity.

### Strengthening Both Physical and Intangible Aspects in Order to Enhance Value

Our production divisions are working strategically on four key issues: overall optimization of the Group's production infrastructure, roll-out of a new global production infrastructure, low-cost operations, and human resource development.

In terms of overall optimization of the Group's production infrastructure, we are working to ensure efficient production at each of the Group's plants, in line with the business plan. Next, in our roll-out of new global production infrastructure, we are striving to meet farsighted global standards while working to strengthen our production infrastructure. In October, 2012, the Group saw the addition of KYORIN Pharmaceutical Facilities Co., Ltd., through which, even more than before, we hope to continue providing

a stable supply of high-quality products, while improving manufacturing technology, streamlining costs, and expanding globally. In low-cost operations, we are aiming to simultaneously lower costs and improve quality through better visualization of operations. Finally, in terms of human resource development, we continue to promote the creation of workplaces in which all employees are motivated to improve, and can make full use of their creative energies. Through its efforts in these four areas, the Kyorin Group will continue working to strengthen both the physical and intangible aspects of its production infrastructure in order to further enhance Group value.





## Developing Human Resources That Can Contribute to the Company

Quality assurance, supply stability, and cost reductions: these three objectives are both the mission of the production divisions, and our constant goal. To achieve that goal, it is essential that each employee unfailingly fulfills his or her role. Further, to ensure those roles are fulfilled, it is important to acquire the necessary human resources, and to develop them into “assets” capable of contributing to the company. In the production divisions, our human resource development efforts include preparing career roadmaps that take into account the individual’s wishes, as well as long-term human resource development plans with established roadmaps for succession. In addition, personnel

transfers utilize these career and succession roadmaps to arrive at the optimal allocation of human resources.

At the production plants, training programs and OJT and engineer roadmaps are prepared to ensure employees acquire the knowledge, technology, and skills needed in each workplace. Objectives are shared between supervisors and their employees, and making these goals visible in the workplace helps stimulate motivation. We are also considering introduction of a tentatively-titled “Meister” system as part of human resource development and the effort to further lift motivation.

### Employee Message



### A Top-Level Production Plant and Production Framework in Japan

The Kyorin Group is working to build an organization in which each employee is aware of the importance of making dramatic improvements in productivity, and works seriously toward that goal.

The Noshiro Plant, the Kyorin Group’s central production facility, is equipped with automated high-efficiency equipment, including flow bin production systems that automate the transfer of raw materials and intermediates. Through QDC\* and environmental responsiveness, the plant aims to become a top-level production plant, bringing energy and exceptional creativity to the pursuit of quality assurance, supply stability, and cost reduction.

\* Quality, Delivery, Cost

## Feature: The Source of Value Creation

### Sales



MRs are responsible for providing, collecting, and conveying information that encourages the proper use of pharmaceuticals, and serve as drug treatment partners to medical professionals and others. KYORIN Pharmaceutical is expanding the activities of its MRs based on its franchise customer (FC) strategy, which prioritizes action in the fields of respiratory medicine, otolaryngology, and urology.



## Aiming to Become MRs That Are Trusted by Doctors

We are aiming to build solid trust relationships with our customers by emphasizing action in specific fields, while also working to improve individual employee skills and enhancing our organizational capabilities. With the goal of becoming Kyorin MRs who are trusted by doctors, and by taking advantage of our unique team structure in which specific geographic areas are covered by multiple MRs, our MRs take on the challenge of generating record revenue and operating income through their detailed efforts.

### Achieving Steady Results in Response to Changes in the Environment and to the Needs of Medical Professionals

Our focus in fiscal 2012 was on maximizing the spread of our principal products (Kipres, Mucodyne, Uritos, and Pentasa), and thanks to aggressive sales efforts, we set a new record for revenue.

To achieve steady results, it is important that we continue to work on enhancing our presence in our specific fields of respiratory medicine, otolaryngology, and urology. Utilizing the tablet computers we have introduced for all of our MRs, we are pushing ahead with efforts to strengthen how we provide and collect information from physician specialists. In addition, by encouraging people in our research divisions to participate in seminars and lectures set up for specialist physicians by the sales division, we are involving the entire company in efforts to improve our relationships with these specialists.

Further, we are building a sales and human resource development structure that will firmly establish us as the most highly-motivated company in the industry. Our unique team-based sales structure enables our MRs to improve their individual capabilities, while providing an accurate grasp of the needs of medical professionals, and achieving rapid responsiveness across the organization. We are encouraging the further evolution of this structure, as we work to create an atmosphere in which MRs can share in the excitement of meeting team goals.

Furthermore to these efforts, in our existing products we are drawing up detailed plans by product type and formulation, and in addition to aiming to completely meet those targets, we are pushing ahead with steady preparations for the approval and launch of Flutiform (KRP-108), and



for the early spread of the Pentasa suppository in the market. Finally, we will take on the challenge of seeing the Kyorin Group reach its goal

and operating income.

## Enhancing and Improving the Strengths of Our MRs and Managers

The Sales & Marketing Headquarters has established two areas of focus for human resource development in fiscal 2013. Enhancing the overall strengths of our MRs, and improving management capabilities. In MR training, our goal is to develop MRs that are trusted by the doctors they work with. Introductory training for newly-hired MRs includes not only studying product and related knowledge, but also acquiring the proper manners and attitude for dealing with the medical profession, as well as nurturing their ability to think.

The second year offers training in presentation skills, while the third year covers communication skills, all part of our efforts to develop MRs who can anticipate and respond to the needs of healthcare professionals. In management training, newly-appointed managers learn the communication and coaching skills that are indispensable in developing their employees. They also polish their qualities as managers through the practice of accompanying MRs on a full day of sales calls five times a month.

### Employee Message



### Nurturing MRs Whom Doctors Can Approach for Appropriate Information

At the Kyorin Group, as a pharmaceutical company whose role is to provide treatment through drugs, our goal is to nurture MRs who can provide useful information to doctors, and who can solve the problems those doctors face. To build relationships of trust with doctors, it is important that MRs be able to provide them with appropriate information according to their needs. The sales approach at the Kyorin Group is unique for the way we prioritize our sales activities in specific fields, based on our FC strategy, and we are notable for the level of relationships we maintain with doctors in those key fields. In addition, through the introduction of a team structure, and the sharing of individual experiences and capabilities, team members work toward their mutual improvement, engaging in their day-to-day activities with their eyes on a common goal. Going forward, we will continue to contribute to medical care, and to the health of individuals, through our ability to understand the kinds of drug treatments provided by doctors.

# Presence in the Respiratory Field

KYORIN Pharmaceutical positions the respiratory field as a core field in its franchise customer strategy. Currently, in hopes of contributing further to the treatment of disease among respiratory patients, KYORIN Pharmaceutical has in-licensed three products as part of its development effort: Flutiform (KRP-108), along with KRP-AB1102 and KRP-AB1102F. We believe this promising pipeline has been made possible because, out of the many pharmaceutical companies in the market, the companies out-licensing these products recognized our efforts in the respiratory field, and could find the prospect of working with us appealing.

Going forward, we will continue to value the relationships we have established with medical professionals through our Kipres and Mucodyne products, earnestly address the development of new drugs, and bring the entire company to bear on the challenge of quickening, if only a little, the delivery of new products to the patients who need them.

## Messages From Divisional Directors (KYORIN Pharmaceutical Co., Ltd.)

### Quickly delivering new drugs that contribute to the treatment of asthma and COPD



Executive Director  
Clinical Development Center

**Kunio Kajino**

The respiratory field is one of the most important areas of product development for the Kyorin Group. We are currently working on the development of new drugs in the asthma and COPD area, including Flutiform (KRP-108), and KRP-AB1102 and KRP-AB1102F. We believe our mission is to get new drugs to the front lines of healthcare and into patients' hands as quickly as possible.

To realize this, development needs to take place with a vision for the product post-release, and clinical trials and other steps need to come after an effective development strategy has been built.

Doctors who have participated in our clinical trials recognize our efforts to utilize front-line healthcare data and personal networks in the respiratory field, speeding development efforts through constant ingenuity, and many of them look forward to these new drugs. In addition, by providing R&D, sales, and those on the front lines with feedback in the form of information and channels newly developed in the course of new drug development, we aim to establish a highly visible presence in the respiratory field.

### Team behind Flutiform (KRP-108) united by the desire to launch the product



Director  
Marketing Department

**Takaaki Kaji**

Constantly ringing phones, the sound of voices in discussion... our workplace is truly a beehive of activity. The entire launch team behind Flutiform (KRP-108) is driven by the desire to deliver the product to a clinical setting as quickly as possible.

Flutiform (KRP-108) is noted for its powerful anti-inflammatory effects and for taking effect quickly, and can also be inhaled easily and accurately. We believe this will enable it to respond to current asthma treatment needs, and provide a new treatment option.

In preparing to launch this promising new drug, all of us keep very much in mind how important it is that doctors, medical staff, and the patients themselves understand the unique attributes of this medication. We will continue with challenge, in the belief that these efforts generate trust, which in turn will lead to the Kyorin Group being recognized as a valuable presence in the respiratory field.

### Making a culture of listening to clinical feedback to further nurture our products



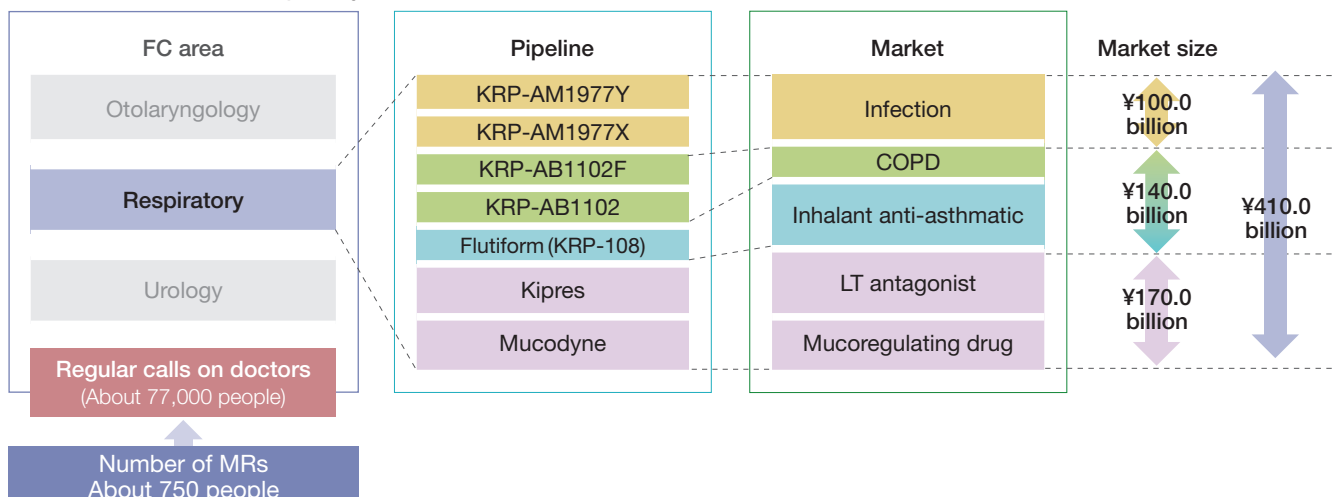
Director  
Marketing Department

**Taro Toru**

As a franchise, the respiratory field involves the most frequent contact with medical professionals. Mucodyne, for instance, has wide application in a range of diseases most often encountered in day-to-day practice, and is recognized for offering a range of easy-to-take formulations designed to suit everyone from infants to the elderly. Today, it has become the most prescribed drug in the respiratory field in Japan.

Kipres, which has applications for asthma and allergic rhinitis, is now listed as a recommended drug in various medical guidelines, both in Japan and overseas. By being recognized as offering treatment based on an abundance of high-quality evidence, and tailored for the individual patient, Kipres has become our No. 1 product, representing 40% of revenue. At KYORIN Pharmaceutical, we have a well-established culture of listening to clinical feedback, continuing to put our products through a variety of tests even after initial launch, nurturing them one step at a time. Going forward, we will act without slackening in our efforts to gather and provide data from the patient's point of view, or in our product lifecycle management. Those efforts, we believe, are the cornerstone of trust.

## Products Related to the Respiratory Field and Their Markets



# Main Products

## PHARMACEUTICAL BUSINESS

### KIPRES

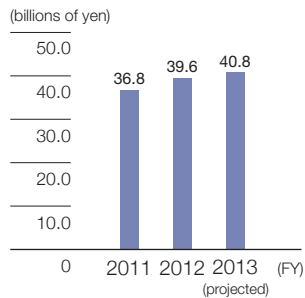


Leukotriene receptor antagonist  
Anti-Bronchial asthma and allergic  
rhinitis drug

KIPRES Tablets 5 mg  
KIPRES Tablets 10 mg

Leukotriene receptor antagonist  
Anti-Bronchial asthma drug  
KIPRES Fine Granules 4 mg  
KIPRES Chewable Tablets 5 mg

#### Sales of Kipres



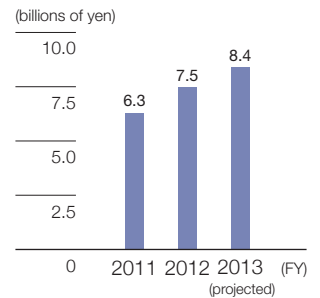
### URITOS



Therapeutic agent for overactive  
bladder

URITOS Tablets 0.1 mg  
URITOS OD Tablets 0.1 mg

#### Sales of Uritos

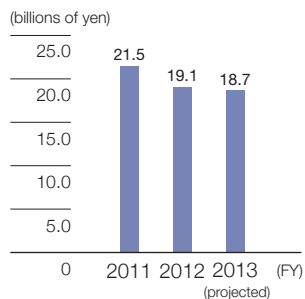


### MUCODYNE



Mucoregulating drug  
MUCODYNE Tablets 250 mg  
MUCODYNE Tablets 500 mg  
MUCODYNE Fine Granules 50%  
MUCODYNE Syrup 5%  
MUCODYNE DS 50%

#### Sales of Mucodyne

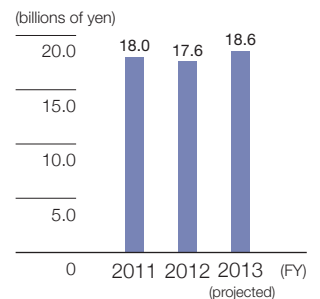


### PENTASA



Ulcerative Colitis/  
Crohn's Disease Remedy  
PENTASA Tablets 250 mg  
PENTASA Tablets 500 mg  
Ulcerative Colitis Remedy  
PENTASA Intestinal Infusion 1 g  
PENTASA Suppositories 1 g

#### Sales of Pentasa



### KETAS



Phosphodiesterase inhibitor agent for  
ameliorating cerebro-vascular disorders  
and bronchial asthma  
KETAS Capsules 10 mg

### RapidTesta



Influenza virus kit  
RapidTesta color FUL stick

## HEALTHCARE BUSINESS

### Milton



Since its launch in 1963, the disinfectant Milton has assisted mothers hoping for the healthy growth of their babies. As the leading brand of baby bottle disinfectant, it also enjoys the support of obstetricians, gynecologists, and nurses.

### RUBYSTA



RUBYSTA, a multi-purpose disinfectant cleaner that went on sale in 2012, is used in hygiene control in medical institutions and other settings, both for infection prevention and to prevent the spread of pathogens.

### Developing the environmental hygiene business through joint efforts between KYORIN Medical Supply Co., Ltd. and KYORIN Pharmaceutical Co., Ltd.

With its stated objective of creating new businesses in the healthcare field, the Kyorin Group, by diversifying its healthcare business, is aiming to supplement the risks of its drug business and work toward sustained Group growth. Today, the Group is engaged in the environmental hygiene business, contributing to medical needs and better health through control of environmental infection. In July 2012, we introduced RUBYSTA, a new multi-purpose disinfectant cleaner.

The product is being marketed to medical institutions, nursing homes, and public facilities in a joint effort between KYORIN Medical Supply Co., Ltd., which in-licensed the product, and KYORIN Pharmaceutical Co., Ltd., which has an extensive track record and expertise in the medical field. We will continue to strengthen sales of our existing flagship product, Milton, while working to enhance our lineup of products in the environmental hygiene business, using partnerships within the Kyorin Group to further popularize these products.

# Alliances

## Reinforcing Our Pipeline in Specific Fields through Alliances

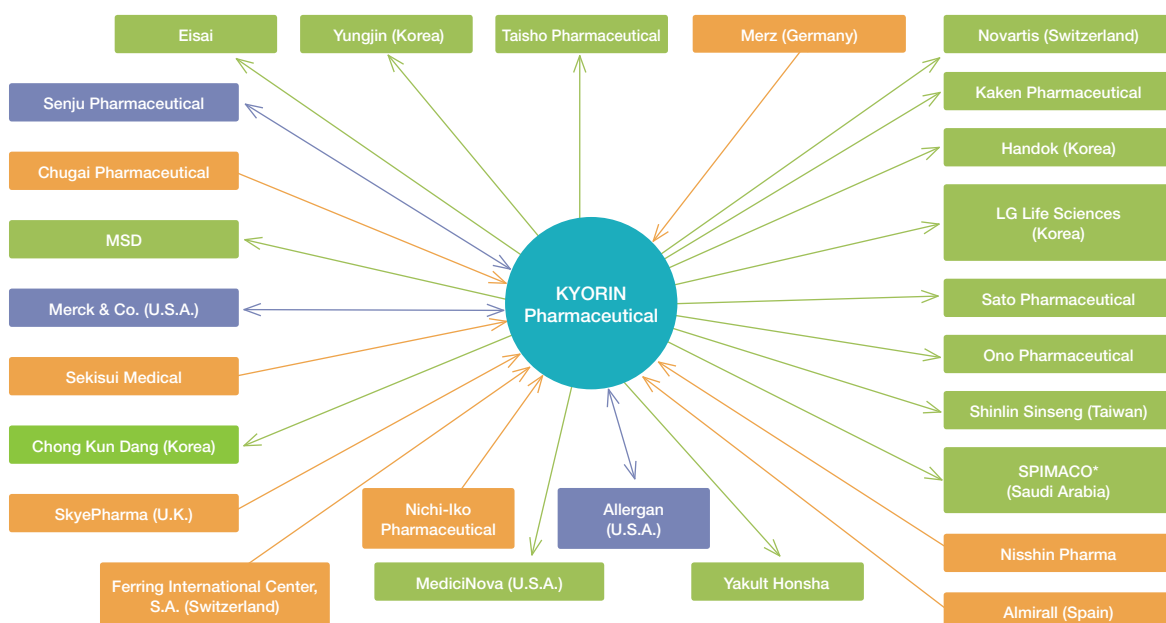
KYORIN Pharmaceutical, a core company in the Kyorin Group, has set a goal of establishing a greater presence in specific fields, and is working to reinforce its R&D pipeline. In addition to the harsh environment owing to the number of competitors, the lack of promising novel new drugs in the world makes it extremely difficult to acquire in-licensing opportunities. Under these conditions, in the five years since fiscal 2008, we have been able to in-license four new products in the franchise customer (FC) field (respiratory medicine, urology and otolaryngology), Flutiform (KRP-108), an inhalant for asthma, KRP-209, a treatment for tinnitus, KRP-AB1102 and KPR-AB1102F, a treatment for

chronic obstructive pulmonary disease (COPD). These results are due to the fact that all of the companies, which out-licensed these products, found the prospect of working with the Kyorin Group attractive, and were confident that we would prove to be a reliable partner. We believe this is evidence that the FC strategy we are pursuing is gaining a firm hold in the pharmaceutical industry, both in Japan and the rest of the world.

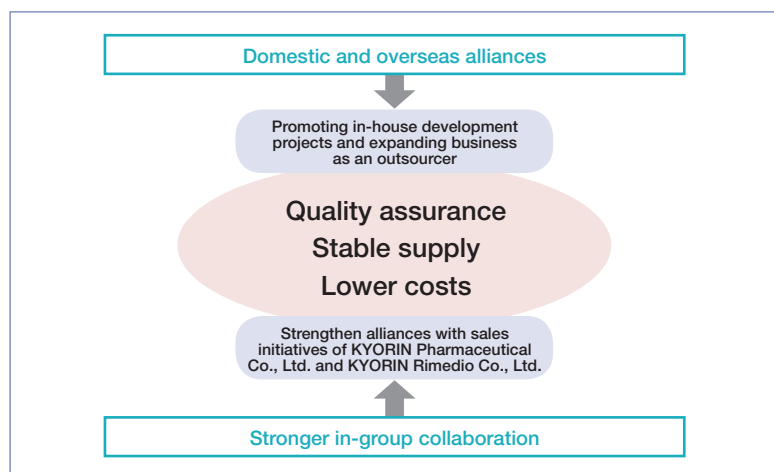
Going forward, our employees will work together to build an even more attractive product pipeline, which will be trusted by physicians and patients, and the Kyorin Group will be recognized as having a significant presence in society.

## Promoting Alliances with Domestic and Overseas Pharmaceutical Companies

In addition to its own drug discovery efforts, through proactive collaboration with outside firms, KYORIN Pharmaceutical is working to enrich and strengthen its R&D pipeline, its most critical issue as a pharmaceuticals manufacturer.



\* SPIMACO: Saudi Pharmaceutical Industries & Medical Appliances Corporation



## Promotion of Distinctive Generic Drug Business

We pursue quality assurance, stable supply, and lower costs in the generic drug business by promoting stronger collaboration within the Group and with local and global alliances. Reducing our cost-of-sales ratio is a particularly important issue.

In addition to in-house development, we are actively expanding joint development and production work as a contract manufacturer in a bid to reinforce our distinctive and competitive generic drug business.

## Products under Development (As of July 30, 2013)

### Ph III~Application

Compound/Code	Therapy area/Action	Origin	Features	Comments	Stage	
						Ph I
<b>KRP-108 (inhalant)</b>	Anti-asthmatic	SkyePharma (U.K.)	An ICS/LABA combination product, which offers better compliance and convenience to patients.	<ul style="list-style-type: none"> <li>License agreement with SkyePharma (4/2008)</li> <li>Phase III Completed (3/2012)</li> </ul>	Domestic	
<b>KRP-AB1102 (inhalant)</b>	Chronic Obstructive Pulmonary Disease (COPD)	Almirall (Spain)	<ul style="list-style-type: none"> <li>New chemical entity: Acclidinium bromide</li> <li>Long acting muscarinic agonist (LAMA)</li> <li>Twice daily administration</li> <li>Onset of action on the first day</li> </ul> Genuair® 1. Designed with a feedback system, which through a 'colored control window' and an audible click helps confirm that the patient has inhaled correctly 2. Counter for remaining doses 3. Safety features such as an anti-double-dosing mechanism and an end-of-dose lock-out system to prevent use of an empty inhaler	<ul style="list-style-type: none"> <li>License agreement with Almirall (2/2011)</li> </ul>	Domestic	
<b>Kipres (chewable tablets, fine granules)</b>	Anti-asthmatic	Merck & Co., Inc. (U.S.A.)	Allergic rhinitis (For children)	<ul style="list-style-type: none"> <li>Additional indication</li> <li>Co-development with MSD K.K.</li> </ul>	Domestic	

[Reference Information] Overseas

■ KRP-108 (U.S.A.) Application submitted by SkyePharma (3/2009)  
(Europe) Launched by Mundipharma (9/2012)

■ KRP-AB1102 (Europe) Launched by Almirall (9/2012)  
(U.S.A.) Launched by Forest Pharmaceuticals (12/2012)

### Proof of Concept (POC) Projects (Ph I~Ph II)

Compound/Code	Therapy area/Action	Origin	Features	Comments	Stage	
						Ph I
<b>KRP-209</b>	Tinnitus	Merz (Germany)	KRP-209 (Neramexane) is expected to improve the patients' annoyance and difficulties in their life caused by tinnitus, mainly through its two pharmacological properties: 1) NMDA antagonistic activity and 2) Nicotinic acetylcholine antagonistic activity.	<ul style="list-style-type: none"> <li>License agreement with Merz (11/2009)</li> </ul>	Domestic	
<b>KRP-AB1102F (inhalant)</b>	Chronic Obstructive Pulmonary Disease (COPD)	Almirall (Spain)	Combination of acclidinium bromide with the long acting beta agonist formoterol. This combination is aimed at providing higher efficacy than each component alone, as well as the improved convenience of having the two products in the same easy to use inhalation device. This is currently in Phase III clinical development.	<ul style="list-style-type: none"> <li>License agreement with Almirall (2/2011)</li> </ul>	Domestic	
<b>KRP-203</b>	Transplantation, autoimmune diseases, and IBD	In-house	An immunosuppressant with a novel mechanism called an S1P-agonist. It may have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunomodulators.	<ul style="list-style-type: none"> <li>License agreement with Novartis (2/2006)</li> <li>New license agreement IBD (11/2010)</li> </ul>	Domestic	
<b>KRP-AM1977X (oral agent)</b>	New quinolone synthetic antibacterial agent	In-house	1. Superior ability to combat drug-resistant gram-positive bacteria (incl. MRSA) 2. Outstanding ADME (oral absorption, tissue migration)		Domestic	
<b>KRP-AM1977Y (injection)</b>	New quinolone synthetic antibacterial agent	In-house	3. High degree of safety expected since safety hurdles cleared prior to clinical trials		Domestic	

[Reference Information] Overseas

■ KRP-209 Merz: Phase III  
 ■ KRP-AB1102F (Europe) Almirall: Phase III  
 (U.S.A.) Forest Laboratories: Phase III

### Licensing Development

Compound/Code	Licenses/ Collaborative research	Therapy area/Action	Origin	Comments	Stage	
						Ph I
<b>KRP-203</b>	Novartis (Switzerland)	Transplantation, autoimmune diseases, and IBD	In-house	<ul style="list-style-type: none"> <li>An immunosuppressant with a novel mechanism called an S1P-agonist. It may have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunomodulators.</li> <li>License agreement with Novartis (2/2006) and new license agreement for inflammatory bowel disease (11/2010).</li> </ul>	Overseas	

## Basic Management Policies

As a group, our corporate philosophy is “to cherish life and benefit society by contributing to better health.” To realize this philosophy we will pursue diverse expansion and development of our consumer healthcare business under our long-term vision HOPE100 (aiming for the Health Of People and our Enterprise), striving to be a group that supports sound and healthy lifestyles.

## Basic Policy on Corporate Governance

The most important management goal for KYORIN Holdings, Inc. is to continue raising shareholder value. To achieve this goal requires fostering a management environment that enables us to build trust with the general public. Therefore, having given better corporate governance a high priority, we seek to ensure prompt decision-making, strong monitoring of the appropriateness of management, and ethical and transparent corporate activities. To ensure transparency and fair disclosure, we release appropriate information without delay for the benefit of shareholders and investors. Within the Kyorin website, we have created a shareholder and investor information section on which we list business performance data, information presented at meetings, our securities report, news releases and other corporate information, enabling anybody to access information about Kyorin at any time. In the future, we intend to actively increase our disclosure of information, and expand and improve our communications with all stakeholders.

We are an audit- and committee-based company under Japanese law. The Board of Auditors endeavors to fully demonstrate its auditing and supervising functions and ensure the transparency of the decisions being made by the Board of Directors. Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. Corporate auditors carry out a diverse range of activities in fulfilling their auditing function. In addition to participating in important meetings, including those of the Board of Directors and the Management Committee, corporate

auditors implement comprehensive audits by checking documents and other materials relating to key decisions and inspecting departments, facilities, and Group companies.

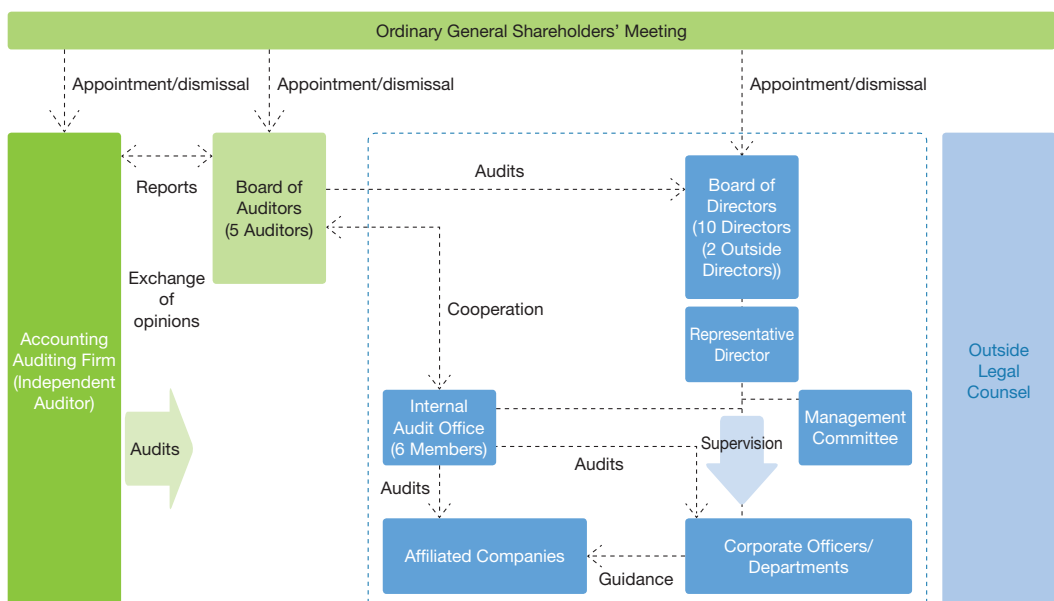
In addition, in recognition of our corporate social responsibility (CSR), for every Kyorin Group company we appoint compliance and risk management promotion officers. We have established a Group-wide compliance and risk management system that is administered by the Compliance Committee and Risk Management Committee. We have established guidelines for each affiliated company based on the Kyorin Compliance Guidelines and set up a system for employees to report and seek advice about possible irregularities. As well as the above measures, we have created management guidelines for affiliated companies and built a system of support that respects their autonomy. Under this system, we receive regular business reports from these companies and hold meetings with their management before deciding important issues. The Internal Audit Office conducts audits of affiliated companies based on internal audit guidelines. Based on the results of these audits, departments that oversee the operations of the affiliated companies issue instructions or warnings and provide appropriate guidance.

## Management Organization and Internal Control System

### 1. Management Organization

To clarify the roles of our ten directors, who are responsible for making business decisions and supervising business execution, and four corporate officers, who are responsible for business execution, Kyorin has established

## Corporate Governance and Management Structure (As of June 25, 2013)





a corporate officer system. The Board of Directors usually meets once a month, deciding important operational matters in a timely manner after debating issues as well as supervising each director's duties. To oversee business execution, we established a Management Committee, comprising the president and directors, which discusses key operational matters concerning the Group. In addition, at its Ordinary General Shareholders' Meeting held in June, 2013, Kyorin appointed two new outside directors, and we will be leveraging their independence, rich experience, and high level of specialization to further enhance our management transparency and monitoring functions.

We also utilize a corporate auditor system with two statutory corporate auditors and three outside corporate auditors. By capitalizing on such auditing and supervisory functions, we have built a system that facilitates highly transparent decision-making.

## 2. Internal Control System and Risk Management System

Kyorin is building an internal control system in accordance with the basic policy determined by the Company:

- We established the Compliance Committee, which is chaired by a director in charge and includes the Director of the Internal Audit Office who serves as a member of the committee. Thoroughgoing guidance is provided to executives and regular employees via training programs, while the Corporate Ethics Hotline has been set up for consultations and reporting matters concerning internal violations. Moreover, we have set Company rules to ensure the accuracy of financial reporting, and developed systems for ensuring the validity and reliability of internal controls over financial reporting of the Group.
- We have built and are operating a structure for reducing and preventing risks. As part of this structure, we established the Risk Management Committee, chaired by a director in charge, with the General Affairs & Human Resources Department responsible for overseeing the committee. For risks concerning compliance, the environment and accidents, we also formulated the Risk Management Guidelines and the Corporate Ethics and Compliance Guidelines as part of a quick-response structure. Additionally, to handle crisis management when dealing with any contingencies, we have set up the Contingency Measures Headquarters under the leadership of the president.

For details, please refer to <http://www.kyorin-gr.co.jp/en/company/governance.shtml>

## 3. Audit Organization

### ① Internal Auditors

Internal audits are conducted by the Internal Audit Office, which is staffed by six employees who report directly to the president, and is independent from other sections. Based on yearly auditing plans, the Internal Audit Office regularly assesses and evaluates the effectiveness and efficiency of the legal compliance and internal control systems in the parent and Group companies. After an audit, the office communicates any problems or areas that need improvement directly to the president and makes the appropriate recommendations.

Another function of the office is to evaluate the Group's internal controls over financial reporting. The office evaluates the development and operation of these internal controls according to a predetermined scope for evaluation, and makes a report to the president.

### ② Corporate Auditors

Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. In addition to participating in important meetings, including those of the Board of

Directors and the Management Committee, corporate auditors implement comprehensive audits by checking documents and other materials relating to important decisions and inspecting departments, facilities, and Group companies.

Under our adopted system, if someone discovers that an executive officer or employee is acting in contravention of either laws and regulations, or the Company's Articles of Incorporation, they immediately notify the corporate auditors. We are working to establish an environment conducive to more efficient audits by corporate auditors by coordinating closely with executives and regular employees and by fostering deeper understanding of audits. Furthermore, we assign auditing staff to assist the duties of the corporate auditors as necessary, and these human resources are carefully checked by directors and auditors to ensure that they are independent.

Moreover, the statutory senior corporate auditor, Seiyu Miyashita has experience as a director and head of accounting of KYORIN Pharmaceutical Co., Ltd, and has a considerable level of knowledge about finance and accounting.

### ③ Outside Directors and Outside Corporate Auditors

Kyorin has two outside directors and three outside corporate auditors.

With rich management experience gained in his position as chairman of B-R 31 ICE CREAM Co., Ltd., Kyorin deemed Senji Ozaki well-qualified overall for appointment to outside director. In addition, no risk of conflicts of interest arising with our general shareholders was found that might affect the performance of his duties as outside director, and we recognize that he brings a high degree of independence to the position. Note that no purchasing, sales, or other trade relationship exists between Kyorin and B-R 31 ICE CREAM Co., Ltd., where Mr. Ozaki serves as chairman.

As an attorney well-versed in corporate law, outside director Noriyuki Shikanai has also served on the board of Keio University and in other important positions, and with his high degree of specialization and rich experience, was deemed well-qualified overall for appointment to outside director. In addition, no risk of conflicts of interest arising with our general shareholders was found that might affect the performance of his duties as outside director, and we recognize that he brings a high degree of independence to the position.

Kyorin has three outside corporate auditors who are neutrally positioned and not compromised by relationships with management or specified parties having a special interest. These outside corporate auditors all have a considerable level of knowledge of corporate legal matters, and matters of finance and accounting. We utilize their specialist understanding and wide-ranging knowledge and experience to strengthen and enhance our auditing functions.

Outside corporate auditor Masaji Obata is well versed in the Corporation Law as a lawyer, and has considerable knowledge concerning finance and accounting.

While Kyorin has no clearly established standards or policies regarding independence in the appointment of its outside directors and outside corporate auditors, appointments are decided based on a review of the individuals' backgrounds and relationship with Kyorin, and, from a standpoint independent from that of management, on the assumption that sufficient independence can be ensured that said individuals are able to adequately carry out their duties as outside directors and outside corporate auditors.

### ④ Independent Auditors

In accordance with the Corporation Law and the Financial Instruments and Exchange Law, we receive annual audits by Ernst & Young ShinNihon LLC. We benefit from its

valuable advice as an accounting auditing firm, as well as from its services as an auditor of our financial accounts.

The following certified public accountants performed the audit of KYORIN Holdings, Inc.: (Names of certified public accountants) Shigeyuki Amimoto, designated limited liability partner and engagement partner; and Hidemitsu Kato, designated limited liability partner and engagement partner.

A further 12 certified public accountants and 10 assistant accountants assisted with the audit.

The Board of Auditors provides a forum for close, regular exchange of information and opinions with the Internal Audit Office and the accounting auditing firm, thereby enhancing the auditing system.

#### 4. Overview of Personnel, Capital and Trading Relationships between the Company and the Outside Directors and Outside Auditors

None to report.

#### 5. Compensation of Directors and Corporate Auditors

In fiscal 2012, ended March 31, 2013, compensation paid to directors and corporate auditors was ¥200 million: ¥170 million to six directors (excluding outside directors), and ¥30 million to two corporate auditors (excluding outside corporate auditors).

There were no payments to directors corresponding to employee salaries.

Remuneration for outside auditors totaled ¥16 million for three auditors.

#### 6. Number of Directors

The number of directors is limited to 15 as set out in the Company's Articles of Incorporation.

#### 7. Conditions for Resolution on Appointments of Directors and Corporate Auditors

The Company's Articles of Incorporation stipulate that a resolution to appoint a director or corporate auditor must be made by the majority vote of attending shareholders

holding at least one-third of the voting rights of shareholders who are eligible to exercise voting rights.

#### 8. Ordinary General Shareholders' Meeting Matters that May Be Resolved by the Board of Directors

##### ① Acquisition of treasury stock

Pursuant to the provisions of Article 165, paragraph 2 of the Corporation Law of Japan, the Company's Articles of Incorporation stipulate that the Company may acquire treasury stock by resolution of the Board of Directors. The aim is to allow management to swiftly exercise capital policies as deemed appropriate in response to changes in the operating environment, by allowing the Company to acquire treasury stock through market transactions, etc.

##### ② Decision-making body for cash dividends from retained earnings

Pursuant to Article 459, paragraph 1 of the Corporation Law of Japan, and except where otherwise specified in a separate applicable legal or regulatory provision, the Company's Articles of Incorporation stipulate that cash dividends are to be decided by resolution of the Board of Directors, and not the ordinary general shareholders' meeting. The aim is to allow management to exercise capital policy as deemed appropriate.

#### 9. Requirements for Special Resolution by an Ordinary General Shareholders' Meeting

Pursuant to Article 309, paragraph 2 of the Corporation Law of Japan, the Company's Articles of Incorporation stipulate that special resolutions by an ordinary general shareholders' meeting must be passed by at least a two-thirds majority vote of attending shareholders holding at least one-third of the voting rights of shareholders eligible to exercise voting rights. The aim is to lower the required quorum for a special resolution of an ordinary general shareholders' meeting to facilitate the smooth operation of the meeting.

## Messages from Outside Directors



Outside Director  
Senji Ozaki

Through my many years in the food industry, I have worked closely with consumers, in addition to being involved in establishing and managing a joint venture company with foreign equity participation.

It is a great honor to be given the opportunity to use that experience in contributing to the enhancement of corporate value at KYORIN Holdings, Inc.

Management conditions in the pharmaceutical industry have seen significant changes, with increased globalization, healthcare system reforms, including drug tariff revisions, and the growth of generic drugs. Kyorin is currently working to diversify its healthcare business, centered on its pharmaceutical business, through the implementation of its HOPE100 long-term vision. As an outside director, I will bring new, independent ideas and principles to my participation in the Board of Directors' highly transparent, risk-managed decision making, responding to the needs and expectations of Kyorin's general shareholders and other stakeholders, making recommendations where needed and working to ensure the lasting growth of the Company. Looking ahead, I ask for the support of all shareholders in these endeavors.



Outside Director  
Noriyuki Shikanai

I feel extremely honored to be involved as an outside director with a firm responsible for assisting sustaining the world's health.

In my work as an attorney, I have interacted with a large number of both corporations and individual consumers, and I believe it is essential that companies—particularly pharmaceutical companies, with their important role in health—continue to grow based on the trust they gain from society.

From the standpoint of an outside director, I hope to contribute to highly transparent management in line with that objective.

Going forward, I ask for the kind support of the shareholders in that effort.

## Directors, Auditors, and Corporate Officers (As of June 25, 2013)



From the left: Masakatsu Komuro, Noriyuki Shikanai, Minoru Hogawa, Yutaka Ogihara, Masahiro Yamashita, Satoru Kanai, Mitsutomo Miyashita, Shigeru Ogihara, Tomiharu Matsumoto and Senji Ozaki

Representative Director,  
President  
and Chief Executive Officer  
**Masahiro Yamashita**

Executive Director  
**Mitsutomo Miyashita**  
KYORIN Pharmaceutical Co., Ltd.  
Representative Director, President and  
Chief Executive Officer

Senior Managing Director  
**Minoru Hogawa**  
Management Planning  
Finance & Accounting

Senior Executive Director  
**Tomiharu Matsumoto**  
General Affairs & Human Resources  
Legal, Compliance

Executive Director  
**Yutaka Ogihara**  
President's Office  
Corporate Communication  
Information System Management

Executive Director  
**Masakatsu Komuro**  
Intellectual Property

Executive Director  
**Satoru Kanai**  
KYORIN Medical Supply Co., Ltd.  
Representative Director, President and  
Chief Executive Officer

Executive Director  
**Shigeru Ogihara**  
KYORIN Rimedio Co., Ltd.  
Representative Director, President and  
Chief Executive Officer

Outside Director  
**Senji Ozaki**

Outside Director  
**Noriyuki Shikanai**

Senior Corporate  
Auditors  
**Seiyu Miyashita**  
**Shigeru Abe**

Outside Corporate  
Auditors  
**Masaji Obata**  
**Junji Honda**  
**Yasuyuki Hirota**

Senior Corporate  
Officers  
**Takayoshi Ishizaki**  
**Yoh Ito**

Corporate Officers  
**Masanori Masui**  
**Yoshiya Yoshida**

# Corporate Social Responsibility

The starting point of the Kyorin Group's corporate social responsibility (CSR) endeavors is its corporate philosophy, that is "to cherish life and benefit society by contributing to better health." For sustainable growth, Kyorin will prioritize building and maintaining trust-based relationships with medical professionals, customers, shareholders, investors, employees, business partners, and local communities. The Group will continue to work to realize that goal by providing trusted products and services, and by fulfilling its corporate social responsibility in the areas of environmental and industrial safety and hygiene through activities that contribute to health and society.

## Corporate Social Responsibility

In recognition of the importance of its corporate social responsibility, the Kyorin Group is enhancing its corporate ethical standards and putting in place a system of compliance in line with the approach set out below.

## Compliance Measures

### Basic policy

An enterprise should pursue profits through fair competition as an economic entity, and at the same time should be a force for the greater good of society.

Based on its corporate philosophy "to cherish life and benefit society by contributing to better health," the Kyorin Group will conduct its activities in every country based on a high standard of corporate ethics, respecting human rights and observing all laws, as well as standards of conduct and the spirit thereof.

### Measures

To ensure the Group's activities are based on a high standard of corporate ethics, the Company has built a compliance framework. It has updated the KYORIN Holdings Corporate Charter and its Compliance Guidelines to their current form in August 2010, and holds a Compliance Committee meeting once a month.

1. The KYORIN Holdings Corporate Charter was developed to specify matters of corporate ethics and compliance in accordance with our corporate philosophy, and serves as the starting point for our corporate activities.
2. The Compliance Guidelines complement the KYORIN Holdings Corporate Charter by clarifying the standards to be followed for sound and proper business activities.
3. In March 2006, the Compliance Committee was established to provide overall supervision of corporate ethics and compliance systems. Each Kyorin company has a compliance promotion manager who is responsible for the understanding and instilling of corporate ethics and compliance.

### Education and training

In-house training courses are conducted to promote understanding of and instill corporate ethics and compliance.

1. Compliance managers organize education and training courses on corporate ethics and compliance, which are conducted at each level of the organization on a Company wide basis, and run instructional activities for Company officers and employees.

2. Details relating to corporate ethics and compliance are incorporated into job function-specific training conducted by each division to promote understanding and instill a sense of ethics and awareness of compliance among employees.
3. Each November is designated as compliance enhancement month, during which time the Company works to tighten up on compliance at every level.

## Ongoing Environmental Initiatives

The main subsidiary of the Kyorin Group, KYORIN Pharmaceutical, is implementing the following activities on an ongoing basis. For details, please refer to the Environment and Workplace Safety and Health Report on the KYORIN Pharmaceutical Co., Ltd. website (Japanese only).

### 1. Preventing global warming

- Reduce the amount of fuel used by installing cogeneration systems and using smaller boilers
- Reduce power consumption by controlling air conditioning settings to 28°C in summer and 21°C in winter
- Use eco-cars and hybrid vehicles to improve fuel efficiency and reduce exhaust emissions

### 2. Reducing waste volume

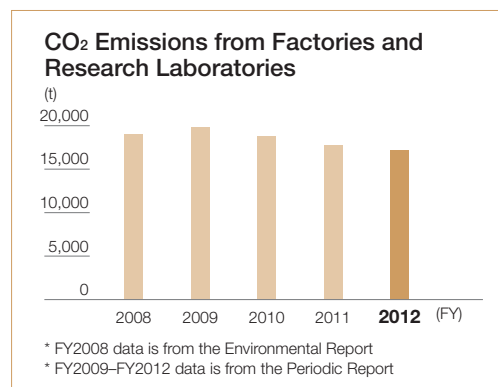
- Reduce waste emissions and promote recycling towards achieving zero final landfill, and introduce a negative carbon printing system

### 3. Managing chemical substances

- Manage substances covered by the Pollutant Release and Transfer Register (PRTR) Law, and evaluate methods for reducing amounts used and the use of alternatives

### 4. Preventing atmospheric pollution

- Measure and control the amounts of soot and smoke, nitrogen oxides (NOx) and sulfur oxides (SOx) emitted by boilers and generators



## 5. Preventing water pollution

- Process wastewater, including by primary processing plants, and management of pH, biochemical oxygen demand (BOD), and suspended solids (SS) levels

## 6. Preventing deforestation

- Recycle paper, use recycled paper, and promote a paperless office environment

## 7. Noise reduction

- Take steps to measure and manage noise levels

## 8. Preventing foul odors

- Remove odors by installing draft chambers and using scrubbers, etc.

## Measures Relating to Industrial Safety and Hygiene

In 2004, KYORIN Pharmaceutical obtained occupational health and safety management system certification (OHSAS 18001), and in 2005, consolidated its ISO 14001 and OHSAS 18001 measures. The subsidiary Rimedio Center of KYORIN Rimedio also obtained ISO 14001 certification in 2008 and OHSAS 18001 certification in 2009.

### 1. Rate and severity of work accidents

As a result of measures implemented to prevent work accidents, the frequency and severity of such accidents are much lower than the industry average. There have been no fatal accidents since the start of operations.

### 2. Vehicle accidents

Despite setting a target of a year-on-year reduction in the number of vehicular accidents per branch, in fiscal 2012 there were 212 accidents, slightly more than the previous year. To turn around this increasing trend in vehicle accidents, for fiscal 2013, the Kyorin Group is implementing various accident-prevention measures, incorporating both physical and systematic approaches.

## Risk Management Measures

Kyorin established a Risk Management Committee in order to prevent risks from materializing and deal with any risks that do materialize. Also, a risk management promotion officer has been appointed at each company to raise awareness relating to risk management.

## Social Contributions Activities

### 1. Local community activities

#### • Cherry blossom viewing party

The KYORIN Pharmaceutical Discovery Research Laboratories and Development Research Laboratories hold an annual party for viewing the blossoms of cherry trees that are more than 40 years old. As usual, this year's party had many participants. The occasion was also used as an opportunity to explain Kyorin's environmental and occupational safety activities.

#### • Summer evening parties

Each year, the KYORIN Pharmaceutical Development Research Laboratories and various plants hold summer evening parties to which local residents are invited. These are popular

events that provide an opportunity to further promote understanding of the Company's activities.

#### • Local cleanup activities

For more than ten years, the Okaya Plant has been a "foster parent" responsible for beautifying a section of the shore of Lake Suwa as part of the Lake Suwa Adoption Program. The plant received an award in recognition of these activities. Employees also help to keep the lakeside park clean.



Employees of the Noshiro Plant participate in voluntary activities to maintain the *Kaze-no-Matsubara*, a pine forest and recreational area that acts as a barrier protecting the locality from wind.

In our head office, employees participate on a voluntary basis in cleanup campaigns carried out twice a year by the local Chiyoda City authorities.

#### • Supporting sporting events

The Kyorin Group supports sporting events. Among these are the Shimotsuke Soccer Workshops for children, with former J-League players and other soccer athletes serving as instructors.

### 2. Employee voluntary community/

#### Health activities (Kyorin Smile Program)

The Kyorin Group is promoting the Kyorin Smile Program, a set of employee initiatives for making a contribution to society and people's health. The activities in this program include donating blood and fund-raising.

In fiscal 2012, the Kyorin Group donated a total of ¥110,484 contributed by employees to UNICEF. The Group also collected 2.8 kilograms of used stamps, which were donated to the Japanese Organization for International Cooperation in Family Planning (JOICFP). The stamps will be used to help fund White Ribbon Campaign activities aimed at protecting the lives of mothers and babies throughout the world.

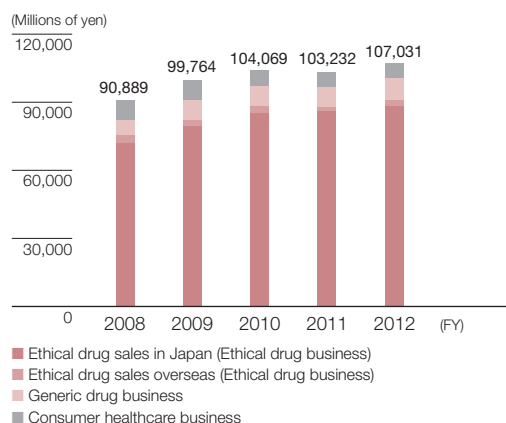
### 3. Support for recovery from the Great East Japan Earthquake

#### • Sunflower Project

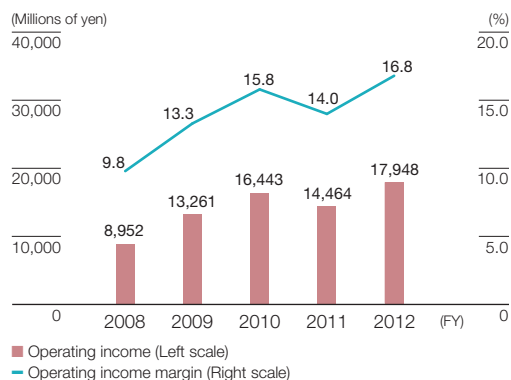
KYORIN Pharmaceutical Co., Ltd.'s Discovery Research Laboratories, Development Research Laboratories and Sendai Branch Office have been participating since 2011 in the Sunflower Project in which sunflower seedlings are grown and delivered to the areas afflicted by the Great East Japan Earthquake. We will continue these efforts with the aim of cheering up the locals with sunflowers as everyone works to achieve the region's recovery from the disaster as soon as possible.

# Financial Analysis

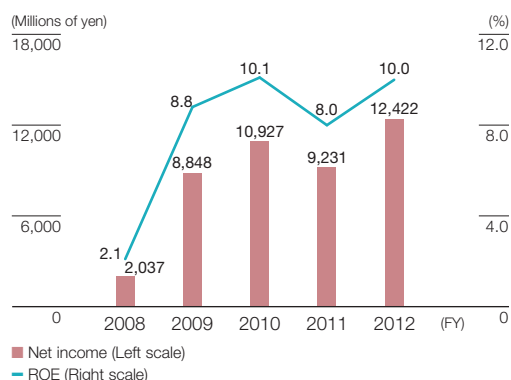
## Net sales



## Operating income and operating income margin



## Net income and ROE



## Business Overview

The Kyorin Group comprises KYORIN Pharmaceutical Co., Ltd., which is mainly involved with the R&D, manufacture and sales of pharmaceuticals; KYORIN Rimedio Co., Ltd., which mainly manufactures and sells generic drugs; Dr. Program Co., Ltd., which mainly develops and sells skincare products; KYORIN Medical Supply Co., Ltd., which is mainly involved in sales promotion, advertising planning and production, and the environmental hygiene business; and KYORIN Pharmaceutical Facilities Co., Ltd., which is mainly involved in contract manufacturing of third-party products. These five companies operate under the Group holding company, KYORIN Holdings, Inc. ("the Company"). As the Group's controlling company, KYORIN Holdings is responsible for the business strategies of the overall Group, and strives to efficiently allocate and utilize management resources.

## Industry Trends in Japan

In fiscal 2012, the Japanese economy remained pressured by lackluster internal and external demand against the backdrop of the yen's appreciation against major currencies and other developments. However, the economy started to show signs of a gradual recovery toward the end of the fiscal year, including rising stock prices following the yen's rapid depreciation accompanying changes in Japan's ruling party and monetary policy.

Under these circumstances, in the domestic pharmaceutical industry, where the core business of the Kyorin Group operates, the business environment became increasingly challenging as the Japanese government continued to implement various policies designed to curtail spending on drugs, including an official drug price reduction implemented in April 2012 (industry average: 6.0%; KYORIN Pharmaceutical: around 6.0%). The consumer healthcare business faced intensified competition among companies in a contracting market impacted by a slump in consumer spending and other factors.

## Consolidated Operating Results

### Net Sales

In fiscal 2012, overall net sales increased 3.7% year on year to ¥107,031 million, reaching an all-time high. Sales growth was driven by year-on-year increases in ethical drug and generic drug sales in the pharmaceutical business, despite lower sales in the consumer healthcare business.

With regard to the ethical drugs business in Japan, although there was the impact of an official drug price reduction implemented in April 2012, sales in existing businesses increased year on year and there were contributions to sales from the KYORIN Pharmaceutical Facilities Co., Ltd., which started business on October 1, 2012. As a result, segment sales rose to ¥88,286 million, up 2.7% year on year. Among our principal products, sales increased year on year for Kipres, a treatment for bronchial asthma and allergic rhinitis, and for Uritos, a treatment for overactive bladders. On the other hand, sales decreased year on year for Pentasa, a treatment for ulcerative colitis and Crohn's disease, and for Mucodyne, a mucoregulant.

In ethical drug sales overseas, income related to gatifloxacin ophthalmic solution (out-licensed to Allergan, Inc. (U.S.A.)), nudged down slightly year on year, but acquired sales income for the topical antifungal prescription drug Pekiron cream 0.5%, for which KYORIN Pharmaceutical Co., Ltd. received the transfer of assets on February 1, 2013, based on the assets transfer agreement for Pekiron cream concluded in October 2012 with Galderma S.A. (Head office: Switzerland). As a result, segment sales increased year on year by 19.1% to ¥2,400 million.

Sales for generic drugs increased 16.6% year on year to ¥10,095 million. There were increased sales to insurance dispensing pharmacies mainly due to the implementation of measures to promote the use of generic drugs since fiscal 2012, and increased sales for products manufactured under outsourcing contracts.

Sales in the nonprescription drugs, etc., business increased 9.8% year on year to ¥4,379 million. Sales of our core product, the Milton brand of baby bottle disinfectant, rose over the previous fiscal year, and sales of other products also increased.

As a result, net sales in the pharmaceutical business increased by 4.5% to ¥105,162 million. In the consumer healthcare business, sales declined 27.5% to ¥1,869 million. This business faces intensified competition among medical companies in a market with a contracting tendency due to the slump in consumer spending, and sales fell year on year at Dr. Program, which is engaged in a nanocapsule technology-based cosmetics business.

### Cost of Sales Ratio, SG&A Expenses, and Operating Income

The cost of sales ratio increased 1.7 percentage points year on year to 37.5%, mainly due to the impact of an official drug price reduction in Japan's National Health Insurance drug price list and the conversion into a consolidated subsidiary of KYORIN Pharmaceutical Facilities Co., Ltd., which is mainly involved in contract manufacturing of third-party products. Gross profit was up by ¥591 million year on year due to the increase in sales.

SG&A expenses decreased 5.6% year on year to ¥48,949 million, mainly attributable to a fall in R&D expenses of 20.8%, or ¥11,059 million. As a result, operating income increased 24.1% year on year to a record ¥17,948 million. The operating income margin rose 2.8 percentage points to 16.8%.

### Summary of Consolidated Statements of Income

	Millions of yen			
	FY2011	FY2012	YoY change	YoY change (%)
Net sales	103,232	107,031	3,798	3.7
Cost of sales	36,926	40,133	3,207	8.7
Gross profit	66,306	66,897	591	0.9
SG&A expenses	51,842	48,949	(2,892)	(5.6)
(R&D expenses)	13,964	11,059	(2,904)	(20.8)
Operating income	14,464	17,948	3,484	24.1
Other income	879	790	(88)	(10.1)
Other expenses	67	62	(5)	(8.5)
Income before income taxes	15,262	18,603	3,340	21.9
Net income	9,231	12,422	3,190	34.6

### Summary of Consolidated Statements of Comprehensive Income

	Millions of yen			
	FY2011	FY2012	YoY change	YoY change (%)
Income before minority interests	9,231	12,422	3,191	34.6
Total other comprehensive income	640	1,843	1,203	188.0
Comprehensive income	9,871	14,265	4,394	44.5

### Net Income and Net Income Per Share

Net income increased 34.6% year on year to ¥12,422 million. Net income per share increased ¥42.71 from the previous fiscal year to ¥166.25.

### Assets, Liabilities and Net Assets

At March 31, 2013, current assets had increased ¥8,414 million due to increases in notes and accounts receivable, and in short-term investments. The increases were partly offset by decreases in raw materials and supplies. Fixed assets rose ¥880 million mainly due to an increase in property, plant and equipment, despite declines in investment securities and deferred tax assets. As a result, total assets increased ¥9,295 million from a year earlier to ¥154,968 million.

Liabilities at year-end were down ¥1,603 million to ¥25,868 million from the previous year-end. This was mainly due to an increase in accrued income taxes, decreases in notes and accounts payable, short-term bank loans, and accrued retirement benefits for employees.

Net assets at year-end amounted to ¥129,099 million, up ¥10,898 million from a year ago. This was mainly attributable to increases in retained earnings and in unrealized holding gain on securities.

As a result, the shareholders' equity ratio at year-end was 83.3%, up 2.2 percentage points from the previous fiscal year-end.

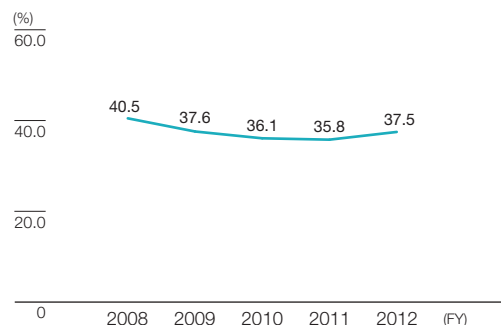
### Return on Equity (ROE)

The Kyorin Group has established net sales and operating income as its performance targets, with the aim of achieving sustainable growth. The Group recognizes that improving profitability and raising ROE is crucial to attaining those targets. In fiscal 2012, ROE was 10.0%, up 2.0 percentage points from the previous fiscal year.

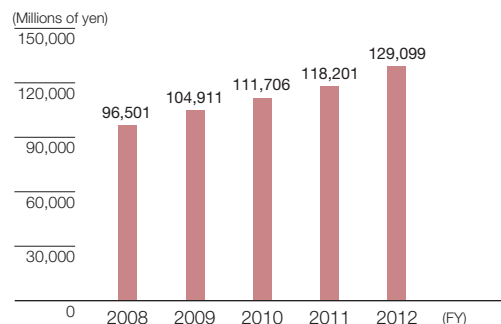
### Summary of Consolidated Balance Sheets

	Millions of yen			
	FY2011	FY2012	YoY change	YoY change (%)
Current assets	99,850	108,265	8,414	8.4
Fixed assets	45,822	46,702	880	1.9
Total assets	145,673	154,968	9,295	6.4
Current liabilities	23,385	22,897	(487)	(2.1)
Long-term liabilities	4,086	2,970	(1,115)	(27.3)
Total liabilities	27,471	25,868	(1,603)	(5.8)
Total shareholders' equity	117,931	126,985	9,054	7.7
Total accumulated other comprehensive income	269	2,113	1,843	685.5
Net assets	118,201	129,099	10,898	9.2
Total liabilities and net assets	145,673	154,968	9,295	6.4

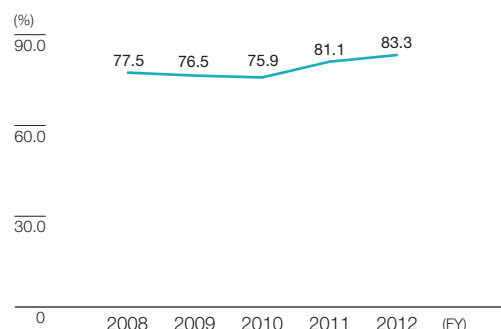
### Cost of sales ratio



### Net assets

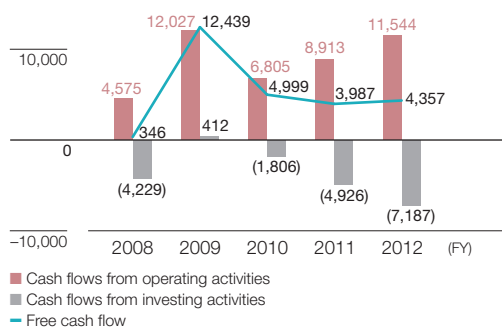


### Total shareholders' equity ratio



## Cash flows from operating activities, cash flows from investing activities, and free cash flow

(Millions of yen)  
20,000



## Cash Flows

Net cash provided by operating activities totaled ¥11,544 million. The main components were income before income taxes and minority interests of ¥18,603 million, depreciation and amortization of ¥2,738 million, a decrease in accrued retirement benefits for employees of ¥1,010 million, an increase in notes and accounts receivable of ¥1,480 million, a decrease in notes and accounts payable of ¥486 million, and income taxes paid of ¥4,623 million.

Net cash used in investing activities was ¥7,187 million. Cash was mainly used for payments for purchase of short-term investment of ¥5,995 million, payments for purchase of property, plant and equipment of ¥5,972 million, payments for purchase of investment securities of ¥3,501 million. On the other hand, cash was provided by proceeds from sales and redemption of short-term investments of ¥2,402 million, and proceeds from sales and redemption of investment securities of ¥6,853 million.

Net cash used in financing activities was ¥5,132 million, largely attributable to a net decrease in short-term loans of ¥1,675 million and payment of cash dividends of ¥3,357 million.

As a result, cash and cash equivalents at the end of the fiscal year were down ¥667 million year on year to ¥22,543 million.

Cash flows for the next fiscal year, the fiscal year ending March 31, 2014, are projected as follows. Investing activities are projected to use ¥4,500 million cash mainly for acquiring property, plant and equipment, including enhancing plant facilities. Financing activities are projected to use approximately ¥3,700 million for the payment of dividends, comprising ¥40.00 per share for the year-end dividend, and ¥10.00 per share for the interim dividend.

## Summary of Consolidated Statements of Cash Flows

	Millions of yen			
	FY2011	FY2012	YoY change	YoY change (%)
Cash provided by operating activities	8,913	11,544	2,631	29.5
Cash used in investing activities	(4,926)	(7,187)	(2,261)	(45.9)
Cash provided by (used in) financing activities	(7,412)	(5,132)	2,280	30.8
Cash and cash equivalents at end of year	23,210	22,543	(667)	(2.9)

## Outlook for Fiscal 2013

The outlook for the domestic pharmaceutical industry is expected to remain challenging mainly due to the fact that in Japan the authorities are continuing to debate about reforms to the drug pricing system. In consumer healthcare also, the situation as regards future business conditions remains obscure.

In this environment, the Kyorin Group will make every effort to achieve the targets prescribed by our medium-term business plan, HOPE100 Stage 1 (for fiscal 2010–2015).

Fiscal 2013 is the fourth year of this plan, and we will actively promote the plan's business strategies, including the acceleration of the Pharma Complex Model and the development of new consumer healthcare operations. Our ultimate goal here is to achieve sustainable growth and earn trust and improved assessments from all our stakeholders.

On the sales front, we are projecting record high sales mainly due to continuous growth of the bronchial asthma and allergic rhinitis treatment Kipres, and the overactive bladder (OAB) treatment Uritos, both primary products in the new drugs business, and to further increased sales of new drugs. Moreover, we anticipate sales expansion in the generic drugs business, and record through-year sales for KYORIN Pharmaceutical Facilities Co., Ltd. which started business in October 2012.

On the earnings front, the increased sales are expected to absorb the year-on-year increase in SG&A expenses (including a year-on-year increase of ¥1,000 million in R&D expenses to ¥12,100 million). As a result, we expect operating income to achieve a record high.

## Forecasts for Fiscal 2013

	Millions of yen		
	FY2012	FY2013	YoY change (%)
Net sales	107,031	113,000	5.6
Operating income	17,948	18,600	3.6
Net income	12,422	12,700	2.2



## Business Risks

We have described below the risk factors that could affect the business performance or financial health of the Group. Although the Group has taken organizational and systematic measures to minimize risk, the outline does not include every risk or variable that could affect its business.

### 1. Legal Regulations

Legal regulations in Japan, such as the Pharmaceutical Affairs Law, the National Health Insurance (NHI) system, NHI drug prices and laws in other countries can affect the Group's business. Every stage of our operations, including pharmaceutical development, production, import, and distribution, is regulated by various approval and licensing systems. Unforeseen substantial shifts in future healthcare administration policy could affect our business performance and financial health.

### 2. Pharmaceutical R&D

Ethical drug development requires substantial R&D investment over lengthy periods. Furthermore, the success rate is low for companies seeking to discover original compounds and bring pharmaceutical products to market. Currently, several of KYORIN Pharmaceutical Co., Ltd.'s ethical drugs are undergoing clinical trials. The clinical development of such drugs could be terminated as a consequence of various factors, such as unforeseeable side effects or failure to achieve intended results.

### 3. Increased Competition

The pharmaceutical industry is experiencing rapid technological change. Sales of the Group's principal products could be affected if a competitor developed and brought to market drugs that were more useful or produced the same effects.

### 4. NHI Drug Price Revisions

Japan's healthcare system, including National Health Insurance (NHI) drug prices, is being revised. When forecasting business results, the Kyorin Group does its best to predict and factor in the effects of such changes. Nevertheless, our performance could suffer as a result of greater than expected NHI drug price revisions or changes to the NHI system.

### 5. Side Effects

Information concerning the safety of new pharmaceuticals is based only on clinical trials using a limited number of subjects and therefore cannot eliminate the possibility of all side effects. If a drug in general use is found to have unknown and unreported side effects after its launch, its usage may be restricted or, in some cases, its sale could be discontinued.

### 6. Slowdowns or Delays in Production

Technical or regulatory problems, natural disasters and accidents, including fires, could cause slowdowns or delays in production or the cessation of operations, thereby affecting the Group's performance. Operations at the Noshiro Plant (Noshiro, Akita Prefecture, Japan) of Kyorin Group company KYORIN Pharmaceutical Co., Ltd. were not affected by the Great East Japan Earthquake that struck on March 11, 2011. No plant personnel were injured, and the plant itself sustained no physical damage from the disaster.

### 7. Pharmaceutical Recalls

If the Group's pharmaceuticals are shown to be defective due to contamination or other causes, they will be recalled. Such a situation would adversely affect the Group's business results.

### 8. Intellectual Property Protection

There is a risk that the Group may become unable to protect its intellectual property effectively in Japan or overseas. In this event, third parties could exploit the Group's technology and reduce demand for its principal products and related pharmaceuticals. If the Group's other activities are deemed to infringe on another company's patents or threaten its intellectual property rights relating to its products, the Group may become involved in legal disputes and have to terminate some business operations.

### 9. Lawsuits

The Group could become the subject of a lawsuit for alleged patent infringements, violations of the Product Liability Act or the Antimonopoly Act or as a result of environmental issues or labor disputes.

### 10. Exchange Rate Fluctuations

As the Group imports and exports pharmaceutical products, its sales are vulnerable to exchange rate fluctuations.

### 11. Cancellations of Tie-Up Agreements

The Group promotes strategic alliances to make efficient use of external capital. Through tie-up agreements with other pharmaceutical companies in and outside of Japan, the subsidiary allocates sales rights for some of its products and collaborates in sales, R&D, and other activities. A cancellation of these tie-up agreements for any reason could affect the forecast performance of the Group.

### 12. IT Security and Information Management

In the course of business operations the Group utilizes numerous IT systems. This means business operations are vulnerable to disruptions caused by system faults or outside causes such as computer viruses. Furthermore, the leakage of information could cause a loss of trust in the Group and materially affect the business performance of the Group.

# Consolidated Balance Sheet

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
As of March 31, 2013

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
<b>Assets</b>			
Current assets:			
Cash and cash in banks (Notes 4, 11 and 13)	¥ 21,370	¥ 21,615	\$ 227,365
Notes and accounts receivable (Note 11)	46,555	45,067	495,319
Short-term investments (Notes 5 and 11)	11,667	7,372	124,130
Inventories:			
Merchandise and finished goods	11,405	11,016	121,343
Work in process	837	632	8,905
Raw materials and supplies	7,694	9,089	81,860
Deferred tax assets (Note 14)	2,773	2,340	29,503
Other	6,013	2,774	63,975
Less allowance for doubtful accounts	(53)	(58)	(564)
<b>Total current assets</b>	<b>108,265</b>	<b>99,850</b>	<b>1,151,878</b>
Property, plant and equipment:			
Land	2,466	1,619	26,237
Buildings and structures (Note 13)	30,306	28,222	322,439
Machinery and vehicle	16,668	15,827	177,338
Leased assets (Note 10)	332	149	3,532
Construction in progress	1,071	39	11,395
Other (Note 13)	7,071	6,690	75,231
Less accumulated depreciation and impairment loss	(39,705)	(38,003)	(422,439)
<b>Property, plant and equipment, net</b>	<b>18,209</b>	<b>14,544</b>	<b>193,733</b>
Investments and other assets:			
Investment securities (Notes 5 and 11)	24,552	26,040	261,219
Long-term loans	19	24	202
Goodwill	64	192	681
Trademark	7	11	74
Deferred tax assets (Note 14)	1,438	3,144	15,299
Other	2,534	2,284	26,960
Less allowance for doubtful accounts	(123)	(421)	(1,309)
<b>Total investments and other assets</b>	<b>28,493</b>	<b>31,277</b>	<b>303,149</b>
<b>Total assets</b>	<b>¥154,968</b>	<b>¥145,673</b>	<b>\$1,648,771</b>

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Current liabilities:			
Notes and accounts payable (Note 11)	¥ 8,556	¥ 9,043	\$ 91,031
Short-term bank loans (Notes 6 and 11)	1,523	3,159	16,204
Lease obligations (Note 6)	81	39	862
Accrued income taxes (Note 14)	3,356	2,111	35,706
Accrued bonuses to employees	3,327	3,110	35,397
Reserve for sales returns	43	52	457
Provision for point card certificates	45	65	479
Other	5,962	5,802	63,432
Total current liabilities	22,897	23,385	243,611
Long-term liabilities:			
Long-term debt (Notes 6 and 11)	251	316	2,670
Lease obligations (Note 6)	184	45	1,958
Accrued retirement benefits for employees (Note 12)	1,938	2,949	20,619
Accrued retirement benefits for directors and corporate auditors	33	32	351
Other	562	743	5,979
Total long-term liabilities	2,970	4,086	31,599
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized—297,000,000 shares in 2013 and 2012			
Issued—74,947,628 shares in 2013 and 2012	700	700	7,448
Capital surplus	4,752	4,752	50,559
Retained earnings	121,856	112,797	1,296,478
Treasury stock, at cost:			
231,213 shares in 2013			
228,377 shares in 2012	(323)	(318)	(3,437)
Total shareholders' equity	126,985	117,931	1,351,048
Accumulated other comprehensive income:			
Unrealized holding gain on other securities	2,293	537	24,396
Translation adjustments	(180)	(267)	(1,915)
Total accumulated other comprehensive income	2,113	269	22,481
Total net assets	129,099	118,201	1,373,540
Total liabilities and net assets	¥154,968	¥145,673	\$1,648,771

See notes to consolidated financial statements.

## Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Net sales	¥107,031	¥103,232	\$1,138,749
Cost of sales	40,133	36,926	426,992
Gross profit	66,897	66,306	711,746
Selling, general and administrative expenses (Note 8)	48,949	51,842	520,789
Operating income	17,948	14,464	190,956
Other income (expenses):			
Interest and dividend income	308	340	3,277
Rent income	268	269	2,851
Interest expense	(38)	(48)	(404)
Equity in earnings of affiliates	39	26	415
Loss on investments in partnership	(17)	(17)	(181)
Loss on sales and retirement of property, plant and equipment, net (Note 9)	(98)	(5)	(1,043)
Gain on sales of investment securities, net (Note 5)	25	1	266
Loss on devaluation of investment securities	—	(7)	—
Other, net	168	242	1,787
Other income, net	655	800	6,969
Income before income taxes and minority interests	18,603	15,262	197,925
Income taxes (Note 14):			
Current	5,869	5,179	62,443
Deferred	312	851	3,320
Total income taxes	6,181	6,031	65,762
Income before minority interests	12,422	9,231	132,163
Net income	¥ 12,422	¥ 9,231	\$ 132,163

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Income before minority interests	¥12,422	¥9,231	\$132,163
Other comprehensive income (Note 15):			
Unrealized holding gain on other securities	1,738	672	18,491
Translation adjustments	87	(34)	926
Share of other comprehensive income of affiliates accounted for by the equity method	18	2	192
Total other comprehensive income	1,843	640	19,608
Comprehensive income	¥14,265	¥9,871	\$151,771
Total comprehensive income attributable to:			
Shareholders of KYORIN Holdings, Inc.	¥14,265	¥9,871	\$151,771
Minority interests	—	—	—

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2013

Millions of yen

	Number of shares issued (Common stock)	Shareholders' equity					Accumulated other comprehensive income			Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain (loss) on other securities	Translation adjustments	Total accumulated other comprehensive income	
Balance as of April 1, 2011	74,947,628	¥700	¥4,752	¥106,928	¥(304)	¥112,076	¥ (137)	¥(232)	¥ (370)	¥111,706
Cash dividends	—	—	—	(3,362)	—	(3,362)	—	—	—	(3,362)
Net income	—	—	—	9,231	—	9,231	—	—	—	9,231
Purchase of treasury stock	—	—	—	—	(13)	(13)	—	—	—	(13)
Other changes	—	—	—	—	—	—	674	(34)	640	640
Net changes during the year	—	—	—	5,868	(13)	5,854	674	(34)	640	6,494
Balance as of April 1, 2012	74,947,628	700	4,752	112,797	(318)	117,931	537	(267)	269	118,201
Cash dividends	—	—	—	(3,362)	—	(3,362)	—	—	—	(3,362)
Net income	—	—	—	12,422	—	12,422	—	—	—	12,422
Purchase of treasury stock	—	—	—	—	(4)	(4)	—	—	—	(4)
Other changes	—	—	—	—	—	—	1,756	87	1,843	1,843
Net changes during the year	—	—	—	9,059	(4)	9,054	1,756	87	1,843	10,898
Balance as of March 31, 2013	<b>74,947,628</b>	<b>¥700</b>	<b>¥4,752</b>	<b>¥121,856</b>	<b>¥(323)</b>	<b>¥126,985</b>	<b>¥2,293</b>	<b>¥(180)</b>	<b>¥2,113</b>	<b>¥129,099</b>

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					Accumulated other comprehensive income			Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Unrealized holding gain on other securities	Translation adjustments	Total accumulated other comprehensive income	
Balance as of April 1, 2012	\$7,448	\$50,559	\$1,200,096	\$(3,383)	\$1,254,719	\$ 5,713	\$(2,841)	\$ 2,862	\$1,257,591
Cash dividends	—	—	(35,770)	—	(35,770)	—	—	—	(35,770)
Net income	—	—	132,163	—	132,163	—	—	—	132,163
Purchase of treasury stock	—	—	—	(43)	(43)	—	—	—	(43)
Other changes	—	—	—	—	—	18,683	926	19,608	19,608
Net changes during the year	—	—	96,383	(43)	96,329	18,683	926	19,608	115,949
Balance as of March 31, 2013	<b>\$7,448</b>	<b>\$50,559</b>	<b>\$1,296,478</b>	<b>\$(3,437)</b>	<b>\$1,351,048</b>	<b>\$24,396</b>	<b>\$(1,915)</b>	<b>\$22,481</b>	<b>\$1,373,540</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
<b>Operating activities</b>			
Income before income taxes and minority interests	¥18,603	¥15,262	\$197,925
Depreciation and amortization	2,738	2,363	29,131
Amortization of goodwill	128	147	1,362
Decrease in allowance for doubtful accounts	(302)	(7)	(3,213)
Increase (decrease) in accrued bonuses to employees	211	(110)	2,245
Decrease in accrued retirement benefits for employees	(1,010)	(816)	(10,746)
Increase in accrued retirement benefits for directors and corporate auditors	1	8	11
Equity in earnings of affiliates	(39)	(26)	(415)
Interest and dividend income	(308)	(340)	(3,277)
Interest expense	38	48	404
Loss on sales and retirement of property, plant and equipment, net	98	5	1,043
Gain on sales of investment securities, net	(25)	(1)	(266)
Loss on devaluation of investment securities	—	7	—
Increase in notes and accounts receivable	(1,480)	(2,474)	(15,746)
Decrease (increase) in inventories	800	(374)	8,512
Decrease in notes and accounts payable	(486)	(1,809)	(5,171)
Decrease in consumption taxes payable	(144)	(238)	(1,532)
Other, net	(2,956)	3,451	(31,450)
Subtotal	15,865	15,098	168,795
Interest and dividend received	323	369	3,437
Interest paid	(21)	(48)	(223)
Income taxes paid	(4,623)	(6,505)	(49,186)
Net cash provided by operating activities	11,544	8,913	122,822
<b>Investing activities</b>			
Payments for time deposits	(1,328)	(822)	(14,129)
Proceeds from withdrawal of time deposits	1,139	1,057	12,118
Purchase of short-term investments	(5,995)	(799)	(63,783)
Proceeds from sales and redemption of short-term investments	2,402	—	25,556
Purchase of property, plant and equipment	(5,972)	(1,686)	(63,539)
Proceeds from sales of property, plant and equipment	0	25	0
Purchase of intangible assets	(344)	(357)	(3,660)
Purchase of investment securities	(3,501)	(7,427)	(37,249)
Proceeds from sales and redemption of investment securities	6,853	5,121	72,912
Other, net	(441)	(36)	(4,692)
Net cash used in investing activities	(7,187)	(4,926)	(76,466)
<b>Financing activities</b>			
Decrease in short-term bank loans, net	(1,675)	(3,840)	(17,821)
Repayments of lease obligations	(70)	(43)	(745)
Proceeds from long-term debt	360	200	3,830
Repayments of long-term debt	(386)	(328)	(4,107)
Redemption of bonds	—	(30)	—
Net increase in treasury stock	(2)	(12)	(21)
Cash dividends	(3,357)	(3,357)	(35,717)
Net cash used in financing activities	(5,132)	(7,412)	(54,602)
<b>Effects of exchange rate changes on cash and cash equivalents</b>	108	(29)	1,149
<b>Decrease in cash and cash equivalents</b>	(667)	(3,454)	(7,096)
<b>Cash and cash equivalents at beginning of year</b>	23,210	26,665	246,941
<b>Cash and cash equivalents at end of year (Note 4)</b>	¥22,543	¥23,210	\$239,845

See notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2013

## 1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of KYORIN Holdings, Inc. (the “Company”) and its domestic subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain reclassifications have been made in the 2012 consolidated financial statements to conform to the 2013 presentation. These reclassifications have no effect on consolidated net income and net assets.

## 2. Summary of Significant Accounting Policies

### *(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates*

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated balance sheets on an equity basis. All significant inter-company balances and transactions are eliminated in consolidation.

Investments in subsidiaries and affiliates, which are not consolidated or accounted for by the equity method, are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Among the consolidated subsidiaries, Kyorin USA, Inc., Kyorin Europe GmbH, and ActivX Biosciences, Inc. close their books of account at December 31 for financial reporting purposes. Their financial statements are used for preparing the consolidated financial statements, and necessary adjustments are made to the consolidated financial statements for any significant transactions between their balance sheet date (December 31) and the consolidated balance sheet date (March 31).

### *(b) Foreign Currency Translation*

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders’ equity, are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders’ equity are translated at their historical exchange rates. Translation adjustments are presented as a component of net assets in the accompanying consolidated balance sheets.

### *(c) Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, deposit with banks withdrawable on demand, and short-term investments which are readily convertible into cash and are subject to an insignificant risk of any changes in their value and which were purchased with original maturities of three months or less.

### *(d) Short-Term Investments and Investment Securities*

Securities other than equity securities issued by subsidiaries and an affiliate are classified into other securities. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

**(e) Inventories**

Merchandise and finished goods, work in process, raw materials, and some supplies (samples) are mainly stated at cost determined by the gross average method. These inventories with lower profitability are written down to their net realizable value. Supplies except for samples are stated at the last purchase price method.

**(f) Depreciation and Amortization (Except for Leased Assets)**

Depreciation of property, plant and equipment is calculated by the declining-balance method at rates based on the estimated useful lives of the respective assets. For buildings (excluding accompanying facilities) acquired on or after April 1, 1998, the straight-line method is used. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery and vehicle	4 to 17 years

Intangible assets are amortized by the straight-line method over their estimated useful lives. Computer software for internal use is capitalized and amortized by the straight-line method over the useful life of five years.

**(g) Leases**

Leased assets are initially accounted for at their acquisition costs and depreciated over the lease term by the straight-line method with no residual value. All finance leases are accounted for in the same manner as sales transaction. However, finance lease transactions that do not transfer ownership of the leased property to the lessee whose term commences on or before March 31, 2008 are still accounted for in a similar manner as operating lease transactions.

**(h) Amortization of Goodwill**

Goodwill is amortized over a period of 20 years or less on a straight-line basis except that when the amount is immaterial, it is fully charged to income as incurred.

**(i) Research and Development Expenses**

Research and development expenses are charged to income as incurred.

**(j) Income Taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the effective tax rates and laws which will be in effect when the differences are expected to reverse.

**(k) Retirement Benefits**

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the projected benefit obligation and the fair value of the pension plan assets at the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The expected benefit is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain or loss is amortized from the year following the year in which such gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees in the year such gain or loss occurs (10 years). Prior service cost is amortized as incurred by the straight-line method over the average remaining years of services of the employees in the year such cost occurs (10 years).

In addition, directors and corporate auditors of certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. Accrued retirement benefits for these directors and corporate auditors have been estimated in an amount required under the assumption that all directors and corporate auditors retired at the balance sheet date based on their policy.



*(l) Appropriation of Retained Earnings*

Appropriation of retained earnings with respect to a given financial period is made by resolution of the board of directors' meeting for dividend and resolution of the ordinary general shareholders' meeting for other appropriations (see Note 7).

*(m) Change in Depreciation Method*

Effective for the year ended March 31, 2013, due to the revision of the Corporation Tax Act, the Company and its domestic consolidated subsidiaries changed their depreciation method into the method based on the revised Corporation Tax Act for property, plant and equipment acquired on or after April 1, 2012. This change has little effect on profit or loss for the year ended March 31, 2013.

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥93.99 = U.S.\$1.00, the approximate rate of exchange on March 29, 2013. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2013 and 2012 for the consolidated statement of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and cash in banks	<b>¥21,370</b>	¥21,615	<b>\$227,365</b>
Short-term investments	<b>2,462</b>	2,662	<b>26,194</b>
Time deposits with a maturity over three months	<b>(1,289)</b>	(1,067)	<b>(13,714)</b>
Cash and cash equivalents	<b>¥22,543</b>	¥23,210	<b>\$239,845</b>

## 5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2013 and 2012 is as follows:

### Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 6,144	¥ 9,767	¥3,622	\$ 65,369	\$103,915	\$38,536
Debt securities:						
Government bonds	13,597	13,690	92	144,664	145,654	979
Corporate bonds	2,338	2,414	75	24,875	25,684	798
Other bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	22,081	25,871	3,790	234,929	275,253	40,323
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	1,042	935	(107)	11,086	9,948	(1,138)
Debt securities:						
Government bonds	6,400	6,378	(21)	68,092	67,858	(223)
Corporate bonds	1,000	993	(7)	10,639	10,565	(74)
Other bonds	1,200	1,054	(145)	12,767	11,214	(1,543)
Other	—	—	—	—	—	—
Subtotal	9,642	9,361	(281)	102,585	99,596	(2,990)
Total	¥31,724	¥35,233	¥3,509	\$337,525	\$ 374,859	\$37,334

	Millions of yen		
	2012		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 4,623	¥ 6,027	¥1,404
Debt securities:			
Government bonds	11,799	11,895	96
Corporate bonds	4,733	4,794	60
Other bonds	—	—	—
Other	18	19	0
Subtotal	21,175	22,736	1,561
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	2,062	1,692	(369)
Debt securities:			
Government bonds	5,799	5,768	(30)
Corporate bonds	1,300	1,254	(45)
Other bonds	1,200	914	(285)
Other	30	28	(2)
Subtotal	10,392	9,659	(733)
Total	¥31,567	¥32,395	¥ 828

Unlisted securities and other non-marketable securities are not included in the above schedules as their fair market values are extremely difficult to be determined. The amounts of these securities were ¥433 million (\$4,607 thousand) and ¥511 million as of March 31, 2013 and 2012, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds from sales	¥2,871	¥301	\$30,546
Gains on sales	25	1	266
Losses on sales	—	0	—

## 6. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans and the current portion of long-term debt and lease obligations as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term bank loans	¥1,180	¥2,855	\$12,555
Current portion of long-term debt	343	304	3,649
Current portion of lease obligations	81	39	862
Total	¥1,604	¥3,198	\$17,066

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2013 and 2012 are 0.6% and 0.9%, respectively.

Long-term debt as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Long-term debt, due through 2016 and 2015 at average interest rate of 0.7% and 1.6% in 2013 and 2012, respectively	¥ 594	¥ 620	\$ 6,320
Lease obligations due through 2022 and 2015 in 2013 and 2012, respectively	265	84	2,819
Current portion of long-term debt and lease obligations due within one year	(424)	(343)	(4,511)
Total	¥ 435	¥ 361	\$ 4,628

The annual maturities of long-term debt and lease obligations are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥424	\$4,511
2015	209	2,224
2016	137	1,458
2017	26	277
2018 and thereafter	63	670
Total	¥859	\$9,139

## 7. Shareholders' Equity

Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### *(a) Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. The board of directors may declare dividends (except for dividends-in-kind) if the company has prescribed so in its articles of incorporation for companies that meet certain criteria such as;

- (1) having the board of directors,
- (2) having independent auditors,
- (3) having the board of corporate auditors, and
- (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### *(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### *(c) Treasury Stock and Stock Option*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

## 8. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥11,059 million (\$117,661 thousand) and ¥13,964 million, respectively.

## 9. Gain (Loss) on Sales and Retirement of Property, Plant and Equipment, Net

Significant components of the gain (loss) on sales and retirement of property, plant and equipment, net for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain:			
Machinery and vehicle	¥ 0	¥ 0	\$ 0
Land	—	21	—
Other	0	—	0
	¥ 0	¥ 21	\$ 0
Loss:			
Buildings and structures	¥(13)	¥ (9)	\$ (138)
Machinery and vehicle	(66)	(1)	(702)
Other	(18)	(16)	(192)
	(98)	(27)	(1,043)
Total	¥(98)	¥ (5)	\$(1,043)

## 10. Leases

Leased assets principally consist of medical devices and system devices (machinery and vehicle) for the Pharmaceutical Business.

Pro forma information of the leased property whose term commences on or before March 31, 2008 and which does not transfer ownership of the leased property to the lessee on an “as if capitalized” basis as of March 31, 2013 and 2012 is as follows:

	Millions of yen			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	¥—	¥—	¥—	¥—
Other	—	—	—	—
Total	¥—	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	\$—	\$—	\$—	\$—
Other	—	—	—	—
Total	\$—	\$—	\$—	\$—

	Millions of yen			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and vehicle	¥1,065	¥ 985	¥232	¥80
Other	74	69	—	4
Total	¥1,140	¥1,055	¥232	¥85

For the years ended March 31, 2013 and 2012, lease payments relating to finance leases accounted for in a similar manner as operating lease transactions amounted to ¥317 million (\$3,373 thousand) and ¥213 million, respectively, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms assuming no residual value, reversal of accumulated impairment loss on leased assets amounted to ¥232 million (\$2,468 thousand) and ¥111 million, respectively, and related impairment losses amounted to none.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 on noncancelable operating leases and finance leases accounted for as rental transactions are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
2014	¥—	¥ 77	\$—	\$ 819
2015 and thereafter	—	384	—	4,086
Total	¥—	¥461	\$—	\$4,905
Accumulated impairment loss	¥—	¥ —	\$—	\$ —

## 11.

### Financial Instruments

#### *(a) Investment Policy of Financial Instruments*

The Company and its consolidated subsidiaries mainly operate funds by highly secured financial instruments such as deposits and highly rated bonds, ensuring their security and liquidity. The Company and its consolidated subsidiaries use bank loans as the prime source of financing, and no derivatives are used.

#### *(b) Details of Financial Instruments, Associated Risks and Risk Management*

Operating receivables such as notes and accounts receivable are exposed to credit risk. The Company and its consolidated subsidiaries, in accordance with internal rules, keep track of the adverse financial conditions of the customers from an early stage to mitigate the bad debt by monitoring the major customers' credit conditions periodically and managing the due date and balance per each customer. The Company and its consolidated subsidiaries mitigate foreign currency risk by utilizing foreign currency deposits for operating receivables denominated in foreign currencies and settling payables denominated in the same currencies through the deposits.

Short-term investments and investment securities mainly consist of highly rated bond securities and equity securities of companies with business relationships and are exposed to market risk and credit risk. The Company and its consolidated subsidiaries regularly review the fair value and issuers' financial condition to mitigate the risks.

Operating payables such as notes and accounts payable are mainly due within six months. Certain operating payables are denominated in foreign currencies.

Short-term bank loans are mainly used to finance operating capital, and long-term debts are mainly used to finance necessary funds for the capital investments and business expansion.

Operating payables and loans and debts are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing and updating the cash management plan periodically.

**(c) Supplemental Information on Fair Value of Financial Instruments**

As well as the values based on market prices, fair values of financial instruments include values, which are reasonably calculated in case market prices do not exist. As the calculation of those values includes variable factors, those values may vary in case different assumptions are applied.

Carrying values, fair values, and their differences of financial instruments as of March 31, 2013 and 2012 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 21,370	¥ 21,370	¥—	\$ 227,365	\$ 227,365	\$—
Notes and accounts receivable	46,555	46,555	—	495,319	495,319	—
Short-term investments and investment securities	35,233	35,233	—	374,859	374,859	—
Total assets	¥103,159	¥103,159	¥—	\$1,097,553	\$1,097,553	\$—
Notes and accounts payable	¥ 8,556	¥ 8,556	¥—	\$ 91,031	\$ 91,031	\$—
Total liabilities	¥ 8,556	¥ 8,556	¥—	\$ 91,031	\$ 91,031	\$—

	Millions of yen		
	2012		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥21,615	¥21,615	¥—
Notes and accounts receivable	45,067	45,067	—
Short-term investments and investment securities	32,395	32,395	—
Total assets	¥99,079	¥99,079	¥—
Notes and accounts payable	¥ 9,043	¥ 9,043	¥—
Total liabilities	¥ 9,043	¥ 9,043	¥—

Unlisted securities and others of ¥986 million (\$10,490 thousand) and ¥1,017 million whose fair values are extremely difficult to determine as of March 31, 2013 and 2012, respectively, are not included in the above tables.

Calculation method of fair value of financial instruments and information about securities are as follows:

**Cash and cash in banks and Notes and accounts receivable**

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

**Short-term investments and Investment securities**

Fair value of equity securities is based on the price on stock exchanges and that of bonds is based on the price on bond markets or the price presented by the counterparty financial institutions. Please see Note 5, Short-Term Investments and Investment Securities, for securities by classification.

**Notes and accounts payable**

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

The redemption schedule for monetary receivables and securities with maturities subsequent to March 31, 2013 is as follows:

	Millions of yen			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash in banks	¥21,370	¥ —	¥ —	¥ —
Notes and accounts receivable	46,555	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	¥10,000	¥6,000	¥4,000	¥ —
Bonds	1,600	300	1,000	500
Other	—	—	1,000	200
<b>Total</b>	<b>¥11,600</b>	<b>¥6,300</b>	<b>¥6,000</b>	<b>¥700</b>

	Thousands of U.S. dollars			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash in banks	\$227,365	\$ —	\$ —	\$ —
Notes and accounts receivable	495,319	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	\$106,394	\$63,837	\$42,558	\$ —
Bonds	17,023	3,192	10,639	5,320
Other	—	—	10,639	2,128
<b>Total</b>	<b>\$123,417</b>	<b>\$67,028</b>	<b>\$63,837</b>	<b>\$7,448</b>



## 12. Retirement Benefit Plans

The Company and its consolidated subsidiaries have defined benefit pension plans, defined contribution pension plans, and annuity in advance retirement severance plans, and certain domestic consolidated subsidiaries adopt lump-sum retirement plans and the Government Welfare Pension Fund Plan.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2013 and 2012 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(30,577)	¥(27,875)	\$ (325,322)
Plan assets at fair value	25,469	22,141	270,976
Unfunded retirement benefit obligation	(5,108)	(5,733)	(54,346)
Unrecognized actuarial gain or loss	3,219	2,862	34,248
Unrecognized prior service cost	(49)	(77)	(521)
Net retirement benefit obligation	(1,938)	(2,949)	(20,619)
Prepaid pension cost	—	—	—
Accrued retirement benefits for employees	¥ (1,938)	¥ (2,949)	\$ (20,619)

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 898	¥ 922	\$ 9,554
Interest cost	546	546	5,809
Expected return on plan assets	(659)	(619)	(7,011)
Amortization of actuarial gain or loss	413	509	4,394
Amortization of prior service cost	(28)	(28)	(298)
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	290	289	3,085
Total	¥1,461	¥1,619	\$15,544

The assumptions used in accounting for the above plans are as follows:

	2013	2012
Discount rates	1.3%	2.0%
Expected rate of return on plan assets	3.0%	3.0%

### 13. Pledged Assets

Assets pledged as collateral for guaranty deposits and plant mortgage as of March 31, 2013 and 2012 are as follows:

Assets pledged as collateral:	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
For guaranty deposits			
Cash and cash in banks	¥10	¥ 10	\$106
Total	¥10	¥ 10	\$106
For plant mortgage			
Buildings and structures	¥—	¥1,668	\$ —
Other	—	692	—
Total	¥—	¥2,360	\$ —

### 14. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued retirement benefits for employees	¥ 729	¥1,091	\$ 7,756
Accrued bonuses to employees	1,242	1,162	13,214
Allowance for doubtful accounts	54	158	575
Accrued enterprise tax	265	189	2,819
Loss on retirement of inventories	259	205	2,756
Loss on devaluation of investment securities	238	250	2,532
Loss on retirement of property, plant and equipment	909	918	9,671
Amortization of deferred assets	673	944	7,160
Asset adjustment account	—	222	—
Tax loss carryforward	590	342	6,277
Other	1,237	1,255	13,161
Subtotal	6,201	6,741	65,975
Valuation allowance	(698)	(909)	(7,426)
Total deferred tax assets	5,503	5,832	58,549
Deferred tax liabilities:			
Reserve for reduction entry of property, plant and equipment	(33)	(48)	(351)
Unrealized holding gain on other securities	(1,250)	(290)	(13,299)
Other	(7)	(8)	(74)
Total deferred tax liabilities	(1,291)	(347)	(13,736)
Net deferred tax assets	¥ 4,212	¥5,484	\$ 44,813

Taxes on income consist of corporate, inhabitants and enterprise taxes. Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2013 is as follows:

	2013
Statutory tax rate	38.0%
Entertainment expenses and others that are not tax deductible permanently	2.1
Inhabitants' per capita taxes	0.4
Tax credits for research and development expenses	(4.5)
Valuation allowance	(1.5)
Internal profit elimination	(0.5)
Other	(0.9)
Effective tax rate	33.2%

Information on reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2012 is not disclosed as their difference was less than 5% of the statutory tax rate for the year ended March 31, 2012.

## 15.

### Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized holding gain on other securities:			
Gain arising during the year	¥2,724	¥1,066	\$ 28,982
Reclassification adjustments	(25)	0	(266)
Before income tax effects	2,698	1,066	28,705
Income tax effects	(960)	(393)	(10,214)
Unrealized holding gain on other securities	1,738	672	18,491
Translation adjustments:			
Adjustments arising during the year	87	(34)	926
Share of other comprehensive income of associates accounted for using equity method:			
Gain arising during the year	18	2	192
Total other comprehensive income	¥1,843	¥ 640	\$ 19,608

## 16.

### Segment Information

#### (a) Overview of Reportable Segments

The Company's reportable segments are those for which separate financial information is available and regular examination by the board of directors is performed in order to decide how resources are allocated among the Company and evaluate their performance.

The Company has two reportable segments, the Pharmaceutical Business and the Consumer Healthcare (Skincare) Business, which are classified based on similarities in the products and services.

The Pharmaceutical Business mainly produces, sells, and purchases ethical drugs, generic drugs and over-the-counter drugs. The Consumer Healthcare (Skincare) Business mainly sells and purchases skincare products.

*(b) Method of Calculating Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment*

Accounting policies of the reportable segments are consistent to those described in Note 2, Summary of Significant Accounting Policies.

Segment profit is based on operating income.

Inter-segment transactions are based on prevailing market price.

(Change in depreciation method)

Effective for the year ended March 31, 2013, due to the revision of the Corporation Tax Act, the Company and its domestic consolidated subsidiaries changed their depreciation method into the method based on the revised Corporation Tax Act for the property, plant and equipment acquired on or after April 1, 2012. This change has little effect on segment profit or loss for the year ended March 31, 2013.

*(c) Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment*

	Millions of yen				
	2013				
	Reportable segment			Adjustments	Consolidated
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total		
Net sales:					
Sales to third parties	¥105,162	¥1,869	¥107,031	¥ —	¥107,031
Inter-segment sales or transfers	39	0	40	(40)	—
Total	¥105,202	¥1,869	¥107,071	¥(40)	¥107,031
Segment profit (loss)	¥ 17,963	¥ (200)	¥ 17,762	¥185	¥ 17,948
Segment assets	¥138,700	¥ 752	¥139,452	¥15,515	¥154,968
Other items:					
Depreciation and amortization	¥ 2,556	¥35	¥ 2,592	¥ 146	¥ 2,738
Amortization of goodwill	128	—	128	—	128
Investments in associates accounted for using equity method	552	—	552	—	552
Increase in property, plant and equipment and intangible assets	5,533	23	5,557	1,081	6,638

Thousands of U.S. dollars					
2013					
	Reportable segment			Adjustments	Consolidated
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total		
Net sales:					
Sales to third parties	\$1,118,864	\$19,885	\$1,138,749	\$ —	\$1,138,749
Inter-segment sales or transfers	415	0	426	(426)	—
Total	\$1,119,289	\$19,885	\$1,139,174	\$ (426)	\$1,138,749
Segment profit (loss)	\$ 191,116	\$ (2,128)	\$ 188,978	\$ 1,968	\$ 190,956
Segment assets	\$1,475,689	\$ 8,001	\$1,483,690	\$165,071	\$1,648,771
Other items:					
Depreciation and amortization	\$ 27,194	\$ 372	\$ 27,577	\$ 1,553	\$ 29,131
Amortization of goodwill	1,362	—	1,362	—	1,362
Investments in associates accounted for using equity method	5,873	—	5,873	—	5,873
Increase in property, plant and equipment and intangible assets	58,868	245	59,123	11,501	70,625

Millions of yen					
2012					
	Reportable segment			Adjustments	Consolidated
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total		
Net sales:					
Sales to third parties	¥100,654	¥2,577	¥103,232	¥ —	¥103,232
Inter-segment sales or transfers	65	1	66	(66)	—
Total	¥100,720	¥2,578	¥103,299	¥ (66)	¥103,232
Segment profit	¥ 14,218	¥ 52	¥ 14,270	¥ 193	¥ 14,464
Segment assets	¥134,354	¥ 968	¥135,322	¥10,350	¥145,673
Other items:					
Depreciation and amortization	¥ 2,214	¥ 34	¥ 2,248	¥ 115	¥ 2,363
Amortization of goodwill	147	—	147	—	147
Investments in associates accounted for using equity method	505	—	505	—	505
Increase in property, plant and equipment and intangible assets	1,868	15	1,884	163	2,048

1. "Adjustments" for "Segment profit (loss)" of ¥185 million (\$1,968 thousand) and ¥193 million for the years ended March 31, 2013 and 2012, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥15,515 million (\$165,071 thousand) and ¥10,350 million as of March 31, 2013 and 2012, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥146 million (\$1,553 thousand) and ¥115 million for the years ended March 31, 2013 and 2012, respectively, were depreciation of property, plant and equipment and intangible assets of the Company.
4. "Adjustments" for "Increase in property, plant and equipment and intangible assets" of ¥1,081 million (\$11,501 thousand) and ¥163 million for the years ended March 31, 2013 and 2012, respectively, were increase in property, plant and equipment and intangible assets of the Company.
5. "Segment profit (loss)" is adjusted to operating income disclosed in the accompanying consolidated statements of income.

(Related Information)

*(a) Information by Product and Service*

Information by product and service is omitted since the classification by product and service was the same as the reportable segment for the years ended March 31, 2013 and 2012.

*(b) Information by Geographical Area*

**(1) Sales**

Information about sales by geographical area is omitted for the years ended March 31, 2013 and 2012, since domestic sales were more than 90% of net sales on the consolidated statements of income.

**(2) Property, plant and equipment**

Information about property, plant and equipment by geographical area is omitted for the years ended March 31, 2013 and 2012, since property, plant and equipment in Japan constituted more than 90% of property, plant and equipment on the consolidated balance sheets.

*(c) Information by Major Customer for the Years Ended March 31, 2013 and 2012*

Name of customer	Millions of yen	
	Sales amount	Related segments
Alfresa Corporation	<b>¥19,437</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>17,763</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>15,918</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>14,483</b>	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

Name of customer	Thousands of U.S. dollars	
	Sales amount	Related segments
Alfresa Corporation	<b>\$206,799</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>188,988</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>169,358</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>154,091</b>	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

Name of customer	Millions of yen	
	Sales amount	Related segments
Alfresa Corporation	¥18,405	Pharmaceutical Business
SUZUKEN CO., LTD.	17,141	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	15,504	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	13,795	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

*(d) Information about Amortization and Unamortized Balance of Goodwill by Reportable Segment*

	Millions of yen			
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	2013 Total
Balance as of March 31, 2013	¥64	—	—	¥64

	Thousands of U.S. dollars			
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	2013 Total
Balance as of March 31, 2013	\$681	—	—	\$681

	Millions of yen			
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Eliminations	2012 Total
Balance as of March 31, 2012	¥192	—	—	¥192

Information about amortization of goodwill by reportable segment for the years ended March 31, 2013 and 2012 is omitted since the information is disclosed under “(c) Information about net sales, profit (loss), assets and other items by reportable segment” in this section.

## 17. Contingent Liabilities

Contingent liabilities as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Guarantors of indebtedness of employees	¥2	¥4	\$21

## 18. Amounts per Share

Amounts per share for the years ended March 31, 2013 and 2012 are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Basic net income	¥ 166.25	¥ 123.54	\$ 1.77
Cash dividends	50.00	45.00	0.53
Net assets	1,727.86	1,581.94	18.38

Basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is omitted because no potentially dilutive shares were outstanding during the years ended March 31, 2013 and 2012.

Cash dividends per share represent the cash dividends applicable to the year.

The amount per share of net assets is computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year-end.

## 19. Subsequent Events

There are no relevant items.



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## Independent Auditor's Report

The Board of Directors  
KYORIN Holdings, Inc.

We have audited the accompanying consolidated financial statements of KYORIN Holdings, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KYORIN Holdings, Inc. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

June 26, 2013



## Non-consolidated Financial Summary

# Non-consolidated Balance Sheet

KYORIN Holdings, Inc.  
As of March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Assets</b>			
<b>Current assets</b>	<b>¥14,938</b>	<b>¥ 9,140</b>	<b>\$ 158,932</b>
Cash and deposits	10,112	8,259	107,586
Prepaid expenses	79	66	841
Income taxes receivable	2,584	668	27,492
Short-term loans	2,000	—	21,279
Deferred tax assets	138	133	1,468
Other	22	12	234
<b>Noncurrent assets</b>	<b>84,649</b>	<b>80,958</b>	<b>900,617</b>
Property, plant and equipment	871	245	9,267
Intangible assets	512	198	5,447
Investments and other assets	83,265	80,514	885,892
<b>Total assets</b>	<b>99,587</b>	<b>90,099</b>	<b>1,059,549</b>
<b>Liabilities</b>			
<b>Current liabilities</b>	<b>466</b>	<b>586</b>	<b>4,958</b>
<b>Non-current liabilities</b>	<b>7</b>	<b>8</b>	<b>75</b>
<b>Total liabilities</b>	<b>474</b>	<b>594</b>	<b>5,043</b>
<b>Net assets</b>			
Shareholders' equity	99,112	89,504	1,054,495
<b>Total net assets</b>	<b>99,112</b>	<b>89,504</b>	<b>1,054,495</b>
<b>Total liabilities and net assets</b>	<b>99,587</b>	<b>90,099</b>	<b>1,059,549</b>

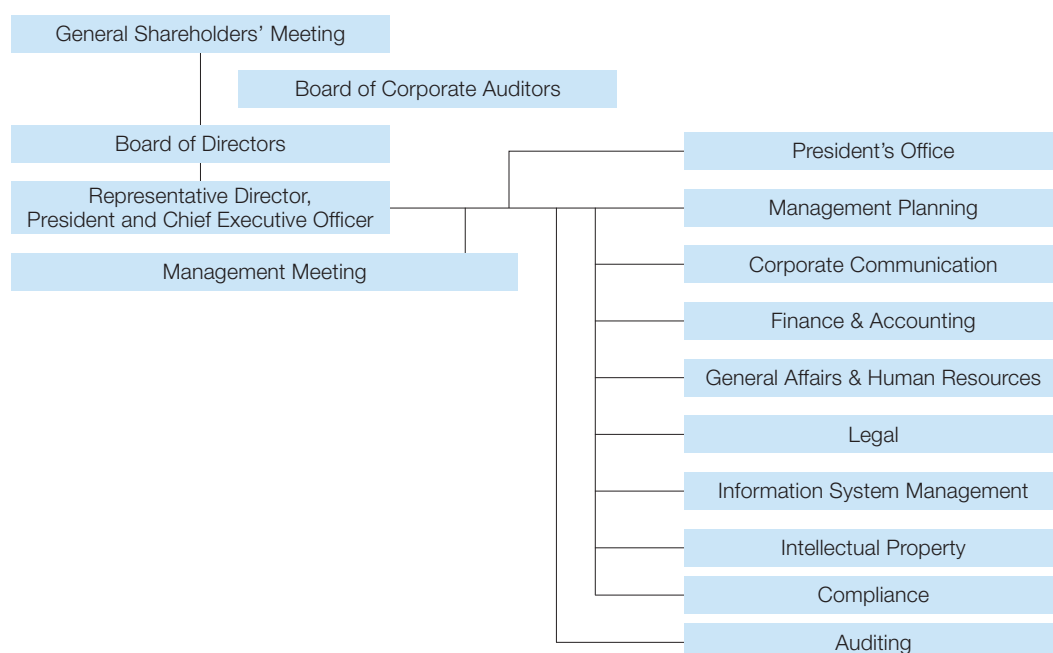
## Non-consolidated Statement of Income

KYORIN Holdings, Inc.  
For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Operating revenue</b>	<b>¥15,654</b>	<b>¥6,139</b>	<b>\$166,550</b>
Operating expenses	2,476	2,650	26,343
<b>Operating income</b>	<b>13,178</b>	<b>3,489</b>	<b>140,206</b>
Non operating income	38	33	404
<b>Ordinary income</b>	<b>13,126</b>	<b>3,523</b>	<b>139,653</b>
Extraordinary income	—	—	—
Extraordinary loss	185	7	1,968
<b>Income before income taxes</b>	<b>13,031</b>	<b>3,515</b>	<b>138,642</b>
Income taxes—current	27	3	287
Income taxes—deferred	29	97	308
<b>Net income</b>	<b>12,973</b>	<b>3,414</b>	<b>138,025</b>

Note: The rate of ¥93.99 to U.S.\$1.00, prevailing on March 29, 2013, has been used for translation into U.S. dollar amounts.

## Organization Chart (As of June 25, 2013)



## Subsidiaries and Affiliates (As of July 2013)

### Consolidated Subsidiaries

#### KYORIN Pharmaceutical Co., Ltd.

Capital: ¥4,317 million  
 Percentage of ownership: 100%  
 Head office: 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311  
 Operations: Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals

#### KYORIN Medical Supply Co., Ltd.

Capital: ¥488 million  
 Percentage of ownership: 100%  
 Head office: Kyorin Nishi-Shinjuku Building, 25-13, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-0023  
 Operations: Sales promotion, planning and production of advertising, etc.

#### KYORIN Rimedio Co., Ltd.

Capital: ¥1,200 million  
 Percentage of ownership: 100%  
 Head office: 287-1, Shimocho Moroe-cho, Kanazawa-shi, Ishikawa 920-0017  
 Operations: Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals

#### Dr. Program Co., Ltd.

Capital: ¥251 million  
 Percentage of ownership: 100%  
 Head office: Kyorin Nishi-Shinjuku Building, 25-13, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-0023  
 Operations: Development and sales of skincare products

#### KYORIN Pharmaceutical Facilities Co., Ltd.

Capital: ¥450 million  
 Percentage of ownership: 100%  
 Head office: 1-4 Sasagaoka, Minakuchi-cho, Koka, Shiga 528-0061  
 Operations: Manufacture and sales of prescription medicines

### KYORIN Pharmaceutical Co., Ltd. Subsidiaries

#### Kyorin USA, Inc.

Capital: US\$500,000  
 Percentage of ownership: 100%  
 Head office: 500 Frank W. Burr Boulevard, Teaneck, New Jersey 07666, United States  
 Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials

#### Kyorin Europe GmbH

Capital: €50,000  
 Percentage of ownership: 100%  
 Head office: Kaiserstrasse 8, 60311 Frankfurt am Main, Germany  
 Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials

#### ActivX Biosciences, Inc.

Capital: US\$1  
 Percentage of ownership: 100%  
 Head office: 11025 N. Torrey Pines Rd., La Jolla, California 92037, United States  
 Operations: Discovery and evaluation of candidate compounds

### Equity-method Affiliates

#### Nippon Rika Co., Ltd.

Capital: ¥411 million  
 Percentage of ownership: 29.2%  
 Head office: 2-2, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo 103-0023  
 Operations: Production and sales of pharmaceuticals, reagents, intermediates, and other products

## Corporate Information (As of March 31, 2013)

<b>KYORIN Holdings, Inc.</b>	Head Office 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3525-4700 URL: <a href="http://www.kyorin-gr.co.jp/en/">http://www.kyorin-gr.co.jp/en/</a>																						
<b>Establishment</b>	1958																						
<b>Common Stock</b>	¥700 million																						
<b>Outstanding Shares</b>	74,947,628																						
<b>Shareholders</b>	5,276																						
<b>Major Shareholders</b>	<table><thead><tr><th></th><th>Percentage of total shares outstanding</th></tr></thead><tbody><tr><td>Apricot Co., Ltd.</td><td>6.67%</td></tr><tr><td>Japan Trustee Services Bank, Ltd. (Trust Account)</td><td>4.91%</td></tr><tr><td>Yoshiko Ogihara</td><td>3.90%</td></tr><tr><td>Tsurukame Co., Ltd.</td><td>3.86%</td></tr><tr><td>Mykam Co., Ltd.</td><td>3.66%</td></tr><tr><td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td><td>3.53%</td></tr><tr><td>Hiroko Ogihara</td><td>3.00%</td></tr><tr><td>Minoru Ogihara</td><td>2.97%</td></tr><tr><td>Banrina Co., Ltd.</td><td>2.60%</td></tr><tr><td>Archans Co., Ltd.</td><td>2.60%</td></tr></tbody></table>		Percentage of total shares outstanding	Apricot Co., Ltd.	6.67%	Japan Trustee Services Bank, Ltd. (Trust Account)	4.91%	Yoshiko Ogihara	3.90%	Tsurukame Co., Ltd.	3.86%	Mykam Co., Ltd.	3.66%	The Master Trust Bank of Japan, Ltd. (Trust Account)	3.53%	Hiroko Ogihara	3.00%	Minoru Ogihara	2.97%	Banrina Co., Ltd.	2.60%	Archans Co., Ltd.	2.60%
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<b>Listing</b>	Tokyo Stock Exchange, First Section																						
<b>Transfer Agent</b>	Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028 Phone: +81-3-3278-8111																						

### Disclaimer Regarding Forward-looking Statements

Statements made in this annual report with respect to KYORIN Holdings, Inc.'s forecasts, plans, strategies and other statements other than those of historical facts are forward-looking statements about the future performance of the Company and its consolidated subsidiaries and are based on management's rational assumptions and beliefs in light of information currently available. As a consequence, readers should understand that, for a variety of reasons, actual results could differ materially from projections presented in this report. Key factors that could impact our results include, but are not limited to, economic conditions, social trends, competition from rival companies, laws and regulations, uncertainties in drug development and exchange rate fluctuations.



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