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ANNUAL REPORT 2014  
Year ended March 31, 2014

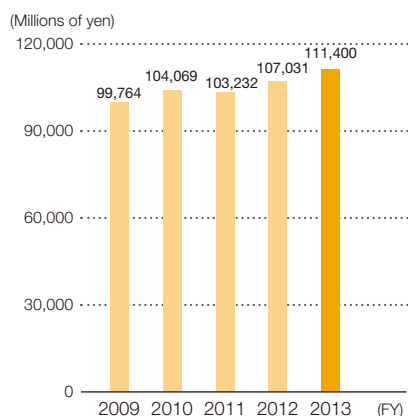
# Consolidated Financial Highlights

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

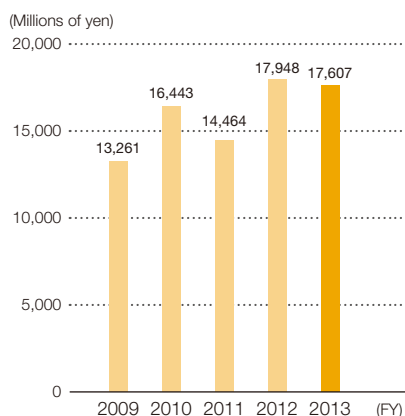
	Millions of yen				
	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Results of Operations</b>					
Net sales	99,764	104,069	103,232	107,031	<b>111,400</b>
Operating income	13,261	16,443	14,464	17,948	<b>17,607</b>
Operating income/Net sales ratio (%)	13.3	15.8	14.0	16.8	<b>15.8</b>
Net income	8,848	10,927	9,231	12,422	<b>12,025</b>
Net income/Net sales ratio (%)	8.9	10.5	8.9	11.6	<b>10.8</b>
Net cash provided by operating activities	12,027	6,805	8,913	11,544	<b>19,293</b>
Net cash used in investing activities	412	(1,806)	(4,926)	(7,187)	<b>(2,477)</b>
Free cash flow	12,439	4,999	3,987	4,357	<b>16,816</b>
R&D expenses	11,807	12,495	13,964	11,059	<b>11,359</b>
R&D expenses/Net sales ratio (%)	11.8	12.0	13.5	10.3	<b>10.2</b>
Capital expenditure	1,291	1,668	1,952	6,576	<b>6,500</b>
Depreciation and amortization	2,810	2,458	2,363	2,738	<b>3,153</b>
ROE (%)	8.8	10.1	8.0	10.0	<b>9.0</b>
ROA (%)	6.8	7.7	6.3	8.3	<b>7.4</b>
<b>Financial Position at Year-end</b>					
Total assets	137,190	147,234	145,673	154,968	<b>169,378</b>
Total net assets	104,911	111,706	118,201	129,099	<b>137,821</b>
Total shareholders' equity ratio (%)	76.5	75.9	81.1	83.3	<b>81.4</b>
Yen					
<b>Amounts per Share</b>					
Net assets	1,403.60	1,494.83	1,581.94	1,727.86	<b>1,844.61</b>
Basic net income	118.37	146.21	123.54	166.25	<b>160.95</b>
Cash dividends	50.00	45.00	45.00	50.00	<b>52.00</b>
Cash dividends payout ratio (%)	42.2	30.8	36.4	30.1	<b>32.3</b>
Number of employees	2,246	2,294	2,297	2,444	<b>2,452</b>

<b>Net sales</b>	Overall net sales increased 4.1% year on year to ¥111.4 billion, 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.
<b>Operating income</b>	Operating income amounted to ¥17.6 billion, down 1.9% year on year. Among the main factors behind this decline was a year-on-year increase in gross profit of ¥1.5 billion in line with higher sales, although the cost-of-sales ratio rose 1.1 percentage points, due to the increased sales weight of generic drugs and of KYORIN Pharmaceutical Facilities Co., Ltd. Another factor was that selling, general and administrative (SG&A) expenses increased, up 3.7% from the previous year.
<b>Net income</b>	Net income decreased 3.2% year on year to ¥12.0 billion.
<b>ROE (Return on Equity)</b>	9.0%, declining 1.0 percentage point year on year.

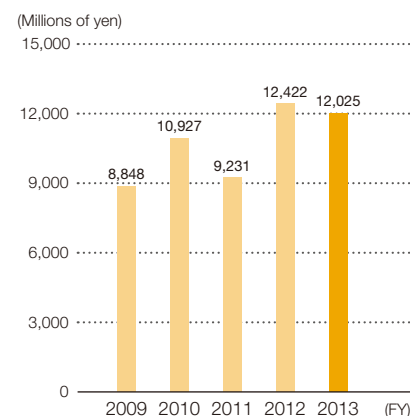
### Net sales



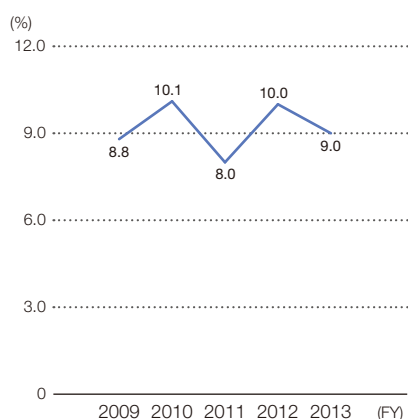
### Operating income



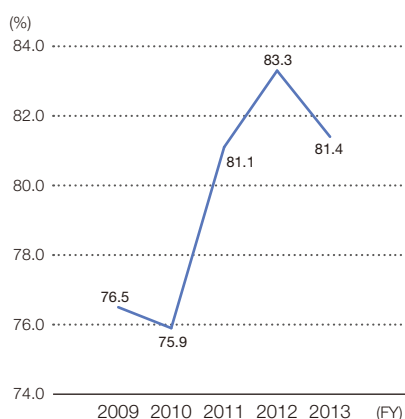
### Net income



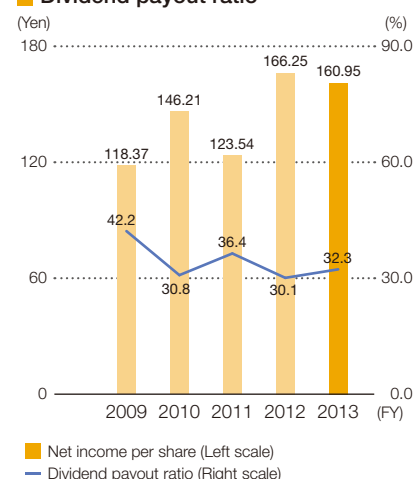
### ROE



### Total shareholders' equity ratio



### Net income per share/ Dividend payout ratio



## Contents

01	Inside Cover .... Consolidated Financial Highlights	28	Financial Information
02	Corporate History	28	Financial Analysis
04	To Our Stakeholders	32	Consolidated Balance Sheet
10	Feature: Value Creation Through Collaboration	34	Consolidated Statement of Income/ Consolidated Statement of Comprehensive Income
18	Our Presence in Specific Fields	35	Consolidated Statement of Changes in Net Assets
19	Alliances	36	Consolidated Statement of Cash Flows
20	Main Products	37	Notes to the Consolidated Financial Statements
21	Products under Development	54	Independent Auditor's Report
22	Corporate Governance	55	Non-consolidated Financial Summary Non-consolidated Balance Sheet/ Non-consolidated Statement of Income
25	Directors, Auditors, and Corporate Officers	56	Corporate Overview/Stock Information
26	Corporate Social Responsibility		

## [About Us]

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.

### 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

## [Corporate History]

### 1923

#### 1923

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



#### 1931

Kyorin Chemical Laboratory was established.

#### 1940

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

#### 1946

The Okaya Plant was started.

#### 1957

The medical journal bulletin *Doctor Salon* was started.

#### 1961

Behyd, a diuretic and antihypertensive agent, was launched.

#### 1962

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

#### 1965

KYORIN AP-2, an analgesic, was launched.

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

The Head Office was completed.

#### 1967

The Nogi Plant was started (now closed).

#### 1971

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

#### 1974

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

#### 1976

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

#### 1977

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



#### 1980

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

#### 1981

Mucodyne, a mucoregulant, was launched.

#### 1982

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

#### 1983

Norfloxacin (NFLX) was licensed to American Home Products (U.S.A., present Pfizer).

#### 1984

Baccidal (NFLX), a broadspectrum oral antibacterial agent, was launched.

#### 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

Ketas, for bronchial asthma and cerebrovascular disorders, was launched.

Baccidal Eyedrops, a broadspectrum ophthalmic antibacterial agent, was launched.

#### 1991

Baccidal Tablets for Children was launched.

#### 1992

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

#### 1993

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

#### 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

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

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

#### 1999

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

## Origin of the Name “Kyorin”

The name Kyorin originated from two Chinese characters that represent a truly virtuous way of practicing medicine. It is derived from Chinese folklore, and embodies the Kyorin Group's aspirations to continuously contribute to the betterment of people's health in any day and age.

### [Kyorin Legend]

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.



## 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.

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.

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 Neramexane, 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 Acclidinium, 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. and established 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 Ochanomizu sola city in Kanda Surugadai.

Pentasa Suppositories 1 g, a treatment for ulcerative colitis, was launched.

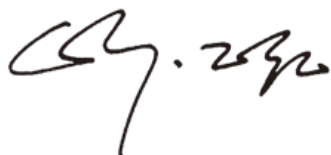
Flutiform, a combination drug for asthma treatment, was launched.

## To Our Stakeholders

Based on its corporate philosophy “to cherish life and benefit society by contributing to better health,” the Kyorin Group will promote a diversified business expansion, including in regards to drugs, that can truly contribute to better health, and will also strive to increase the Group's presence in society and raise its corporate value.

Amid current uncertain times of intense change and unstable economic and social conditions, Kyorin aims to achieve sustained growth by striving to build a strong portfolio of healthcare businesses.

July 2014



Masahiro Yamashita  
Representative Director,  
President and Chief Executive Officer



## Corporate Philosophy of the Kyorin Group

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

## Long-term Vision HOPE100 (FY2010–FY2023)

### [Statement]

The Kyorin Group will promote diversified business expansion and the development of the consumer healthcare business, and by 2023 be recognized within and outside the Group as a company that supports sound and healthy lifestyles.

### The Kyorin Group is working to achieve its long-term vision HOPE100.

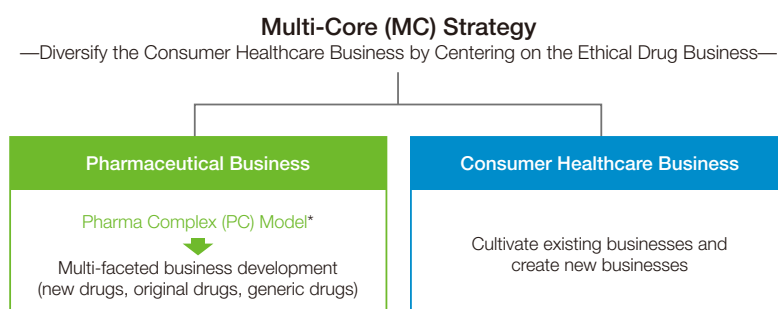
Our long-term vision HOPE100 embodies the Group's corporate philosophy and sets out the Group's future development objectives. This philosophy is the statement of our business objective and the basic rationale for the Group's business. It encompasses our desire to support healthy lifestyles through our businesses concerned with the treatment and prevention of disease and the maintenance and promotion of good health, and to achieve the sustained development of our corporate Group. Moreover, 2023 marks the 100th anniversary of the founding of KYORIN Pharmaceutical Co., Ltd., which is a core subsidiary and has the motto "Aim for Health Of People and our Enterprises," which reads as "Aim for HOPE" if the underlined first letters are extracted. Based on our corporate philosophy, the Kyorin Group is striving every day to achieve its long-term vision HOPE100.

### The long-term vision HOPE100 has been divided into three stages. We first aim to achieve HOPE100 Stage 1 (Fiscal 2010–2015), the mid-term business plan positioned as the first step in achieving our long-term vision HOPE100.

As the first step in achieving the Kyorin Group's long-term vision through the HOPE100 Stage 1 medium-term business plan, we believe it is important to possess a strong, well-balanced business portfolio by means of combining differing businesses in a cyclical manner in order to realize sustained corporate growth. As a business strategy, Kyorin is promoting a **M**ulti-**C**ore (MC) strategy (see chart below) comprising our pharmaceutical business and consumer healthcare business. In the pharmaceutical business, we are implementing a concept that we call the **P**harma **C**omplex (PC) Model (see chart below), an approach encompassing multi-faceted development in new drugs, original drugs, and generic drugs. In the consumer healthcare business, we are compensating for risks in our pharmaceutical business and promoting growth of the Group by cultivating our existing businesses and striving to create new businesses.

The Group's long-term vision places great value in the thinking that "a business is only as good as its people." We seek to become a place in which employees can bring passion to their work: in short, to become a leading company for pursuing fulfilling careers. In addition, we recognize that the most crucial factor behind executing our business strategy and delivering results is revitalizing both our people and our organization as a whole. Recognizing this, we will work to rebuild our human resources management, including structures for hiring, training, performance evaluation, promotion, personnel allocation, compensation, and benefits.

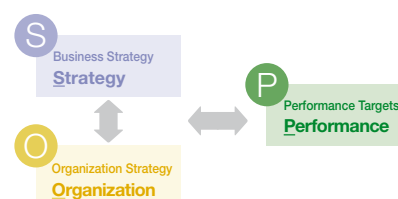
There are two years remaining until the final year of HOPE100 Stage 1, the mid-term business plan. As we work toward reaching our exit objectives (consolidated sales of ¥140.0 billion and operating income of ¥20.0 billion), the entire Kyorin Group employees are united in their determination to push ahead steadily with Executive Program 2014. I look forward to the continued understanding and support of all our stakeholders.



\* Kyorin classifies its pharmaceutical business into new drugs, original drugs, and generic drugs, enabling us to respond accurately to changes in the business environment by conducting multi-faceted development. As a result, we are working to strengthen our entire pharmaceutical business.

### Structure of HOPE100 Stage 1

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



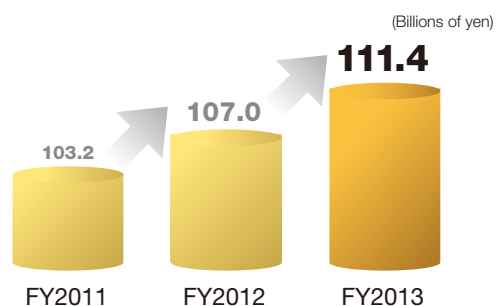
# Fiscal 2013 Highlights

## HOPE100 Stage 1 medium-term business plan (for fiscal 2010–2015)



### Group Record in Net Sales

- Record net sales for two consecutive years



### Launch of Two New Products

Combination drug for asthma treatment

#### Flutiform

A drug that combines the ICS fluticasone, a substance that exerts a potent anti-inflammatory effect, with the LABA formoterol, a substance that rapidly dilates the bronchi.

- Approval (9/2013)    ● Launch in the market (11/2013)

Ulcerative colitis remedy

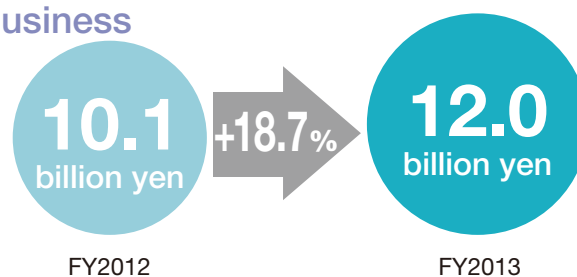
#### PENTASA Suppositories 1g

- Promoting combination therapy (oral agent and spot formulation)
- Highly effective in the rectum

- Approval (3/2013)    ● Launch in the market (6/2013)

### Double-digit Growth in Generic Drug Business

- Expanded sales by mainstay products and supplementary items in fiscal 2013
- Promoted proactive joint development and increased contract manufacturing



### Steady Progress in R&D Pipeline

- Promoted in-house drug discovery
- Advanced development of in-licensed products
- Implemented Life Cycle Management (LCM) initiatives (additional formulations, etc.)

Respiratory >>>	<b>KRP-AB1102</b> Submitted an application (March 2014)
	<b>KRP-AB1102F</b> Initiated Phase III clinical development (August 2013)
Urology >>>	<b>KRP-EPA605</b> Initiated Phase I clinical development (October 2013)
Infectious diseases >>>	<b>KRP-AM1977X</b> Initiated Phase II clinical development (September 2013)



## President's Interview

### Q1

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



### Answer: Q1

Net sales increased ¥4.4 billion year on year to reach a record high. One factor behind this increase was sales growth in the new drugs business atop the launch of two new products, specifically Flutiform, a combination drug for asthma treatment, and PENTASA Suppositories 1g, a treatment for ulcerative colitis. Another factor was that our performance in the generic drugs business surpassed forecasts. All in all, fiscal 2013 was an extremely fruitful year in which we made significant advances toward our next stage of growth.

**[Performance Summary]** Looking at the operating environment surrounding the pharmaceutical business in fiscal 2013, business conditions continued to be pressured by sluggish market growth, as various measures were implemented to reduce drug costs.

Despite these challenging conditions, sales in the new drugs business within our pharmaceutical business rose 3.1% year on year. This reflected growth in sales of mainstay products such as Kipres, a drug used to treat bronchial asthma and allergic rhinitis, and for Uritos, an overactive bladder drug. Furthermore, KYORIN Pharmaceutical Facilities Co., Ltd., a consolidated subsidiary that commenced operations in October 2012, started contributing to sales on a full-year basis. In addition, sales were pushed up by new product launches. In the generic drugs business, sales grew by a steady 18.7% year on year, due mainly to higher sales of mainstay products, including supplementary items in fiscal 2013, as well as expansion in the third-party contract manufacturing business.

Sales in the consumer healthcare business decreased 5.7% year on year. However, we are now on track to increasing market penetration of RUBYSTA, a multi-purpose disinfectant cleaner positioned as a new core earnings driver in our environmental hygiene business.

As a result of these and other efforts, consolidated sales rose 4.1% year on year to ¥111.4 billion, marking a second straight year of sales growth. However, on the earnings front, operating income decreased 1.9% year on year to ¥17.6 billion. This was mainly due to a higher cost of sales tracking a rise in the cost of sales ratio, and to higher sales promotion expenses and other costs associated with the launch of new drugs. This result has left us with issues that we must tackle going forward.

#### [FY2013 Results]

(Billions of yen)

	FY2009	FY2010	FY2011	FY2012	FY2013	YoY (%)
Net sales	99.8	104.1	103.2	107.0	<b>111.4</b>	4.1
Pharmaceutical business	91.0	96.9	96.7	100.8	<b>105.5</b>	4.7
Consumer healthcare business*	8.7	7.2	6.6	6.2	<b>5.9</b>	(5.7)
Operating income	13.3	16.4	14.5	17.9	<b>17.6</b>	(1.9)
Net income	8.8	10.9	9.2	12.4	<b>12.0</b>	(3.2)

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

**[Progress on Business Strategies]** The Kyorin Group believes that two goals are crucial to attaining sustainable growth: mitigating risks in the pharmaceutical business and building a solid business portfolio that will spur growth. Our MC strategy was developed to achieve these goals. Under this strategy, we will strive to bolster the pharmaceutical business as a matter of course, as we cultivate existing business and create new businesses in the consumer healthcare business.

In the pharmaceutical business, we implemented the PC Model for pursuing multi-faceted development of new drugs, original drugs and generic drugs. In terms of new drugs, we worked to advance in-house drug discovery, development of in-licensing opportunities, and Life Cycle Management (LCM) of existing drugs (acquiring additional formulations, indications and dosages). Our goals are to develop an attractive product pipeline in specific fields and discover new drugs that can be licensed worldwide. Looking at the status of research and development (R&D) activities in fiscal 2013, we made steady progress on advancing our drug development pipeline, including filing for approval of KRP-AB1102, a treatment for chronic obstructive pulmonary disease (COPD) (see P6), following the aforementioned new drug launches. Furthermore, we decided to construct a new R&D facility, eyeing the discovery of globally competitive, original drugs under our HOPE100 Stage 3 (fiscal 2020–2023) long-term vision. The aim is to establish an R&D framework that

## Q2

Tell us about your initiatives in fiscal 2014, the fifth year of the HOPE100 Stage 1 medium-term business plan.

maximizes the overall strengths of the company in in-house drug discovery. Construction of the new facility commenced in January 2014.

In the sales division, we launched Flutiform, a combination drug for asthma treatment that is anticipated to become our next mainstay product in specific fields (respiratory, otolaryngology, and urology). The launch of this new product is intended to solidify the Group's presence in specific fields. With this move, we have built a strong foothold for future growth.

In generic drugs, we have gradually developed a track record based on a business model where we work to not only strengthen internal collaboration within the Group, but also to take the lead in joint development, and translate these efforts into winning contract manufacturing business from third parties. In our view, we have developed this business model into a framework that will help to boost sales in the generic drugs business.

The production divisions are involved in a full range of areas from new drugs to generic drugs. In production, we have defined our key priorities as establishing a production infrastructure that supplies high-quality products in a stable manner at low cost. Production at KYORIN Pharmaceutical Facilities, which began operation in the previous fiscal year, is progressing steadily. We have taken steady strides toward creating the Group's new production infrastructure.

In the consumer healthcare business, we are bolstering collaboration between Group subsidiaries KYORIN Medical Supply Co., Ltd. and KYORIN Pharmaceutical, with the view to increasing the market penetration of RUBYSTA, a multi-purpose disinfectant cleaner in the environmental hygiene business. Our priority is to accelerate growth dramatically by increasing the number of customers adopting this product through a joint effort by both companies. Looking ahead, we will work to achieve this priority.

## Answer: 02

**Faced with an increasingly challenging business environment due to Japan's National Health Insurance (NHI) drug price revisions and other factors, we will adapt to changes in the environment while diversifying our exposure to business risk. To achieve our HOPE100 long-term vision, the entire organization will work on key priorities with an emphasis on what we must accomplish now and the time horizon. Through these measures, we aim to drive the sustainable growth of the Kyorin Group.**

In the pharmaceuticals business, we will continue to put the PC Model approach into practice. For new drugs, our most urgent priorities are to enhance our R&D pipeline and discover original new drugs that can be licensed worldwide during HOPE100 Stage 3 (for fiscal 2020–2023). Given the time consuming and costly nature of developing new drugs, we will not only collaborate with other companies, but we will also promote open innovation with academia, research institutions, startup companies and other partners. We will enhance drug discovery themes from short-, medium- and long-term perspectives, and vigorously push ahead with initiatives to discover innovative drugs. In the sales divisions, we will build even stronger relationships of trust with doctors and other medical professionals than before—relationships that have been developed through the Franchise Customer (FC) strategy promoted by Kyorin. Besides working to maximize the market penetration of our existing mainstay products, we will do our utmost to rapidly increase the market penetration of our new products, specifically PENTASA Suppositories 1g, a drug for the treatment of ulcerative colitis, and Flutiform, a combination drug for asthma treatment. Notably, the removal of prescription term restrictions for Flutiform is planned for December 2014. We intend to seize this opportunity to dramatically increase Flutiform prescriptions by working to increase medical professionals' understanding of Flutiform's product characteristics.

In generic drugs, we will work to increase sales of key products and push ahead with business models based on proactive joint development and contract manufacturing. In the process, we will strive not only to drive further sales growth, but also to pursue profits by improving the cost of sales ratio and the SG&A expenses ratio.

In the production divisions, our key priority is to adapt to changes in the operating environment. For example, we must explore ways to generate earnings from longstanding items on the NHI drug price list, which are significantly impacted by reforms to the drug pricing system. To solidify our earnings power, we will promptly examine cost effective production policies and the

implementation of supply chain management (SCM) frameworks, as we pursue low cost operations and work to provide a stable supply of products.

In the consumer healthcare business, we will focus on dramatically accelerating growth in the environmental hygiene business and on making it the Kyorin Group's new core business. In the skincare business, we will rebuild operations in order to rapidly put this business back on a growth path.

## Q3

What is your stance regarding shareholder returns?



## Answer: 03

**The Kyorin Group is balancing investments for growth, investments for business continuity, and shareholder returns.**

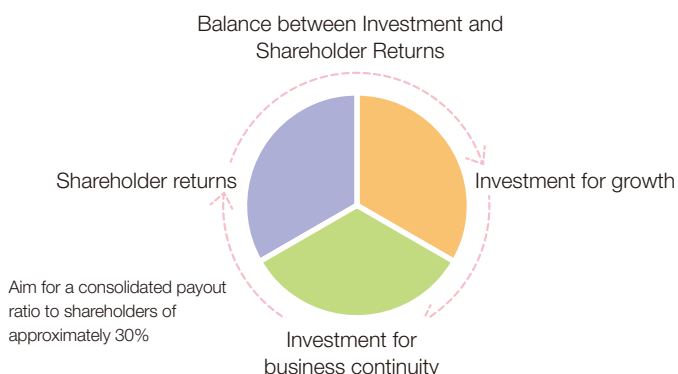
Under HOPE100 Stage 1, in addition to quantitative performance targets, the Kyorin Group also aims to contribute to stakeholders. Investments for growth include promotion of efforts to license new products and to expand the R&D pipeline in the Group's pharmaceuticals business. We are also considering strategic, proactive investments with an eye toward the future of our consumer healthcare business.

As for shareholder returns, we are aiming for a consolidated payout ratio of approximately 30% when deciding dividends. The dividend per share for fiscal 2013 was ¥52, representing a consolidated payout ratio of 32.3%. In fiscal 2014, we are forecasting a dividend per share of ¥52 (interim dividend of ¥20), for a consolidated payout ratio of 34.4%.

The Kyorin Group will work to strengthen its management base through balanced implementation of investments for growth, investments for business continuity, and shareholder returns. In doing so, we will strive to increase our corporate value and fulfill our responsibilities to stakeholders.

[Performance Targets]	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



## Q4

Do you have a message for your stakeholders?

## Answer: 04

We have two more years left until the end of the final year of our medium-term business plan Hope100 Stage 1 (2010–2015). In fiscal 2014, eyeing the achievement of exit objectives for Stage 1 of the plan, all employees will work together to implement our program of business execution for 2014 to steadily produce results. And in the next stage of the plan, we will not merely extend past approaches into the future. We will harness fresh ideas to drive the evolution of Kyorin into an enterprise with a strong presence and growth potential—one that enables employees to pursue fulfilling careers.

Going forward, the Kyorin Group will continue to provide proactive disclosure, informing our stakeholders of the progress we make on bringing the HOPE100 long-term vision to fruition.

I look forward to the continued understanding and support of all our stakeholders.

# Feature: Value Creation Through Collaboration

—Seeking to Diversify Businesses through In-group Collaboration—

The Kyorin Group is engaged in the development, production and sale of new and generic drugs, centered on the core company KYORIN Pharmaceutical Co., Ltd., which is developing the pharmaceutical business. We are also pushing ahead with the consumer healthcare business through Group-wide collaboration, with the aim of diversifying our businesses.

Kyorin

## Pharmaceutical Business

(New drugs, generic drugs)

### KYORIN Rimedio Co., Ltd.

#### ■ Generic drugs, over the counter drugs and others

As the Kyorin Group subsidiary responsible for the generic drug business, KYORIN Rimedio aims to become a highly reliable generic drug manufacturer.

To contribute to the health of patients, and recognizing its critical social role in reducing healthcare costs and helping to maintain social security infrastructure, KYORIN Rimedio will continue to ensure a stable supply of high quality products and information, as it works to deliver distinctive generic drug products to the market.



<http://www.kyorin-rmd.co.jp/>

### KYORIN Pharmaceutical Facilities Co., Ltd.

#### ■ Prescription drugs (manufacturing)

KYORIN Pharmaceutical Facilities commenced business in October 2012 as a pharmaceuticals manufacturing company. The company conducts business related to the manufacturing of prescription medicines using pharmaceutical manufacturing assets acquired from MSD K.K. Looking ahead, the company will build a framework for flexibly and rapidly executing a variety of measures in response to changes in the business environment. The company's goals are to provide a stable supply of high-quality products, enhance manufacturing technologies and streamline costs.



<http://www.kyorin-fc.co.jp/>

### KYORIN Pharmaceutical Co., Ltd.

#### ■ New drugs, generic drugs, over the counter drugs and others

KYORIN Pharmaceutical aspires to be a drug manufacturer that is trusted by patients and medical professionals, and is recognized for its significant presence in society. To this end, the company is striving to enhance its presence in specific fields, including respiratory medicine, otolaryngology, and urology, while aiming to discover novel, global new drugs.



<http://www.kyorin-pharm.co.jp/en/>

# Group

## Consumer Healthcare Business

(Skincare, over the counter drugs and others)

### KYORIN Medical Supply Co., Ltd.

#### ■ Sales promotion, planning and production of advertising, and environmental hygiene

KYORIN Medical Supply is involved in a wide range of communications-related business activities centered on planning and production of pharmaceutical advertising. It is also actively engaged in the environmental hygiene business, which will be nurtured into a core Kyorin Group business in the future. In this manner, KYORIN Medical Supply will contribute to society as a member of the Kyorin Group, while seeking to become a characteristic company supporting healthy living.



<http://www.kyorin-ms.co.jp/>

### Collaboration within the KYORIN Pharmaceutical Co., Ltd.



### Dr. Program Co., Ltd.

#### ■ Skincare

Dr. Program manufactures products based on nanocapsule technology—a pharmaceutical formulation concept that we have cultivated through research into new beauty-enhancing ingredients and development of technologies for penetration of ingredients.

Going forward, the company will continue to listen closely to its customers, working to create completely new value in the market and contributing to the beauty and good health of women everywhere.



<http://www.drprogram.co.jp/>

Feature: Value Creation Through Collaboration

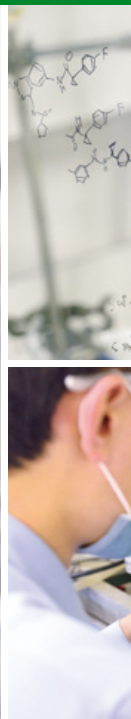
## Research and Development



### Masakatsu Komuro

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

With the aim of strengthening and improving the continuous discovery of and pipeline for new and innovative drugs, we are expanding our drug-discovery portfolio and making efforts to implement clinical development based on an image of the finished product. Furthermore, we aim to accelerate clinical development by transforming the R&D process. The researchers charged with that work display the highest levels of teamwork and strive for high-quality drug creation.



### Enhancing the Development Pipeline by Promoting Drug Discovery, Development and Life Cycle Management (LCM), While Paying Close Attention to Timelines

The Group is striving to achieve the goals it has established for results at each stage of its HOPE100 long-term vision, taking the fundamental approach of promoting R&D with an emphasis on timelines.

We have established roles and objectives in the R&D process, and we are tackling the issues that are the current (this fiscal year's) focus of attention. HOPE100 Stage 1 emphasizes maximizing product value through LCM drug fostering. 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. Based on these efforts, we are strengthening the development pipeline for the Company's specific fields (respiratory, otolaryngology, and urology) and enhancing our product lineup.

In "drug discovery," we have, as core technologies, drug discovery technologies, based on foundational research in inflammation, immunology, and infectious diseases, which we exploit to efficiently synthesize new compounds. In addition, we are focusing on developing low molecular weight (LMW) drugs under the key concept of creating new and innovative drugs in Stage 3 (ones that can transform the current system of medical treatment).

In the development process, we aim to reduce development times and improve quality. We are striving for high quality "development research" that shortens the time required for development, from identification of development-candidate compounds through to clinical trials. In addition, we follow a "developer-producer" approach in which we formulate development policies with a strong awareness of our vision for a product after launch. That is, 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, and to maximize product value.

### Leveraging Our Strength in Small-Scale Advantages

At KYORIN Pharmaceutical, we nurture staff who are able to handle a broad range of exploratory, development and clinical research, and we are accelerating the R&D process and improving quality by improving coordination between



departments and emphasizing results achieved as a team. One of our strengths is our relatively small scale, and we will continue to exploit the benefits of collaboration between departments and individuals with a broad range of research expertise in order to meet the challenges of developing drugs at the highest levels. In terms of drug discovery and development research, we understand that it is important to maintain cutting-edge knowledge and technology. In the Research & Development Headquarters, we have formulated and implemented a human resources management policy to support employees' efforts to polish their skills and knowledge. We are putting efforts into continually educating staff and realizing research activities based on multi-faceted knowledge and experience.

### Expanding Possibilities with Open Innovation

Furthermore, we are promoting not just research within the company but also open innovation with academia (research with universities, research institutes and through other ventures), transforming the R&D process and building a new drug discovery system. One example of open innovation is our collaboration with Okayama University and Momotaro-Gene Inc., a venture set up by the university, on the development of next-generation gene therapy drugs. We are focusing our efforts on practical applications so that we can provide patients with new therapies as soon as possible.

### Employee Message

Our R&D activities are guided by a consistent focus on the needs of the patients who will use the drugs we bring to market. When setting R&D themes, we give ample consideration to marketability, profitability and feasibility, pursuing drug designs that emphasize effectiveness, safety and convenience. We have an open environment in which anyone can proactively establish new research themes and take action—one where we strive to enhance the specialized expertise of each individual as a matter of course, while conducting discussions spanning the entire organization. In so doing, we are working to understand the needs of medical professionals and patients, and to create globally competitive, innovative drugs.



### Group Collaboration

#### ■ A drug Discovery System Created Through Cooperation with ActivX

We are cooperating with ActivX Biosciences Inc. (San Diego, C.A., U.S.A.), a wholly owned subsidiary of KYORIN Pharmaceutical, on exploratory research and making use of the company's proprietary drug-discovery platform (foundational technology) to work toward innovative drug discovery.

#### ■ Development of Generic Drugs

KYORIN Pharmaceutical and KYORIN Rimedio have been collaborating on R&D, thereby enabling the development of high-quality generic drugs.

#### ■ Development of Skincare Products

KYORIN Pharmaceutical and Dr. Program have been collaborating on the development of cosmetics products as the Skincare Research Group.

#### ■ Preparing the Environment for Creating Original New Drugs

KYORIN Pharmaceutical is currently constructing a new R&D facility (planned completion in August 2015). By concentrating domestic R&D functions in one place, we aim to maximize efficiency and coordination in terms of people, organization and systems with the goal of creating a system that demonstrates the strength of the business to the greatest extent. We will work to develop an environment at the facility that will allow researchers to show their powers of concentration and that stimulates communication and promotes creativity, striving for the discovery and provision of innovative new drugs.



Feature: Value Creation Through Collaboration

## Production



### Kazuhiro Marubayashi

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

Quality assurance, supply stability, and cost reduction are the three pillars that comprise the mission of the production divisions and represent the divisions' goals in pursuit of a production system at the highest level in the country. We are proactively committed to Environment, Health and Safety (EHS) activities. We strive to ensure that our factories are at the top levels domestically, including in terms of environmental considerations, and we are working with the Group as a whole to create production divisions that are trusted both in Japan and also throughout the world.

In the production divisions, based on the idea that "an organization depends on people," we are striving for a strong production organization with a unifying strength that demonstrates the full potential of each individual within it.



### Pursuing an Ongoing Mission of Providing a Stable Supply of High Quality Products at a Low Cost

Based on our fundamental stance on quality assurance, supply stability, and cost reduction, the Group is steadily conducting production activities. By doing so, we aim to maintain sustained growth and revenue for the Group. The Group's HOPE100 long-term vision and HOPE100 Stage 1 medium-term business plan raise the important issue of the "construction of a production division that provides a stable supply of high quality products at a low cost," and we are working to deal strategically with the following four issues.

Firstly, in order to achieve "overall optimization of the Group production system," we are planning efficient production activities in accordance with the Group's business plan that ensure a stable supply system for each of the Group's factories. Next, in order to achieve a "worldwide system for new production," we aim to enhance our production system by responding to global standards focused on the future. With the addition to the Group of KYORIN Pharmaceutical Facilities in October 2012 and with the continued stable supply of high quality products, improvements in manufacturing technology and reductions in cost, we are aiming for global expansion. Also, in terms of "low-cost operations," we aim to simultaneously implement both quality improvements and cost reductions through visualization. From this financial year, we are tackling these issues mentioned above through the creation of a Supply Chain Management (SCM) department in the Production Division. Regarding the nurturing of human resources, we are building a highly creative organization in which each member of staff aspires to deliver high quality products to patients and healthcare professionals. Through these efforts Kyorin Group will continue working to strengthen both the physical and intangible aspects of its production infrastructure in order to further enhance Group value.

### Strategic Promotion of Supply Chain Management

We manage each product from procurement of raw materials to production management, manufacture and shipping, and we are promoting SCM aimed at improving speed and reliability. In order to reduce supply-side risks and to obtain a stable supply, we are building strong relationships of mutual trust with foreign and domestic suppliers. Also, we are aiming to ensure supply through second and third supply sources and transportation routes. Furthermore, in order to build strong revenue potential that is resistant to environmental

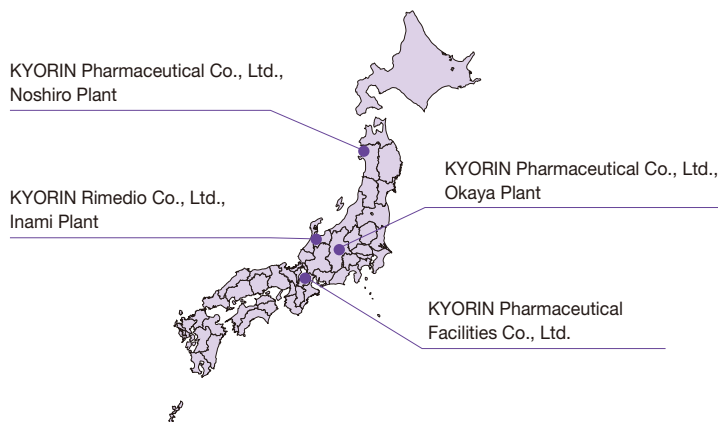




changes, we are pursuing an efficient production system and exploring ways of lowering manufacturing costs.

Henceforth, we will comprehensively grasp the supply chain at Kyorin Group, and we will build a system in order to realize more efficient production and stable supply.

[Group Production Site]



Employee Message

The Noshiro Plant, the Kyorin Group's central production facility, has flowbin production systems that automate the transfer of raw materials and intermediates, and other automated, high-efficiency equipment. Indeed, it embodies the Kyorin Group's efforts to promote the creation of highly productive, worker-friendly plants. Guided by this principle, the Group has set clear production goals: quality assurance, supply stability, and cost reduction. Each section is working as one to execute programs to achieve these goals. Looking ahead, we will maintain a positive, energetic workplace, and continue acting as a Group to exploit our full creativity.



Enhancing Value Through Collaboration

■ Building a New Production Infrastructure

In the production divisions, we are enhancing implementation of the Good Manufacturing Practice (GMP) quality assurance standards at all production facilities. We are also implementing a quality assurance system that directly connects the head office and is in accordance with the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S), which aims to harmonize GMP standards and quality systems globally. We are also promoting a project to transfer the production functions of the KYORIN Pharmaceutical Okaya Plant to KYORIN Pharmaceutical Facilities in order to optimize the Group's overall production system, which is a vitally important issue. By strengthening cooperation between KYORIN Pharmaceutical Facilities and the Okaya and Noshiro plants, we will ensure a smooth transition.

■ Collaboration on Production of Generic Drugs

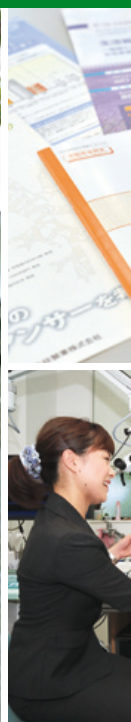
We are dispatching employees from the production divisions of KYORIN Pharmaceutical and KYORIN Pharmaceutical Facilities to KYORIN Rimedio, which manufactures generic drugs. We are also sharing technology and providing production assistance, and we are improving coordination among employees within the Group in order to ensure a reliable supply of generic drugs. Regarding items for which KYORIN Rimedio has production functionality, such as injections, manufacturing is contracted from KYORIN Pharmaceutical and we are collaborating to optimize Group production as a whole.



**Masahide Sugibayashi**

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

As the market for ethical pharmaceuticals changes, the company's sales division is continuously aiming to further strengthen our position in the key fields of respiratory medicine, otolaryngology, and urology. By building relationships of trust with doctors in these three fields, and contributing to drug therapy in each field, we will be able to achieve sustained growth.



**Aiming to Establish a Presence in Specific Treatment Areas**

Our medical representatives (MRs), working as “drug therapy partners,” gather, provide and transmit information to doctors and other healthcare professionals in order to promote the appropriate use of medical and pharmaceutical products. With about 750 MRs, KYORIN Pharmaceutical aims to maximize the diffusion of its main products by expanding its FC strategy, which focuses primarily on the doctors our medical representatives regularly visit primarily in the three specific treatment fields that we promote of respiratory medicine, otolaryngology and urology, and by making efforts to build a firm relationship of mutual trust with the approximately 77,000 doctors in those three fields.

In order to enhance the aforementioned strategy, we have introduced a team-based sales structure in which a number of MRs are made responsible for a certain area. This system allows MRs to demonstrate their individual abilities and gain an accurate understanding of the needs of medical personnel, helping us to provide a rapid response in a systematic way. These efforts are based on fostering a climate in which MRs experience the pleasure of achieving a goal as a team, and we will continue to work together as one team to achieve our organizational goals.

In fiscal 2013, we achieved record sales by working on the spread of our principal products and also by focusing efforts on the market penetration of Flutiform, a combination drug for asthma treatment that was put on sale as a new drug, and of PENTASA Suppositories 1g, a drug for the treatment of ulcerative colitis.

We have steadily improved results by increasing the frequency of communication with doctors based on plans drafted carefully according to product and dosage form. In the next fiscal year, too, we will promote a sales strategy responsive to the changing environment, and we will accelerate the expansion in the adoption and prescription of the new drug Flutiform while aiming also to maximize prescription of our existing main products.

**Nurturing MRs in Whom Doctors can Place Their Trust Increases Our Competitiveness**

In order to continuously increase prescription of our main products, it is important to enhance the general abilities of each MR, including his or her knowledge, technical skills and personal abilities.

We are cultivating MRs who can understand and respond to the needs of



healthcare professionals. To this end, we conduct training for new employees that enables them to gain product and related knowledge and that fosters an appropriate attitude for participating in medical treatment. For employees in their second and third years, we conduct training to improve presentation and communication skills. Overall, we not only conduct monthly training through the training department of the Sales & Marketing Headquarters, but are also reinforcing staff development through the implementation of a systematic education program based on our Group Human Resources Management Policy.

As for building relationships of trust with doctors, in addition to striving to improve relationships with them by having the sales division host lectures, seminars and briefings for medical specialists, we are working on policies to enhance the gathering and provision of constantly changing information by, for example, introducing tablet computers for use in sales operations. These measures will help further improve the relationship the company as a whole has with medical specialists.

### Value Creation Through Collaboration

#### ■ Eyeing Expansion of Generic Drugs

KYORIN Rimedia and KYORIN Pharmaceutical are collaborating on the sale of generic drugs. They aim to expand sales of generic drugs by leveraging the know-how, network and information resources of KYORIN Pharmaceutical, which is principally focused on the new drug business.

#### ■ Promoting Greater Use of RUBYSTA, a Multi-purpose Disinfectant Cleaner

KYORIN Medical Supply and the Healthcare Business Department of KYORIN Pharmaceutical are collaborating on promoting greater use of RUBYSTA, a top priority, mainstay multi-purpose disinfectant cleaner in the facility environmental hygiene business. The two partners are mainly approaching facilities that have obtained "additional reimbursement points for infection prevention measures 1" under the NHI System, among customers purchasing prescription pharmaceuticals sold by KYORIN Pharmaceutical.

### Employee Message

As MRs of a pharmaceutical company whose role is to provide treatment of diseases through drugs, we constantly strive to provide useful information to doctors, as we work to solve the problems those doctors face. We believe that it is especially crucial to build relationships of trust with doctors by providing them with appropriate information according to their needs. The sales approach at KYORIN Pharmaceutical 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, we have fostered a corporate culture where team members work toward their mutual improvement, and all employees engage 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, by becoming highly skilled and knowledgeable MRs who can make a variety of proposals to doctors based on our ability to thoroughly understand the kinds of drug treatments provided by doctors.

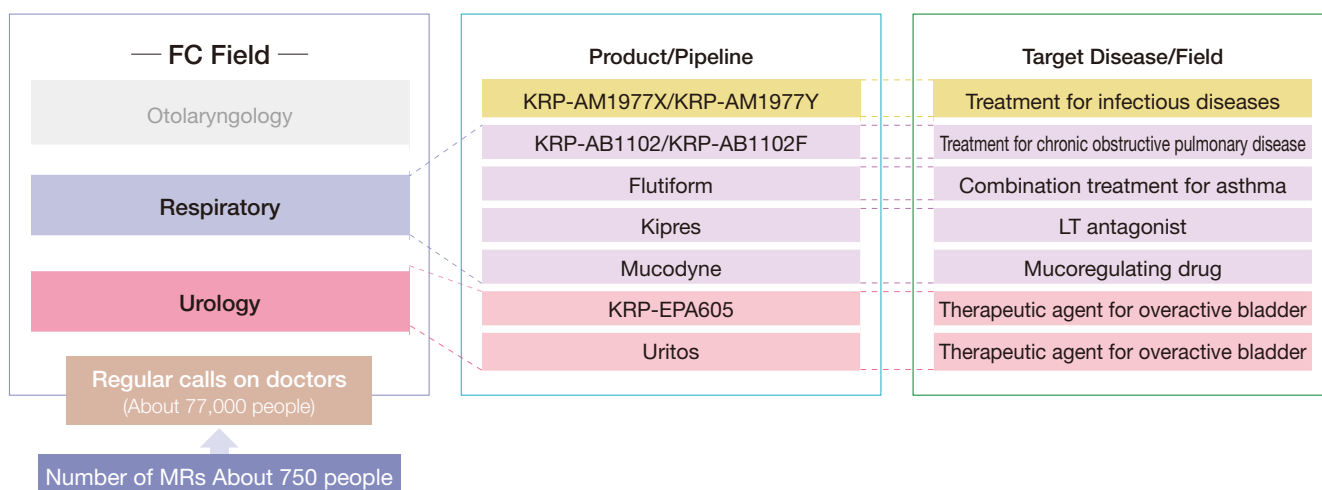


## Our Presence in Specific Fields

### Seeking to Establish a Greater Presence in Specific Fields

KYORIN Pharmaceutical is promoting the FC strategy to strengthen competitiveness in the pharmaceutical business, by stepping up sales activities and providing information to customers whom it regularly visits, centered on specialist doctors in respiratory medicine, otolaryngology, and urology. KYORIN Pharmaceutical is also working to built relationships of trust with doctors in these specific fields and enhance its product lineup in the FC field, with the aim of establishing a greater presence and driving sustainable growth in this field.

#### Products Related to the Respiratory and Urology Fields



#### Respiratory Field

##### Increasing Market Penetration of Flutiform

KYORIN Pharmaceutical has been working to strengthen relationships of trust with specialist doctors in the key respiratory field, through the supply of Kipres and Mucodyne. In November 2013, KYORIN Pharmaceutical launched Flutiform, a combination treatment for asthma, in an effort to contribute further to the treatment of bronchial asthma. Flutiform is a drug that not only features a potent anti-inflammatory effect and fast-acting relief, but also can be inhaled with certainty and ease. KYORIN Pharmaceutical is striving to provide information and foster understanding of Flutiform, as a drug that answers the needs of patients who cannot adequately control their symptoms using existing treatments. The removal of prescription term restrictions for Flutiform is planned for December 2014, and will further increase convenience for patients. The company will seize on this opportunity to dramatically increase the market penetration of Flutiform.

The R&D pipeline in the respiratory field includes KRP-AB1102, a chronic obstructive pulmonary disease (COPD) treatment for which a new drug application is currently pending; KRP-AB1102F, which is currently in Phase III clinical development; and KRP-AM1977X and KRP-AM1977Y, which are new quinolone synthetic antibacterial agents currently in Phase II clinical development. Based on the trust we have developed with medical professionals to date, we are doing our utmost to harness our expertise, connections, networks and other resources in the clinical development field to more speedily conduct development and deliver these new drugs to patients as soon as possible. We will continue to embrace new challenges in order to be recognized by patients and their families and medical professionals in the respiratory field as an even more valuable company than before.

#### Urology Field

##### Maximizing Product Penetration and Bolstering the Pipeline

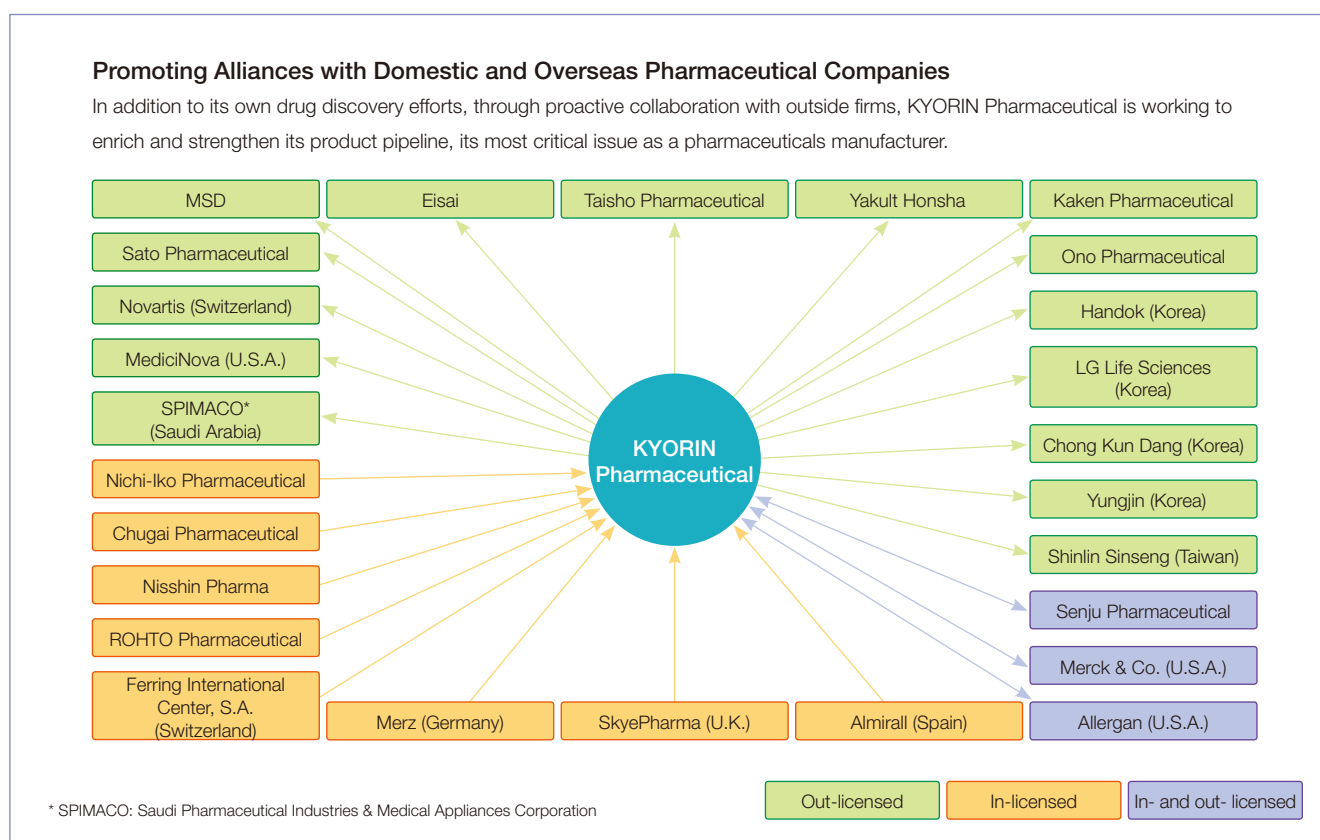
In urology, another key field, we are supplying the Uritos treatment for overactive bladder (OAB) to medical practitioners. Sales of Uritos are growing steadily. We continue to actively encourage medical practitioners to offer Uritos to their patients as a first choice prescription. At the same time, we are striving to maximize penetration of Uritos by driving the expansion of the OAB market, where there are many potential patients. In terms of measures to improve the R&D pipeline, we commenced Phase I clinical trials of the new OAB treatment KRP-EPA605 in October 2013 together with Kissei Pharmaceutical Co., Ltd., which is strong in the urology field. Furthermore, in July 2014 we signed a domestic license agreement concerning the OAB treatment KRP-114V with Merck & Co. of the United States. Going forward, we will continue to bolster the R&D pipeline by vigorously pushing ahead with R&D, licensing and other activities, in order to establish a greater presence in the urology field.



# Alliances

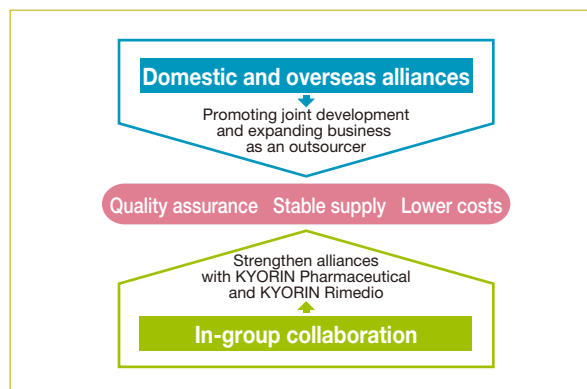
## Reinforcing Our Pipeline in Specific Fields through an Alliances Strategy

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 product 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, we have been able to in-license new products in the FC field (respiratory, urology, and otolaryngology), Flutiform, a combination treatment for asthma, KRP-209, a treatment for tinnitus, and KRP-AB1102 and KRP-AB1102F, treatments for chronic obstructive pulmonary disease (COPD). We also commenced development of KRP-EPA605, a treatment of OAB, together with Kissei Pharmaceutical. These results are due to the fact that among all of the companies that out-licensed these products, the joint-development companies 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 Joint Development and Contract Manufacturing of Generic Drugs

In the generic drug business, we are pursuing quality assurance, stable supply, and lower costs by promoting stronger collaboration within the Group and with local and global alliances. We are pushing ahead with in-house development and production of generic drugs. At the same time, we are actively promoting the expansion of business models like joint development with third parties and contract manufacturing in a bid to reinforce our distinctive and competitive generic drug business.



# Main Products

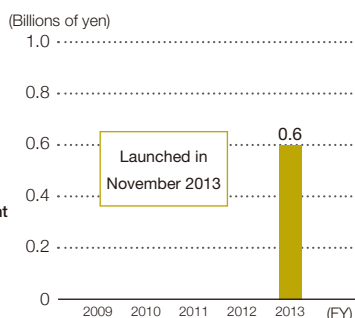
## PHARMACEUTICAL BUSINESS

### FLUTIFORM



**Combination drug for asthma treatment**  
 Flutiform 50 Aerosol 56 inhalations  
 Flutiform 125 Aerosol 56 inhalations

#### Sales of Flutiform

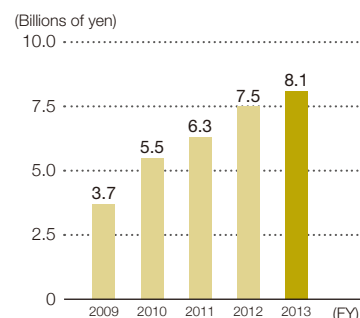


### URITOS



**Therapeutic agent for overactive bladder**  
 URITOS Tablets 0.1 mg  
 URITOS OD Tablets 0.1 mg

#### Sales of Uritos

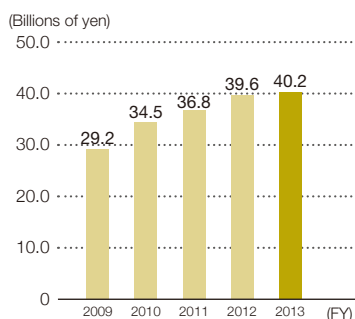


### KIPRES



**Leukotriene receptor antagonist Anti-Bronchial asthma and allergic rhinitis drug**  
 KIPRES Tablets 5 mg  
 KIPRES Tablets 10 m5g  
**Leukotriene receptor antagonist Anti-bronchial asthma drug**  
 KIPRES Fine Granules 4 mg  
 KIPRES Chewable Tablets 5 mg

#### Sales of Kipres

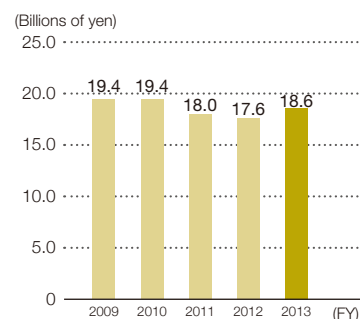


### PENTASA



**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

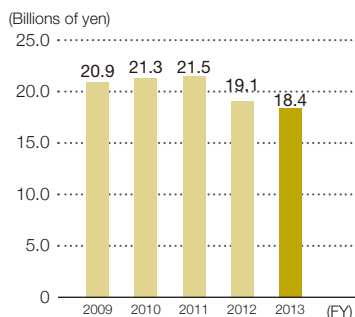


### MUCODYNE



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

#### Sales of Mucodyne

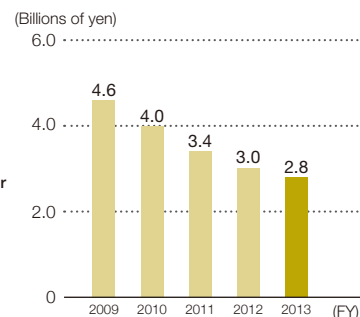


### KETAS



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

#### Sales of Ketas



## 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, which in-licensed the product, and KYORIN Pharmaceutical, 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.

# Products under Development (As of July 29, 2014)

## Ph III~Application

Compound/Code	Therapy area/Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
KRP-AB1102 (inhalant)	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-doubledosing mechanism and an end-of-dose lock-out system to prevent use of an empty inhaler				3/2014
KRP-AB1102F (inhalant)	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.			8/2013	
KRP-114V	Overactive bladder	Merck & Co. (U.S.A.)	KRP-114V is expected to improve urinary frequency through stimulation of the beta 3 receptor in the bladder which improves bladder muscle relaxation.			In preparation	

[Reference Information] Overseas

- KRP-AB1102 (Europe) Launched by Almirall (9/2012)  
(U.S.A.) Launched by Forest Pharmaceuticals (12/2012)
- KRP-AB1102F (Europe) Application submitted by Almirall (10/2013)  
(U.S.A.) Application being submitted by Forest Laboratories

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

Compound/Code	Therapy area/Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
KRP-209	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.		8/2011		
KRP-203	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.		3/2013		
KRP-AM1977X (oral agent)	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) 3. High degree of safety expected since safety hurdles cleared prior to clinical trials		9/2013		
KRP-AM1977Y (injection)	New quinolone synthetic antibacterial agent	In-house			6/2014		
KRP-EPA605	Overactive bladder	In-house	KRP-EPA605 is a novel selective prostaglandin EP1 receptor, and expected to improve urinary frequency by suppressing detrusor overactivity of the bladder	10/2013			

[Reference Information] Overseas

- KRP-209 Merz: Phase III

## Licensing Development

Compound/Code	Licensee/Collaborative research	Therapy area/Action	Origin	Comments	Stage			
						Ph I	Ph II	Ph III
KRP-203	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	POC 12/2010		

## Others

- Ad-SGE-REIC formulation, a gene-therapy product, planned for development. (Target disease: for the treatment of malignant pleural mesothelioma)
- Dimethyl sulfoxide, applicable to unapproved drugs and off-label drugs that are greatly needed in medical care, planned for development. (Target disease: for the treatment of interstitial cystitis)
- Uritos, an overactive bladder drug: launched in Korea, July 2013. (Chong Kun Dang Pharmaceutical Corp.)

### 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 advance as a group that supports sound and healthy lifestyles.

### Basic Policy on Corporate Governance

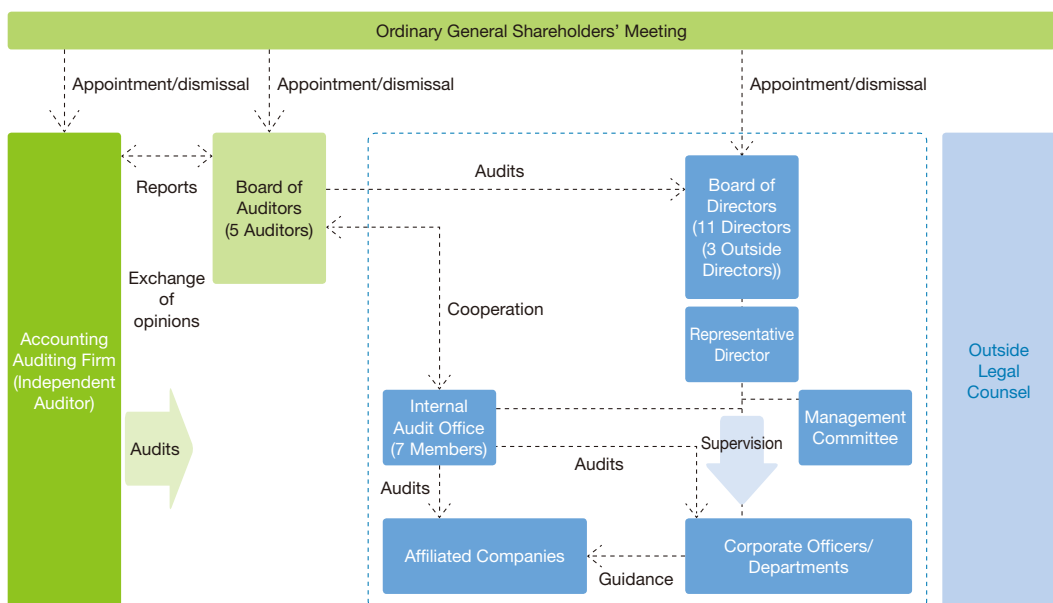
The most important management goal for KYORIN Holdings, Inc. is to continue raising shareholder value. To achieve this goal requires fostering a management environment that enables us to build trust with the general public. Therefore, having given better corporate governance a high priority, we seek 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.

### Corporate Governance and Management Structure (As of June 24, 2014)





## Management Organization and Internal Control System

### 1. Management Organization

To clarify the roles of our eleven directors, who are responsible for making business decisions and supervising business execution, and three corporate officers, who are responsible for business execution, Kyorin has established 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, 2014, Kyorin appointed three 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 seven 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 three 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.

With insight gained from his experience as a director of Teijin Limited, Kyorin deemed Takashi Takahashi well-qualified overall for appointment as an outside director. Note that no purchasing, sales, or other trade relationship exists between Kyorin and Teijin Limited, where Mr. Takahashi serves as a director.

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

##### ① Total compensation paid to each director or corporate auditor, total paid by type of compensation, and number of applicable directors and corporate auditors

Director or corporate auditor	Total compensation paid (Millions of yen)	Total paid by type of compensation (Millions of yen)		Number of applicable directors and corporate auditors (People)
		Basic compensation		
Director (Excluding outside directors)	188	188		7
Corporate auditor (Excluding outside corporate auditors)	30	30		2
Outside director or corporate auditor	29	29		5

##### ② Importance of employee salary in cases where a director is also an employee

None to report.

##### ③ Policy and method of determination of the policy, as regards the amount of compensation paid to a director or corporate auditor, and the method of calculation

Kyorin has not decided its policy as regards the amount of compensation paid to directors and corporate auditors or the method of calculation.

#### 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.

# Directors, Auditors, and Corporate Officers (As of June 24, 2014)



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

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**

Outside Director

**Takashi Takahashi**

Senior Corporate  
Auditors

**Seiyu Miyashita**

**Hiroaki Hama**

Outside Corporate  
Auditors

**Masaji Obata**

**Yasuyuki Hirota**

**Yuji Konishi**

Senior Corporate  
Officers

**Takayoshi Ishizaki**

**Yoh Ito**

Corporate  
Officers

**Yoshiya Yoshida**

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

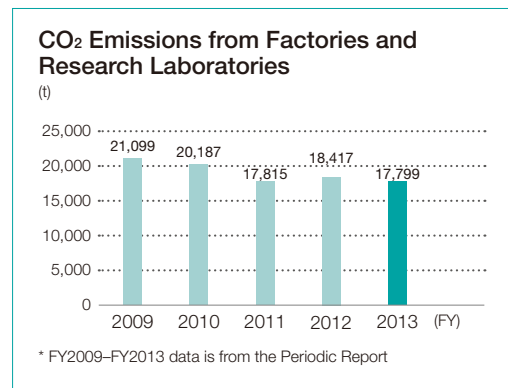
- Reduce waste emissions and promote recycling towards achieving zero final landfill, and introduce a negative carbon printing system

### 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

Targets were set for the year-on-year reduction in the number of vehicular accidents per branch, and in fiscal 2013 there were 176 accidents, 36 less than the previous year. To reduce the number of vehicle accidents, for fiscal 2014, 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 2013, the Kyorin Group donated a total of ¥127,416 contributed by employees to UNICEF. The Group also collected 2.4 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.

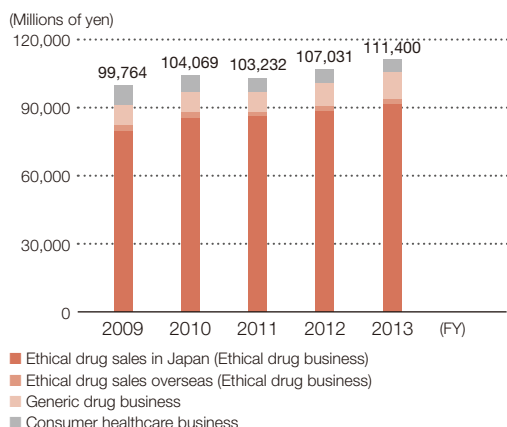
### 3. Support for recovery from the Great East Japan Earthquake

#### • Sunflower Project

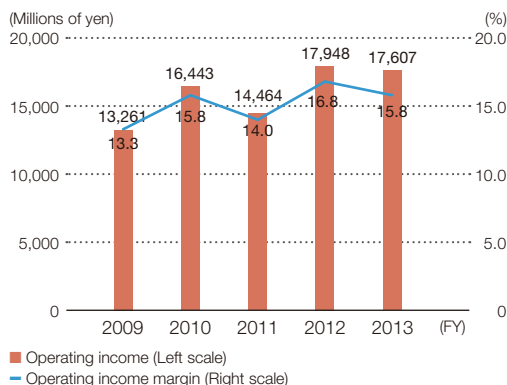
KYORIN Pharmaceutical's Discovery Research Laboratories, Development Research Laboratories and Sendai Branch Office have been participating since 2011 in the Sunflower Project in which sunflower seedlings are grown and delivered to the areas afflicted by the Great East Japan Earthquake. We will continue 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

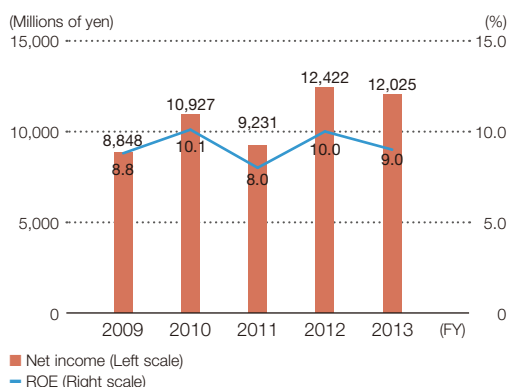
## Net sales



## 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 2013, the Japanese economy remained on a gradual recovery path, supported mainly by improving employment conditions and growing consumer spending. The recovery was also underpinned by a weaker yen and rising stock prices reflecting expectations for the government's economic stimulus policy measures.

Under these circumstances, in the domestic pharmaceutical industry, where the core business of the Kyorin Group operates, the market growth rate remained low and competition among companies intensified mainly due to the fact that the Japanese government continued to implement various policies designed to curtail spending on drugs. The consumer healthcare business continued to face a challenging environment despite an upturn in business conditions due to higher consumer spending.

## Consolidated Operating Results

### Net Sales

In fiscal 2013, overall net sales increased 4.1% year on year to ¥111,400 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, sales increased year on year due to the launch of new products, notably Pentasa suppository in June 2013 and Flutiform, a combination treatment for asthma, in November 2013, and higher royalty income from out-licensed products. Another factor behind the higher sales was continued growth in our principal products. There were also contributions to sales from KYORIN Pharmaceutical Facilities Co., Ltd., which started business on October 1, 2012. As a result, segment sales rose to ¥91,668 million, up 3.8% year on year. Among our mainstay products, sales growth was posted for Kipres, a treatment for bronchial asthma and allergic rhinitis, for Uritos, a treatment for overactive bladder, and Pentasa, a treatment for ulcerative colitis and Crohn's disease. On the other hand, sales decreased year on year for Mucodyne, a mucoregulant.

In ethical drug sales overseas, royalty income decreased year on year for gatifloxin ophthalmic solution (outlicensed to Allergan, Inc. (U.S.A.)) due to the impact of generics launched in the U.S. Meanwhile, there was a decrease in other non-recurring revenues from contractual agreements, reflecting the transfer of assets related to the topical anti-fungal prescription drug Pekiron cream to Galderma S.A. (Head office: Switzerland) in the previous fiscal year. As a result, segment sales decreased 22.9% year on year to ¥1,849 million.

Sales for generic drugs increased 18.7% year on year to ¥11,987 million. There were increased sales to insurance dispensing pharmacies mainly due to the implementation of measures to promote the use of generic drugs, and increased sales for products manufactured under outsourcing contracts.

Sales in the nonprescription drugs, etc., business declined 4.7% year on year to ¥4,172 million. Despite the rise in sales for RUBYSTA, a multi-purpose disinfectant cleaner, the overall decline in sales reflected lower sales of other products. As a result, net sales in the pharmaceutical business increased by 4.3% to ¥109,678 million and operating income amounted to ¥16,973 million, down 5.5% year on year.

In the consumer healthcare business, the Kyorin Group posted lower sales but higher earnings. Sales declined 7.9% to ¥1,721 million. This mainly reflected reduced sales at Dr. Program Co., Ltd., which is engaged in a nanocapsule technology-based cosmetics business, following the consolidation of sales channels into mail order sales. Operating income amounted to ¥161 million, compared to an operating loss of ¥200 million in the previous fiscal year.

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

The cost of sales ratio increased 1.1 percentage points year on year to 38.6%, mainly due to the impact of the conversion into a consolidated subsidiary of KYORIN Pharmaceutical Facilities Co., Ltd. (six months' results), which is mainly involved in contract manufacturing of third-party products. Gross profit was up by ¥1,454 million year on year due to the increase in sales.

SG&A expenses increased 3.7% year on year to ¥50,744 million, mainly attributable to an increase in selling expenses and patent royalties and other fees.

As a result, operating income decreased 1.9% year on year to ¥17,607 million. The operating income margin fell 1.0 percentage point to 15.8%.

### Summary of Consolidated Statements of Income

	Millions of yen			
	FY2012	FY2013	YoY change	YoY change (%)
Net sales	107,031	111,400	4,368	4.1
Cost of sales	40,133	43,047	2,913	7.3
Gross profit	66,897	68,352	1,454	2.2
SG&A expenses	48,949	50,744	1,795	3.7
(R&D expenses)	11,059	11,359	300	2.7
Operating income	17,948	17,607	(340)	(1.9)
Other income	790	732	(57)	(7.3)
Other expenses	62	59	(2)	(3.9)
Income before income taxes	18,603	18,312	(290)	(1.6)
Net income	12,422	12,025	(396)	(3.2)

### Summary of Consolidated Statements of Comprehensive Income

	Millions of yen			
	FY2012	FY2013	YoY change	YoY change (%)
Income before minority interests	12,422	12,025	(397)	(3.2)
Total other comprehensive income	1,843	1,333	(510)	(27.7)
Comprehensive income	14,265	13,358	(907)	(6.4)

### Net Income and Net Income Per Share

Net income decreased 3.2% year on year to ¥12,025 million. Net income per share decreased ¥5.30 from the previous fiscal year to ¥160.95.

### Assets, Liabilities and Net Assets

At March 31, 2014, current assets had increased ¥13,373 million due to increases in cash and cash in banks and in short-term investments. The increases were partly offset by decreases in notes and accounts receivable. Fixed assets rose ¥1,037 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 ¥14,410 million from a year earlier to ¥169,378 million.

Liabilities at the fiscal year-end were up ¥5,688 million to ¥31,557 million from a year earlier. This was mainly due to increases in notes and accounts payable, and accrued facility expenses under other current liabilities, despite a decrease in accrued income taxes.

Net assets at the fiscal year-end amounted to ¥137,821 million, up ¥8,722 million from a year ago. This was mainly attributable to increases in retained earnings and in unrealized holding gain on other securities.

As a result, the shareholders' equity ratio at year-end was 81.4%, down 1.9 percentage points from the previous fiscal year-end.

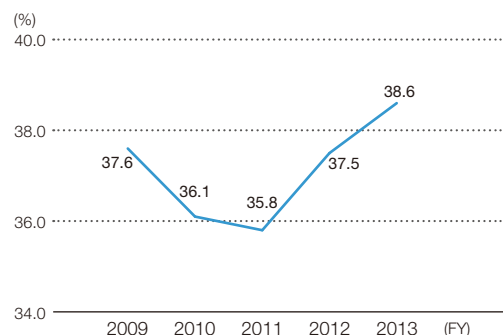
### ROE (Return on Equity)

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 are crucial to attaining those targets. In fiscal 2013, ROE was 9.0%, down 1.0 percentage point from the previous fiscal year.

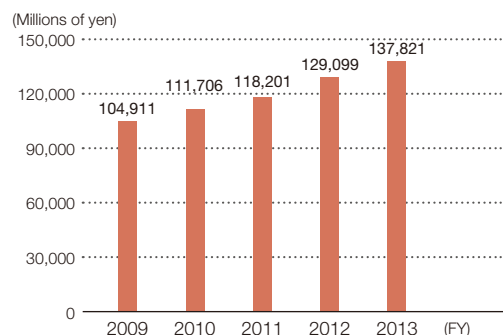
### Summary of Consolidated Balance Sheets

	Millions of yen			
	FY2012	FY2013	YoY change	YoY change (%)
Current assets	108,265	121,638	13,373	12.4
Fixed assets	46,702	47,740	1,037	2.2
Total assets	154,968	169,378	14,410	9.3
Current liabilities	22,897	28,401	5,503	24.0
Long-term liabilities	2,970	3,155	185	6.2
Total liabilities	25,868	31,557	5,688	22.0
Total shareholders' equity	126,985	135,273	8,287	6.5
Total accumulated other comprehensive income	2,113	2,548	434	20.6
Net assets	129,099	137,821	8,722	6.8
Total liabilities and net assets	154,968	169,378	14,410	9.3

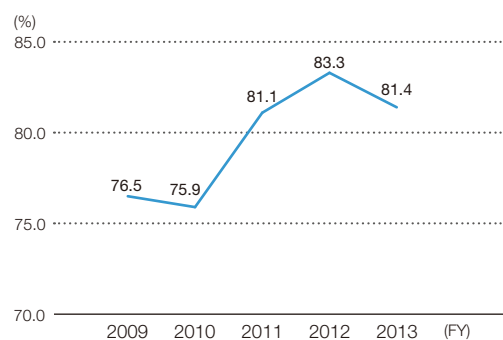
### Cost of sales ratio



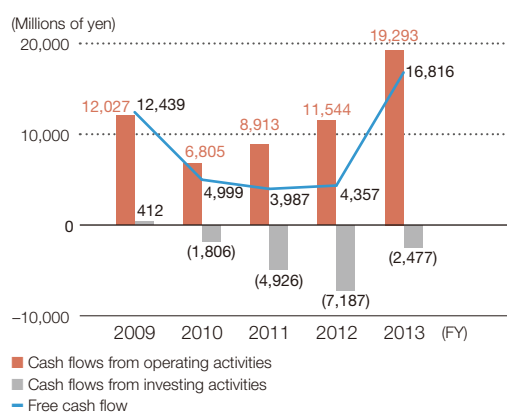
### Net assets



### Total shareholders' equity ratio



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



## Cash Flows

Net cash provided by operating activities totaled ¥19,293 million. The main components were income before income taxes and minority interests of ¥18,312 million, depreciation and amortization of ¥3,153 million, an increase in notes and accounts payable of ¥2,499 million, a decrease in notes and accounts receivable of ¥2,445 million, an increase in inventories of ¥1,761 million and income taxes paid of ¥6,089 million.

Net cash used in investing activities was ¥2,477 million. Cash was mainly used for payments for purchase of short-term investments of ¥9,895 million, proceeds from sales and redemption of short-term investments of ¥6,501 million, payments for purchase of property, plant and equipment of ¥2,622 million, and payments for purchase of investment securities of ¥4,509 million. On the other hand, cash was provided by proceeds from sales and redemption of investment securities of ¥7,829 million.

Net cash used in financing activities was ¥3,704 million, largely attributable to payment of cash dividends of ¥3,736 million.

As a result, cash and cash equivalents at the end of the fiscal year were up ¥13,285 million year on year to ¥35,828 million.

Cash flows for the next fiscal year, the fiscal year ending March 31, 2015, are projected as follows. Investing activities are projected to use approximately ¥6,000 million cash mainly for acquiring property, plant and equipment, including constructing a new R&D facility and enhancing plant facilities. Financing activities are projected to use approximately ¥4,600 million for the payment of dividends, comprising ¥42.00 per share for the year-end dividend, and ¥20.00 per share for the interim dividend.

## Summary of Consolidated Statements of Cash Flows

	Millions of yen			
	FY2012	FY2013	YoY change	YoY change (%)
Cash provided by operating activities	11,544	19,293	7,749	67.1
Cash used in investing activities	(7,187)	(2,477)	4,710	65.5
Cash provided by (used in) financing activities	(5,132)	(3,704)	1,428	27.8
Cash and cash equivalents at end of year	22,543	35,828	13,285	58.9

## Outlook for Fiscal 2014

The outlook for the domestic pharmaceutical industry is expected to remain challenging mainly due to the fact that the Japanese government should continue to implement various policies designed to curtail spending on drugs, including lowering prices on the NHI drug price list in April 2014 by about 3% for the whole industry on average, along with the impact of the consumption tax rate increase.

Under these conditions, 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 2014 is the fifth year of this plan, and we will actively promote the plan's business strategies, including advancing initiatives related to the Pharma Complex Model and accelerating growth in 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, in the new drugs business, we are projecting higher sales of products such as the new Flutiform drug launched in fiscal 2013. Combined with an anticipated increase in sales in the generic drugs business, we are expecting overall sales to reach a record high.

On the earnings front, we are forecasting lower earnings based on an anticipated increase in the cost of sales ratio due to the impact of the lowering of prices on the NHI drug price list, as well as a projected ¥1.1 billion year-on-year increase in R&D expenses to ¥12.5 billion.

## Forecasts for Fiscal 2014

	Millions of yen			
	FY2012	FY2013	FY2014	YoY change (%)
Net sales	107,031	111,400	112,200	0.7
Operating income	17,948	17,607	15,800	(10.3)
Net income	12,422	12,025	11,300	(6.0)



## 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 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 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, 2014

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
<b>Current assets:</b>			
Cash and cash in banks (Notes 4, 11 and 13)	¥ 31,017	¥ 21,370	\$ 301,370
Notes and accounts receivable (Note 11)	44,123	46,555	428,712
Short-term investments (Notes 5 and 11)	17,965	11,667	174,553
Inventories:			
Merchandise and finished goods	12,172	11,405	118,267
Work in process	1,048	837	10,183
Raw materials and supplies	8,477	7,694	82,365
Deferred tax assets (Note 14)	2,432	2,773	23,630
Other	4,456	6,013	43,296
Less allowance for doubtful accounts	(54)	(53)	(525)
<b>Total current assets</b>	<b>121,638</b>	<b>108,265</b>	<b>1,181,869</b>
<b>Property, plant and equipment:</b>			
Land	2,449	2,466	23,795
Buildings and structures	30,577	30,306	297,095
Machinery and vehicle	17,991	16,668	174,806
Leased assets (Note 10)	517	332	5,023
Construction in progress	3,505	1,071	34,056
Other	7,668	7,071	74,504
Less accumulated depreciation and impairment loss	(41,869)	(39,705)	(406,811)
<b>Property, plant and equipment, net</b>	<b>20,841</b>	<b>18,209</b>	<b>202,497</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 11)	23,804	24,552	231,286
Long-term loans	4	19	39
Asset for retirement benefits (Note 12)	20	—	194
Goodwill	—	64	—
Trademark	4	7	39
Deferred tax assets (Note 14)	454	1,438	4,411
Other	2,732	2,534	26,545
Less allowance for doubtful accounts	(122)	(123)	(1,185)
<b>Total investments and other assets</b>	<b>26,898</b>	<b>28,493</b>	<b>261,349</b>
<b>Total assets</b>	<b>¥169,378</b>	<b>¥154,968</b>	<b>\$1,645,725</b>

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Current liabilities:			
Notes and accounts payable (Note 11)	¥ 11,056	¥ 8,556	\$ 107,423
Short-term bank loans (Note 6)	1,678	1,523	16,304
Lease obligations (Note 6)	88	81	855
Accrued income taxes (Note 14)	2,361	3,356	22,940
Accrued bonuses to employees	3,301	3,327	32,073
Reserve for sales returns	30	43	291
Provision for point card certificates	39	45	379
Other	9,844	5,962	95,647
Total current liabilities	28,401	22,897	275,952
Long-term liabilities:			
Long-term debt (Note 6)	242	251	2,351
Lease obligations (Note 6)	259	184	2,517
Accrued retirement benefits for employees (Note 12)	—	1,938	—
Accrued retirement benefits for directors and corporate auditors	14	33	136
Liability for retirement benefits (Note 12)	2,073	—	20,142
Other	566	562	5,499
Total long-term liabilities	3,155	2,970	30,655
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized—297,000,000 shares in 2014 and 2013			
Issued—74,947,628 shares in 2014 and 2013	700	700	6,801
Capital surplus	4,752	4,752	46,172
Retained earnings	130,145	121,856	1,264,526
Treasury stock, at cost:			
231,922 shares in 2014			
231,213 shares in 2013	(325)	(323)	(3,158)
Total shareholders' equity	135,273	126,985	1,314,351
Accumulated other comprehensive income:			
Unrealized holding gain on other securities	3,434	2,293	33,366
Translation adjustments	12	(180)	117
Retirement benefits liability adjustments	(898)	—	(8,725)
Total accumulated other comprehensive income	2,548	2,113	24,757
Total net assets	137,821	129,099	1,339,108
Total liabilities and net assets	¥169,378	¥154,968	\$1,645,725

See notes to consolidated financial statements.

## Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Net sales	¥111,400	¥107,031	\$1,082,394
Cost of sales	43,047	40,133	418,257
Gross profit	68,352	66,897	664,127
Selling, general and administrative expenses (Note 8)	50,744	48,949	493,043
Operating income	17,607	17,948	171,075
Other income (expenses):			
Interest and dividend income	275	308	2,672
Rent income	257	268	2,497
Interest expense	(11)	(38)	(107)
Equity in earnings of affiliates	22	39	214
Foreign exchange loss	(42)	—	(408)
Loss on investments in partnership	(2)	(17)	(19)
Loss on sales and retirement of property, plant and equipment, net (Note 9)	(14)	(98)	(136)
Gain on sales of investment securities, net (Note 5)	64	25	622
Loss on devaluation of investment securities	(18)	—	(175)
Other, net	175	168	1,700
Other income, net	705	655	6,850
Income before income taxes and minority interests	18,312	18,603	177,925
Income taxes (Note 14):			
Current	5,095	5,869	49,504
Deferred	1,191	312	11,572
Total income taxes	6,287	6,181	61,086
Income before minority interests	12,025	12,422	116,838
Net income	¥ 12,025	¥ 12,422	\$ 116,838

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Income before minority interests	¥12,025	¥12,422	\$116,838
Other comprehensive income (Note 15):			
Unrealized holding gain on other securities	1,138	1,738	11,057
Translation adjustments	192	87	1,866
Share of other comprehensive income of affiliates accounted for using equity method	1	18	10
Total other comprehensive income	1,333	1,843	12,952
Comprehensive income	¥13,358	¥14,265	\$129,790
Total comprehensive income attributable to:			
Shareholders of KYORIN Holdings, Inc.	¥13,358	¥14,265	\$129,790
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, 2014

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 on other securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	
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 April 1, 2013	74,947,628	700	4,752	121,856	(323)	126,985	2,293	(180)	—	2,113	129,099
Cash dividends	—	—	—	(3,736)	—	(3,736)	—	—	—	—	(3,736)
Net income	—	—	—	12,025	—	12,025	—	—	—	—	12,025
Purchase of treasury stock	—	—	—	—	(1)	(1)	—	—	—	—	(1)
Other changes	—	—	—	—	—	—	1,140	192	(898)	434	434
Net changes during the year	—	—	—	8,289	(1)	8,287	1,140	192	(898)	434	8,722
Balance as of March 31, 2014	<b>74,947,628</b>	<b>¥700</b>	<b>¥4,752</b>	<b>¥130,145</b>	<b>¥(325)</b>	<b>¥135,273</b>	<b>¥3,434</b>	<b>¥ 12</b>	<b>¥(898)</b>	<b>¥2,548</b>	<b>¥137,821</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	Retirement benefits liability adjustments	Total accumulated other comprehensive income	
Balance as of April 1, 2013	\$6,801	\$46,172	\$1,183,988	\$(3,138)	\$1,233,822	\$22,279	\$(1,749)	\$ —	\$20,531	\$1,254,363
Cash dividends	—	—	(36,300)	—	(36,300)	—	—	—	—	(36,300)
Net income	—	—	116,838	—	116,838	—	—	—	—	116,838
Purchase of treasury stock	—	—	—	(10)	(10)	—	—	—	—	(10)
Other changes	—	—	—	—	—	11,077	1,866	(8,725)	4,217	4,217
Net changes during the year	—	—	80,538	(10)	80,519	11,077	1,866	(8,725)	4,217	84,745
Balance as of March 31, 2014	<b>\$6,801</b>	<b>\$46,172</b>	<b>\$1,264,526</b>	<b>\$(3,158)</b>	<b>\$1,314,351</b>	<b>\$33,366</b>	<b>\$ 117</b>	<b>\$(8,725)</b>	<b>\$24,757</b>	<b>\$1,339,108</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
<b>Operating activities</b>			
Income before income taxes and minority interests	¥18,312	¥18,603	\$177,925
Depreciation and amortization	3,153	2,738	30,635
Amortization of goodwill	64	128	622
Increase (decrease) in allowance for doubtful accounts	0	(302)	0
Increase (decrease) in accrued bonuses to employees	(39)	211	(379)
Decrease in accrued retirement benefits for employees	—	(1,010)	—
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	(19)	1	(185)
Increase in asset for retirement benefits	(20)	—	(194)
Increase in liability for retirement benefits	134	—	1,302
Equity in earnings of affiliates	(22)	(39)	(214)
Interest and dividend income	(276)	(308)	(2,682)
Interest expense	11	38	107
Loss on sales and retirement of property, plant and equipment, net	14	98	136
Gain on sales of investment securities, net	(64)	(25)	(622)
Loss on devaluation of investment securities	18	—	175
Decrease (increase) in notes and accounts receivable	2,445	(1,480)	23,756
Decrease (increase) in inventories	(1,761)	800	(17,110)
Increase (decrease) in notes and accounts payable	2,499	(486)	24,281
Increase (decrease) in consumption taxes payable	9	(144)	87
Other, net	637	(2,956)	6,189
Subtotal	25,099	15,865	243,869
Interest and dividend received	294	323	2,857
Interest paid	(11)	(21)	(107)
Income taxes paid	(6,089)	(4,623)	(59,162)
Net cash provided by operating activities	19,293	11,544	187,456
<b>Investing activities</b>			
Payments for time deposits	(865)	(1,328)	(8,405)
Proceeds from withdrawal of time deposits	980	1,139	9,522
Purchase of short-term investments	(9,895)	(5,995)	(96,143)
Proceeds from sales and redemption of short-term investments	6,501	2,402	63,166
Purchase of property, plant and equipment	(2,622)	(5,972)	(25,476)
Proceeds from sales of property, plant and equipment	415	0	4,032
Purchase of intangible assets	(473)	(344)	(4,596)
Purchase of investment securities	(4,509)	(3,501)	(43,811)
Proceeds from sales and redemption of investment securities	7,829	6,853	76,069
Other, net	161	(441)	1,564
Net cash used in investing activities	(2,477)	(7,187)	(24,067)
<b>Financing activities</b>			
Decrease in short-term bank loans, net	190	(1,675)	1,846
Repayments of lease obligations	(112)	(70)	(1,088)
Proceeds from long-term debt	300	360	2,915
Repayments of long-term debt	(343)	(386)	(3,333)
Net increase in treasury stock	(1)	(2)	(10)
Cash dividends	(3,736)	(3,357)	(36,300)
Net cash used in financing activities	(3,704)	(5,132)	(35,989)
<b>Effects of exchange rate changes on cash and cash equivalents</b>	173	108	1,681
<b>Increase (decrease) in cash and cash equivalents</b>	13,285	(667)	129,081
<b>Cash and cash equivalents at beginning of year</b>	22,543	23,210	219,034
<b>Cash and cash equivalents at end of year (Note 4)</b>	¥35,828	¥22,543	\$348,115

See notes to consolidated financial statements.

# Notes to the Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2014

## 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 2013 consolidated financial statements to conform to the 2014 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 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) Accounting Method for Retirement Benefits***

Up to the fiscal year ended March 31, 2014, the retirement benefit obligation is calculated by allocating the estimated retirement benefit to periods of service by the straight-line method.

Prior service cost is amortized as incurred by the straight-line method over the average remaining years of service of the employees (10 years).

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 (10 years).

***(l) Accrued Retirement Benefits for Directors and Corporate Auditors***

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.

***(m) 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).



*(n) Accounting Change***Accounting Standards for Retirement Benefits**

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, "Guidance No. 25")), except Article 35 of Statement No. 26 and Article 67 of Guidance No. 25, and unrecognized actuarial losses and unrecognized prior service costs and the difference between the retirement benefit obligations and plan assets have been recognized as liability for retirement benefits. However, when plan assets exceed retirement benefit obligations, the surplus amount has been recognized as asset for retirement benefits.

In accordance with Article 37 of Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result of the application of the standard, asset for retirement benefits in the amount of ¥20 million (\$194 thousand) and liability for retirement benefits in the amount of ¥2,073 million (\$20,141 thousand) have been recognized, and accumulated other comprehensive income has decreased by ¥898 million (\$8,725 thousand) as of March 31, 2014.

Also, the impact of the change was to decrease net assets per share by ¥12.03 (\$0.12) as of March 31, 2014.

**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 ¥102.92 = U.S.\$1.00, the approximate rate of exchange on March 31, 2014. 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, 2014 and 2013 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and cash in banks	<b>¥31,017</b>	¥21,370	<b>\$301,370</b>
Short-term investments	<b>6,062</b>	2,462	<b>58,900</b>
Time deposits with a maturity over three months	<b>(1,251)</b>	(1,289)	<b>(12,155)</b>
Cash and cash equivalents	<b>¥35,828</b>	¥22,543	<b>\$348,115</b>

## 5.

## Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2014 and 2013 is as follows:

## Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 7,206	¥12,303	¥5,096	\$ 70,016	\$119,539	\$49,514
Debt securities:						
Government bonds	15,597	15,695	97	151,545	152,497	942
Corporate bonds	300	300	0	2,915	2,915	0
Other bonds	200	206	6	1,943	2,002	58
Other	—	—	—	—	—	—
Subtotal	23,304	28,505	5,201	226,428	276,963	50,534
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	46	41	(5)	447	398	(49)
Debt securities:						
Government bonds	11,100	11,099	(0)	107,851	107,841	(0)
Corporate bonds	—	—	—	—	—	—
Other bonds	1,000	898	(101)	9,716	8,725	(981)
Other	—	—	—	—	—	—
Subtotal	12,147	12,038	(108)	118,024	116,965	(1,049)
Total	¥35,451	¥40,544	¥5,093	\$344,452	\$393,937	\$49,485

	Millions of yen		
	2013		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 6,144	¥ 9,767	¥3,622
Debt securities:			
Government bonds	13,597	13,690	92
Corporate bonds	2,338	2,414	75
Other bonds	—	—	—
Other	—	—	—
Subtotal	22,081	25,871	3,790
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	1,042	935	(107)
Debt securities:			
Government bonds	6,400	6,378	(21)
Corporate bonds	1,000	993	(7)
Other bonds	1,200	1,054	(145)
Other	—	—	—
Subtotal	9,642	9,361	(281)
Total	¥31,724	¥35,233	¥3,509

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 ¥656 million (\$6,374 thousand) and ¥433 million as of March 31, 2014 and 2013, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	<b>¥3,003</b>	¥2,871	<b>\$29,178</b>
Gains on sales	<b>64</b>	25	<b>622</b>
Losses on sales	<b>—</b>	—	<b>—</b>

## 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, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term bank loans	<b>¥1,370</b>	¥1,180	<b>\$13,311</b>
Current portion of long-term debt	<b>308</b>	343	<b>2,993</b>
Current portion of lease obligations	<b>88</b>	81	<b>855</b>
Total	<b>¥1,766</b>	¥1,604	<b>\$17,159</b>

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2014 and 2013 are 0.5% and 0.6%, respectively.

Long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Long-term debt, due through 2016 at average interest rates of 0.5% and 0.7% in 2014 and 2013, respectively	<b>¥ 550</b>	¥ 594	<b>\$ 5,344</b>
Lease obligations due through 2023 and 2022 in 2014 and 2013, respectively	<b>347</b>	265	<b>3,372</b>
Current portion of long-term debt and lease obligations due within one year	<b>(396)</b>	(424)	<b>(3,848)</b>
Total	<b>¥ 501</b>	¥ 435	<b>\$ 4,868</b>

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

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥396	\$3,848
2016	314	3,051
2017	52	505
2018	29	282
2019 and thereafter	106	1,030
Total	¥897	\$8,716

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## 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 a board of directors,
- (2) having independent auditors,
- (3) having a 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 a certain limitation 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 of 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.

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## 8. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥11,359 million (\$110,367 thousand) and ¥11,059 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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Gain:			
Buildings and structures	¥ 9	¥ —	\$ 87
Machinery and vehicle	0	0	0
Land	162	—	1,574
Other	1	0	10
	¥ 172	¥ 0	\$ 1,671
Loss:			
Buildings and structures	¥(137)	¥(13)	\$ (1,331)
Machinery and vehicle	(5)	(66)	(49)
Other	(43)	(18)	(418)
	(186)	(98)	(1,807)
Total	¥ (14)	¥(98)	\$ (136)

## 10. Leases

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

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 on noncancellable operating leases accounted for as rental transactions are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
	Operating leases	Operating leases
2015	¥ 95	\$ 923
2016 and thereafter	371	3,605
Total	¥466	\$4,528

## 11. Financial Instruments

### (a) Investment Policy of Financial Instruments

The Company and its consolidated subsidiaries mainly operate funds by the 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 customers in the early stage to mitigate bad debt by monitoring major customers' credit conditions periodically and managing the due date and balance per 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 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 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, 2014 and 2013 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	2014			2014		
Cash and cash in banks	¥ 31,017	¥ 31,017	¥—	\$ 301,370	\$ 301,370	\$—
Notes and accounts receivable	44,123	44,123	—	428,712	428,712	—
Short-term investments and investment securities	40,544	40,544	—	393,937	393,937	—
Total assets	¥115,684	¥115,684	¥—	\$1,124,019	\$1,124,019	\$—
Notes and accounts payable	¥ 11,056	¥ 11,056	¥—	\$ 107,423	\$ 107,423	\$—
Total liabilities	¥ 11,056	¥ 11,056	¥—	\$ 107,423	\$ 107,423	\$—
	Millions of yen			Millions of yen		
	2013			2013		
				Carrying value	Fair value	Difference
Cash and cash in banks				¥ 21,370	¥ 21,370	¥—
Notes and accounts receivable				46,555	46,555	—
Short-term investments and investment securities				35,233	35,233	—
Total assets				¥103,159	¥103,159	¥—
Notes and accounts payable				¥ 8,556	¥ 8,556	¥—
Total liabilities				¥ 8,556	¥ 8,556	¥—

Unlisted securities and others of ¥1,224 million (\$11,893 thousand) and ¥986 million whose fair values are extremely difficult to determine as of March 31, 2014 and 2013, 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, 2014 is as follows:

	Millions of yen			
	2014			
	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	¥31,016	¥ —	¥ —	¥ —
Notes and accounts receivable	44,123	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	¥17,600	¥6,600	¥2,500	¥ —
Bonds	300	—	—	—
Other	—	—	1,000	200
<b>Total</b>	<b>¥93,039</b>	<b>¥6,600</b>	<b>¥3,500</b>	<b>¥200</b>

	Thousands of U.S. dollars			
	2014			
	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	\$301,360	\$ —	\$ —	\$ —
Notes and accounts receivable	428,712	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	\$171,007	\$64,127	\$24,291	\$ —
Bonds	2,915	—	—	—
Other	—	—	9,716	1,943
<b>Total</b>	<b>\$903,993</b>	<b>\$64,127</b>	<b>\$34,007</b>	<b>\$1,943</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.

Certain consolidated subsidiaries have adopted the simplified method in calculating the retirement benefit obligations.

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits. In this section, information for the year ended March 31, 2013 is disclosed in conformity with the former standard.

#### (For the year ended March 31, 2014)

##### Defined benefit plans

(1) The changes in the retirement benefit obligation for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation as of April 1, 2013	¥29,999	\$291,479
Service cost	1,003	9,745
Interest cost	389	3,780
Actuarial loss	109	1,059
Retirement benefits paid	(1,237)	(12,019)
Prior service costs	(675)	(6,558)
<b>Retirement benefit obligation as of March 31, 2014</b>	<b>¥29,589</b>	<b>\$287,495</b>

(2) The changes in plan assets for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets as of April 1, 2013	¥25,269	\$245,521
Expected return on plan assets	758	7,365
Actuarial gain or loss	992	9,639
Contributions paid by the employer	2,120	20,599
Retirement benefits paid	(1,237)	(12,019)
Plan assets as of March 31, 2014	¥27,902	\$271,104

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability (asset) for retirement benefits as of April 1, 2013	¥378	\$3,673
Retirement benefits costs	75	729
Retirement benefits paid	(57)	(554)
Contributions to the plans	(28)	(272)
Liability (asset) for retirement benefits as of March 31, 2014	¥367	\$3,566

(4) The reconciliation between the liabilities recorded in the consolidated balance sheet and the balances of defined benefit obligations and plan assets as of March 31, 2014 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligation	¥ 29,821	\$ 289,749
Plan assets	(28,155)	(273,562)
	1,666	16,187
Unfunded retirement benefit obligation	387	3,760
Net liability (asset) for retirement benefits	¥ 2,053	\$ 19,948
Liability for retirement benefits	¥ 2,073	\$ 20,142
Asset for retirement benefits	(20)	(194)
Net liability (asset) for retirement benefits	¥ 2,053	\$ 19,948

The above table includes defined benefit plans applying the simplified method.

(5) The components of retirement benefits costs for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs	¥1,003	\$ 9,745
Interest costs	389	3,780
Expected return on plan assets	(758)	(7,365)
Amortization of actuarial loss	310	3,012
Amortization of prior service costs	(95)	(923)
Retirement benefits costs based on the simplified method	74	719
Retirement benefits costs	¥ 924	\$ 8,978



(6) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service costs	¥ (629)	\$ (6,112)
Unrecognized actuarial loss	2,026	19,685
Balance at the end of the year	¥1,396	\$13,564

(7) Plan assets

The breakdown of plan assets is as follows:

	2014
Domestic debt securities	42.5%
Domestic equity securities	16.6
Foreign debt securities	6.6
Foreign equity securities	12.8
Other	21.5
Total	100.0%

In determining the long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, as well as current and future long-term rates of return for the various categories of plan assets.

(8) Actuarial assumptions

	2014
Discount rate	1.3%
Expected rate of return on plan assets	3.0%

#### Defined contribution plans

The Company and its consolidated subsidiaries contributed ¥298 million (\$2,895 thousand) to the defined contribution plans for the year ended March 31, 2014.

#### (For the year ended March 31, 2013)

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

	Millions of yen
	2013
Projected benefit obligation	¥(30,577)
Plan assets at fair value	25,469
Unfunded retirement benefit obligation	(5,108)
Unrecognized actuarial gain or loss	3,219
Unrecognized prior service costs	(49)
Net retirement benefit obligation	(1,938)
Prepaid pension costs	—
Accrued retirement benefits for employees	¥ (1,938)

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

	Millions of yen
	2013
Service costs	¥ 898
Interest costs	546
Expected return on plan assets	(659)
Amortization of actuarial gain or loss	413
Amortization of prior service costs	(28)
Premium of defined contribution pension plan and annuity in advance retirement severance plan, etc.	290
<b>Total</b>	<b>¥1,461</b>

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

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

### 13. Pledged Assets

Assets pledged as collateral for guaranty deposits as of March 31, 2014 and 2013 are as follows:

Assets pledged as collateral:	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
For guaranty deposits			
Cash and cash in banks	¥10	¥10	\$97
<b>Total</b>	<b>¥10</b>	<b>¥10</b>	<b>\$97</b>

### 14. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Deferred tax assets:</b>			
Accrued retirement benefits for employees	¥ —	¥ 729	\$ —
Liability for retirement benefits	739	—	7,180
Accrued bonuses to employees	1,151	1,242	11,183
Allowance for doubtful accounts	57	54	554
Accrued enterprise tax	192	265	1,866
Loss on retirement of inventories	194	259	1,885
Loss on devaluation of investment securities	243	238	2,361
Loss on retirement of property, plant and equipment	901	909	8,754
Amortization of deferred assets	553	673	5,373
Tax loss carryforward	318	590	3,090
Other	1,031	1,237	10,017
Subtotal	5,383	6,201	52,303
Valuation allowance	(532)	(698)	(5,169)
<b>Total deferred tax assets</b>	<b>4,850</b>	<b>5,503</b>	<b>47,124</b>
<b>Deferred tax liabilities:</b>			
Reserve for reduction entry of property, plant and equipment	(66)	(33)	(641)
Unrealized holding gain on other securities	(1,879)	(1,250)	(18,257)
Other	(17)	(7)	(165)
<b>Total deferred tax liabilities</b>	<b>(1,962)</b>	<b>(1,291)</b>	<b>(19,063)</b>
<b>Net deferred tax assets</b>	<b>¥ 2,887</b>	<b>¥ 4,212</b>	<b>\$ 28,051</b>

Taxes on income consist of corporate, inhabitants and enterprise taxes. Reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2014 and 2013 are as follows:

	2014	2013
Statutory tax rate	<b>38.0%</b>	38.0%
Entertainment expenses and others that are not tax deductible permanently	<b>2.1</b>	2.1
Inhabitants' per capita taxes	<b>0.4</b>	0.4
Adjustment to deferred tax assets and liabilities from change in the statutory tax rate	<b>1.0</b>	—
Tax credits for research and development expenses	<b>(5.4)</b>	(4.5)
Valuation allowance	<b>(0.6)</b>	(1.5)
Internal profit elimination	<b>0.1</b>	(0.5)
Other	<b>(1.3)</b>	(0.9)
Effective tax rate	<b>34.3%</b>	33.2%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014), the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 4 of 2014) and the "Act for Partial Amendment Local Corporate Tax Act, etc." (Act No. 11 of 2014) were promulgated on March 31, 2014. As a result, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April, 2014. The effect of this change was to decrease deferred tax assets (net of deferred tax liabilities) as of March 31, 2014 by ¥181 million (\$1,759 thousand), and to increase deferred income taxes for the year ended March 31, 2014 by the same amount.

## 15.

### Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized holding gain on other securities:			
Gain arising during the year	<b>¥1,833</b>	¥2,724	<b>\$17,810</b>
Reclassification adjustments	<b>(64)</b>	(25)	<b>(622)</b>
Before income tax effects	<b>1,769</b>	2,698	<b>17,188</b>
Income tax effects	<b>(630)</b>	(960)	<b>(6,121)</b>
Unrealized holding gain on other securities	<b>1,138</b>	1,738	<b>11,057</b>
Translation adjustments:			
Adjustments arising during the year	<b>192</b>	87	<b>1,866</b>
Share of other comprehensive income of associates accounted for using equity method:			
Gain arising during the year	<b>1</b>	18	<b>10</b>
Total other comprehensive income	<b>¥1,333</b>	¥1,843	<b>\$12,952</b>

## 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.

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

	Millions of yen				
	2014				
	Reportable segment				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥109,678	¥1,721	¥111,400	¥ —	¥111,400
Inter-segment sales or transfers	64	51	115	(115)	—
Total	¥109,742	¥1,773	¥111,516	¥ (115)	¥111,400
Segment profit	¥ 16,973	¥ 161	¥ 17,134	¥ 473	¥ 17,607
Segment assets	¥151,201	¥ 774	¥151,976	¥17,402	¥169,378
Other items:					
Depreciation and amortization	¥ 2,845	¥ 19	¥ 2,865	¥ 288	¥ 3,153
Amortization of goodwill	64	—	64	—	64
Investments in associates accounted for using equity method	568	—	568	—	568
Increase in property, plant and equipment and intangible assets	5,906	1	5,908	534	6,442

	Thousands of U.S. dollars				
	2014				
	Reportable segment				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	\$1,065,663	\$16,722	\$1,082,394	\$ —	\$1,082,394
Inter-segment sales or transfers	622	496	1,117	(1,117)	—
Total	\$1,066,284	\$17,227	\$1,083,521	\$ (1,117)	\$1,082,394
Segment profit	\$ 164,914	\$ 1,564	\$ 166,479	\$ 4,596	\$ 171,075
Segment assets	\$1,469,112	\$ 7,520	\$1,476,642	\$169,083	\$1,645,725
Other items:					
Depreciation and amortization	\$ 27,643	\$ 185	\$ 27,837	\$ 2,798	\$ 30,635
Amortization of goodwill	622	—	622	—	622
Investments in associates accounted for using equity method	5,519	—	5,519	—	5,519
Increase in property, plant and equipment and intangible assets	57,384	10	57,404	5,188	62,592

	Millions of yen				
	2013				
	Reportable segment				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥105,162	¥1,869	¥107,031	¥ —	¥107,031
Inter-segment sales or transfers	39	0	40	(40)	—
<b>Total</b>	<b>¥105,202</b>	<b>¥1,869</b>	<b>¥107,071</b>	<b>¥ (40)</b>	<b>¥107,031</b>
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

1. "Adjustments" for "Segment profit (loss)" of ¥473 million (\$4,596 thousand) and ¥185 million for the years ended March 31, 2014 and 2013, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥17,402 million (\$169,083 thousand) and ¥15,515 million as of March 31, 2014 and 2013, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥288 million (\$2,798 thousand) and ¥146 million for the years ended March 31, 2014 and 2013, 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 ¥534 million (\$5,188 thousand) and ¥1,081 million for the years ended March 31, 2014 and 2013, respectively, were increases 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, 2014 and 2013.

**(b) Information by Geographical Area**

**(1) Sales**

Information about sales by geographical area is omitted for the years ended March 31, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013

Name of customer	Millions of yen	
	Sales amount	Related segments
Alfresa Corporation	<b>¥19,568</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>17,551</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>16,568</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>14,977</b>	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

Name of customer	Thousands of U.S. dollars	
	Sales amount	Related segments
Alfresa Corporation	<b>\$190,128</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>170,531</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>160,979</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>145,521</b>	Pharmaceutical Business and Consumer Healthcare (Skincare) Business

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

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

There is no unamortized balance of goodwill at the year ended March 31, 2014.

Information about unamortized balance of goodwill by reportable segment for the year ended March 31, 2013 is as follows.

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

Information about amortization of goodwill by reportable segment for the years ended March 31, 2014 and 2013 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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Guarantors of indebtedness of employees	<b>¥2</b>	¥2	<b>\$19</b>

## 18. Amounts per Share

Amounts per share for the years ended March 31, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Basic net income	¥ 160.95	¥ 166.25	\$ 1.56
Cash dividends	52.00	50.00	0.51
Net assets	1,844.61	1,727.86	17.92

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, 2014 and 2013.

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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Fax: +81 3 3503 1197  
www.shinnihon.or.jp

## 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, 2014, 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, 2014, 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.

*Ernst & Young ShinNihon LLC*

June 25, 2014



## Non-consolidated Financial Summary

## Non-consolidated Balance Sheet

KYORIN Holdings, Inc.  
As of March 31, 2014

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Assets</b>			
<b>Current assets</b>	<b>¥17,102</b>	<b>¥14,938</b>	<b>\$166,168</b>
Cash and deposits	10,146	10,112	98,581
Short-term investments	3,599	—	34,969
Prepaid expenses	147	79	1,428
Income taxes receivable	1,039	2,584	10,095
Short-term loans	2,000	2,000	19,433
Deferred tax assets	154	138	1,496
Other	15	22	146
Less allowance for doubtful accounts	0	—	0
<b>Noncurrent assets</b>	<b>84,370</b>	<b>84,649</b>	<b>819,763</b>
Property, plant and equipment	744	871	7,229
Intangible assets	761	512	7,394
Investments and other assets	82,865	83,265	805,140
<b>Total assets</b>	<b>101,473</b>	<b>99,587</b>	<b>985,941</b>
<b>Liabilities</b>			
<b>Current liabilities</b>	<b>698</b>	<b>466</b>	<b>6,782</b>
<b>Non-current liabilities</b>	<b>7</b>	<b>7</b>	<b>68</b>
<b>Total liabilities</b>	<b>706</b>	<b>474</b>	<b>6,860</b>
<b>Net assets</b>			
Shareholders' equity	100,767	99,112	979,081
<b>Total net assets</b>	<b>100,767</b>	<b>99,112</b>	<b>979,081</b>
<b>Total liabilities and net assets</b>	<b>101,473</b>	<b>99,587</b>	<b>985,941</b>

## Non-consolidated Statement of Income

KYORIN Holdings, Inc.  
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Operating revenue</b>	<b>¥8,640</b>	<b>¥15,654</b>	<b>\$83,949</b>
Operating expenses	3,078	2,476	29,907
<b>Operating income</b>	<b>5,561</b>	<b>13,178</b>	<b>54,032</b>
Non operating income	121	38	1,176
<b>Ordinary income</b>	<b>5,683</b>	<b>13,126</b>	<b>55,218</b>
Extraordinary income	—	—	—
Extraordinary loss	151	185	1,467
<b>Income before income taxes</b>	<b>5,531</b>	<b>13,031</b>	<b>53,741</b>
Income taxes—current	37	27	360
Income taxes—deferred	101	29	981
<b>Net income</b>	<b>5,392</b>	<b>12,973</b>	<b>52,390</b>

Note: The rate of ¥102.92 to U.S.\$1.00, prevailing on March 31, 2014, has been used for translation into U.S. dollar amounts.

## Corporate Overview/Stock Information (As of March 31, 2014)

**Head Office** 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311  
 Phone: +81-3-3525-4700  
 URL: <http://www.kyorin-gr.co.jp/en/>

**Establishment** 1958

**Common Stock** ¥700 million

**Outstanding Shares** 74,947,628

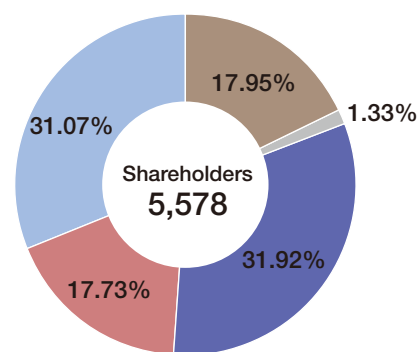
**Shareholders** 5,578

**Listing** Tokyo Stock Exchange, First Section

**Transfer Agent** Mizuho Trust & Banking Co., Ltd.,  
 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028  
 Phone: +81-3-3278-8111

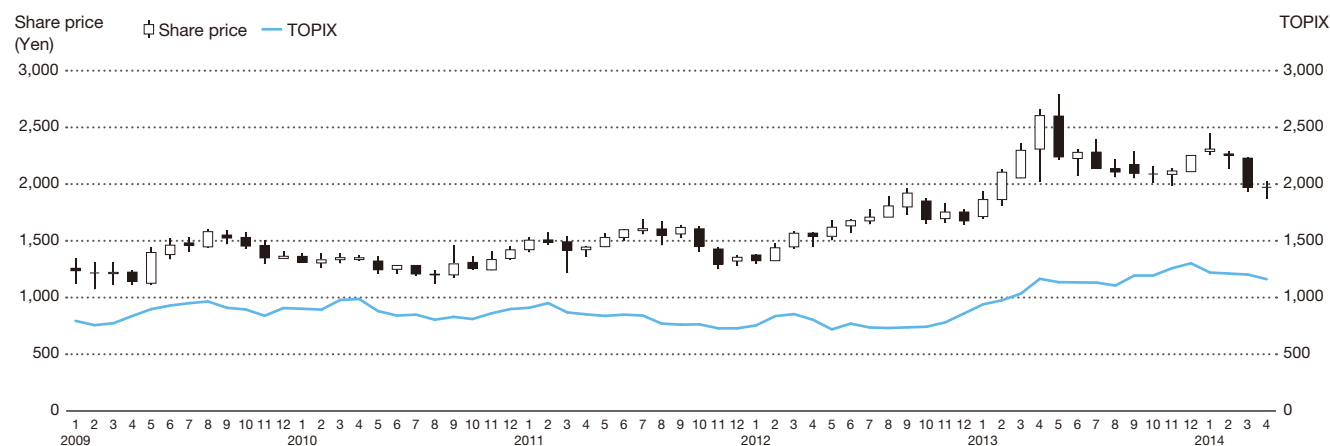
Major Shareholders	Percentage of total shares outstanding
TEIJIN LIMITED	10.13%
Apricot Co., Ltd.	6.00%
Mykam Co., Ltd.	3.66%
The Master Trust Bank of Japan, Ltd. (Trust Account)	3.65%
Japan Trustee Services Bank, Ltd. (Trust Account)	3.22%
Hiroko Ogihara	3.00%
Minoru Ogihara	2.97%
Banrina Co., Ltd.	2.60%
Archans Co., Ltd.	2.60%
Yutaka Ogihara	2.48%

### Major Shareholders



Financial institutions	17.95%
Financial instruments firms	1.33%
Other corporations	31.92%
Foreign corporations	17.73%
Individuals and other	31.07%

### Change in Share Price

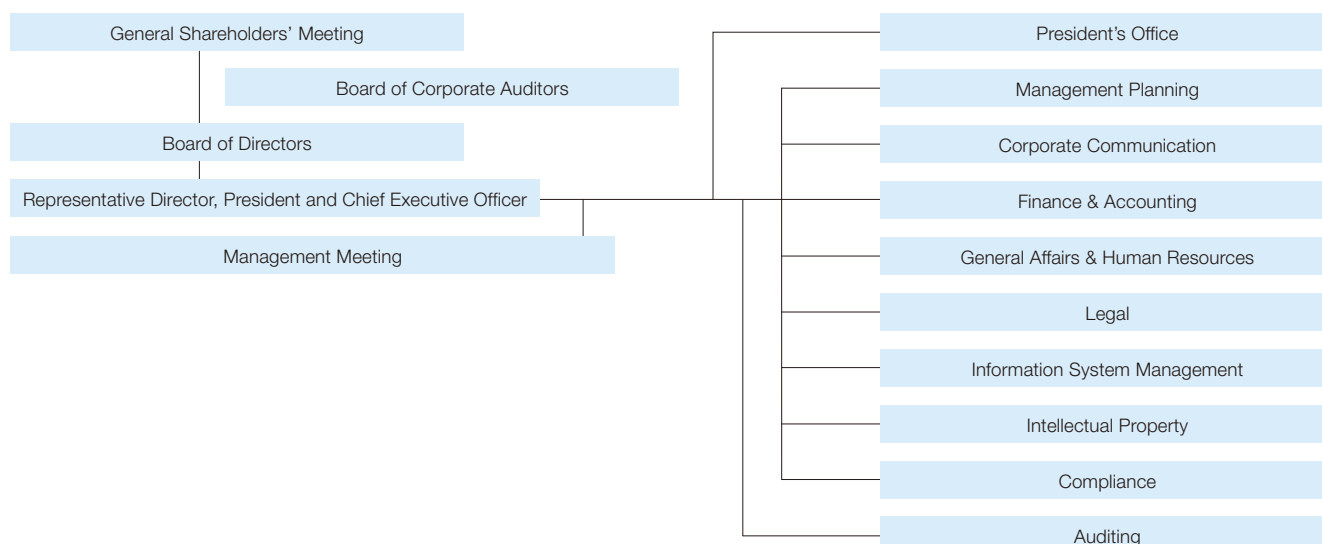


Website introducing Kyorin's IR activities <http://www.kyorin-gr.co.jp/en/ir/>

Kyorin has created an informative website introducing its IR activities, with the aim of providing timely information to all shareholders and investors. This website provides appropriate public information about Kyorin, including account settlement information, news releases, investor briefings materials, and annual reports.



## Organization Chart (As of June 24, 2014)



## Subsidiaries and Affiliates

### 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

### 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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