

 **ANNUAL REPORT 2015**
 **Year ended March 31, 2015**


History of the Kyorin Group

KYORIN Pharmaceutical, the core company within the Kyorin Group, was established in 1923. Since then, Kyorin takes seriously the realization of its corporate philosophy of always making a contribution to human health. Kyorin has developed its healthcare business based around skincare and other medical products, and currently the Group's pharmaceutical operations span R&D, manufacturing and sales.

The Kyorin Group is focused on developing a continuous stream of original drugs, while also diversifying its businesses to respond to diversifying healthcare needs.

Corporate Philosophy of the Kyorin Group

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

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.

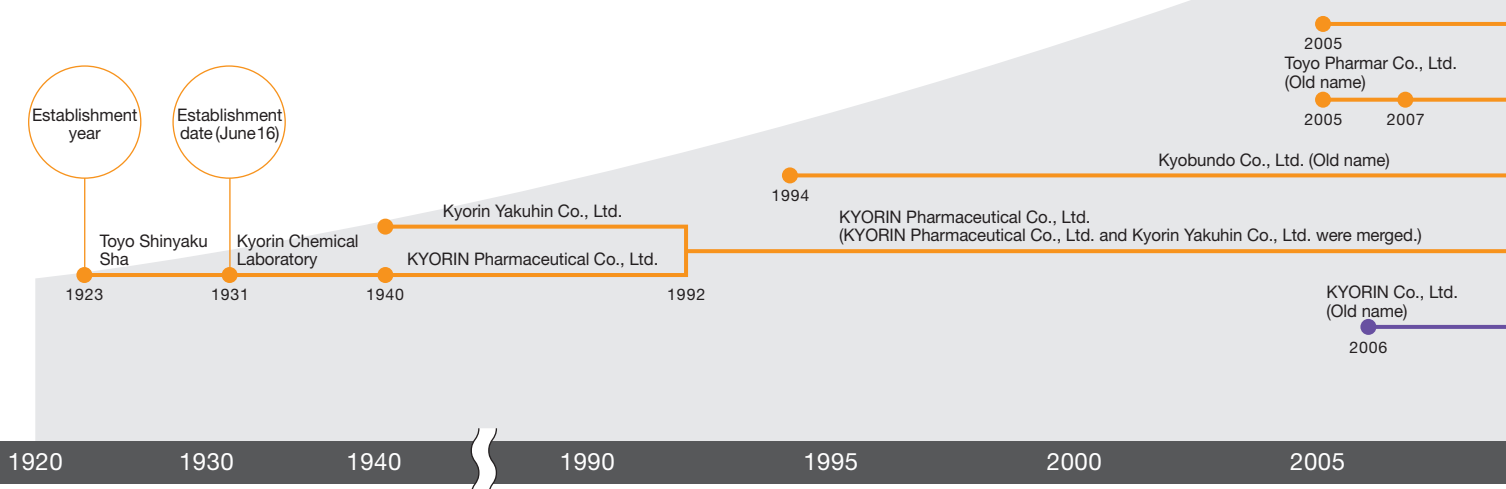
[Kyorin Legend]

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.



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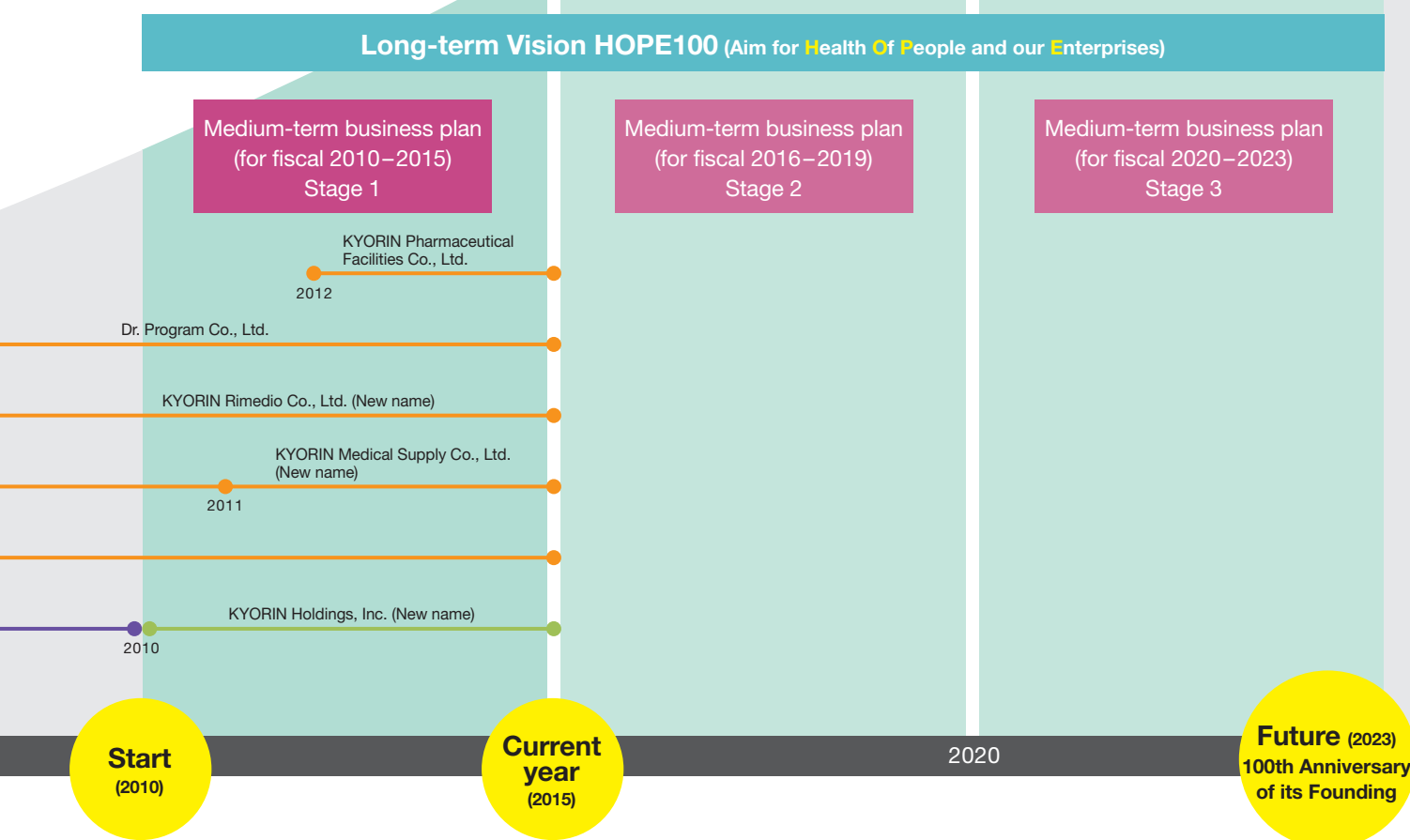
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The Kyorin Group is focused on achieving HOPE100, a long-term business vision spanning the period to the centenary of the founding of KYORIN Pharmaceutical in 2023. The Company is working to achieve the goals of its current medium-term business plan that covers Stage 1 of the HOPE100 vision.

Corporate vision
for **2023**

Long-term Vision HOPE100 (FY2010–FY2023)

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



Editorial Policy

Annual Report 2015 integrates financial reports with information on the Group's environmental, social and governance (ESG) activities. In line with the framework established by the International Integrated Reporting Council, the report combines results and other financial data with nonfinancial information relating to value creation by the Kyorin Group, including business processes and strategies. Through this approach, we aim to help stakeholders gain a deeper understanding of the Group's activities.

Target Audience

Shareholders, investors and other stakeholders

Period Covered by Report

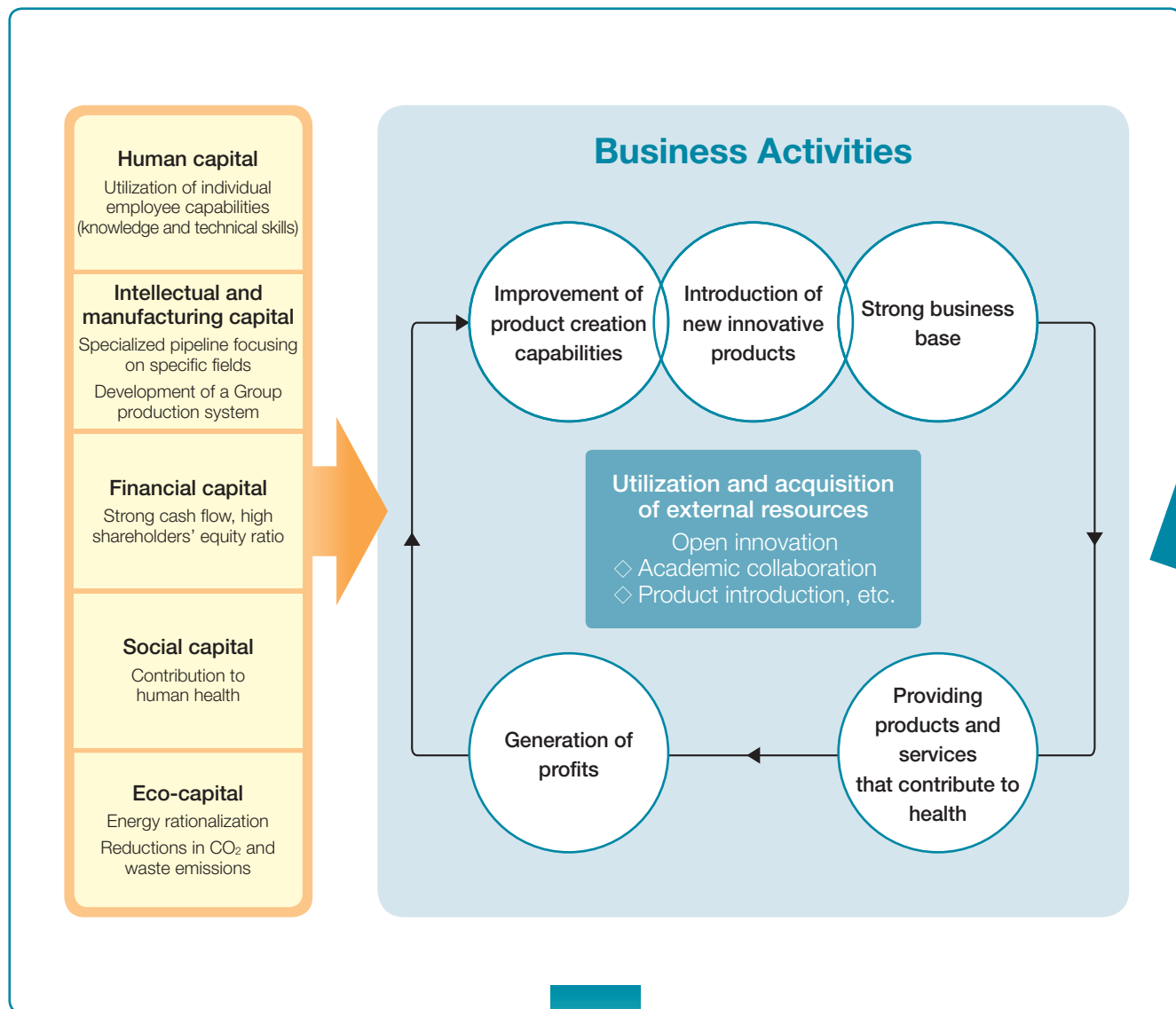
Fiscal 2014 (April 1, 2014 to March 31, 2015); some information also relates to fiscal 2015 activities.

The Process of Value Creation

The Kyorin Group gives priority to its basic business activities, including investing in people, contributing to society and caring for the environment. The Group works to improve its corporate value by striving to create a more robust financial base while conducting business activities that include the development, production and sale of pharmaceuticals and other products.

In line with the HOPE100 vision, the Group is developing business through a business model that aims to build a diversified business portfolio centered on its pharmaceutical business, from the viewpoint of responding to diversifying healthcare needs and achieving corporate growth.

Value Creation Process



Achieve Long-term Vision HOPE100

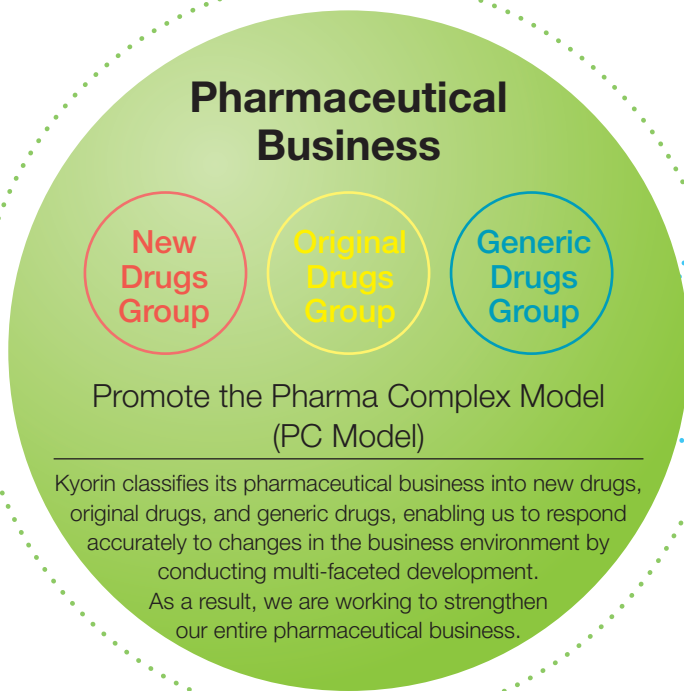
Statement

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

Business Model

Work to diversify the pharmaceutical business and the consumer healthcare business

The Group targets sustained growth by combining the drug discovery business, which operates on a long time scale, with the consumer healthcare business, which has a relatively short business cycle and supplements the pharmaceutical business.



Long time scale



Short time scale

Five HOPEs (Corporate Objectives)

- The Leading Company for Career Fulfillment
- An International Company that Supports Healthy Lifestyles Around the World
- A Company that Seeks to Co-Exist with Society
- A Company that Sustains Growth
- An Innovative Company that Customers Trust

Performance Highlights

Consolidated Financial Highlights

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

| | FY2010 | FY2011 | FY2012 | FY2013 | Millions of yen FY2014 |
|---|---------|---------|---------|---------|---------------------------|
| Results of Operations | | | | | |
| Net sales | 104,069 | 103,232 | 107,031 | 111,400 | 113,121 |
| Operating income | 16,443 | 14,464 | 17,948 | 17,607 | 14,737 |
| Operating income/Net sales ratio (%) | 15.8 | 14.0 | 16.8 | 15.8 | 13.0 |
| Net income | 10,927 | 9,231 | 12,422 | 12,025 | 12,064 |
| Net income/Net sales ratio (%) | 10.5 | 8.9 | 11.6 | 10.8 | 10.7 |
| Net cash provided by operating activities | 6,805 | 8,913 | 11,544 | 19,293 | 6,391 |
| Net cash used in investing activities | (1,806) | (4,926) | (7,187) | (2,477) | (1,364) |
| Free cash flow | 4,999 | 3,987 | 4,357 | 16,816 | 5,027 |
| R&D expenses | 12,495 | 13,964 | 11,059 | 11,359 | 13,514 |
| R&D expenses/Net sales ratio (%) | 12.0 | 13.5 | 10.3 | 10.2 | 11.9 |
| Capital expenditure | 1,668 | 1,952 | 6,576 | 6,500 | 2,655 |
| Depreciation and amortization | 2,458 | 2,363 | 2,738 | 3,153 | 3,053 |
| ROE (%) | 10.1 | 8.0 | 10.0 | 9.0 | 8.4 |
| ROA (%) | 7.7 | 6.3 | 8.3 | 7.4 | 6.8 |

Financial Position at Year-end

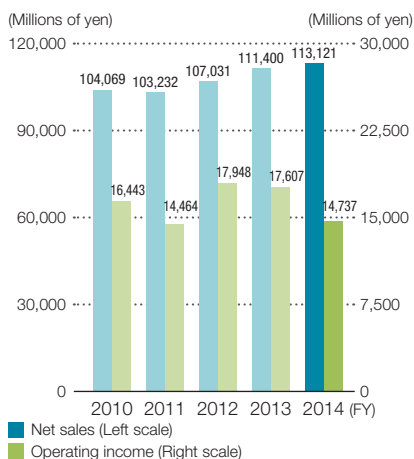
| | | | | | |
|--------------------------------------|---------|---------|---------|---------|----------------|
| Total assets | 147,234 | 145,673 | 154,968 | 169,378 | 183,383 |
| Total net assets | 111,706 | 118,201 | 129,099 | 137,821 | 148,600 |
| Total shareholders' equity ratio (%) | 75.9 | 81.1 | 83.3 | 81.4 | 81.0 |

Yen

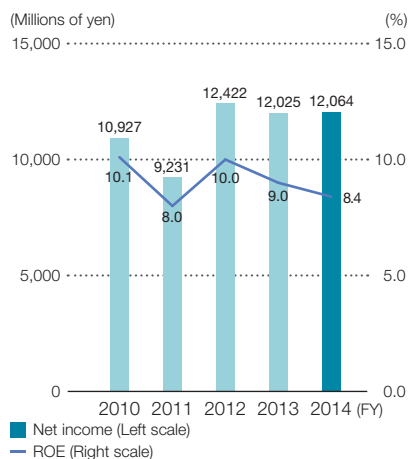
Amounts per Share

| | | | | | |
|---------------------------------|----------|----------|----------|----------|-----------------|
| Net assets | 1,494.83 | 1,581.94 | 1,727.86 | 1,844.61 | 2,009.45 |
| Net income | 146.21 | 123.54 | 166.25 | 160.95 | 161.63 |
| Cash dividends | 45.00 | 45.00 | 50.00 | 52.00 | 52.00 |
| Cash dividends payout ratio (%) | 30.8 | 36.4 | 30.1 | 32.3 | 32.2 |
| Number of employees | 2,294 | 2,297 | 2,444 | 2,452 | 2,445 |

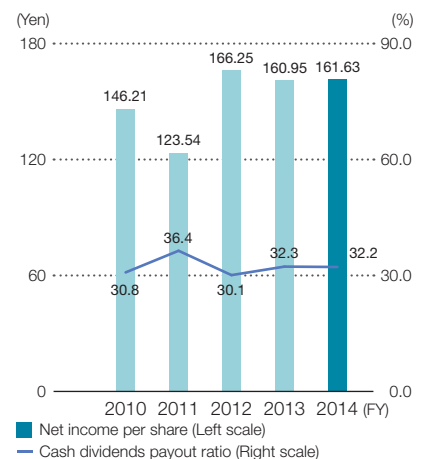
Net sales/Operating income



Net income/ROE



Net income per share/ Cash dividends payout ratio

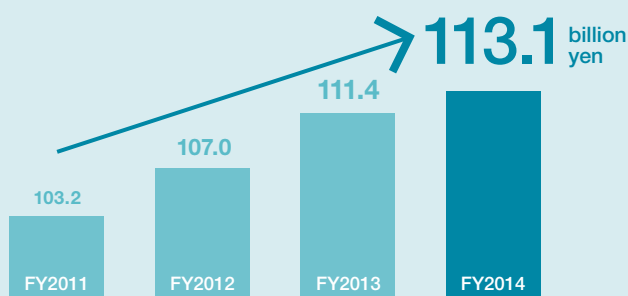


Fiscal 2014 Highlights

Operating results

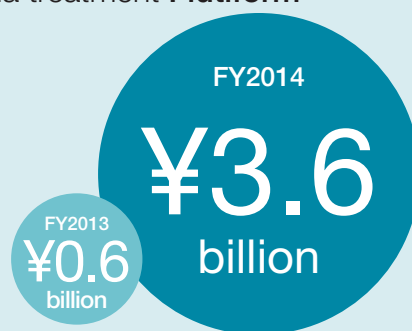
Group consolidated net sales

Achieved a new record



New product Increased sales of combination drug for asthma treatment **Flutiform**

(A 30-day formulation (120-inhalation) launched Dec. 2014)



New product COPD treatment **Eklira Genuair**

Launched

(May 2015)



Generic drug business

Sales ¥15.5 billion

+29.1% (yoy)



In-licensing and acquiring rights

Allergic rhinitis treatment **desloratadine**
Co-promotion agreement with MSD (Nov. 2014)
 Gene-therapy product **Ad-SGE-REIC**
Development initiated (Jul. 2014)

New R&D facility

WATARASE Research Center opened
 (Jul. 2015)



Progress in the R&D pipeline

Overactive bladder treatment KRP-114V: **Phase III clinical trials initiated** (Jan. 2015)
 Quinolone synthetic antibacterial agent KRP-AM1977X: **Phase III clinical trials initiated** (Apr. 2015)
 Quinolone synthetic antibacterial agent KRP-AM1977Y: **Phase II clinical trials initiated** (Jun. 2014)

To Our Shareholders and Investors



Representative Director,
Chairman
Masahiro Yamashita

Representative Director,
President and Chief Executive Officer
Minoru Hogawa

All Kyorin Group employees are united in their determination to realize our long-term vision HOPE100

The Kyorin Group intends to develop as a corporate group recognized for its presence in society, based on our corporate philosophy, which states “to cherish life and benefit society by contributing to better health.”

As the embodiment of this corporate philosophy, we formulated our long-term vision HOPE100 and our HOPE100 Stage 1 medium-term business plan (for fiscal 2010–2015) in 2010. The Kyorin Group will promote diversified business expansion, including in regards to drugs that can truly contribute to better health. Meanwhile, the Group 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 fiscal 2014, the fifth year of our HOPE100 Stage 1 medium-term business plan, and amid a tough business climate due partly to drug pricing revisions, we were able to set a new record for revenue mainly due to growth in the ethical drug business in Japan and sales expansion in the generic drug business.

By extension, fiscal 2015 is the final year of our current medium-term business plan, and I believe a key issue is to formulate a new medium-term business plan, HOPE100 Stage 2 (Fiscal 2016–2019), designed as the next step in achieving a higher level of numerical targets and in realizing our long-term vision.

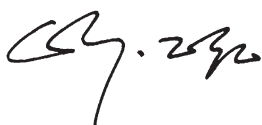
In June 2015, we commenced a new management structure, with Masahiro Yamashita being appointed representative director, chairman and Minoru Hogawa being appointed representative director, president and chief executive officer. Under this new management structure, the Kyorin Group will harness its collective power and strive to further improve its corporate value.

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

“Your Health is Kyorin’s Mission.”

August 2015

Representative Director,
Chairman
Masahiro Yamashita



Representative Director,
President and Chief Executive Officer
Minoru Hogawa



President's Interview



We will manage the company
with a keen awareness of the need for both
transformation and speed.

Representative Director,
President and Chief Executive Officer
Minoru Hogawa

Q1 | As the new representative director and president, what are your ambitions and intentions for the company?

Answer 1

I was appointed representative director and president at the Ordinary General Shareholders' Meeting held on June 23, 2015 and at the meeting of the Board of Directors that followed. The Kyorin Group is currently working toward the embodiment of our long-term vision HOPE100, which has a target year of 2023. Our mission, as stated in the vision, is to be broadly recognized as a company that supports sound and healthy lifestyles while at the same time achieving sustained growth. The business environment in which the Group operates however is changing so quickly that it cannot be accommodated by merely extending our old approaches into the future. We will therefore manage the company with a keen awareness of the need for both transformation and speed.

Q2 | Please describe the business environment in the last fiscal year and the company's financial results in general.

Answer 2

Consolidated Performance in Fiscal 2014

The structure of the market in Japan's pharmaceuticals industry has undergone substantial change due to the National Health Insurance (NHI) drug price revisions that went into effect on April 2014 and the reforms made to the remuneration system for medical services, and growth in the ethical pharmaceuticals market has been sluggish. Our consumer healthcare business has also faced difficult conditions due to the prolonged impact of decreased demand following last-minute demand ahead of the consumption tax increase, as well as to only moderate growth in consumer spending.

In terms of performance, in the pharmaceutical business, new drugs enjoyed increased sales owing to the launch of a new 30-day

formulation (120 inhalations) of Flutiform, a combination drug for asthma treatment which had its dosing period restriction lifted in December 2014, and to growth from mainstay products, but sales of Mucodyne, a mucoregulant, and other original drugs decreased year on year due to the impact of drug price revisions and other factors. Generic drug sales however increased significantly at insurance dispensing pharmacies and other outlets due to our having actively carried out sales activities on a tailwind provided by policies and other measures to promote use of generic drugs. As a result, overall sales from the pharmaceutical business increased by 2.0% compared to the previous fiscal year.

In the consumer healthcare business, the over-the-counter drugs and others category enjoyed increased sales from RUBYSTA, a multi-purpose disinfectant cleaner, but sales at Dr. Program Co., Ltd., which handles skincare products, declined year on year, so overall sales in the business declined by 6.1% compared to the previous year.

As a result of these developments, consolidated net sales increased 1.5% year on year to ¥113,121 million, which was a new record high. At the same time, on the earnings front, the cost of sales ratio increased by 2.6 percentage points year on year, while R&D expenses also went up due to the conclusion of new in-licensing agreements to strengthen the pipeline. As a result, operating income declined by 16.3% to ¥14,737 million, meaning we still have issues to resolve.

Research and Development

Regarding the progress of R&D activities, Eklira Genuair, a treatment for chronic obstructive pulmonary disease (COPD), was released in May. In addition, we commenced Phase III clinical trials for KRP-114V, an overactive bladder treatment, and Phase II clinical trials for KRP-AM1977Y, a quinolone synthetic antibacterial agent. We also made steady progress on other drugs in our development pipeline.

We also took on a new project: the development of an Ad-SGE-REIC formulation, a next-generation gene-therapy drug with the potential to treat diseases with substantial unmet medical needs.

Q3 | Tell us about your initiatives in fiscal 2015, the final year of the HOPE100 Stage 1 medium-term business plan.

Answer 3

Business Strategy

Since initiating our HOPE100 Stage 1 medium-term business plan in fiscal 2010, the Kyorin Group has regarded development of a business portfolio that mitigates risk in the pharmaceutical business and promotes growth to be an important part of the Group's own sustained growth. We formulated the Multi-Core (MC) strategy and worked to strengthen our core pharmaceutical business, while also further developing the multifaceted consumer healthcare business, cultivating existing businesses and expanding into new ventures.

This fiscal year, to achieve sustained, healthy and profitable growth in the pharmaceutical business in the midst of major changes taking place in the medical environment, drug pricing and product lineups, we intend to reconstruct our sales strategies for the medium and long term and promote the Group production model. For generic drugs, we will work to achieve challenging targets on the tailwind provided by system reforms. In addition, we will further advance the proactive joint development model with other companies and formulate a plan for strengthening R&D capabilities.

As regards the consumer healthcare business, in the environmental hygiene business, we will accelerate growth in the RUBYSTA business so that it quickly becomes a new core business for the Group, and also work to expand other product lineups to make environmental hygiene a business with excellent prospects in terms of both scale and profitability.

Drug Discovery is the Lifeblood of a Pharmaceutical Company

For our core drug discovery business, we intend to reform drug discovery systems and augment our pipeline.

With the WATARASE Research Center, a new R&D facility, which went into operation in July 2015, we will reform our drug discovery system into a matrix organization that promotes new drug discovery from both product and technical standpoints, and work to continuously create innovative and original new drugs in specific fields (respiratory medicine, otolaryngology, and urology). In addition, together with the Clinical Development Center, we will actively engage in in-house drug discovery, development of in-licensed products and life cycle management for existing products (acquiring additional formulations, indications and dosages), and thereby build an appealing product pipeline in specific fields.

Performance

For this fiscal year (fiscal 2015), the final year of our medium-term business plan, we had targeted net sales of ¥140.0 billion and operating income of ¥20.0 billion. However, the business environment intensified drastically as the Japanese government continued to implement various policies designed to curtail spending on drugs. As a result, our consolidated business forecast for the final fiscal year of our medium-term business plan is net sales of ¥120.2 billion and operating income of ¥16.0 billion.

In terms of sales in this fiscal year, for new drugs, we will robustly accelerate market penetration of Flutiform, a combination drug for asthma treatment, which is in its third year on the market, and promote the market introduction of the new product Eklira Genuair, a treatment for COPD. Through these and other means, we will work to

increase sales of new drugs and further expand sales of generic drugs. As for earnings, while an increase in selling, general and administrative expenses is anticipated, gross profit will also rise, so operating income is expected to increase year on year.

Given these considerations, we are projecting year-on-year increases in both revenues and profits (operating income and ordinary income) in this fiscal year, and all Group employees will earnestly make every effort to achieve these forecasts.

Q4 | What is your stance regarding shareholder returns?

Answer 4

We will work to raise corporate value and fulfill our responsibilities to stakeholders by conducting investments for growth, investments for business continuity and shareholder returns in a well-balanced manner and strengthening our management base. Investments for growth will involve promoting efforts to license new products to reinforce our R&D pipeline in the pharmaceutical business, the core of the Kyorin Group. And, in the consumer healthcare business, we will actively consider growth investment to expand new businesses.

As for shareholder returns, we are aiming for a consolidated payout ratio of approximately 30% when deciding dividends. The dividend per share for fiscal 2014 was ¥52, representing a consolidated payout ratio of 32.2%. In fiscal 2015, we are forecasting a dividend per share of ¥52 (interim dividend of ¥20), for a consolidated payout ratio of 33.8%.



Q5 | Do you have a message for your stakeholders?

Answer 5

As we move to realize our long-term vision HOPE100, our ideal for the Kyorin Group, we will actively and robustly work to achieve the numerical targets we've set for the fiscal year and tackle the management issues we've identified.

Given that this year is the last year of the current medium-term business plan, we will spend the year laying the groundwork for the next plan, HOPE100 Stage 2 (Fiscal 2016–2019), which is the next step toward the HOPE100 vision.

The Group intends to even more actively disclose information and to communicate with stakeholders as appropriate as regards the progress we are making to realize our long-term vision HOPE100.

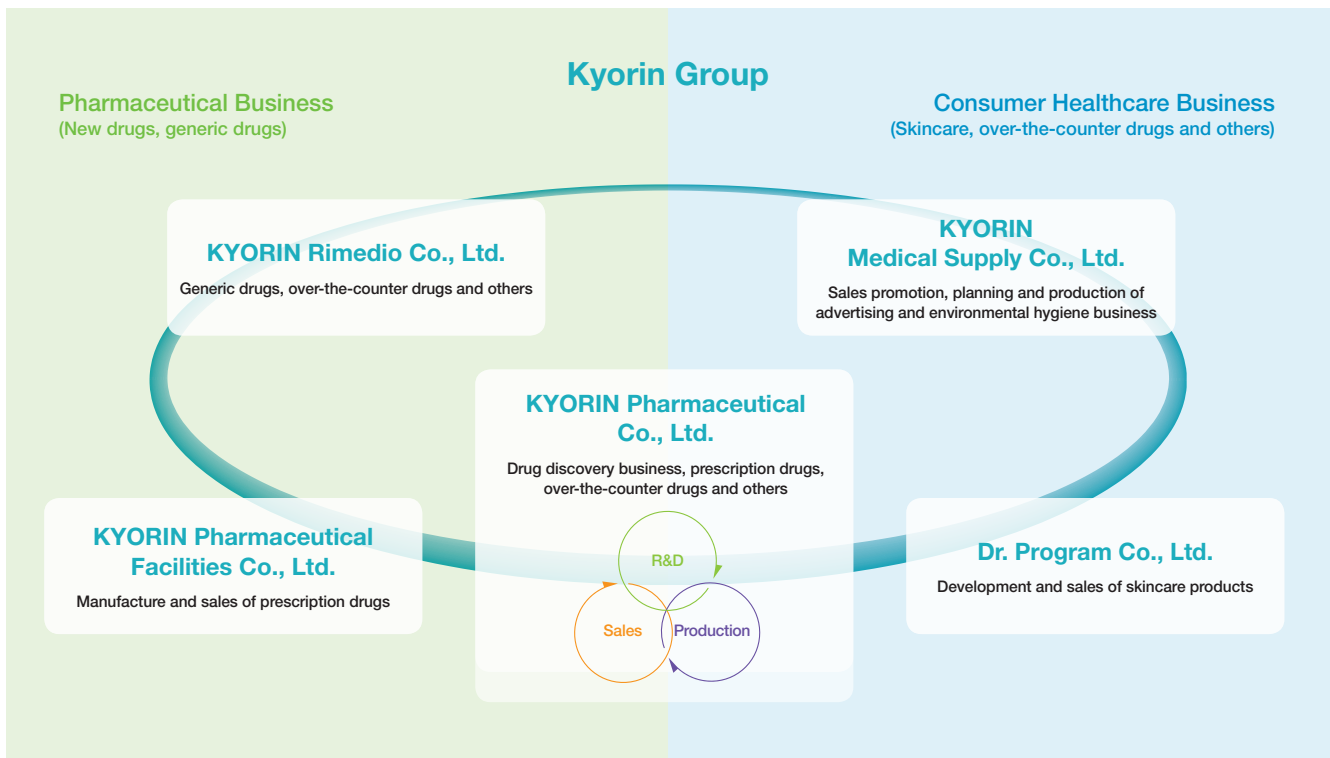
I look forward to the continued support of all of our stakeholders.

Promotion of Group Management

For the Kyorin Group, business strategies to maximize the strengths of the Group are an essential part of achieving sustained growth. In both the pharmaceutical and consumer healthcare businesses, we are promoting a Multi-Core (MC) strategy, which is a Group strategy of strengthening cooperation both within and outside the Group, so that we can cultivate existing businesses and create new businesses.

Seeking to Diversify Businesses through Group-wide Collaboration

The Kyorin Group comprises five consolidated subsidiaries and 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 diversifying the consumer healthcare business through Group-wide collaboration.



Initiatives for Group-wide Collaboration

Pharmaceutical Business

■ New Drugs Group and Original Drugs Group

We are 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 for the Group. By strengthening cooperation between KYORIN Pharmaceutical Facilities and the Okaya and Noshiro plants, we will ensure a smooth transition.

■ Generic Drugs Group

KYORIN Pharmaceutical and KYORIN Rimedio have been collaborating on R&D, thereby enabling the development of high-quality 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 revitalizing coordination among employees within the Group in order to ensure a reliable supply of generic drugs, including by sharing technology and providing production assistance.

Consumer Healthcare Business

■ Penetration of Multi-purpose Disinfectant Cleaner RUBYSTA and Disinfectant Milton

RUBYSTA 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 continue to strengthen sales of our existing flagship product, Milton, while also seeking to enhance our lineup of products in the environmental hygiene business, using partnerships within the Kyorin Group to further popularize these products.

■ Development of Skincare Products

A skincare research unit established in KYORIN Pharmaceutical's WATARASE Research Center is collaborating with Dr. Program on the development of skincare products.

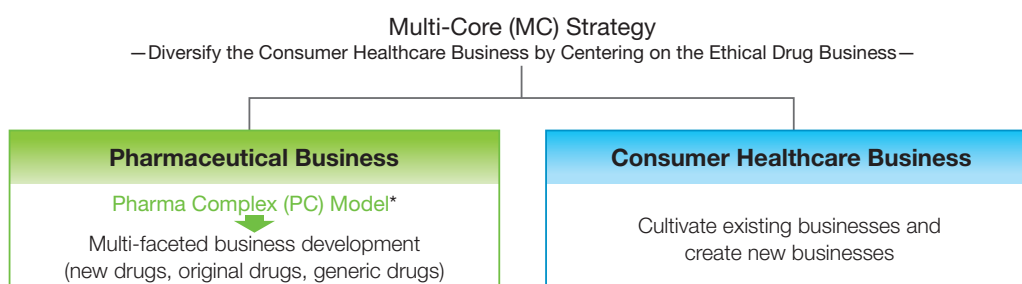
Group Strategy

Multi-Core (MC) Strategy

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 Multi-Core (MC) strategy comprising our pharmaceutical business and consumer healthcare business.

In the pharmaceutical business, we are implementing a concept that we call the Pharma Complex Model (PC model), an approach

encompassing multi-faceted development in the “New Drugs Group,” the “Original Drugs Group,” and the “Generic Drugs Group.” In the consumer healthcare business, we are compensating for risks in our pharmaceutical business and promoting growth as a Group by cultivating our existing businesses and striving to augment new businesses.



* 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 business development. As a result, we are working to strengthen our entire pharmaceutical business.

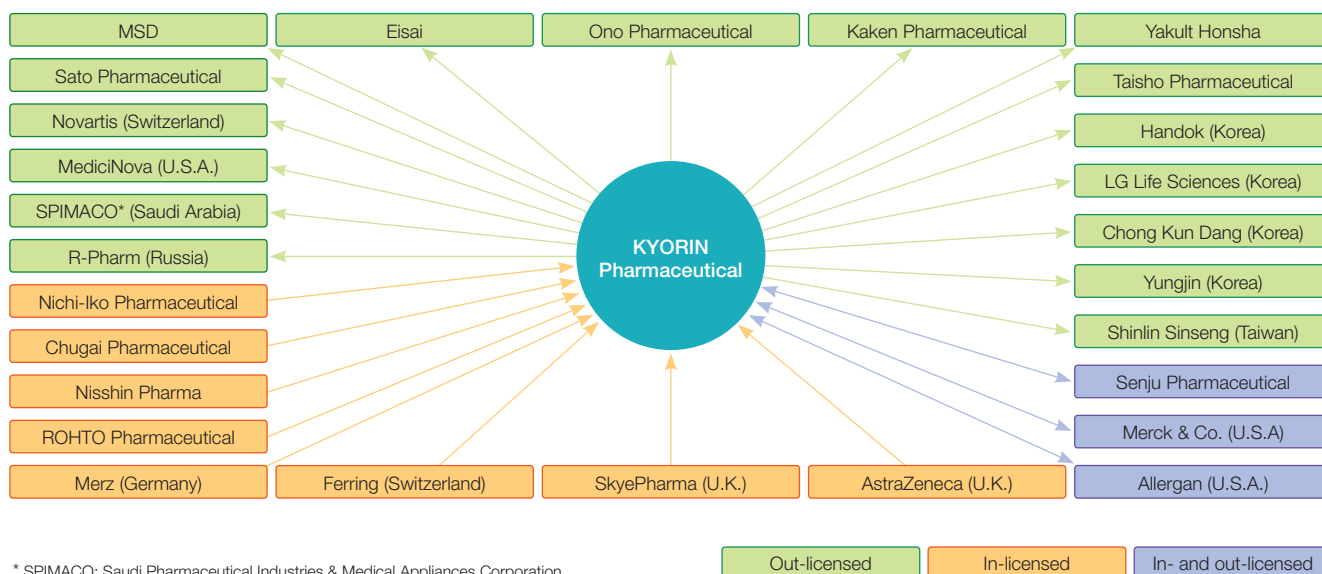
Alliances Strategy

KYORIN Pharmaceutical, the core subsidiary in the Kyorin Group, is working to reinforce its product pipeline to establish a greater presence in specific fields. Amid a lack of innovative new drugs worldwide, the large number of competing companies makes it a major challenge to acquire products through in-licensing activities.

Under these conditions, we have successfully in-licensed various drugs in specific fields (FC), namely, the therapeutic areas of respiratory medicine, urology, and otolaryngology. These include Flutiform, a combination drug for asthma treatment launched in November 2013; Eklira Genuair, a COPD treatment launched in May 2015; KRP-209, a treatment for tinnitus; KRP-AB1102F, a COPD treatment; and KRP-114V, a therapeutic agent for overactive bladder.

In addition, we have concluded a co-promotion agreement with MSD for desloratadine, a treatment for seasonal allergic rhinitis.

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 franchise customer (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.



Establishing a Greater Presence in Specific Fields

KYORIN Pharmaceutical focuses on R&D activities and marketing activities in specific fields (FC), namely, the therapeutic areas of respiratory medicine, otolaryngology and urology, and promotes the Franchise Customer (FC) strategy that realizes sustained growth in an effective and efficient way. We prioritize marketing activities that involve making regular visits mainly to specialist physicians, and we are building strong relationships of mutual trust with medical professionals. At the same time, our R&D activities aimed at enhancing our product lineup are also focused on these specific fields (FC). Overall, we aim to establish a greater presence to make our pharmaceutical operations more competitive.

Pharmaceutical Business

Respiratory field

Flutiform

FY2014 Sales **3.6 billion yen**

Combination drug for asthma treatment

Flutiform
50 Aerosol 56 Inhalations/120 Inhalations
Flutiform
125 Aerosol 56 Inhalations/120 Inhalations



This combination asthma treatment delivers fluticasone*1 for the prevention of airway inflammation along with formoterol*2 that acts as a bronchodilator. The use of a pressurized metered-dose inhaler enables patients to inhale the drug easily, irrespective of the level of lung function.

*1 Fluticasone propionate *2 Formoterol fumarate dihydrate

Eklira Genuair Launched

COPD treatment
Eklira 400 µg Genuair for 30 Inhalations



The product was launched in May 2015 for the treatment of COPD. Administered twice daily using the advanced Genuair inhaler, Eklira improves respiratory function throughout the entire day.

Products under Development

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|---------------|--|--------------------|--|--------|-------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| KRP-AB1102F | Chronic obstructive pulmonary disease (COPD) | Almirall (Spain) | A drug that combines the long acting muscarinic agonist (LAMA: aclidinium) and the long-acting beta 2 stimulant (LABA: formoterol) | | | 8/2013 | |
| Ad-SGE-REIC | Malignant pleural mesothelioma | Okayama University | A gene therapy drug that uses the new cancer-inhibiting gene REIC that was discovered at Okayama University. It is expected to induce the active development of cancer cell selective apoptosis and anticancer immunity. | 7/2015 | | | |

* Ad-SGE-REIC Selected for NexTEP (a system of cooperation between industry and academia for developing practical applications of products) in June 2014.

Urology field

URITOS

FY2014 Sales **7.3 billion yen**



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

The product improves urinary urgency, frequency and urgency incontinence due to overactive bladder. Not associated with dry mouth and available as an orally disintegrating tablet, Uritos is suitable for elderly patients and those with difficulties swallowing.

Products under Development

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|---------------|---------------------|----------------------|---|-------|-------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| 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. | | | 1/2015 | |

Other field

IBD
(lower digestive organs)

PENTASA

FY2014 Sales **17.2 billion yen**

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

As a standard drug for the treatment for ulcerative colitis, IBD is widely used to maintain remission by preventing any further recurrence by inducing the remission of minor to moderately serious conditions. The drug is a spot formulation and is administered anally, to work directly on the lesioned area, such as the rectum or sigmoid colon. The drug may also be used simultaneously as an oral agent and spot formulation, depending on the locations of the symptoms or lesions.



Consumer Healthcare Business

Environmental hygiene business: Key products

Milton

FY2014 Sales **2.0 billion yen**

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.



Otolaryngology field

MUCODYNE

FY2014 Sales **14.0 billion yen**

Mucoregulating drug

MUCODYNE Tablets 250 mg,
MUCODYNE Tablets 500 mg,
MUCODYNE Syrup 5%,
MUCODYNE DS 50%



The product is used in the treatment of upper respiratory problems (such as pharyngitis or laryngitis), bronchitis, bronchial asthma and various ear, nose and throat conditions that affect both adults and children.

KIPRES

FY2014 Sales **41.2 billion yen**

Leukotriene receptor antagonist
Anti-bronchial asthma and allergic rhinitis drug

KIPRES Tablets 5 mg,
KIPRES Tablets 10 mg

Leukotriene receptor antagonist

Anti-bronchial asthma drug
KIPRES Fine Granules 4 mg,
KIPRES Chewable Tablets 5 mg



A long-term management drug for the treatment of bronchial asthma and for allergic rhinitis in adults. It not only exhibits a superior effectiveness, the drug is offered in different forms to meet patients' needs, including convenient once-a-day dosages and formulation, chewable tablets that can be taken by children aged 6 or older, and fine granules suitable for infants.

Products under Development

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|--------------------------|---|----------|---|-------|--------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| KRP-AM1977X (oral agent) | 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) | | | 4/2015 | |
| KRP-AM1977Y (injection) | Quinolone synthetic antibacterial agent | In-house | 3. High degree of safety expected since safety hurdles cleared prior to clinical trials | | 6/2014 | | |

Products under Development

| 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 | | |
| Desloratadine | Allergic rhinitis | *Under development by MSD K.K. | A second-generation histamine H1 antagonist. It is expected to alleviate itches accompanying nettle rash or hives and skin disease or dermatosis (eczema, dermatitis and cutaneous pruritus). | | | Under development | |

[Reference]

* Desloratadine: In November 2014, we concluded a co-promotion agreement applying to Japan with affiliated company MSD.

Products under Development

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|---------------|---|----------|--|-------|--------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| 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 | | |

[Reference Information] Overseas

■KRP-203 Novartis Phil (POC) (12/2010)

RUBYSTA

FY2014 Sales **0.5 billion yen**

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.



* Products under development as of July 30, 2015

Research and Development



Backed by our ability to create innovative new ideas, KYORIN Pharmaceutical Co., Ltd. aims to become a manufacturer of original new drugs that can contribute to the health of the world's people. In July 2015, we opened the WATARASE Research Center, a new R&D facility. At this facility, which brings together our collective capabilities, we are able to conduct R&D functions in one place, carrying out a series of activities ranging from basic research to confirmations of effectiveness and safety. As a result, we are able for the first time 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 have transformed our research framework into a matrix organization that facilitates the simultaneous pursuit of both products and technologies in a parallel manner. This means that we can both improve the pipeline of specific fields and also shorten the development time from drug creation to market entry.

Masakatsu Komuro

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

Promoting Drug Discovery, Development and Life Cycle Management to Establish Our Presence in Specific Fields

The Discovery Research Division continuously licenses globally competitive, original drugs under our long-term vision HOPE100, and has set a goal of establishing a strong presence in the Company's specific fields (respiratory medicine, otolaryngology, and urology). To do this, it is important to build a highly productive organization by emphasizing timelines, and to fully explore the R&D processes from drug discovery to life cycle management: theme selection, evaluation, development period, and the introduction of new drug discovery technology. Under our medium-term business plan HOPE100 Stage 1 (Fiscal 2010–2015), we are tackling the priority topics of doing research into life cycle management to maximize product value, steadily bringing development projects to market, and creating innovative new drugs under the key concept of creating drugs that will change existing therapeutic systems. Under HOPE100 Stage 2 (Fiscal 2016–2019), we will prioritize bringing to market development projects that include original new drugs. From HOPE100 Stage 3 (Fiscal 2020–2023) onwards, we will focus on creating innovative new drugs that can contribute to the health of the world's people.

In the drug discovery process, we aim to create innovative original new drugs under the key concept of creating drugs that will change existing therapeutic systems, and are therefore focusing our limited resources on our specific fields. We are working to clarify disease-specific issues to fuse the technologies of pharmacology, drug synthesis, toxicity, ADME (Absorption, Distribution, Metabolism, Excretion), and CMC, and to speedily create attractive and high-quality drug candidates. Moreover, in our next-generation drug discovery research, we are working on the development of a gene-therapy drug that has the potential to treat diseases with substantial unmet medical needs, and have started a practical application program for an Ad-SGE-REIC formulation that targets

the treatment of malignant pleural mesothelioma.

In the development process, we are guided by a consistent focus on the needs of the patients who will use the drugs, and this is based on understanding the importance of creating products that meticulously meet medical needs. 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. In line with this, we give ample consideration to marketability, profitability and feasibility, and are continuing to create drugs by pursuing effectiveness, safety and convenience. Currently, we are working on the development of KRP-114V, an overactive bladder drug; KRP-AM1977X and Y, a new quinolone synthetic antibacterial agent; KRP-209, a treatment for tinnitus; and other drugs, with the goal of bringing them quickly to market.

In the life cycle management process, we work to build evidence by implementing scientifically high-value research into life cycle management (clinical research, drug additions, etc.), thereby maximizing product value.

To Create Drugs That Meet Market Needs

With medical needs continuing to expand and becoming more sophisticated, KYORIN Pharmaceutical meets the challenges of developing new drugs. One of our strengths is our relatively small scale, exploiting the benefits of collaboration between individuals with a broad range of research expertise and departments that can quickly make judgments and respond. In May 2015, we completed the WATARASE Research Center, a new R&D facility, and it opened in July the same year. In our R&D Department, we have reshuffled the organization based on our business strategy. The organization now ties together four units (respiratory medicine, otolaryngology, urology and new foundation research) for each disease domain, with each unit bearing responsibility from research to product commercialization. As a result, we can shorten the transition time from the discovery of a new drug candidate compound to the



development and commercialization of the drug, and we can strengthen the pipelines in specific fields. Furthermore, we are promoting not just research within the Company but also collaboration with academia (research with universities, research institutes and

through other ventures). We will select highly original research themes and pursue R&D activities. We are doing our utmost to focus our efforts on practical applications so that we can provide patients with new therapies as soon as possible.

The WATARASE Research Center

We founded the WATARASE Research Center as a new R&D facility that unites in one research institute the research activities that had hitherto been dispersed in two locations. The WATARASE Research Center is a facility with state-of-the-art equipment and instruments that organically connects individual research capabilities, and that encourages ease of communication between researchers. The Product Portfolio Planning Department ties together four units (respiratory medicine, otolaryngology, urology and new foundation research) that formulate a strategy for each disease domain, and there are eight drug research institutes (Pharmacology 1, Pharmacology 2, Synthesis 1, Synthesis 2, Safety, Pharmacokinetics, CMC, and Drug Discovery Technologies). This matrix organization structure promotes new drug creation both effectively and efficiently, enabling us to clarify the treatment domains and diseases that Kyorin should engage in, and to undertake new drug creation in line with market needs.

To respond to the diverse and increasingly sophisticated medical needs of today, we must integrate Kyorin's technologies and knowledge and exhibit our collective power even more than hitherto. Furthermore, we also need to develop attractive and high-quality products by combining the wisdom and technologies of external bodies such as academia, startup companies and other partners. We must not only think of drugs as merely something with medicinal properties. Rather, we should think that drugs enable us to make a good impact on patients and their families, healthcare professionals and medical treatments. In short, Kyorin aims to become a new-drug creator that is recognized for its presence in society.



Shigeru Ojihara
 KYORIN Pharmaceutical Co., Ltd.,
 Executive Director and Head of
 WATARASE Research Center
 KYORIN Holdings, Inc.
 Executive Director

[WATARASE Research Center (aerial view)]



New pharmaceutical discovery research laboratories

Overview

| | |
|---------------------|---|
| Location | 1848, Nogi-machi, Shimotsuga-gun, Tochigi |
| Building | Building area: 7,536 m ² ; total floor area: 20,703 m ² ; number of floors: 4 |
| Structure | Steel-reinforced concrete structure (in part); steel construction (seismically isolated structure) |
| Commence operations | July 7, 2015 |

Production



Providing a stable supply of high-quality pharmaceutical products at a low cost is our ongoing mission. At KYORIN Pharmaceutical, we have a quality policy of maintaining stable supplies and working to reduce costs while ensuring high quality, and are currently involved in reinforcing production activities and supply chain management from a scientific standpoint. For this to be achieved, it is important that initiatives be people-driven. With all employees aware of their respective roles, we are promoting the development of systems that allow us to maximize the strengths we possess. KYORIN Pharmaceutical aspires to be a drug manufacturer that is trusted not only in Japan but all over the world as well by building a strong, cohesive production organization for the overall Group and fulfilling our mission.

Kazuhiro Marubayashi

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

For the Efficient Supply of High-Quality Pharmaceuticals

Under our long-term vision of being a drug manufacturer trusted and appreciated by patients, the Kyorin Group steadily carries out production activities that are trusted in Japan and overseas and are guided by the basic approach of quality assurance, supply stability, and cost reduction—the mission of our production divisions. In fiscal 2014, the government enacted a policy of accelerating relative use of generic drugs for longstanding pharmaceutical products and made further drug price revisions, so corporate management faced a more challenging situation and further pursuit of efficient production to ensure sustained growth and earnings for the Group has become a pressing issue. Given this, the Production & Manufacturing Headquarters focused specifically on building a new production system for the stable supply of high-quality products at low costs, and promoted the following four priority initiatives to realize the long-term vision HOPE100 and achieve the goals of HOPE100 Stage 1, our medium-term business plan.

1) Overall optimization of the Group's production system: We are deepening coordination between KYORIN Pharmaceutical's Noshiro and Okaya plants, KYORIN Rimedio and KYORIN Pharmaceutical Facilities to ensure a stable Group supply system responsive to business plans and raise the efficiency of production activities.

2) Development of new global production and delivery: We are working to strengthen the production system for compliance with global standards into the future. This includes further implementing Good Manufacturing Practice (GMP) quality assurance standards at all production facilities and maintaining a quality assurance system directly linked to the Quality Assurance & Reliability Headquarters to ensure compliance with the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme, which aims

to harmonize quality system and GMP standards at the global level. Through this, we intend to provide stable supplies of high-quality products, improve manufacturing technologies, reduce costs and realize global development.

3) Low-cost operations: Production divisions established a new Supply Chain Management department in fiscal 2014 and have worked, through greater transparency, to achieve supply stability, cost reductions and quality improvements. With a goal of shortening lead times, we are working now to reduce inventories of products and raw materials.

4) Human resources development: In order to stably supply high-quality products to patients and medical professionals, we've set a clear policy that calls on each and every employee to work with a sense of mission and maximize their respective roles while maintaining cohesiveness, and all employees are engaged as a single team in an action program to achieve this. We respect the idea that an organization ultimately comes down to its people and intend to promote the type of organization that allows high levels of creativity to be exhibited, while also keeping the workplace lively and cheerful to maintain and raise employee motivation and morale.

Through these initiatives we are working to create one of the top production systems in Japan in terms of quality, delivery and cost (QDC).

Strategic Promotion of Supply Chain Management

With the goal of establishing robust earnings power that is resistant to changing conditions, we are comprehensively assessing the supply chain throughout the entire Kyorin Group and building a system for more efficient production and greater supply stability.

It is essential that we promote supply chain management to raise speed and accuracy through product-by-product management on a worldwide basis, from raw material procurement to



production management, manufacturing and shipping. To mitigate supply-side risk and ensure we continue to receive stable supplies, we are building strong relationships rooted in trust with domestic and overseas suppliers while also securing second and third supply sources and alternate transport routes. We consider daily how to pursue efficient forms of production that also reduce manufacturing costs. Going forward, the entire Kyorin Group will be involved in building a new production system for overall optimization and low-cost operations.

Accelerating Group Collaboration in Production

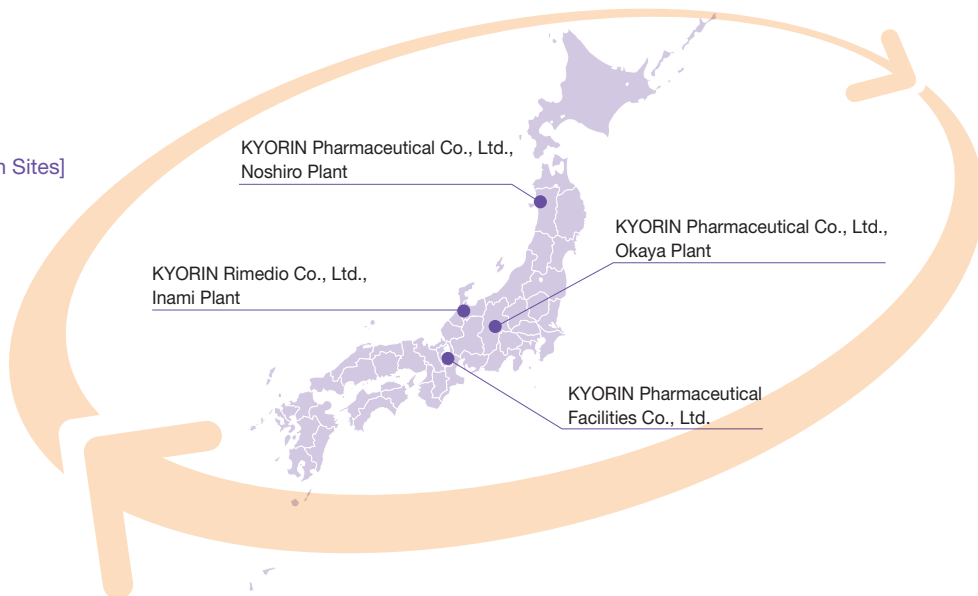
The Noshiro Plant, the main factory of KYORIN Pharmaceutical, is an environmentally and worker-friendly production facility with highly efficient automated equipment including a flow-bin production system for automatic conveyance of raw materials and intermediate products. The Kyorin Group is working to build a Group production

system for the maximum utilization of the production resources and characteristics of the Noshiro Plant, KYORIN Pharmaceutical Facilities and KYORIN Rimedio's Inami Plant.

We will promote overall optimization at Group level in order to securely and stably supply generic pharmaceutical products, whose reputation has been improving on the tailwind of the government's policy on use of generic drugs. Specifically, employees from the production divisions of KYORIN Pharmaceutical and KYORIN Pharmaceutical Facilities have been dispatched to KYORIN Rimedio, which manufactures generic drugs, to disseminate technologies via personnel exchange and provide manufacturing support.

We currently have a project underway to relocate the production functions of KYORIN Pharmaceutical's Okaya Plant to KYORIN Pharmaceutical Facilities. To ensure that the transfer is smooth and goes according to plan, we will deepen the coordination between KYORIN Pharmaceutical Facilities and KYORIN Pharmaceutical's Okaya and Noshiro plants.

[Group Production Sites]



Sales



The sales division is striving to further raise its presence in the key fields of respiratory medicine, otolaryngology and urology. Our medical representatives (MRs) work to build strong, trust-based relationships with the physicians they visit regularly, particularly the specialists in these fields, so that from an organizational standpoint, we are able to precisely grasp the needs of medical professionals and quickly accommodate them. We make various proposals after sufficiently understanding physicians' approaches to drug treatment, and work to contribute to the development of medicine in general and the treatment of patients and people's health in a broader sense.

Kunio Kajino

KYORIN Pharmaceutical Co., Ltd.
Executive Director and Head of Sales & Marketing Headquarters
KYORIN Holdings, Inc.
Executive Director

Aiming to Establish a Greater Presence in Specific Fields

The approximately 750 MRs at KYORIN Pharmaceutical strive to maximize the penetration of mainstay products under a franchise customer (FC) strategy that prioritizes sales activities and information provision for physicians and medical institutions in specific fields, centering on specialists in respiratory medicine, otolaryngology and urology.

In fiscal 2014, we focused on strategic communications with doctors based on detailed plans established for each product and dosage form, and this was effective in promoting our mainstay products.

In fiscal 2015, to achieve the final targets of our medium-term business plan HOPE100 Stage 1, it will be important to further maximize the penetration of mainstay products while maintaining a firm grasp on market changes. A look at the current domestic ethical pharmaceuticals market reveals major changes are taking place in market trends by region and product group due to drug pricing revisions and changes to the remuneration system for medical services. At the Sales & Marketing Headquarters, we have made organizational changes to accurately ascertain and address these changes, establishing the new Area Management Department to respond to the specific characteristics of users and geographic areas and the new Product Management Department to fully identify diverse medical needs with a focus on specified diseases. Sales activities are being developed on a regional and product matrix as we seek to identify disease-specific issues as well as which products (including dosage forms) are needed by medical professionals in each region and at each medical institution in order to craft highly tailored approaches.

To build trust and further improve relationships with physicians, we are providing and collecting information through regular visits, holding talks and seminars for specialists, and giving presentations to provide detailed product information to benefit the medical field

and precisely grasp the needs of doctors. In addition, we've started using tablet terminals in sales activities as a tool for providing information, having launched the Kyorin Medical Bridge members' website for medical professionals and instituted other policies designed to continuously strengthen information provision and collection activities. In this way, the entire company is working to further improve relationships with specialist physicians.

Team-based Sales Structure to Maximize Individual Abilities and Achieve Organizational Goals

KYORIN Pharmaceutical has instituted a team-based sales structure in which a number of MRs are made responsible for a certain area. We are not only working to build a structure that allows MRs to demonstrate their individual abilities (and strengths) to the maximum extent while enabling us to respond to the diverse needs of physicians, we are also fostering a climate in which MRs experience the pleasure of achieving a goal as a team.

At the same time, in order to further promote mainstay products on a sustained basis, it is important to enhance the general abilities of each MR, including his or her knowledge, technical skills and personal abilities. We are enhancing employee education and training programs, including new employee training and training for personnel in their second or third year at the company, and thereby working to foster personnel capable of appropriately providing information in line with physician needs.



Active Promotion of the FC Strategy

At KYORIN Pharmaceutical, we have supplied Kipres and Mucodyne and contributed significantly to drug treatment in the key fields of respiratory medicine and otolaryngology.

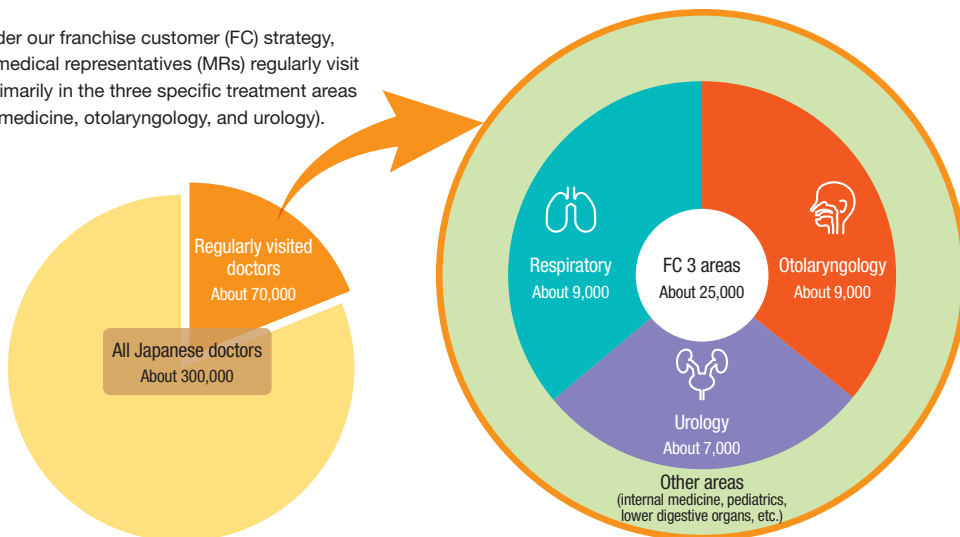
In fiscal 2014, in respiratory medicine, we worked to facilitate further market penetration for Flutiform, a combination drug for asthma treatment that was launched in November 2013. Flutiform has powerful anti-inflammatory effects, is fast-acting and comes in an optimal device for these characteristics; it is an asthma medication that is especially easy to inhale with complete confidence. As a drug that meets the needs of patients with symptoms not adequately controlled by existing treatments, we will promote its further penetration by working to provide more information and facilitate understanding, taking advantage of the fact that restrictions on the drug's dosing period were rescinded in December 2014. In May

2014, we launched Eklira Genuair, a treatment for chronic obstructive pulmonary disease (COPD), and worked to further enhance drug therapies in this field.

In urology, another of our specific fields, we provide hospitals and clinics with the overactive bladder (OAB) drug Uritos, actively proposing it as a first-line drug treatment, raising awareness of the disease to facilitate market growth, and otherwise striving to maximize the product's penetration.

We will continue to highly value the trust we have fostered with medical professionals in these specific fields and work toward the further evolution of our FC strategy. In line with the changing times and changing market, we will optimize regular visits and do our utmost to harness our accumulated expertise, connections, networks and other resources to more speedily develop new products while making every effort to be able to deliver these new drugs that contribute to the health of patients as soon as possible.

We continue working under our franchise customer (FC) strategy, by which our some 750 medical representatives (MRs) regularly visit some 70,000 doctors, primarily in the three specific treatment areas we promote (respiratory medicine, otolaryngology, and urology).



Corporate Governance

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.

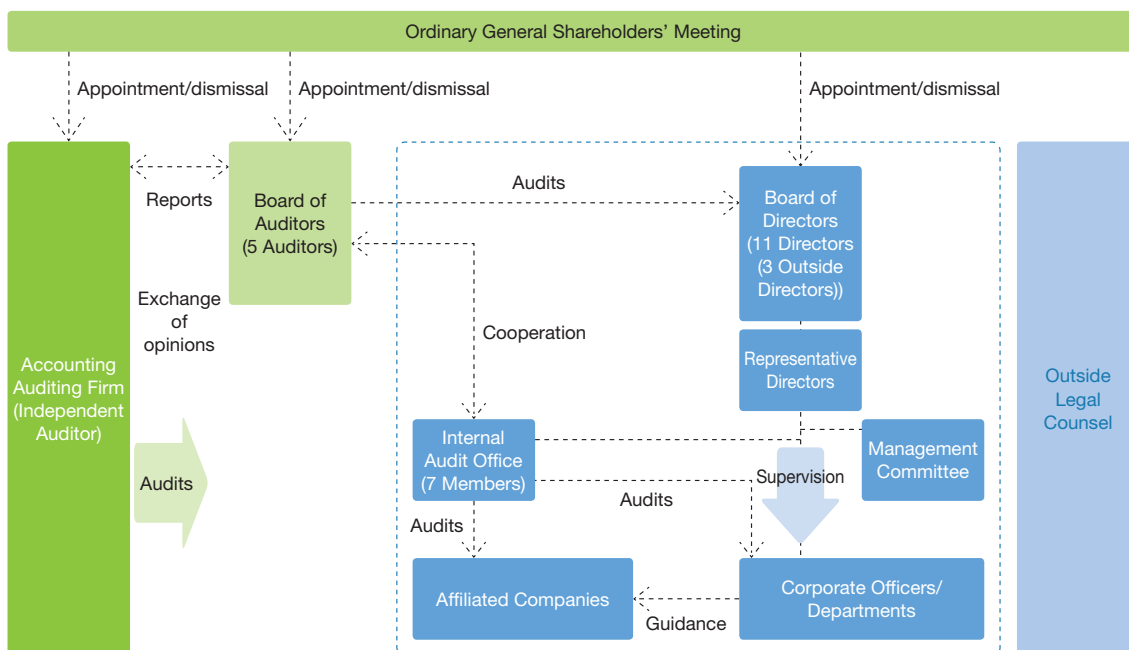
KYORIN Holdings, Inc. has appointed three outside directors to further strengthen the supervision of the business execution of directors, and to further enhance the transparency and fairness of management.

Kyorin is a Company with a Board of Corporate Auditors based on the Companies Act of Japan. The Board of Corporate Auditors, including the three outside corporate auditors, endeavors to fully demonstrate its auditing and supervising functions and to ensure the transparency of the

decisions being made by the Board of Directors. At the same time, 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, business 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 23, 2015)



1. Management Organization

To clarify the roles of our eleven directors, who are responsible for making business decisions and supervising business execution, and four corporate officers, who are responsible for business execution, Kyorin has established 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, 2015, 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.

Outside director Senji Ozaki has experience as a director of B-R 31 ICE CREAM Co., Ltd. With his rich management experience and wide-ranging insight, 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.

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.

Outside director Takashi Takahashi has experience as a director of Teijin Limited. With his wide-ranging insight developed from his rich management experience, Kyorin deemed Takashi Takahashi well-qualified overall for appointment to outside director. Note that no purchasing, sales, or other trade relationship exists between Kyorin and Teijin Limited.

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. Outside corporate auditor Takao Yamaguchi has a considerable level of knowledge in matters of finance and accounting as a certified public accountant and a certified tax accountant.

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 16 certified public accountants and 11 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 | |
| Directors (Excluding outside directors) | 195 | 195 | 7 |
| Corporate auditors (Excluding outside corporate auditors) | 30 | 30 | 3 |
| Outside directors or corporate auditors | 39 | 39 | 7 |

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.

10. Status of Stockholding

Among KYORIN Holdings, Inc. and its consolidated subsidiaries, details of KYORIN Pharmaceutical Co., Ltd., the largest company (largest company holding) in terms of investment securities (amount of investment stocks) reported on the balance sheet, are as follows.

Among investment stocks, the number of different stocks and the total reported consolidated balance sheet value of investment stocks held for other than purely investment purposes:

28 different stocks ¥19,846 million

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

Message from an Outside Corporate Auditor



Outside Corporate Auditor
Takao Yamaguchi

Your health is Kyorin's mission. I am very honored to have become a member of the company whose venerable corporate message I have come to know so well over the years.

Inappropriate accounting practices have become an issue, so what is expected of me is to draw on my experience as a certified public accountant (CPA) and licensed tax accountant to help KYORIN Holdings, Inc. as an impartial specialist and provide my opinion from an objective standpoint.

It is said that the job of a CPA is to provide appropriate opinions. This does not mean to provide appropriate opinions while turning a blind eye to inappropriate practices. If a practice is improper, it needs to be corrected—the mission of a CPA is to ensure that appropriate accounting information is provided to the public. The same is expected I believe of audits by corporate auditors.

I will do my part as an outside corporate auditor to help ensure that appropriate and proper opinions are expressed while coordinating with the accounting auditing firm. I thank you for your guidance and support.

Directors, Corporate Auditors, and Corporate Officers (As of June 23, 2015)



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

**Representative Director,
Chairman**
Masahiro Yamashita

**Representative Director,
President and Chief Executive Officer**
Minoru Hogawa
Auditing

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

Senior Executive Director
Tomiharu Matsumoto
General Affairs & Human Resources,
Finance & Accounting,
Legal and Compliance

Executive Director
Yutaka Ogihara
President's Office

Executive Director
Masakatsu Komuro
Intellectual Property

Executive Director
Shigeru Ogihara
Discovery Research Strategy

Executive Director
Kunio Kajino
Sales & Marketing Strategy

Outside Director
Senji Ozaki

Outside Director
Noriyuki Shikanai

Outside Director
Takashi Takahashi

Senior Corporate Auditors
Seiyu Miyashita
Hiroaki Hama

Outside Corporate Auditors
Masaji Obata
Yuuji Konishi
Takao Yamaguchi

Senior Corporate Officer
Yoh Ito

Corporate Officers
Yoshiya Yoshida
Kenji Akutsu
Michiro Oonota

Corporate Social Responsibility

The starting point of the Kyorin Group's corporate social responsibility (CSR) endeavors is its corporate philosophy, which states "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.

To Achieve Corporate Social Responsibility

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, 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.

For details about compliance training, please refer to www.kyorin-gr.co.jp/en/csr/

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.

Measures Relating to the Environment and Industrial Safety and Hygiene

KYORIN Pharmaceutical Co., Ltd.

The Kyorin Group actively works to protect the environment and prevent pollution, giving priority to preventing global warming, protecting resources, and living in harmony with the natural environment. In doing our corporate activities, we give top priority to ensuring the safety and health of all the members of the Kyorin Group. Furthermore, we promote social contribution activities while cooperating with local communities.

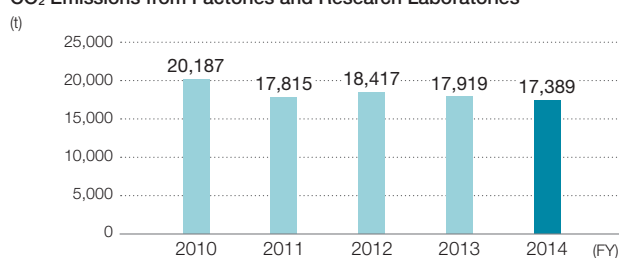
Environment

Fiscal 2014 Targets

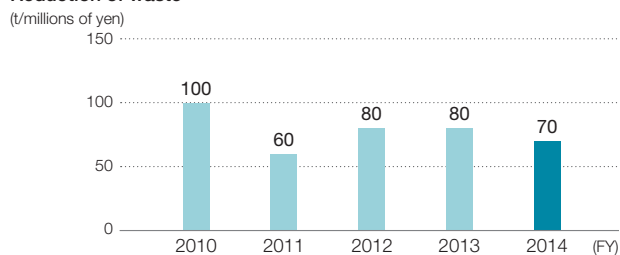
- Rational uses of energy (CO₂ reduction)
- Reduction of waste

Environmental Indicators

CO₂ Emissions from Factories and Research Laboratories



Reduction of waste



Initiatives

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.

Social Contribution Activities

Fiscal 2014 Targets

- Promote social contribution activities and communicate with local residents

Initiatives

1. Communicate with local communities

- Hold and invite local residents to cherry blossom viewing parties and summer evening parties at various plants of KYORIN Pharmaceutical Development Research Laboratories (currently, WATARASE Research Center)



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

2. Employee voluntary community/Health activities (Kyorin Smile Program)

- 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.

Fiscal 2014 Initiatives Contributed by employees to UNICEF: ¥71,273
Used stamps collected: 3.2 kilograms

* The stamps will be donated to the Japanese Organization for International Cooperation in Family Planning and used to help fund White Ribbon Campaign activities aimed at protecting the lives of mothers and babies throughout the world.

3. Continued support for recovery from the Great East Japan Earthquake

- Participation in the Sunflower Project in which sunflower seedlings are grown and delivered to the areas afflicted by the Great East Japan Earthquake. (KYORIN Pharmaceutical’s Discovery Research Laboratories, Development Research Laboratories and Sendai Branch Office)

For further details, please visit the following website: www.kyorin-gr.co.jp/en/csr/

Industrial Safety and Hygiene

Fiscal 2014 Targets

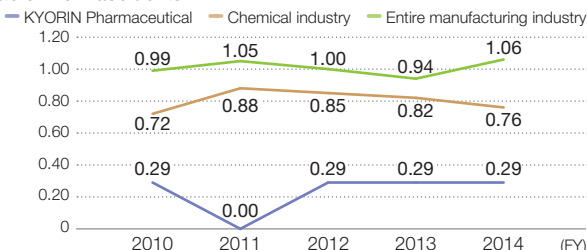
- Achieved zero days off due to work accidents

Initiatives

1. Rate and severity of work accidents

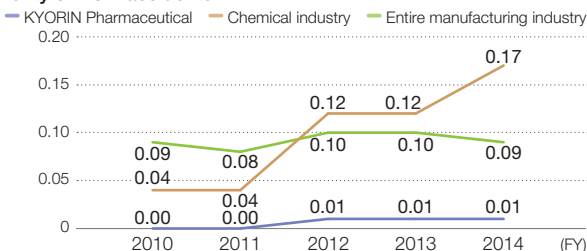
The frequency and severity of such accidents are much lower than the industry average. There have been no fatal accidents since the start of operations.

Rate of work accidents



Rate of work accidents: Number of deaths and injuries due to industrial accidents per total working hours times one million (indicates frequency of accidents)
Calculation method: No. of deaths and injuries due to industrial accidents / Total working hours x 1,000,000

Severity of work accidents



Severity of work accidents: Number of lost working days per total working hours times one thousand
Calculation method: No. of lost working days / Total working hours x 1,000

2. Vehicle accidents

Targets were set for the year-on-year reduction in the number of vehicular accidents per branch, and in fiscal 2014, there were 163 accidents, 13 less than the previous year.

Progress in improving occupational health and safety (KYORIN Pharmaceutical)

2004: Obtained occupational health and safety management system certification (OHSAS 18001)

2005: Consolidated ISO 14001 and OHSAS 18001 measures

Human Resources Management

The Kyorin Group aspires to become a leading company for pursuing fulfilling careers, as is envisioned in our long-term vision HOPE100. Kyorin believes that the basis for a company to continue to exist and grow lies in the enhancement of its human assets, namely, to become a place in which employees can bring passion to their work. The Kyorin Group seeks to become a company in which employees can feel a sense of pride and trust in the company, and in which employees are united with their peers in their work—in short, a leading company for job fulfillment.

To realize this vision, the Kyorin Group has formulated a human resources management policy that must be shared by the Group, and is rebuilding a human resources management system.

Basic Stance Regarding Human Resources Management

The Kyorin Group believes the relationship between the company and its employees is a long-term, reciprocal one of cooperation and co-existence.

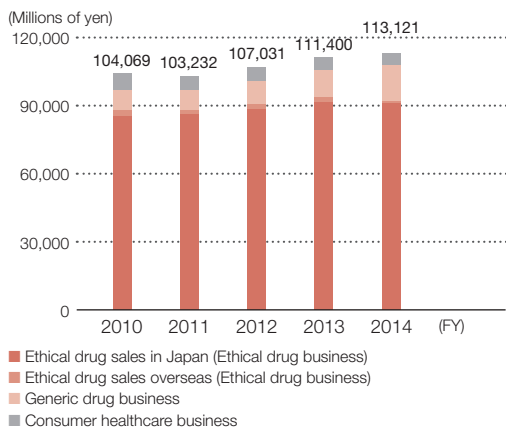
The Group, a partner of both the company and its employees, plays the role of meeting the expectations of both and realizing their mutual interests in a sustained manner over the long term.

Basic Policy

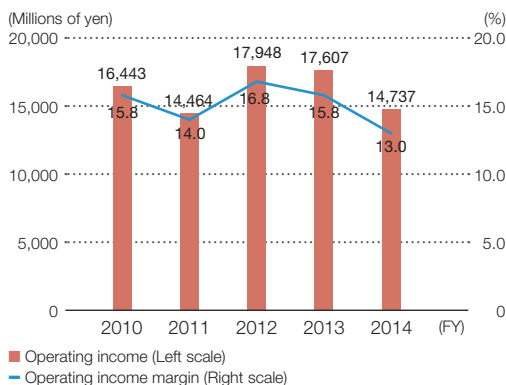
- 1) To build human resources management premised on long-term employment
- 2) To build a human resources management system founded on the employees’ contribution role
- 3) To build a human resources management system that can comprehensively ensure a balance between the degree of the employees’ contribution role and their treatment
- 4) To build a human resources management system that considers both self-help (self-guidance) and cooperation (mutual assistance)

Financial Analysis

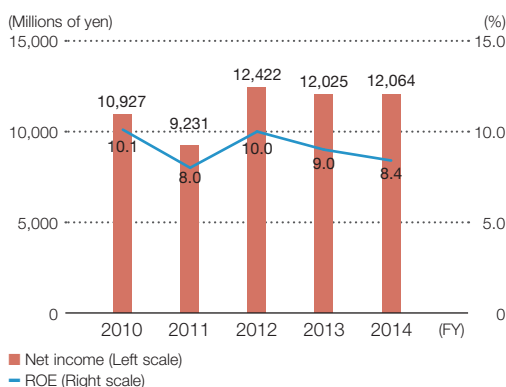
Net sales



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 2014, the Japanese economy remained on a recovery path, supported mainly by improving employment conditions in addition to the weaker yen and rising stock prices continuing from fiscal 2013. However, we also saw a slump in consumer spending as a result of a consumption tax rise.

Under these circumstances, in the domestic pharmaceutical industry, where the core business of the Kyorin Group operates, the market structure greatly changed and the progress of the market growth rate for ethical pharmaceuticals remained low, due to the impact of various measures, including reforms to the drug pricing system implemented in April 2014 and the revision of medical service fees. The consumer healthcare business continued to face a challenging business environment with only gentle growth in consumer spending since the consumption tax rise, despite an upturn in business conditions, in addition to the impact of a protracted reaction resulting from last-minute demand ahead of a rise in the consumption tax rate.

Consolidated Operating Results

Net Sales

In fiscal 2014, overall net sales increased ¥1,721 million or 1.5% year on year to ¥113,121 million, reaching an all-time high. Sales growth was driven by a significant year-on-year increase in generic drug sales in the pharmaceutical business, despite lower sales in the ethical drugs business as a result of the impact of the lowering of prices on the NHI drug price list.

With regard to the ethical drugs business in Japan, sales decreased year on year despite increased sales of new products, notably the Pentasa suppository, a drug for the treatment of ulcerative colitis, launched in June 2013, and Flutiform, a combination treatment for asthma, launched in November 2013. There was also continued growth in our principal products. The main decrease factors were reduced sales by KYORIN Pharmaceutical Facilities Co., Ltd. in addition to lower sales of longstanding items on the NHI drug price list, which were influenced by reforms to the drug pricing system. As a result, segment sales decreased 0.6% year on year to ¥91,079 million.

KYORIN Pharmaceutical Co., Ltd. has been promoting the franchise customer (FC) strategy that facilitates marketing activities directed at doctors and medical institutions in specific fields centered on respiratory medicine, otolaryngology, and urology. In fiscal 2014, we mainly focused on maximizing early-stage market penetration of Flutiform, a new product in the FC field, and on maximizing the greater use of our mainstay products. Flutiform was launched on December 1, 2014 as a 30-day formulation (for 120 inhalations), in addition to the possibility of its long-term dosage (as a new drug with no limitation on the period for which it is taken), and sales have significantly expanded. Among our mainstay products, sales increased year on year for Kipres, a treatment for bronchial asthma and allergic rhinitis. However, sales decreased for Uritos, a treatment for overactive bladder, Pentasa, a treatment for ulcerative colitis and Crohn's disease, and 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. in October 2013, and segment sales decreased 44.2% year on year to ¥1,032 million. Meanwhile, in ethical drug sales overseas, in October 2014 KYORIN Pharmaceutical Co., Ltd. concluded a basic contract with R-Pharm (Russia) for the exclusive development and marketing of Imidafenacin in Russia and neighboring countries.

Sales for generic drugs increased 29.1% year on year to ¥15,477 million. The Kyorin Group proactively developed marketing activities driven by measures to encourage generic drug use and other factors. As a result, segment sales at insurance dispensing pharmacies and other locations significantly increased. Moreover, KYORIN Rimedio Co., Ltd. strove to take the lead in joint development, and translated these efforts into expansion in the third-party contract manufacturing business. As a result, net sales in the pharmaceuticals business increased by 2.0% to ¥107,888 million.

In the consumer healthcare business, sales in over-the-counter drugs and others increased 0.3% year on year to ¥4,183 million. Despite a challenging performance overall, sales rose for mainstay product RUBYSTA, a multi-purpose disinfectant cleaner.

In the skincare business, the Kyorin Group posted lower sales and lower earnings. Sales declined 21.6% to ¥1,349 million. This mainly reflected reduced sales at Dr. Program Co., Ltd., which is engaged in the production and sales of skincare products, due to a reaction resulting from last-minute demand ahead of a rise in the consumption tax rate, a slump in consumer spending since the consumption tax rise, and the intensification of competition between companies. As a result, in the consumer healthcare business, sales decreased 6.1% year on year to ¥5,532 million.

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

The cost of sales ratio increased 2.6 percentage points year on year to 41.2%, mainly due to the impact of drug price revisions and the change in product sales composition, including the increased sales weight of generic drugs. As a result, gross profit was down by ¥1,829 million year on year despite an increase in sales of ¥1,721 million.

SG&A expenses increased 2.1% year on year to ¥51,785 million, due to a 19.0% year-on-year increase in R&D expenses offsetting a decrease in selling expenses. As a result, operating income decreased 16.3% year on year to ¥14,737 million. The operating income margin fell 2.8 percentage points to 13.0%.

Summary of Consolidated Statements of Income

| | Millions of yen | | | |
|----------------------------|-----------------|---------|------------|----------------|
| | FY2013 | FY2014 | YoY change | YoY change (%) |
| Net sales | 111,400 | 113,121 | 1,721 | 1.5 |
| Cost of sales | 43,047 | 46,598 | 3,551 | 8.2 |
| Gross profit | 68,352 | 66,522 | (1,829) | (2.7) |
| SG&A expenses | 50,744 | 51,785 | 1,041 | 2.1 |
| (R&D expenses) | 11,359 | 13,514 | 2,155 | 19.0 |
| Operating income | 17,607 | 14,737 | (2,870) | (16.3) |
| Other income | 732 | 768 | 36 | 4.9 |
| Other expenses | 59 | 16 | (43) | (73.1) |
| Income before income taxes | 18,312 | 17,561 | (751) | (4.1) |
| Net income | 12,025 | 12,064 | 39 | 0.3 |

Summary of Consolidated Statements of Comprehensive Income

| | Millions of yen | | | |
|----------------------------------|-----------------|--------|------------|----------------|
| | FY2013 | FY2014 | YoY change | YoY change (%) |
| Income before minority interests | 12,025 | 12,064 | 39 | 0.3 |
| Total other comprehensive income | 1,333 | 5,534 | 4,201 | 315.2 |
| Comprehensive income | 13,358 | 17,598 | 4,240 | 31.7 |

Net Income and Net Income Per Share

Net income increased 0.3% year on year to ¥12,064 million. Net income per share increased ¥0.68 from the previous fiscal year to ¥161.63.

Assets, Liabilities and Net Assets

At March 31, 2015, current assets had increased ¥7,426 million due to increases in notes and accounts receivable, merchandise and finished goods, raw materials and supplies, and other current assets.

Fixed assets rose ¥6,578 million due to increases in investment securities and asset for retirement benefits, despite a decrease in property, plant and equipment. As a result, total assets increased ¥14,005 million from a year earlier to ¥183,383 million.

Liabilities at the fiscal year-end were up ¥3,225 million to ¥34,782 million from a year earlier. This was mainly due to increases in long-term debt, deferred tax liabilities, and other long-term liabilities, despite decreases in other current liabilities and liability for retirement benefits.

Net assets at the fiscal year-end amounted to ¥148,600 million, up ¥10,779 million from a year ago. This was mainly attributable to increases in retained earnings, in unrealized holding gain on other securities, in retirement benefits liability adjustments, and in treasury stock.

As a result, the shareholders' equity ratio at year-end was 81.0%, down 0.4 percentage points from the previous fiscal year-end.

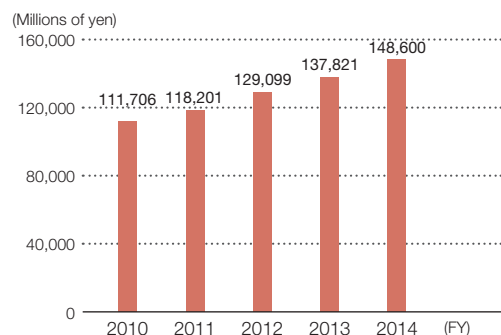
ROE (Return on Equity)

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 2014, ROE was 8.4%, down 0.6 percentage points from the previous fiscal year.

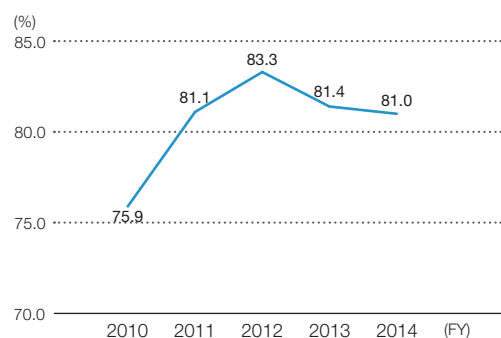
Summary of Consolidated Balance Sheets

| | Millions of yen | | | |
|--|-----------------|---------|------------|----------------|
| | FY2013 | FY2014 | YoY change | YoY change (%) |
| Current assets | 121,638 | 129,064 | 7,426 | 6.1 |
| Fixed assets | 47,740 | 54,318 | 6,578 | 13.8 |
| Total assets | 169,378 | 183,383 | 14,005 | 8.3 |
| Current liabilities | 28,401 | 27,773 | (628) | (2.2) |
| Long-term liabilities | 3,155 | 7,009 | 3,854 | 122.2 |
| Total liabilities | 31,557 | 34,782 | 3,225 | 10.2 |
| Total shareholders' equity | 135,273 | 140,518 | 5,245 | 3.9 |
| Total accumulated other comprehensive income | 2,548 | 8,082 | 5,534 | 217.2 |
| Net assets | 137,821 | 148,600 | 10,779 | 7.8 |
| Total liabilities and net assets | 169,378 | 183,383 | 14,005 | 8.3 |

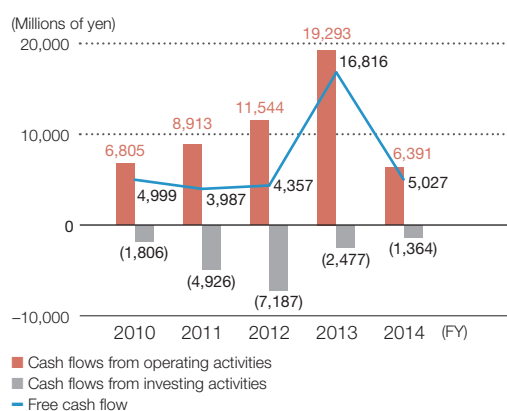
Net assets



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 in fiscal 2014 totaled ¥6,391 million. The main components were income before income taxes and minority interests of ¥17,561 million, depreciation and amortization of ¥3,053 million, an impairment loss of ¥2,232 million, a loss on sales and retirement of property, plant and equipment, net of ¥4,305 million, an increase in notes and accounts receivable of ¥2,877 million, an increase in inventories of ¥4,230 million, an increase in consumption taxes payable of ¥1,117 million and income taxes paid of ¥4,640 million.

Net cash used in investing activities was ¥1,364 million. Cash was mainly used for payments for purchase of short-term investments of ¥8,398 million, proceeds from sales and redemption of short-term investments of ¥11,100 million, payments for purchase of property, plant and equipment of ¥5,383 million, proceeds from sales of property, plant and equipment of ¥4,756 million and payments for purchase of investment securities of ¥6,905 million. On the other hand, cash was provided by proceeds from sales and redemption of investment securities of ¥4,413 million.

Net cash used in financing activities was ¥5,233 million, largely attributable to proceeds from long-term debt of ¥2,227 million, an increase in treasury stock of ¥2,186 million, and payment of cash dividends of ¥4,626 million.

As a result, cash and cash equivalents at the end of the fiscal year were down ¥100 million year on year to ¥35,727 million.

Cash flows for the next fiscal year, the fiscal year ending March 31, 2016, are projected as follows. Investing activities are projected to use approximately ¥8,700 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 ¥3,900 million for the payment of dividends, comprising ¥32.00 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 | | | |
|---|-----------------|---------|------------|----------------|
| | FY2013 | FY2014 | YoY change | YoY change (%) |
| Cash provided by operating activities | 19,293 | 6,391 | (12,902) | (66.9) |
| Cash used in investing activities | (2,477) | (1,364) | 1,113 | 44.9 |
| Cash provided by (used in) financing activities | (3,704) | (5,233) | (1,529) | (41.3) |
| Cash and cash equivalents at end of year | 35,828 | 35,727 | (100) | (0.3) |

Outlook for Fiscal 2015

The outlook for the domestic pharmaceutical industry is expected to remain challenging mainly due to the Japanese government continuously examining various policies designed to curtail spending on drugs, including the lowering of prices on the NHI drug price list implemented in April 2014.

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 2015 is the final year of this plan, and we will actively promote the plan's business strategies, namely, advancing initiatives related to the new drugs business model Pharma Complex Model (PC 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 ethical drugs business, we are projecting higher sales of products such as the new Flutiform drug launched in fiscal 2013. In the generic drugs business, we forecast that sales will grow further. Combined with an anticipated increase in sales in consumer healthcare operations, including general-use drugs and others, we are expecting overall sales to increase.

On the earnings front, we are forecasting higher SG&A expenses (with R&D expenses decreasing by about ¥100 million year on year to ¥13,400 million) but also an increased gross profit due to an increase in net sales. As a result, we expect increases in both operating income and ordinary income.

Forecasts for Fiscal 2015

| | Millions of yen | | | |
|------------------|-----------------|---------|---------|----------------|
| | FY2013 | FY2014 | FY2015 | YoY change (%) |
| Net sales | 111,400 | 113,121 | 120,200 | 6.3 |
| Operating income | 17,607 | 14,737 | 16,000 | 8.6 |
| Net income | 12,025 | 12,064 | 11,500 | (4.7) |

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, 2015

| Assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-----------------|--|
| | 2015 | 2014 | 2015 |
| Current assets: | | | |
| Cash and cash in banks (Notes 4, 11 and 13) | ¥ 30,652 | ¥ 31,017 | \$ 254,860 |
| Notes and accounts receivable (Note 11) | 47,007 | 44,123 | 390,846 |
| Short-term investments (Notes 5 and 11) | 17,867 | 17,965 | 148,557 |
| Inventories: | | | |
| Merchandise and finished goods | 13,868 | 12,172 | 115,307 |
| Work in process | 1,205 | 1,048 | 10,019 |
| Raw materials and supplies | 10,855 | 8,477 | 90,255 |
| Deferred tax assets (Note 14) | 2,471 | 2,432 | 20,545 |
| Other | 5,194 | 4,456 | 43,186 |
| Less allowance for doubtful accounts | (58) | (54) | (482) |
| Total current assets | 129,064 | 121,638 | 1,073,119 |
| Property, plant and equipment: | | | |
| Land | 2,019 | 2,449 | 16,787 |
| Buildings and structures | 30,604 | 30,577 | 254,461 |
| Machinery and vehicles | 19,006 | 17,991 | 158,028 |
| Leased assets | 559 | 517 | 4,648 |
| Construction in progress | 3,526 | 3,505 | 29,317 |
| Other | 8,082 | 7,668 | 67,199 |
| Less accumulated depreciation and impairment loss | (44,423) | (41,869) | (369,361) |
| Property, plant and equipment, net | 19,374 | 20,841 | 161,088 |
| Investments and other assets: | | | |
| Investment securities (Notes 5 and 11) | 31,008 | 23,804 | 257,820 |
| Long-term loans | 3 | 4 | 25 |
| Asset for retirement benefits (Note 12) | 1,034 | 20 | 8,597 |
| Trademark | 2 | 4 | 17 |
| Deferred tax assets (Note 14) | 84 | 454 | 698 |
| Other | 2,940 | 2,732 | 24,445 |
| Less allowance for doubtful accounts | (129) | (122) | (1,073) |
| Total investments and other assets | 34,944 | 26,898 | 290,546 |
| Total assets | ¥183,383 | ¥169,378 | \$1,524,761 |

| Liabilities and net assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|------------------------------------|
| | 2015 | 2014 | 2015 |
| Current liabilities: | | | |
| Notes and accounts payable (Note 11) | ¥ 11,259 | ¥ 11,056 | \$ 93,614 |
| Short-term bank loans (Note 6) | 1,372 | 1,678 | 11,408 |
| Lease obligations (Note 6) | 83 | 88 | 690 |
| Accrued income taxes (Note 14) | 2,440 | 2,361 | 20,288 |
| Accrued bonuses to employees | 3,288 | 3,301 | 27,338 |
| Reserve for sales returns | 26 | 30 | 216 |
| Provision for point card certificates | 34 | 39 | 283 |
| Other | 9,267 | 9,844 | 77,052 |
| Total current liabilities | 27,773 | 28,401 | 230,922 |
| Long-term liabilities: | | | |
| Long-term debt (Note 6) | 2,227 | 242 | 18,517 |
| Lease obligations (Note 6) | 277 | 259 | 2,303 |
| Accrued retirement benefits for directors and corporate auditors | 10 | 14 | 83 |
| Deferred tax liabilities (Note 14) | 2,815 | — | 23,406 |
| Liability for retirement benefits (Note 12) | 368 | 2,073 | 3,060 |
| Other | 1,309 | 566 | 10,884 |
| Total long-term liabilities | 7,009 | 3,155 | 58,277 |
| Contingent liabilities (Note 17) | | | |
| Net assets: | | | |
| Shareholders' equity (Note 7): | | | |
| Common stock, no par value: | | | |
| Authorized—297,000,000 shares in 2015 and 2014 | | | |
| Issued—74,947,628 shares in 2015 and 2014 | 700 | 700 | 5,820 |
| Capital surplus | 4,752 | 4,752 | 39,511 |
| Retained earnings | 137,577 | 130,145 | 1,143,901 |
| Treasury stock, at cost: | | | |
| 996,611 shares in 2015 | | | |
| 231,922 shares in 2014 | (2,511) | (325) | (20,878) |
| Total shareholders' equity | 140,518 | 135,273 | 1,168,355 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on other securities | 7,798 | 3,434 | 64,837 |
| Translation adjustments | 168 | 12 | 1,397 |
| Retirement benefits liability adjustments | 115 | (898) | 956 |
| Total accumulated other comprehensive income | 8,082 | 2,548 | 67,199 |
| Total net assets | 148,600 | 137,821 | 1,235,553 |
| Total liabilities and net assets | ¥183,383 | ¥169,378 | \$1,524,761 |

See notes to consolidated financial statements.

Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|--|
| | 2015 | 2014 | 2015 |
| Net sales | ¥113,121 | ¥111,400 | \$940,559 |
| Cost of sales | 46,598 | 43,047 | 387,445 |
| Gross profit | 66,522 | 68,352 | 553,106 |
| Selling, general and administrative expenses (Note 8) | 51,785 | 50,744 | 430,573 |
| Operating income | 14,737 | 17,607 | 122,533 |
| Other income (expenses): | | | |
| Interest and dividend income | 279 | 275 | 2,320 |
| Interest expense | (6) | (11) | (50) |
| Equity in earnings (losses) of affiliates | (7) | 22 | (58) |
| Foreign exchange gains (losses) | 130 | (42) | 1,081 |
| Loss on investments in partnership | — | (2) | — |
| Gain (loss) on sales and retirement of property, plant and equipment, net (Note 9) | 4,306 | (14) | 35,803 |
| Gain on sales of investment securities, net (Note 5) | — | 64 | — |
| Loss on devaluation of investment securities | (2) | (18) | (17) |
| Impairment loss (Note 10) | (2,232) | — | (18,558) |
| Other, net | 358 | 432 | 2,977 |
| Other income, net | 2,823 | 705 | 23,472 |
| Income before income taxes and minority interests | 17,561 | 18,312 | 146,013 |
| Income taxes (Note 14): | | | |
| Current | 4,712 | 5,095 | 39,179 |
| Deferred | 785 | 1,191 | 6,527 |
| Total income taxes | 5,497 | 6,287 | 45,705 |
| Income before minority interests | 12,064 | 12,025 | 100,308 |
| Net income | ¥ 12,064 | ¥ 12,025 | \$100,308 |

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|---------|--|
| | 2015 | 2014 | 2015 |
| Income before minority interests | ¥12,064 | ¥12,025 | \$100,308 |
| Other comprehensive income (Note 15): | | | |
| Unrealized holding gain on other securities | 4,322 | 1,138 | 35,936 |
| Translation adjustments | 155 | 192 | 1,289 |
| Retirement benefits liability adjustments | 1,014 | — | 8,431 |
| Share of other comprehensive income of affiliates accounted for using equity method | 41 | 1 | 341 |
| Total other comprehensive income | 5,534 | 1,333 | 46,013 |
| Comprehensive income | ¥17,598 | ¥13,358 | \$146,321 |
| Total comprehensive income attributable to: | | | |
| Shareholders of KYORIN Holdings, Inc. | ¥17,598 | ¥13,358 | \$146,321 |
| 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, 2015

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, 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 April 1, 2014 | 74,947,628 | 700 | 4,752 | 130,145 | (325) | 135,273 | 3,434 | 12 | (898) | 2,548 | 137,821 |
| Cash dividends | — | — | — | (4,632) | — | (4,632) | — | — | — | — | (4,632) |
| Net income | — | — | — | 12,064 | — | 12,064 | — | — | — | — | 12,064 |
| Purchase of treasury stock | — | — | — | — | (2,225) | (2,225) | — | — | — | — | (2,225) |
| Disposals of treasury stock | — | — | — | — | 39 | 39 | — | — | — | — | 39 |
| Other changes | — | — | — | — | — | — | 4,364 | 155 | 1,014 | 5,534 | 5,534 |
| Net changes during the year | — | — | — | 7,431 | (2,186) | 5,244 | 4,364 | 155 | 1,014 | 5,534 | 10,779 |
| Balance as of March 31, 2015 | 74,947,628 | ¥700 | ¥4,752 | ¥137,577 | ¥(2,511) | ¥140,518 | ¥7,798 | ¥ 168 | ¥ 115 | ¥8,082 | ¥148,600 |

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, 2014 | \$5,820 | \$39,511 | \$1,082,107 | \$ (2,702) | \$1,124,744 | \$28,552 | \$ 100 | \$(7,467) | \$21,186 | \$1,145,930 |
| Cash dividends | — | — | (38,513) | — | (38,513) | — | — | — | — | (38,513) |
| Net income | — | — | 100,308 | — | 100,308 | — | — | — | — | 100,308 |
| Purchase of treasury stock | — | — | — | (18,500) | (18,500) | — | — | — | — | (18,500) |
| Disposals of treasury stock | — | — | — | 324 | 324 | — | — | — | — | 324 |
| Other changes | — | — | — | — | — | 36,285 | 1,289 | 8,431 | 46,013 | 46,013 |
| Net changes during the year | — | — | 61,786 | (18,176) | 43,602 | 36,285 | 1,289 | 8,431 | 46,013 | 89,623 |
| Balance as of March 31, 2015 | \$5,820 | \$39,511 | \$1,143,901 | \$(20,878) | \$1,168,355 | \$64,837 | \$1,397 | \$ 956 | \$67,199 | \$1,235,553 |

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|---------|--|
| | 2015 | 2014 | 2015 |
| Operating activities | | | |
| Income before income taxes and minority interests | ¥17,561 | ¥18,312 | \$146,013 |
| Depreciation and amortization | 3,053 | 3,153 | 25,385 |
| Impairment loss | 2,232 | — | 18,558 |
| Amortization of goodwill | — | 64 | — |
| Increase in allowance for doubtful accounts | 10 | 0 | 83 |
| Decrease in accrued bonuses to employees | (21) | (39) | (175) |
| Decrease in accrued retirement benefits for directors and corporate auditors | (3) | (19) | (25) |
| Increase in asset for retirement benefits | (843) | (20) | (7,009) |
| (Decrease) increase in liability for retirement benefits | (382) | 134 | (3,176) |
| Equity in earnings of affiliates | 7 | (22) | 58 |
| Interest and dividend income | (279) | (276) | (2,320) |
| Interest expense | 6 | 11 | 50 |
| Loss (gain) on sales and retirement of property, plant and equipment, net | (4,305) | 14 | (35,794) |
| Gain on sales of investment securities, net | — | (64) | — |
| Loss on devaluation of investment securities | 2 | 18 | 17 |
| Decrease (increase) in notes and accounts receivable | (2,877) | 2,445 | (23,921) |
| Increase in inventories | (4,230) | (1,761) | (35,171) |
| Increase in notes and accounts payable | 202 | 2,499 | 1,680 |
| Increase in consumption taxes payable | 1,117 | 9 | 9,287 |
| Other, net | (503) | 637 | (4,182) |
| Subtotal | 10,748 | 25,099 | 89,366 |
| Interest and dividend received | 289 | 294 | 2,403 |
| Interest paid | (6) | (11) | (50) |
| Income taxes paid | (4,640) | (6,089) | (38,580) |
| Net cash provided by operating activities | 6,391 | 19,293 | 53,139 |
| Investing activities | | | |
| Payments for time deposits | (777) | (865) | (6,460) |
| Proceeds from withdrawal of time deposits | 622 | 980 | 5,172 |
| Purchase of short-term investments | (8,398) | (9,895) | (69,826) |
| Proceeds from sales and redemption of short-term investments | 11,100 | 6,501 | 92,292 |
| Purchase of property, plant and equipment | (5,383) | (2,622) | (44,758) |
| Proceeds from sales of property, plant and equipment | 4,756 | 415 | 39,544 |
| Purchase of intangible assets | (472) | (473) | (3,925) |
| Purchase of investment securities | (6,905) | (4,509) | (57,412) |
| Proceeds from sales and redemption of investment securities | 4,413 | 7,829 | 36,692 |
| Other, net | (320) | 161 | (2,661) |
| Net cash used in investing activities | (1,364) | (2,477) | (11,341) |
| Financing activities | | | |
| (Decrease) increase in short-term bank loans, net | (240) | 190 | (1,996) |
| Repayments of lease obligations | (99) | (112) | (823) |
| Proceeds from long-term debt | 2,227 | 300 | 18,517 |
| Repayments of long-term debt | (308) | (343) | (2,561) |
| Net increase in treasury stock | (2,186) | (1) | (18,176) |
| Cash dividends | (4,626) | (3,736) | (38,463) |
| Net cash used in financing activities | (5,233) | (3,704) | (43,510) |
| Effects of exchange rate changes on cash and cash equivalents | 105 | 173 | 873 |
| Increase (decrease) in cash and cash equivalents | (100) | 13,285 | (831) |
| Cash and cash equivalents at beginning of year | 35,828 | 22,543 | 297,896 |
| Cash and cash equivalents at end of year (Note 4) | ¥35,727 | ¥35,828 | \$297,057 |

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2015

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 2014 consolidated financial statements to conform to the 2015 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) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(i) 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.

(j) Accounting Method for Retirement Benefits

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount to period of service on the benefit formula basis.

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

Actuarial gain or loss is amortized from the year following the year in which such gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees in the year such gain or loss occurs (10 years).

Unrecognized actuarial loss and unrecognized prior service costs are, after adjusting for tax effects, recorded as retirement benefits liability adjustments under accumulated other comprehensive income in net assets.

(k) 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.

(l) Appropriation of Retained Earnings

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

(m) Accounting Change

Accounting Standard for Retirement Benefits

Effective from the beginning of the year ended March 31, 2015, the Company and its consolidated domestic subsidiaries have applied Article 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement

No. 26, May 17, 2012 (hereinafter, the “Standard”)) and Article 67 of Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, the “Guidance”)), and changed the calculation methods of retirement benefit obligations and service costs.

The attribution method for the projected retirement benefit was changed from the straight-line method to a benefit formula basis and the determination of the discount rate was changed to a method where a single weighted average discount rate is applied in calculating the present value of obligations based on the expected period of benefit payments and amount of payment for each period.

The adoption of the Standard and the Guidance had no impact on liabilities and retained earnings at the beginning of the year ended March 31, 2015 and operating income and income before income taxes for the year ended March 31, 2015.

(n) Additional Information

At a meeting of the Board of Directors held on February 2, 2015, the Company (KYORIN Holdings, Inc.) resolved to introduce a trust-based employee shareholding incentive plan (hereinafter, the “Plan”) to provide additional incentive for improving the Company’s corporate value, primarily by enhancing employee welfare and benefits, raising employee awareness of the stock price and improving work motivation. The Plan will steadily supply the Company’s shares to the employee shareholding association, and distribute the returns generated by management of trust assets to employees.

The Company is accounting for the Plan in line with the guidelines set out in “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc., through Trusts” (Practical Issues Task Force (PITF) No. 30, March 26, 2015).

(1) Outline of transactions

The Plan is an incentive plan designed to return the economic benefits of an appreciation in the Company’s stock price to all employees who join the Kyorin Pharmaceutical Group Shareholding Association (hereinafter, the “Shareholding Association”).

Under the Plan, the Company shall enter into a stock benefit trust (Employee Shareholding Association Distribution Type) agreement where the Company is the settlor and Mizuho Trust & Banking Co., Ltd. (hereinafter, “Mizuho Trust & Banking”) is the trustee (hereinafter, the trust based on the agreement shall be referred to as the “Trust”). Furthermore, Mizuho Trust & Banking shall enter into an agreement with Trust & Custody Services Bank, Ltd. to re-entrust the management of trust assets, such as the Company’s shares, with Trust & Custody Services Bank (Trust Account E) (hereinafter, “Trust Account E”) as the trustee.

Trust Account E will acquire the Company’s shares from the markets in the amounts expected to be acquired by the Shareholding Association during the prescribed stock acquisition period, after borrowing the acquisition funds from a bank. Until the trust account finishes, the shares will be periodically sold to the Shareholding Association. If a significant amount of realized gains on sale of shares remain within the trust assets of the Trust following the sale of the shares to the Shareholding Association by Trust Account E, these gains will be distributed as residual assets to Shareholding Association members who satisfy the eligibility requirements for beneficiaries. Moreover, the Company provides guarantees for the loans undertaken to acquire its shares. Therefore, if there is a residual loan balance equivalent to a realized loss on the sale of these shares due to a decline in the Company’s stock price, the Company shall repay this residual loan balance based on the guarantee agreement.

(2) Company shares remaining in trust

Treasury shares held by the Trust as of March 31, 2015 are presented as treasury stock in net assets. The carrying amount of the treasury shares was ¥2,185 million (\$18,167 thousand) and the total number of treasury shares was 764 thousand shares.

(3) Carrying amount of debt recorded through the application of the gross price method

The carrying amount of debt recorded through the application of the gross price method was ¥2,227 million (\$18,517 thousand) as of March 31, 2015.

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 ¥120.27 = U.S.\$1.00, the approximate rate of exchange on March 31, 2015. 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, 2015 and 2014 for the consolidated statements of cash flows consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2015 | 2014 | 2015 |
| Cash and cash in banks | ¥30,652 | ¥31,017 | \$254,860 |
| Short-term investments | 6,562 | 6,062 | 54,561 |
| Time deposits with a maturity over three months | (1,487) | (1,251) | (12,364) |
| Cash and cash equivalents | ¥35,727 | ¥35,828 | \$297,057 |

5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2015 and 2014 is as follows:

Marketable other securities

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|------------------|----------------|------------------------|---------------------------|----------------|------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Equity securities | ¥ 8,222 | ¥19,583 | ¥11,361 | \$ 68,363 | \$162,825 | \$94,462 |
| Debt securities: | | | | | | |
| Government bonds | 13,299 | 13,386 | 86 | 110,576 | 111,300 | 715 |
| Corporate bonds | — | — | — | — | — | — |
| Other bonds | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Subtotal | 21,522 | 32,970 | 11,447 | 178,947 | 274,133 | 95,178 |
| Securities whose carrying value does not exceed their acquisition cost: | | | | | | |
| Equity securities | 30 | 27 | (3) | 249 | 224 | (25) |
| Debt securities: | | | | | | |
| Government bonds | 13,405 | 13,402 | (3) | 111,458 | 111,433 | (25) |
| Corporate bonds | 500 | 500 | — | 4,157 | 4,157 | — |
| Other bonds | 1,000 | 964 | (35) | 8,315 | 8,015 | (291) |
| Other | — | — | — | — | — | — |
| Subtotal | 14,935 | 14,894 | (41) | 124,179 | 123,838 | (341) |
| Total | ¥36,458 | ¥47,864 | ¥11,406 | \$303,135 | \$397,971 | \$94,837 |

| | Millions of yen | | |
|--|---------------------|-------------------|---------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Equity securities | ¥ 7,206 | ¥12,303 | ¥5,096 |
| Debt securities: | | | |
| Government bonds | 15,597 | 15,695 | 97 |
| Corporate bonds | 300 | 300 | 0 |
| Other bonds | 200 | 206 | 6 |
| Other | — | — | — |
| Subtotal | 23,304 | 28,505 | 5,201 |
| Securities whose carrying value does not exceed their acquisition cost: | | | |
| Equity securities | 46 | 41 | (5) |
| Debt securities: | | | |
| Government bonds | 11,100 | 11,099 | (0) |
| Corporate bonds | — | — | — |
| Other bonds | 1,000 | 898 | (101) |
| Other | — | — | — |
| Subtotal | 12,147 | 12,038 | (108) |
| Total | ¥35,451 | ¥40,544 | ¥5,093 |

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 ¥416 million (\$3,459 thousand) and ¥656 million as of March 31, 2015 and 2014, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2015 and 2014 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|--------|------------------------------|
| | 2015 | 2014 | 2015 |
| Proceeds from sales | ¥200 | ¥3,003 | \$1,663 |
| Gains on sales | — | 64 | — |
| Losses on sales | — | — | — |

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, 2015 and 2014 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|------------------------------|
| | 2015 | 2014 | 2015 |
| Short-term bank loans | ¥1,130 | ¥1,370 | \$9,396 |
| Current portion of long-term debt | 242 | 308 | 2,012 |
| Current portion of lease obligations | 83 | 88 | 690 |
| Total | ¥1,455 | ¥1,766 | \$12,098 |

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2015 and 2014 are 0.5%.

Long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan) and lease obligations as of March 31, 2015 and 2014 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------------|---------------------------|
| | 2015 | 2014 | 2015 |
| Long-term debt, due through 2016 at average interest rate of 0.5% in 2015 and 2014 | ¥ 242 | ¥ 550 | \$ 2,012 |
| Lease obligations due through 2023 in 2015 and 2014 | 360 | 347 | 2,993 |
| Current portion of long-term debt and lease obligations due within one year | (325) | (396) | (2,702) |
| Total | ¥ 277 | ¥ 501 | \$ 2,303 |

The annual maturities of long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan) and lease obligations are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2016 | ¥325 | \$2,702 |
| 2017 | 63 | 524 |
| 2018 | 41 | 341 |
| 2019 | 35 | 291 |
| 2020 and thereafter | 138 | 1,147 |
| Total | ¥602 | \$5,005 |

Other than those above, the Company recorded long-term debt related to a trust-based employee shareholding incentive plan (see Note 2(n)).

Long-term debt related to the trust-based employee shareholding incentive plan as of March 31, 2015 and 2014 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|------|---------------------------|
| | 2015 | 2014 | 2015 |
| Long-term debt, due through 2020 | ¥2,227 | ¥— | \$18,517 |

The average rate and annual maturities of long-term debt related to the trust-based employee shareholding incentive plan are not described because the repayment rate and amounts are variable.

7. Shareholders' Equity

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

(a) Dividends

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

- (1) having the board of directors,
- (2) having independent auditors,
- (3) having 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 the 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 a specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

8. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2015 and 2014 were ¥13,513 million (\$112,356 thousand) and ¥11,359 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, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|--------|---------------------------|
| | 2015 | 2014 | 2015 |
| Gain: | | | |
| Buildings and structures | ¥ 615 | ¥ 9 | \$ 5,113 |
| Machinery and vehicles | 0 | 0 | 0 |
| Land | 3,889 | 162 | 32,336 |
| Other | 0 | 1 | 0 |
| | ¥4,505 | ¥ 172 | \$37,457 |
| Loss: | | | |
| Buildings and structures | ¥ (64) | ¥(137) | \$ (532) |
| Machinery and vehicles | (2) | (5) | (17) |
| Other | (131) | (43) | (1,089) |
| | (199) | (186) | (1,655) |
| Total | ¥4,306 | ¥ (14) | \$35,803 |

10. Impairment Loss

The Company and its consolidated subsidiaries recognized a loss on impairment of long-lived assets for the year ended March 31, 2015 as follows:

| Location | Use | Type of assets | Millions of yen | Thousands of U.S. dollars |
|---|--------------|---------------------------|-----------------|---------------------------|
| Nogi-machi Shimotsuga-gun, Tochigi Prefecture | Business use | Land, buildings and other | ¥1,656 | \$13,769 |
| Two other groups of assets | Business use | Land, buildings and other | 576 | 4,789 |
| Total | | | ¥2,232 | \$18,558 |

When applying accounting for impairment losses, the Company and its consolidated subsidiaries group assets based on the reportable segments.

In the fiscal year ended March 31, 2015, consolidated subsidiary, KYORIN Pharmaceutical Co., Ltd., reduced the carrying amount of assets whose recoverable amounts had fallen below their carrying amounts to the recoverable amounts of those assets, mainly after arriving at decisions related to the centralization of its R&D bases. This reduction, dismantlement costs and other charges were recorded as an impairment loss of ¥2,232 million (\$18,558 thousand) under extraordinary loss.

The components of the impairment loss were buildings and structures of ¥646 million (\$5,371 thousand), land of ¥171 million (\$1,422 thousand) and dismantlement and other costs of ¥1,414 million (\$11,757 thousand).

The recoverable amount used in the measurement of impairment loss is the net selling value or the value in use.

There was no impairment loss recognized in the fiscal year ended March 31, 2014.

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 the security and liquidity. The Company and its consolidated subsidiaries use bank loans as the prime source of financing, and no derivatives are used.

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

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

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

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

Short-term bank loans are mainly used to finance operating capital, and long-term debts are used to finance fund for the introduction of a trust-based employee shareholding incentive plan.

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.

The redemption schedule for monetary receivables and securities with maturities subsequent to March 31, 2015 is as follows:

| | Millions of yen | | | |
|---|-------------------------|---------------------------------------|--|---------------------|
| | 2015 | | | |
| | 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 | ¥30,652 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable | 47,007 | — | — | — |
| Short-term investments and investment securities: | | | | |
| Other securities with maturities: | | | | |
| Government bonds | 17,800 | 6,900 | 2,000 | — |
| Bonds | — | — | — | 500 |
| Other | — | — | 1,000 | — |
| Total | ¥95,460 | ¥6,900 | ¥3,000 | ¥500 |

| | Thousands of U.S. dollars | | | |
|---|---------------------------|---------------------------------------|--|---------------------|
| | 2015 | | | |
| | 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 | \$254,860 | \$ — | \$ — | \$ — |
| Notes and accounts receivable | 390,846 | — | — | — |
| Short-term investments and investment securities: | | | | |
| Other securities with maturities: | | | | |
| Government bonds | 148,000 | 57,371 | 16,629 | — |
| Bonds | — | — | — | 4,157 |
| Other | — | — | 8,315 | — |
| Total | \$793,714 | \$57,371 | \$24,944 | \$4,157 |

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.

Defined benefit plans

(1) The changes in the retirement benefit obligation for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|--|----------------|---------------------------|
| | 2015 | 2014 | 2015 |
| | Retirement benefit obligation at the beginning of the year | ¥29,589 | ¥29,999 |
| Service cost | 967 | 1,003 | 8,040 |
| Interest cost | 384 | 389 | 3,193 |
| Actuarial loss | 169 | 109 | 1,405 |
| Retirement benefits paid | (1,048) | (1,237) | (8,714) |
| Prior service costs | — | (675) | — |
| Retirement benefit obligation at the end of the year | ¥30,062 | ¥29,589 | \$249,954 |

(2) The changes in plan assets for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2015 | 2014 | 2015 |
| Plan assets at the beginning of the year | ¥27,902 | ¥25,269 | \$231,995 |
| Expected return on plan assets | 558 | 758 | 4,640 |
| Actuarial gain or loss | 1,662 | 992 | 13,819 |
| Contributions paid by the employer | 1,958 | 2,120 | 16,280 |
| Retirement benefits paid | (1,048) | (1,237) | (8,714) |
| Plan assets at the end of the year | ¥31,033 | ¥27,902 | \$258,028 |

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------|------------------------------|
| | 2015 | 2014 | 2015 |
| Liability (asset) for retirement benefits at the beginning of the year | ¥367 | ¥378 | \$3,051 |
| Retirement benefits costs | 46 | 74 | 382 |
| Retirement benefits paid | (32) | (57) | (266) |
| Contributions to the plans | (76) | (28) | (632) |
| Liability (asset) for retirement benefits at the end of the year | ¥305 | ¥367 | \$2,536 |

(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, 2015 and 2014 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2015 | 2014 | 2015 |
| Funded defined benefit obligation | ¥ 30,373 | ¥ 29,821 | \$ 252,540 |
| Plan assets | (31,387) | (28,155) | (260,971) |
| | (1,014) | 1,666 | (8,431) |
| Unfunded retirement benefit obligation | 347 | 387 | 2,885 |
| Net liability (asset) for retirement benefits | ¥ (666) | ¥ 2,053 | \$ (5,538) |
| Liability for retirement benefits | ¥ 368 | ¥ 2,073 | \$ 3,060 |
| Asset for retirement benefits | (1,034) | (20) | (8,597) |
| Net liability (asset) for retirement benefits | ¥ (666) | ¥ 2,053 | \$ (5,538) |

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

(5) The components of retirement benefits costs for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|------------------------------|
| | 2015 | 2014 | 2015 |
| Service costs | ¥ 967 | ¥1,003 | \$ 8,040 |
| Interest costs | 384 | 389 | 3,193 |
| Expected return on plan assets | (558) | (758) | (4,640) |
| Amortization of actuarial loss | 162 | 310 | 1,347 |
| Amortization of prior service costs | (88) | (95) | (732) |
| Retirement benefits costs based on the simplified method | 46 | 74 | 382 |
| Retirement benefits costs | ¥ 914 | ¥ 924 | \$ 7,600 |

(6) Prior service costs and actuarial gain or loss included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|------|---------------------------|
| | 2015 | 2014 | 2015 |
| Prior service costs | ¥ 88 | ¥— | \$ 732 |
| Actuarial gain or loss | (1,656) | — | (13,769) |
| Total | ¥(1,567) | ¥— | \$(13,029) |

(7) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------|---------------------------|
| | 2015 | 2014 | 2015 |
| Unrecognized prior service costs | ¥(540) | ¥ (629) | \$(4,490) |
| Unrecognized actuarial loss | 369 | 2,026 | 3,068 |
| Balance at the end of the year | ¥(170) | ¥1,396 | \$(1,413) |

(8) Plan assets

The breakdown of plan assets is as follows:

| | 2015 | 2014 |
|----------------------------|--------|--------|
| Domestic debt securities | 50.7% | 42.5% |
| Domestic equity securities | 6.0 | 16.6 |
| Foreign debt securities | 6.2 | 6.6 |
| Foreign equity securities | 11.9 | 12.8 |
| Other | 25.2 | 21.5 |
| Total | 100.0% | 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 various categories of plan assets.

(9) Actuarial assumptions

| | 2015 | 2014 |
|--|------|------|
| Discount rate | 1.3% | 1.3% |
| Expected rate of return on plan assets | 2.0% | 3.0% |

Defined contribution plans

The Company and its consolidated subsidiaries contributed ¥316 million (\$ 2,627 thousand) and ¥298 million to the defined contribution plans for the years ended March 31, 2015 and 2014, respectively.

13.

Pledged Assets

Assets pledged as collateral for guaranty deposits as of March 31, 2015 and 2014 are as follows:

| Assets pledged as collateral: | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|------|---------------------------|
| | 2015 | 2014 | 2015 |
| For guaranty deposits | | | |
| Cash and cash in banks | ¥10 | ¥10 | \$83 |
| Total | ¥10 | ¥10 | \$83 |

14.

Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2015 | 2014 | 2015 |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥ 63 | ¥ 739 | \$ 524 |
| Accrued bonuses to employees | 1,067 | 1,151 | 8,872 |
| Allowance for doubtful accounts | 59 | 57 | 491 |
| Accrued enterprise tax | 189 | 192 | 1,571 |
| Loss on retirement of inventories | 157 | 194 | 1,305 |
| Loss on devaluation of investment securities | 181 | 243 | 1,505 |
| Loss on retirement of property, plant and equipment | 1,058 | 901 | 8,797 |
| Amortization of deferred assets | 813 | 553 | 6,760 |
| Tax loss carryforward | 203 | 318 | 1,688 |
| Other | 1,526 | 1,031 | 12,688 |
| Subtotal | 5,320 | 5,383 | 44,234 |
| Valuation allowance | (373) | (532) | (3,101) |
| Total deferred tax assets | 4,947 | 4,850 | 41,132 |
| Deferred tax liabilities: | | | |
| Reserve for reduction entry of property, plant and equipment | (51) | (66) | (424) |
| Reserve for special account for advanced depreciation of non-current assets | (1,182) | — | (9,828) |
| Unrealized holding gain on other securities | (3,688) | (1,879) | (30,664) |
| Prepaid pension cost | (279) | — | (2,320) |
| Other | (4) | (17) | (33) |
| Total deferred tax liabilities | (5,207) | (1,962) | (43,294) |
| Net deferred tax assets (liabilities) | ¥ (259) | ¥ 2,887 | \$ (2,153) |

Taxes on income consist of corporate, inhabitants' and enterprise taxes. Reconciliations of the statutory tax rate to the effective tax rate for the years ended March 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|--|-------|-------|
| Statutory tax rate | 35.6% | 38.0% |
| Entertainment expenses and others that are not tax deductible permanently | 1.2 | 2.1 |
| Inhabitants' per capita taxes | 0.5 | 0.4 |
| Adjustment to deferred tax assets and liabilities from change in the statutory tax rate | 1.6 | 1.0 |
| Tax credits for research and development expenses | (6.4) | (5.4) |
| Valuation allowance | 0.5 | (0.6) |
| Internal profit elimination | (0.6) | 0.1 |
| Other | (1.2) | (1.3) |
| Effective tax rate | 31.3% | 34.3% |

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015.

Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 35.6% to 33.1% for the temporary differences expected to be realized or settled in the current fiscal year. The effective statutory tax rate was also changed to 32.3% for the temporary differences expected to be realized or settled in the fiscal years beginning on or after April 1, 2016.

As a result, deferred tax liabilities (net of deferred tax assets) as of March 31, 2015 decreased by ¥103 million (\$856 thousand), while unrealized holding gain on other securities as of March 31, 2015 and income taxes-deferred for the year ended March 31, 2015 increased by ¥374 million (\$3,110 thousand) and ¥271 million (\$2,253 thousand), respectively.

15. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
| | 2015 | 2014 | 2015 |
| Unrealized holding gain on other securities: | | | |
| Gain arising during the year | ¥ 6,131 | ¥1,833 | \$ 50,977 |
| Reclassification adjustments | — | (64) | — |
| Before income tax effects | 6,131 | 1,769 | 50,977 |
| Income tax effects | (1,809) | (630) | (15,041) |
| Unrealized holding gain on other securities | 4,322 | 1,138 | 35,936 |
| Translation adjustments: | | | |
| Adjustments arising during the year | 155 | 192 | 1,289 |
| Retirement benefits liability adjustments: | | | |
| Gain arising during the year | 1,493 | — | 12,414 |
| Reclassification adjustments | 73 | — | 607 |
| Before income tax effects | 1,567 | — | 13,029 |
| Income tax effects | (552) | — | (4,590) |
| Retirement benefits liability adjustments | 1,014 | — | 8,431 |
| Share of other comprehensive income of affiliates accounted for using equity method: | | | |
| Gain arising during the year | 41 | 1 | 341 |
| Total other comprehensive income | ¥ 5,534 | ¥1,333 | \$ 46,013 |

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 | | | | |
|---|-------------------------|---|-------------|-------------|---------------------------|
| | 2015 | | | | |
| | Reportable segment | | | | |
| | Pharmaceutical Business | Consumer Healthcare (Skincare) Business | Total | Adjustments | Consolidated |
| Net sales: | | | | | |
| Sales to third parties | ¥111,771 | ¥1,349 | ¥113,121 | ¥ — | ¥113,121 |
| Inter-segment sales or transfers | 47 | 48 | 96 | (96) | — |
| Total | ¥111,819 | ¥1,398 | ¥113,217 | ¥ (96) | ¥113,121 |
| Segment profit (loss) | ¥ 14,576 | ¥ (20) | ¥ 14,556 | ¥ 181 | ¥ 14,737 |
| Segment assets | ¥163,135 | ¥ 683 | ¥163,818 | ¥19,564 | ¥183,383 |
| Other items: | | | | | |
| Impairment loss | ¥ 2,232 | ¥ — | ¥ 2,232 | ¥ — | ¥ 2,232 |
| Depreciation and amortization | 2,678 | 13 | 2,692 | 361 | 3,053 |
| Investments in affiliates accounted for using equity method | 594 | — | 594 | — | 594 |
| Increase in property, plant and equipment and intangible assets | 2,587 | 5 | 2,592 | 195 | 2,788 |
| | | | | | |
| | | | | | Thousands of U.S. dollars |
| | | | | | 2015 |
| | | | | | Reportable segment |
| | Pharmaceutical Business | Consumer Healthcare (Skincare) Business | Total | Adjustments | Consolidated |
| Net sales: | | | | | |
| Sales to third parties | \$ 929,334 | \$11,216 | \$ 940,559 | \$ — | \$ 940,559 |
| Inter-segment sales or transfers | 391 | 399 | 798 | (798) | — |
| Total | \$ 929,733 | \$11,624 | \$ 941,357 | \$ (798) | \$ 940,559 |
| Segment profit (loss) | \$ 121,194 | \$ (166) | \$ 121,028 | \$ 1,505 | \$ 122,533 |
| Segment assets | \$1,356,406 | \$ 5,679 | \$1,362,085 | \$162,667 | \$1,524,761 |
| Other items: | | | | | |
| Impairment loss | \$ 18,558 | \$ — | \$ 18,558 | \$ — | \$ 18,558 |
| Depreciation and amortization | 22,267 | 108 | 22,383 | 3,002 | 25,385 |
| Investments in affiliates accounted for using equity method | 4,939 | — | 4,939 | — | 4,939 |
| Increase in property, plant and equipment and intangible assets | 21,510 | 42 | 21,552 | 1,621 | 23,181 |
| | | | | | |
| | | | | | 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 affiliates 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 |

1. "Adjustments" for "Segment profit (loss)" of ¥181 million (\$1,505 thousand) and ¥473 million for the years ended March 31, 2015 and 2014, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥19,564 million (\$162,667 thousand) and ¥17,402 million as of March 31, 2015 and 2014, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥361 million (\$3,002 thousand) and ¥288 million for the years ended March 31, 2015 and 2014, 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 ¥195 million (\$1,621 thousand) and ¥534 million for the years ended March 31, 2015 and 2014, respectively, were increase in property, plant and equipment and intangible assets of the Company.
5. "Segment profit (loss)" is adjusted to operating income disclosed in the accompanying consolidated statements of income.

(Related Information)

(a) Information by Product and Service

Information by product and service is omitted since the classification by product and service was the same as the reportable segment for the years ended March 31, 2015 and 2014.

(b) Information by Geographical Area

(1) Sales

Information about sales by geographical area is omitted for the years ended March 31, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014

| Name of customer | Millions of yen | |
|-------------------------------|-----------------|-------------------------|
| | Sales amount | Related segments |
| Alfresa Corporation | ¥19,641 | Pharmaceutical Business |
| SUZUKEN CO., LTD. | 17,768 | Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 16,523 | Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 15,161 | Pharmaceutical Business |

| Name of customer | Thousands of U.S. dollars | |
|-------------------------------|---------------------------|-------------------------|
| | Sales amount | Related segments |
| Alfresa Corporation | \$163,308 | Pharmaceutical Business |
| SUZUKEN CO., LTD. | 147,734 | Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 137,383 | Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 126,058 | Pharmaceutical Business |

| Name of customer | Millions of yen | |
|-------------------------------|-----------------|---|
| | Sales amount | Related segments |
| Alfresa Corporation | ¥19,568 | Pharmaceutical Business |
| SUZUKEN CO., LTD. | 17,551 | Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 16,568 | Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 14,977 | 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 as of March 31, 2015 and 2014.

Information about amortization of goodwill by reportable segment for the years ended March 31, 2015 and 2014 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, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
| | 2015 | 2014 | 2015 |
| Guarantors of indebtedness of employees | ¥1 | ¥2 | \$8 |

18. Amounts per Share

Amounts per share for the years ended March 31, 2015 and 2014 are as follows:

| | Yen | | U.S. dollars |
|------------------|----------|----------|--------------|
| | 2015 | 2014 | 2015 |
| Basic net income | ¥ 161.63 | ¥ 160.95 | \$ 1.34 |
| Cash dividends | 52.00 | 52.00 | 0.43 |
| Net assets | 2,009.45 | 1,844.61 | 16.71 |

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, 2015 and 2014.

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.

The treasury shares remaining in trust and recorded as treasury stock in shareholders' equity are included in the treasury shares excluded from the calculation of the average number of shares during the fiscal year, which is used to calculate the amount of net income per share. Furthermore, these treasury shares are included in the number of treasury shares excluded from the total number of issued shares at the end of the fiscal year, which is used to calculate net assets per share.

The average number of treasury shares during the fiscal year that were excluded from the calculation of the amount of net income per share was 76,875 in the fiscal year ended March 31, 2015.

The number of these treasury shares at the end of the fiscal year that were excluded from the calculation of net assets per share was 764,100 as of March 31, 2015.

19. Subsequent Events

There are no relevant items.

Independent Auditor's Report



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
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, 2015, 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, 2015, 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 24, 2015

A member firm of Ernst & Young Global Limited

Non-consolidated Financial Summary

Non-consolidated Balance Sheet

KYORIN Holdings, Inc.
As of March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------------|---------------------------|
| | 2015 | 2014 | 2015 |
| Assets | | | |
| Current assets | ¥ 18,781 | ¥ 17,102 | \$156,156 |
| Cash and deposits | 10,785 | 10,146 | 89,673 |
| Short-term investments | 4,999 | 3,599 | 41,565 |
| Prepaid expenses | 155 | 147 | 1,289 |
| Income taxes receivable | 1,233 | 1,039 | 10,252 |
| Short-term loans | 1,500 | 2,000 | 12,472 |
| Deferred tax assets | 94 | 154 | 782 |
| Other | 13 | 15 | 108 |
| Less allowance for doubtful accounts | — | 0 | — |
| Noncurrent assets | 84,357 | 84,370 | 701,397 |
| Property, plant and equipment | 619 | 744 | 5,147 |
| Intangible assets | 744 | 761 | 6,186 |
| Investments and other assets | 82,993 | 82,865 | 690,056 |
| Total assets | 103,138 | 101,473 | 857,554 |
| Liabilities | | | |
| Current liabilities | 606 | 698 | 5,039 |
| Non-current liabilities | 2,384 | 7 | 19,822 |
| Total liabilities | 2,991 | 706 | 24,869 |
| Net assets | 100,147 | | 832,685 |
| Shareholders' equity | (0) | 100,767 | (0) |
| Total net assets | 100,147 | 100,767 | 832,685 |
| Total liabilities and net assets | 103,138 | 101,473 | 857,554 |

Non-consolidated Statement of Income

KYORIN Holdings, Inc.
For the year ended March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|--------------|---------------------------|
| | 2015 | 2014 | 2015 |
| Operating revenue | ¥9,336 | ¥8,640 | \$77,625 |
| Operating expenses | 3,162 | 3,078 | 26,291 |
| Operating income | 6,173 | 5,561 | 51,326 |
| Non operating income | 108 | 121 | 898 |
| Ordinary income | 6,282 | 5,683 | 52,232 |
| Extraordinary income | — | — | — |
| Extraordinary loss | 1 | 151 | 8 |
| Income before income taxes | 6,281 | 5,531 | 52,224 |
| Income taxes—current | 16 | 37 | 133 |
| Income taxes—deferred | 66 | 101 | 549 |
| Net income | 6,198 | 5,392 | 51,534 |

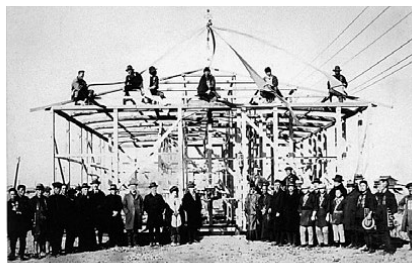
Note: The rate of ¥120.27 to U.S.\$1.00, prevailing on March 31, 2015, has been used for translation into U.S. dollar amounts.

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.

1947

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 were 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 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.).

The Research Center (now the Watarase Drug Discovery Center) was founded by integrating the Research Center of Organic Syntheses, the Technical Center of Development, the Technical Center of Product Formulation and the Technical Center of Safety Assessment.

1998

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

1999

Listed on the Tokyo Stock Exchange, Second Section.

2000

Listed 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.

Gatifo (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 Pharm 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 ▶▶▶

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.

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 DS 50%, a mucoregulant, was launched.

2011

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.

2014

Signed a license agreement concerning Vibegron, a therapeutic agent for overactive bladder, with Merck & Co. (U.S.A.).

2015 ▶▶▶

2015

Eklira Genuair, a treatment for COPD, was launched.

Established the WATARASE Research Center.



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 Overview/Stock Information (As of March 31, 2015)

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

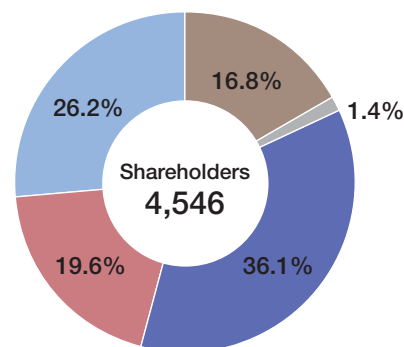
Shareholders 4,546

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

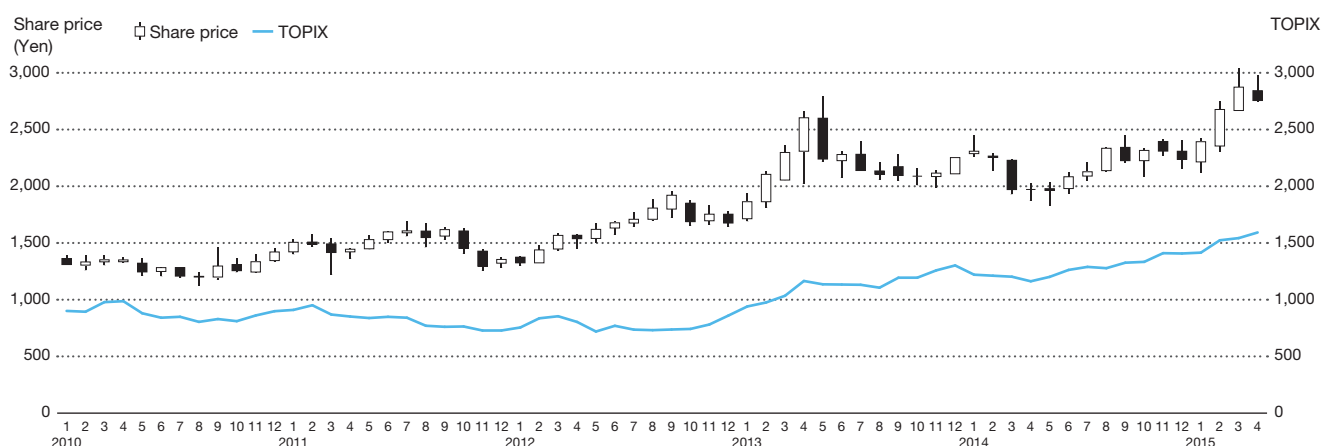
| Major Shareholders | Percentage of total shares outstanding |
|---|--|
| TEIJIN LIMITED | 19.12% |
| Mykam Co., Ltd. | 3.66% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 3.51% |
| Minoru Ogihara | 2.97% |
| Banrina Co., Ltd. | 2.60% |
| Archans Co., Ltd. | 2.60% |
| Yutaka Ogihara | 2.48% |
| Mariko Ogihara | 2.35% |
| Hiroko Ogihara | 2.33% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2.33% |

Major Shareholders



| | |
|-----------------------------|-------|
| Financial institutions | 16.8% |
| Financial instruments firms | 1.4% |
| Other corporations | 36.1% |
| Foreign corporations | 19.6% |
| Individuals and other | 26.2% |

Change in Share Price

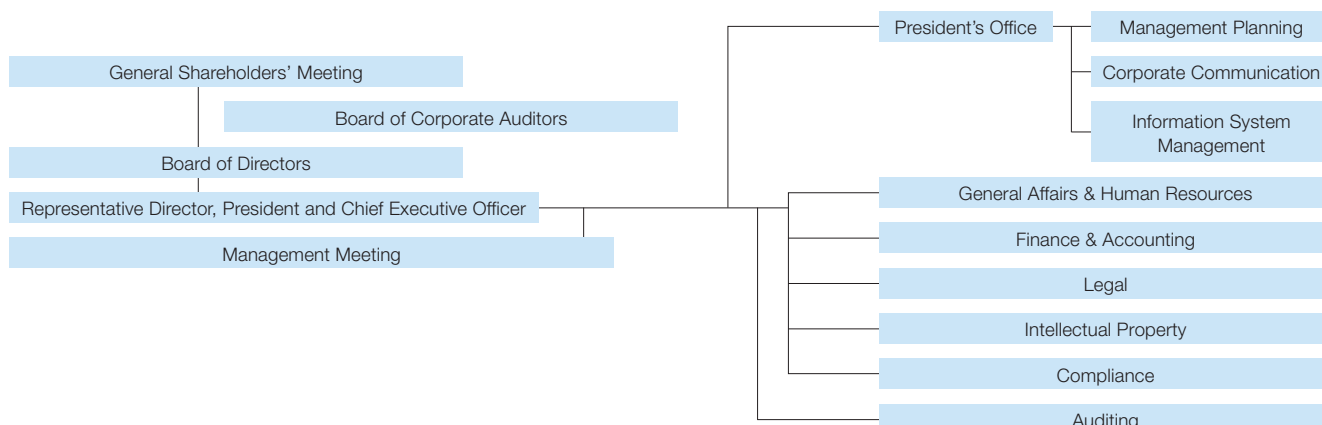


Website introducing Kyorin's IR activities <http://www.kyorin-gr.co.jp/en/ir/>

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 23, 2015)



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.



KYORIN Holdings, Inc.

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Corporate Communication, President's Office

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