

# 2016

ANNUAL REPORT  Year ended March 31, 2016

Corporate Philosophy of the Kyorin Group

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

## Contents

To Our Stakeholders	2
History of the Kyorin Group	4
The Kyorin Group's Vision and Value Creation Process	6
Performance Highlights	8
President's Interview	10
<b>Feature</b> Four Priority Strategies to Be Promoted Under the New Medium-Term Business Plan HOPE100—Stage 2—	14
The Core Company of the Kyorin Group and Overview of Business	18
Ethical Drugs Business	20
Healthcare Business	26
Corporate Governance	28
Directors, Corporate Auditors, and Corporate Officers	31
Corporate Social Responsibility	32
Financial Analysis	38
Consolidated Financial Statements	40
Notes to Consolidated Financial Statements	45
Independent Auditor's Report	63
Corporate Overview / Stock Information	64

### Editorial Policy

Annual Report 2016 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 2015 (April 1, 2015 to March 31, 2016); some information also relates to fiscal 2016 activities.



## To Our Stakeholders

The Kyorin Group seeks to realize our corporate philosophy, which states “to cherish life and benefit society by contributing to better health.” As the embodiment of that, we formulated HOPE100 as a long-term vision for 2023, when KYORIN Pharmaceutical Co., Ltd., the core subsidiary, will celebrate the 100th anniversary of its founding. Under the statement “The Kyorin Group will promote diversified healthcare business expansion and by 2023 be recognized both within and outside as a company that supports sound and healthy lifestyles,” we aim to develop as a company whose existence is recognized as meaningful.



**Masahiro Yamashita**  
Representative Director, Chairman  
KYORIN Holdings, Inc.

**Minoru Hogawa**  
Representative Director, President and  
Chief Executive Officer  
KYORIN Holdings, Inc.

## We at the Kyorin Group take on the challenges of transformation with new ideas and aim to realize HOPE100, our long-term vision.

The medium-term business plan HOPE100—Stage 1—, the first step toward realizing the long-term vision of HOPE100, was implemented from fiscal 2010 to fiscal 2015 under the statement “business organization, the building of a system to promote each business, and the enhancement of the driving force of each business.” We realized a certain degree of results by enhancing the development pipeline in the ethical drugs business, thoroughly deploying franchise customer strategies, and establishment and promotion of the new ethical drugs business model concurrently offering a variety of medical drugs (PC model: Pharma Complex Model). In the healthcare business, we began to see results budding from the seeds that had been sown, including the launch of a new business.

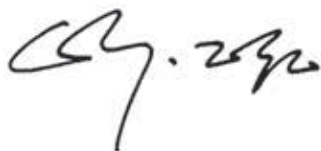
In terms of results and objectives, fiscal 2015 was the final year of Stage 1 and we were able to achieve record net sales and operating income due to factors including the growth of the ethical drugs business, in spite of operating under challenging conditions brought about by such events as drug pricing revisions.

However, to achieve further growth under an environment fluctuating significantly it is not enough to merely expand on actions taken in the past, but new ideas are called for to take on the challenge of transformation. Consequently, we have started the new medium-term business plan HOPE100—Stage 2— for fiscal 2016 to fiscal 2019 and, going forward, all Group employees will work as one to achieve the goals set forth in the plan.

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

August 2016

**Masahiro Yamashita**  
Representative Director, Chairman  
KYORIN Holdings, Inc.



**Minoru Hogawa**  
Representative Director, President and  
Chief Executive Officer  
KYORIN Holdings, Inc.



# History of the Kyorin Group

KYORIN Pharmaceutical, the core company within the Kyorin Group, was established 93 years ago.

We have unceasingly strived to realize our corporate philosophy of always making a contribution to human health.

Kyorin will continue to take on challenges and will evolve to become a company supporting healthy lifestyles through our business in the treatment and prevention of disease and the maintenance and promotion of good health.

•Clearly stated the corporate philosophy and the vision

1981 → 2000

1923 → 1950

1951 → 1980

Product history

Management-related events



- 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

- 1961 Behyd, a diuretic and antihypertensive agent, was launched.
- 1965 KYORIN AP-2, an analgesic, was launched. Deamelin-S, an oral hypoglycemic agent, was launched.
- 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).
- 1980 Norfloxacin (NFLX), an antibacterial agent, was licensed to Merck & Co. (U.S.A.).

- 1957 The medical journal bulletin "Doctor Salon" was started.
- 1962 Kyorin Chemical Laboratory (later Technical Center of Development) was established.
- 1965 The Head Office was completed in Kanda Surugadai.
- 1977 Central Research Laboratories were established.

- 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).
- 1989 Ketas, for bronchial asthma and cerebrovascular disorders, was launched. Baccidal Eyedrops, a broadspectrum ophthalmic antibacterial agent, was launched.
- 1993 Megalocin (FLRX), a long-acting new quinolone agent, was launched.
- 1996 Gatifloxacin (GFLX) was licensed to Bristol-Myers Squibb (U.S.A.).
- 2000 Gatifloxacin-eyedrops was licensed to Allergan (U.S.A.).

- 1992 KYORIN Pharmaceutical Co., Ltd. and Kyorin Yakuhin Co., Ltd. were merged, and the new KYORIN Pharmaceutical Co., Ltd. was founded.
- 1995 The Noshiro Plant was started.
- 1996 A joint venture, Nisshin KYORIN Pharmaceutical Co., Ltd., was established with Kyorin's capital participation. The Research Center (now the WATARASE Research Center) was founded.
- 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.



# Corporate vision for 2023

Formulated the Long-term Vision HOPE100 (FY2010–FY2023)

2001

2010

2016

2023

Medium-Term Business Plan Fiscal 2010—2015  
Stage 1

Medium-Term Business Plan Fiscal 2016—2019  
Stage 2

Medium-Term Business Plan Fiscal 2020—2023

Stage 3

A company that supports sound and healthy lifestyles

- 2001 Kipres, the leukotriene receptor antagonist and bronchial asthma treatment medicine, was launched.
- 2002 Gatiflo (GFLX), a broad-spectrum, oral antibacterial agent, was launched.
- 2007 Uritos Tablets 0.1 mg, an overactive bladder drug, was launched.  
Kipres Fine Granules 4 mg, a bronchial asthma treatment drug, was launched.  
A business transfer agreement was made with the Fresenius Kabi AG Group in Germany concerning Hespander and Salinhes, plasma substitutes and hemodilution agents.
- 2008 Kipres Tablets 5 mg, a bronchial asthma and allergic rhinitis treatment drug, was launched.
- 2009 A license agreement for Neramexane, a tinnitus drug, was made with Merz Pharmaceuticals (Germany) for the Japan region.
- 2010 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 multi-purpose disinfectant cleaner, was launched.  
Transfer of business related to a topical antifungal prescription drug Pekiron cream 0.5% to Galderma S.A. (Switzerland).
- 2013 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 Eklira Genuair, a treatment for COPD, was launched.  
FPR2 agonist program was licensed to Bristol-Myers Squibb Company (U.S.A.)  
Kipres OD, a treatment for bronchial asthma and allergic rhinitis, was launched.  
Pentasa Granules 94%, a treatment for ulcerative colitis and Crohn's disease, was launched.

- 2001 A subsidiary company, Kyorin USA, Inc. (U.S.A.), was established.
- 2002 A subsidiary company, Kyorin Europe GmbH (Germany), was established.
- 2004 ActivX Biosciences, Inc. (U.S.A.) became a wholly owned subsidiary.
- 2005 The stock of Toyo Pharma Co., Ltd. (present KYORIN Rimedio Co., Ltd.) was acquired, making it into a subsidiary company.  
Dr. Program Co., Ltd. became a wholly owned subsidiary.
- 2006 The Kyorin Group shifts to a holding company structure through a share exchange with KYORIN Co., Ltd.  
The new Noshiro Plant began operating.
- 2008 KYORIN Pharmaceutical merged with Nissin Kyorin Pharmaceutical.
- 2010 KYORIN Co., Ltd. changed its name to KYORIN Holdings, Inc.

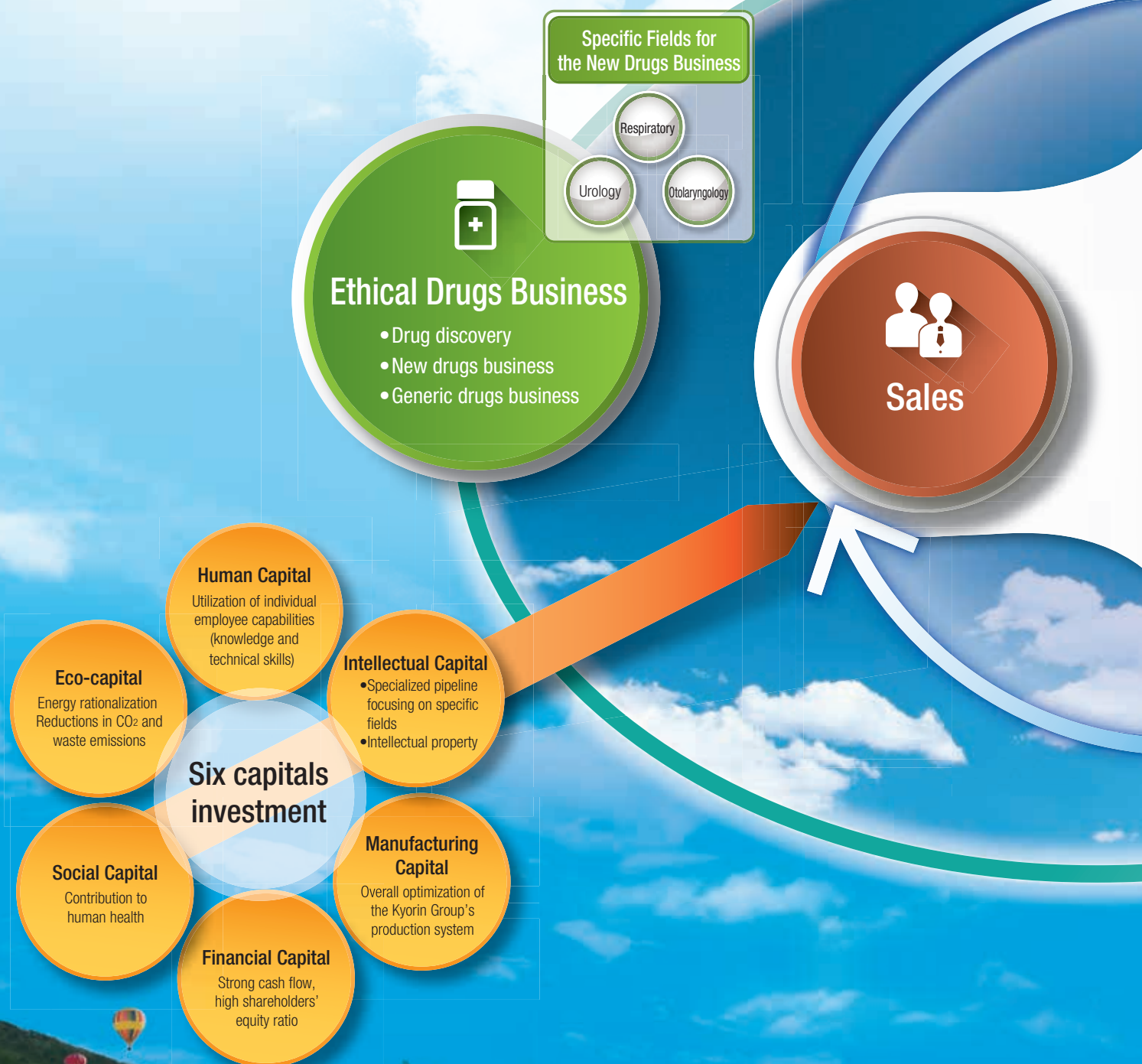
- 2012 Acquisition (conversion into subsidiary) of the Shiga Plant of MSD K.K. and established KYORIN Pharmaceutical Facilities Co., Ltd.
- 2013 Head office moved to Ochanomizu sola city in Kanda Surugadai.
- 2015 Established the WATARASE Research Center.



# The Kyorin Group's Vision and Value Creation Process

The Kyorin Group's mission is to continue to manufacture original new drugs that can contribute to the health of the world's people, and we believe this to be the source of our value creation.

With the ethical drugs business at our core, we respond to various health needs and, from the standpoint of supplementing the growth of the ethical drugs business, combine the healthcare business and utilize various types of capital to enhance corporate value.





The Kyorin Group takes the standpoint of enhancing corporate value over the medium- to long-term and aims for sound and sustainable development while dispersing business risk through the ethical drugs business and healthcare business.

  
**Drug Discovery /  
Research and  
Development**

  
**Production**

  
**Healthcare Business**

- Skincare
- Environmental hygiene
- Over-the-counter drugs and others

## Corporate vision for 2023

### Long-term Vision HOPE100

#### Statement

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

#### 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

#### Creating Value

(Contributing to health)

Creation of new innovative products  
Providing outstanding products  
and services

- Responding to unmet medical needs
- Enhancing the quality of life of patients and their families

# Performance Highlights

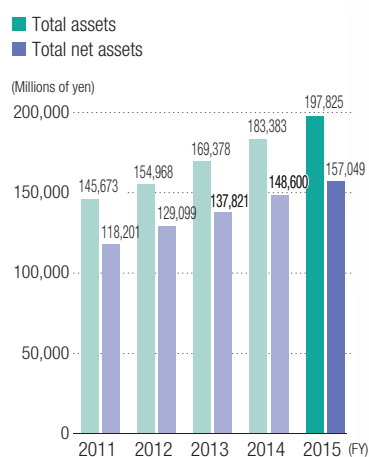
## Consolidated Financial Highlights

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
Fiscal years ended March 31/As of March 31

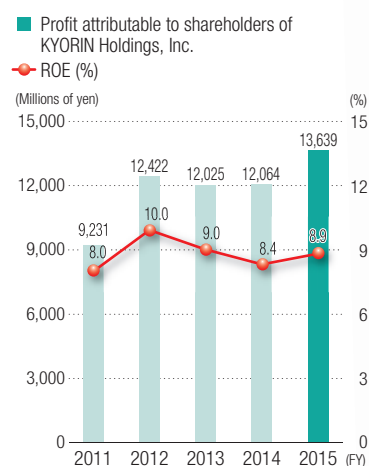
Millions of yen

	FY2011	FY2012	FY2013	FY2014	FY2015
Net sales	103,232	107,031	111,400	113,121	119,483
Operating income	14,464	17,948	17,607	14,737	19,636
Profit attributable to shareholders of KYORIN Holdings, Inc.	9,231	12,422	12,025	12,064	13,639
Net cash provided by operating activities	8,913	11,544	19,293	6,391	11,137
Net cash provided by (used in) investing activities	(4,926)	(7,187)	(2,477)	(1,364)	650
Net cash used in financing activities	(7,412)	(5,132)	(3,704)	(5,233)	(2,245)
Free cash flow	3,987	4,357	16,816	5,027	11,787
R&D expenses	13,964	11,059	11,359	13,514	13,019
Capital expenditures	1,952	6,576	6,500	2,655	7,218
Depreciation and amortization	2,363	2,738	3,153	3,053	3,730
<b>Total assets</b>	<b>145,673</b>	<b>154,968</b>	<b>169,378</b>	<b>183,383</b>	<b>197,825</b>
<b>Total net assets</b>	<b>118,201</b>	<b>129,099</b>	<b>137,821</b>	<b>148,600</b>	<b>157,049</b>
					yen
<b>Amounts per Share</b>					
Net assets	1,581.94	1,727.86	1,844.61	2,009.45	2,131.67
Basic profit	123.54	166.25	160.95	161.63	184.28
Cash dividends	45.00	50.00	52.00	52.00	58.00
<b>Key Performance Indicators</b>					
Operating income margin (%)	14.0	16.8	15.8	13.0	16.4
Profit attributable to shareholders of KYORIN Holdings, Inc./Net sales ratio (%)	8.9	11.6	10.8	10.7	11.4
R&D expenses/Net sales ratio (%)	13.5	10.3	10.2	11.9	10.9
Total shareholders' equity ratio (%)	81.1	83.3	81.4	81.0	79.4
ROE (%)	8.0	10.0	9.0	8.4	8.9
ROA (%)	6.3	8.3	7.4	6.8	7.2
Consolidated payout ratio (%)	36.4	30.1	32.3	32.2	31.8
<b>Number of employees</b>	<b>2,297</b>	<b>2,444</b>	<b>2,452</b>	<b>2,445</b>	<b>2,420</b>

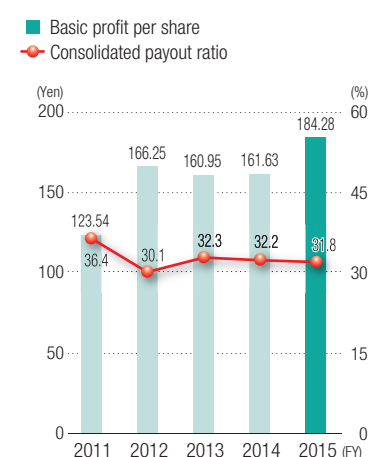
Total assets / Total net assets



Profit attributable to shareholders of KYORIN Holdings, Inc. / ROE



Basic profit per share / Consolidated payout ratio

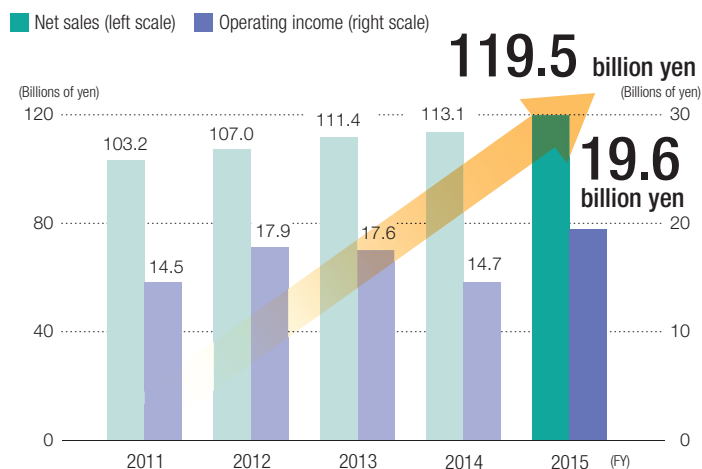


## Fiscal 2015 Highlights

### Operating Results

Consolidated net sales and operating income

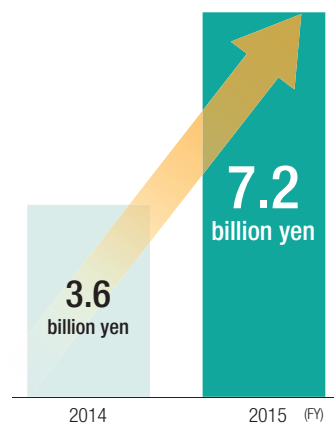
**achieved new record highs**



### Sales Status of a Key Product

Combination drug for asthma treatment

**Flutiform sales increased**



### Progress in the Out-licensed Activities

Novartis (Switzerland) has decided to **concentrate on the development of KRP-203 for GvHD\***. (Announced in November 2015)

\* Graft-versus-host disease

**Out-licensed FPR2 agonist program** to Bristol-Myers Squibb Company (U.S.A.) and **received an upfront payment of US\$35 million**

(December 2015)





## President's Interview

**“Amid the dramatically fluctuating environment inside and outside of the Company, it is clear that it is difficult to respond to the challenges we are facing based on our existing mindsets alone, so we are creating and executing new initiatives and advancing our business strategy of transforming.”**

### Minoru Hogawa

Representative Director, President and Chief Executive Officer

#### **Q** Looking back at fiscal 2015, how do you see the year?

**A** Fiscal 2015 was the final year of the medium-term business plan HOPE100—Stage 1—, the first step toward the embodiment of HOPE100, our long-term vision for fiscal 2010 to fiscal 2023. Amid a tough business climate due partly to drug pricing revisions, we were able to set a new record for consolidated net sales and operating income. It was also a significantly fruitful year connecting to the new medium-term business plan HOPE100—Stage 2— for fiscal 2016 to fiscal 2019 in terms of new in-house drug discovery due to factors such as the move to full-scale operation of a new research and development base and conclusion of major license agreements.

#### **Q** Please describe the overall situation regarding medium-term business plan HOPE100—Stage 1—.

**A** During Stage 1 we established our statement "business organization, the building of a system to promote each business, and the enhancement of the driving force of each business," restructured our business strategy to respond to the changes in the environment and grew business that will become our new core.

In the pharmaceutical business, we aim to become a manufacturer of original new drugs that can contribute to the health of the world's people, and to that end launched the WATARASE Research Center in July 2015. Development of immunomodulatory drug KRP-203, out-licensed to Novartis of Switzerland, became full-scale for graft-versus-host disease (GvHD), while at the KYORIN Pharmaceutical Development Research Laboratories (currently the WATARASE Research Center), the FPR2 agonist program was out-licensed to Bristol-Myers Squibb Company, taking it global in a development we consider to be significant.

Meanwhile, we also strengthened our domestic sales pipelines for new drugs and licenses including overactive bladder treatment KRP-114V and allergic rhinitis treatment Desloratadine.

On the production side, we advanced the transfer of functions from KYORIN Pharmaceutical's Okaya plant to KYORIN Pharmaceutical Facilities Co., Ltd.

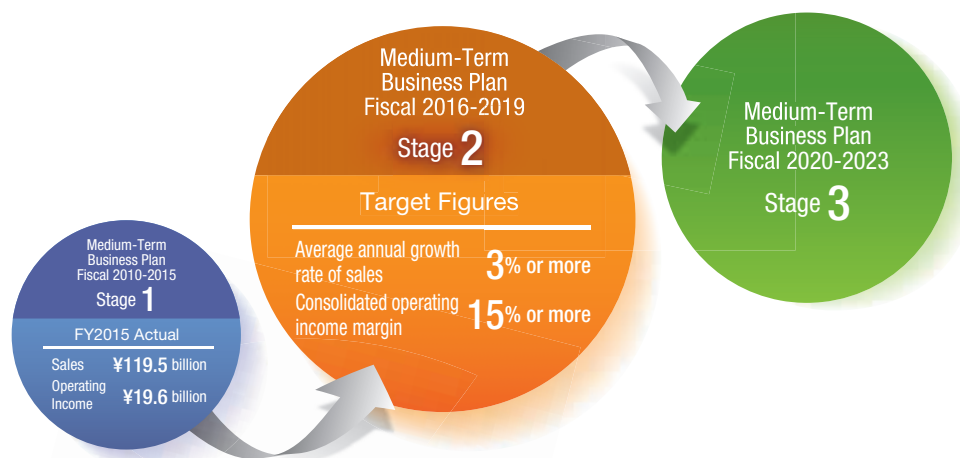
On the sales side, we deepened the franchise customer (FC) strategy in an endeavor to maximize the spread of main products such as Flutiform, a combination drug for asthma treatment, while net sales of new drugs exceeded initial forecasts. However, due to changes in the environment brought about by the dramatic contraction of the market for longstanding pharmaceutical products due to the promotion of the development of generic drugs, original drugs fell short of their target. However, by establishing a proactive joint development model in the generic drugs business, we achieved a certain level of growth and have expanded the business so that it is now twice the size that it was at the start of Stage 1.

In the healthcare business, we were able to launch the environmental hygiene business as a new business, but were not able to achieve initial targets, while the skincare business and other existing businesses were also significantly below targets.

As a result of these developments, the Group was about ¥20.0 billion short of its target of ¥140.0 billion in net sales, but almost achieved its target of ¥20.0 billion in operating income. We consider record net sales and operating income to be a certain level of achievement. There are still issues left over from Stage 1 that need to be resolved, but we have implemented a variety of reforms and we feel the seeds we sowed have begun to bear fruit.

#### **■ Performance in Fiscal 2015**

Looking at results for fiscal 2015, in the pharmaceutical business, net sales increased by 1.8% year on year in the ethical drugs sales in Japan due to an increase in net sales compared to the previous year by Flutiform, a combination drug for asthma treatment, Kipres, a treatment for bronchial asthma and allergic



rinitis, and Uritos, a treatment for overactive bladder, as new drugs, despite net sales decreasing year on year for Pentasa, an ulcerative colitis and Crohn's disease remedy, and Mucodyne, a mucoregulant, as longstanding pharmaceutical products.

In ethical drugs sales overseas, net sales increased significantly by 441.2% compared to the previous fiscal year due to concluding a contract to license the FPR2 agonist program, which resulted in recording an upfront payment made at the time of signing the contract.

Sales for generic drugs remained about the same as they had been in the previous year with an increase in the health insurance pharmacy market's sales resulting from an expansion of the market due to the promotion of use of generic drugs and raised awareness of them; however, this was offset by a decrease in contract manufacturing sales. As a result, net sales in the pharmaceuticals business increased by 5.8%.

In the healthcare business, net sales decreased by 7.8% compared to the previous fiscal year, mainly due to reduced sales at Dr. Program Co., Ltd., which is engaged in the production and sales of skincare products.

As a result of the above, consolidated net sales were a record ¥119,483 million, a 5.6% increase on the previous fiscal year, due to a significant year-on-year increase in the net sales of new drugs.

On the earnings front, we achieved a record ¥19,636 million in operating income, an increase of 33.2% compared to the previous fiscal year, bringing us close to the Stage 1 target, which was mainly due to an increase in gross profit that resulted from recording increased income from main products and booking an upfront payment upon signing an agreement.

### ■ R&D Pipelines Are Progressing Steadily

Looking at the main progress made in R&D activities during fiscal 2015, Phase I and Phase II clinical trials for gene-therapy drug Ad-SGE-REIC, a formulation that targets the treatment of malignant pleural mesothelioma, started in July 2015, and in March 2016, we initiated Phase III clinical trials for KRP-AM1977Y, a new quinolone synthetic antibacterial agent. In October 2015, MSD K.K., with which we concluded an in-licensing agreement, filed an application to the Ministry of Health, Labour and Welfare seeking permission to engage in production and sales of Desloratadine.

In regard to out-licensing developments, KRP-203 had been out-licensed to Novartis of Switzerland, which in November 2015 decided to concentrate on development of GvHD. We signed an agreement in December 2015 with Bristol-Myers Squibb to out-license the FPR2 agonist program, using FPR agonists as new drug candidate compounds that mainly inhibit the migration of neutrophils and exhibit anti-inflammatory action. Furthermore, KYORIN Pharmaceutical has concluded an agreement with Kissei Pharmaceutical Co., Ltd. to co-develop and co-market KRP-114V, currently undergoing Phase III clinical trials in Japan.

### Q How do you analyze the business environment at a point where you are formulating the new medium-term business plan HOPE100—Stage 2—?

A The external environment surrounding the ethical drugs business is expected to become increasingly more challenging with the arrival of the 80% generics era and the drug pricing revisions. Further, the Kyorin Group is facing major changes in its business environment unlike any it has experienced in the past, including the expiration of a patent for a key product, Kipres. In this environment, it is difficult to respond to the challenges we are faced with based on our existing mindsets alone. In an effort to dynamically remake past systems for conducting business, we must create and execute new initiatives that are not simply an extension of the past.

### Q Please give us an overview of the new medium-term business plan HOPE100—Stage 2—.

A The ethical pharmaceuticals market structure is changing dramatically and to respond to the national policy recommending the materialization of high-quality, efficient medical care, we are anticipating changes in the environment as rapidly as possible, changing our awareness and reforming our operations. We have established "making reforms (changes and innovations) and achieving continuous growth in an effort to realize our long-term vision" as our statement and are working on business strategies and organization strategies.



**Please give us the key points of the business strategies.**



Under our new medium-term business plan HOPE100—Stage 2—, we will carry out, under the aforementioned statement, the following four priority strategies and two development strategies.

**Four Priority Strategies**

**Enhancing drug discovery capabilities**

We will build a system for continuously creating and delivering innovative new drugs and work towards first-in-class drug discovery. Specifically, this will involve identifying novel drug discovery targets in the franchise customer areas and creating first-in-class new drugs through the utilization of existing drug discovery platforms based on low molecular weight and new technologies, such as peptides and gene therapy. Furthermore, we will also aim for early collaboration with global partners to accelerate global expansion and development of original new drugs.

For details, please refer to page 15.

**Increase the ratio of new drugs group**

We plan to increase the percentage of the new drugs group to 50% or higher by maximizing the spread of new drugs by fiscal 2019. To deal with the expiration of our patent for the key product Kipres with the growth of new drugs, we will aim to launch three components and four new products (allergic rhinitis treatment Desloratadine, new quinolone synthetic antibacterial agent KRP-AM1977X (oral agent), KRP-AM1977Y (injection), and overactive bladder treatment KRP-114V) during the Stage 2 period, along with Flutiform, which has already been launched.

For details, please refer to page 16.

**Promotion of generic drugs business by making the most of its characteristics**

In addition to making use of the merits of in-house development, production, and sales of generic drugs and KYORIN

Pharmaceutical dealing with new drugs within the Kyorin Group, we will actively handle authorized generics. As well as aiming for a large market share with Montelukast AG, the authorized generic version of Kipres, we also have in sight the acquisition of other authorized generics.

For details, please refer to page 25.

**Enhanced low cost**

We will reform the cost structure through optimization within the Kyorin Group. Currently, the Group owns four plants; however, KYORIN Pharmaceutical's Okaya plant will be closed from September 2016. The Group is working toward the maximum utilization of KYORIN Pharmaceutical's Noshiro plant dealing in new drugs, KYORIN Pharmaceutical Facilities, whose various products include MSD products, and KYORIN Rimedio's Inami plant, which makes generics. By the three plants with different characteristics working together on production within the Group to advance overall optimization, production will occur in the appropriate place regardless of the bounds of the new drugs group, original drugs group and generic drugs group, and we will undertake the leveling of plant utilization rates and the efficient use of assets.

For details, please refer to page 24.

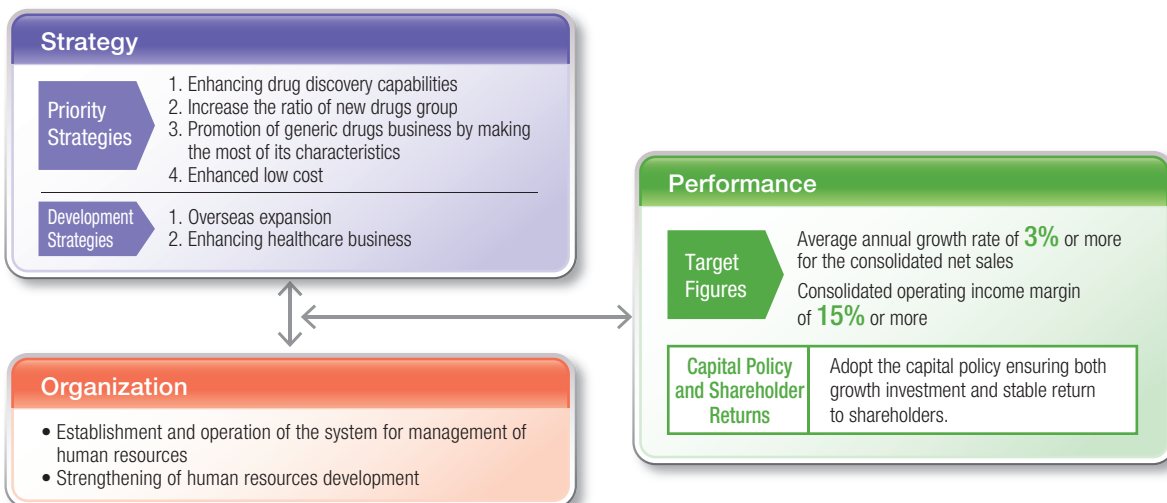
**Two Development Strategies**

**Overseas expansion**

We will deliver original new drugs to people around the world. Specifically, the Kyorin Group will use partnering to promote expansion to the U.S. and Europe of innovative new drugs created by the Company and capture overseas sales. We will also work in collaboration with other companies to lay the foundations for future direct expansion, with a focus on Asia.

**Enhancing healthcare business**

We will grow the environmental hygiene business (multi-purpose disinfectant cleaner RUBYSTA), strengthen collaboration with existing businesses and create a new key business. We are also building the businesses that will pave the way for candidates that will be the next core.





**Q Please tell us about the organization strategies.**

**A** The Kyorin Group has positioned valuing employees and invigorating people and the organization as the key challenge for implementing business strategies and realizing results. In Stage 2, we will undertake the enhancement of personnel development and rebuilding of personnel management systems such as employment, allocation, training and development, evaluation, transfers, compensation, welfare and benefits, and so forth for each of the respective group companies under the basic policies of personnel management in the hopes of becoming “a leading company for pursuing fulfilling careers” for employees.

**Q Please tell us your thoughts regarding shareholder returns.**

**A** Under Stage 1, the Kyorin Group had a basic policy of conducting investments for growth, investments for business continuity and shareholder returns in a well-balanced manner and strengthening our management base. As for shareholder returns, we are aiming for a consolidated payout ratio of approximately 30% when deciding dividends. The dividend per share for fiscal 2015 was ¥58, consisting of an interim dividend of ¥20 and year-end dividend of ¥38, representing a consolidated payout ratio of 31.8%.

Under Stage 2, we will anticipate the management environment under Stage 2 and maintain a healthy financial base while undertaking a capital policy of a balance between growth investments and shareholder returns. We are aiming to provide stable shareholder returns based on the current return level. In fiscal 2016, we are forecasting a dividend per share of ¥58 (interim dividend of ¥20).

**Q Please tell us about the numerical targets included in Stage 2.**

**A** We have not set performance targets for the Kyorin Group under Stage 2 after having judged them to be inappropriate, taking into account that we are experiencing an uncertain management environment of a type we have never experienced before due to factors such as pricing revision and the expiration of a patent on a key product.

I touched on these matters earlier, but although under Stage 2 there will be the Kipres patent cliff resulting in a temporary decrease in profit, we have three components and four new drugs that will definitely hit the market. By the time we exit Stage 2 in fiscal 2019, we predict our net sales and operating income will surpass fiscal 2015's results of consolidated net sales of ¥119.5 billion and operating income of ¥19.6 billion, and we will aim to consolidate a growth trajectory for the time beyond that.

**Q Please tell us your thoughts about corporate governance and CSR.**

**A** The most important management goal for the Kyorin Group is to continue improving its corporate 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. In the future, we intend to actively increase our disclosure of information, and expand and improve our communications with all stakeholders.

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

For details, please refer to page 32.

**Q Finally, do you have a message for your stakeholders?**

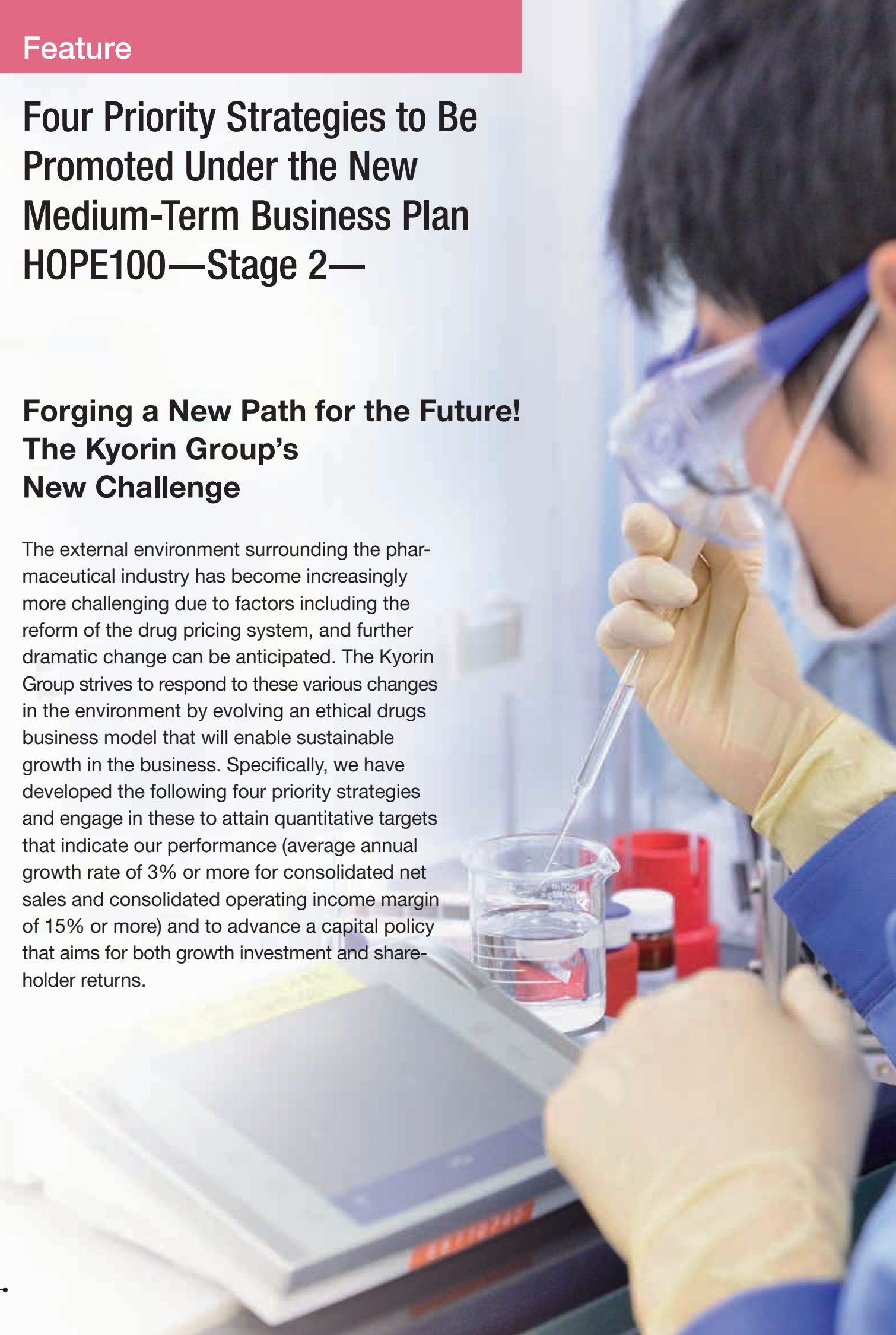
**A** The Kyorin Group has taken a fresh approach with its new medium-term business plan HOPE100—Stage 2—toward realizing HOPE100, our long-term vision, and we aim to achieve sustainable growth. I look forward to the continued support of all of our stakeholders.



## Four Priority Strategies to Be Promoted Under the New Medium-Term Business Plan HOPE100—Stage 2—

### Forging a New Path for the Future! The Kyorin Group's New Challenge

The external environment surrounding the pharmaceutical industry has become increasingly more challenging due to factors including the reform of the drug pricing system, and further dramatic change can be anticipated. The Kyorin Group strives to respond to these various changes in the environment by evolving an ethical drugs business model that will enable sustainable growth in the business. Specifically, we have developed the following four priority strategies and engage in these to attain quantitative targets that indicate our performance (average annual growth rate of 3% or more for consolidated net sales and consolidated operating income margin of 15% or more) and to advance a capital policy that aims for both growth investment and shareholder returns.



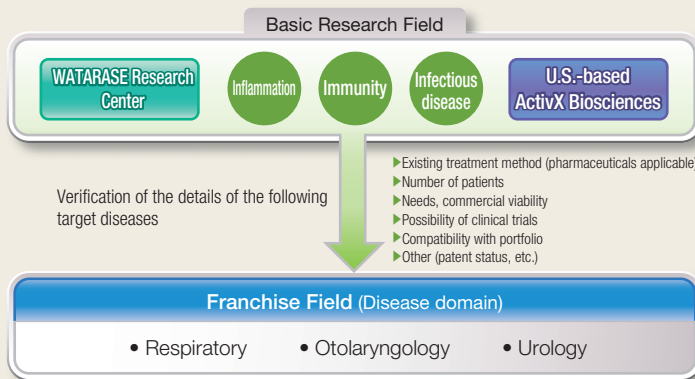
Priority Strategy 1

Enhancing drug discovery capabilities

Initiatives for first-in-class new drug discovery

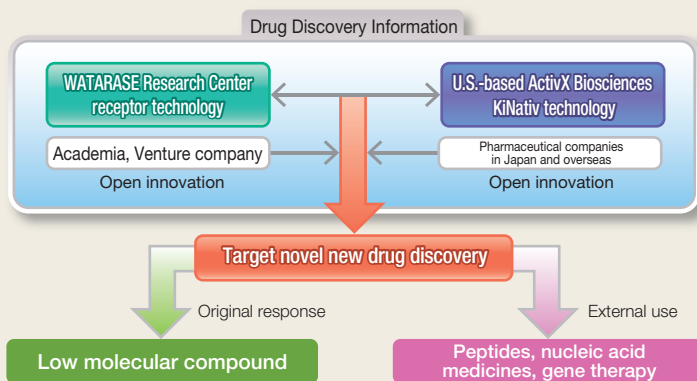
The Kyorin Group’s mission is to meet the numerous unmet medical needs that still exist, continuously discovering and delivering innovative new drugs that contribute to the health of people around the world. Further, based on our belief that the creation of original new drugs is the true driving force for growth, we will be aware of our venture spirit, as we focus on first-in-class drug discovery and continue toward its advancement.

Enhancing Basic Research and Theme Selection



KYORIN Pharmaceutical is engaged in business activities targeting disease domains in the specific fields of respiratory, otolaryngology and urology to efficiently engage in new drug discovery with limited resources. In the basic research fields of inflammation, immunology and infectious diseases, we will further strengthen accumulated technologies, expertise, human resources and networks and set themes in our focus areas based on portfolio strategy after verification of such factors as medical needs, commercial viability and the possibility of clinical trials.

Establishment of the System for Generation of Innovative New Drugs



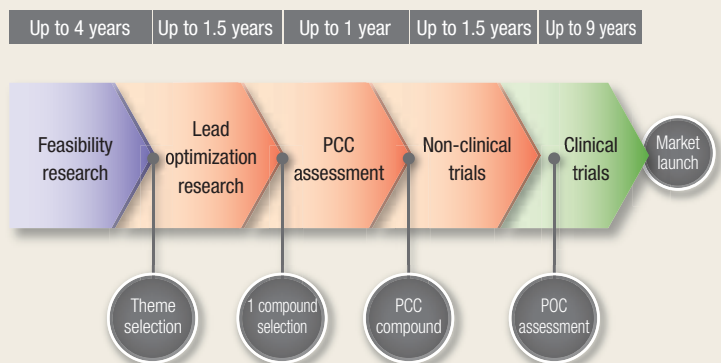
KYORIN Pharmaceutical creates original new themes by strengthening feasibility research. For novel new drug targets identified using KYORIN Pharmaceutical’s receptor technology and U.S.-based ActivX Biosciences’ KiNativ technology, we engage in low molecular new drug discovery activities on the one hand, while actively engaging in open innovation (including with academia, venture companies and pharmaceutical companies inside and outside of Japan) to utilize technologies other than low molecular technology in peptides, nucleic acid medicines and gene therapy.

Strengthening Basic Research Capabilities

KYORIN Pharmaceutical engages in basic research to discover innovative, first-in-class new drugs by strengthening biological and chemical biological research, and explore new drug discovery targets based on research into inflammation, immunology and infectious disease. We use the two approaches of a target-based approach and a phenotype-based approach to do this.

\* Target-based approach: Search for new drug discovery targets from disease-related proteins that are new or their functions remain unknown. Following that, an assay is built and hit compounds acquired from HTS.  
 \* Phenotype-based approach: An original assay of the disease’s model cells is built and hit compounds acquired from HTS. Following that, lead optimization research is carried out in parallel with the new drug discovery target search.

Timeframe of Low Molecular Drug Discovery





Priority Strategy **2**

**Increase the Ratio of New Drugs Group**

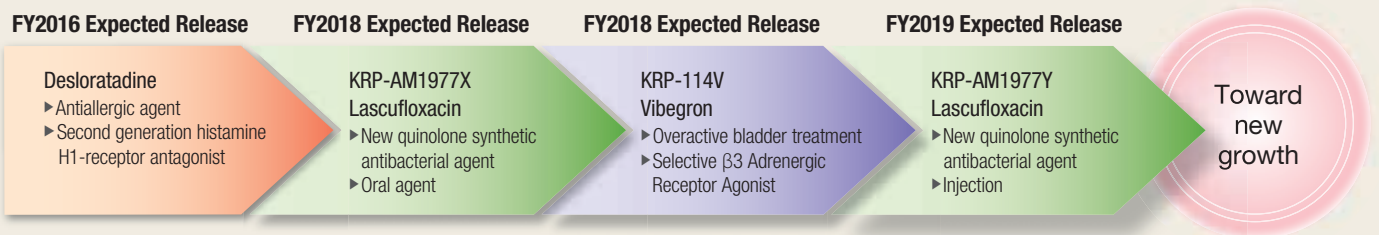
**Substantial increase in the ratio of new drugs group by maximizing spread of new drugs group**

The Kyorin Group recognizes the new drugs group is even more important than ever if we are to achieve sustainable growth, so we will undertake the enhancement of its development pipeline, early drug development, and work to maximize the spread of new drugs to strengthen the new drug business in Japan.

During Stage 1, we needed to respond to the expiration of a patent on a key product and did so by actively forming alliances and promoting strengthening of the development pipeline. During Stage 2, we will launch four new products (Desloratadine, KRP-AM1977X (oral agent), KRP-AM1977Y (injection) and KRP-114V) and, together with the already marketed Flutiform, work to maximize the spread of new drugs.

By steadily implementing these initiatives, we aim to significantly increase the percentage of new drugs from 20% after the expiration of the Kipres patent to 50% or higher by fiscal 2019, the end of Stage 2.

**Aiming for the Launch of Four Products in Stage 2**



**Desloratadine**

- High affinity for a histamine receptor and low central nerve transition
- Balanced efficacy and safety

Antihistamine market  
Approx. ¥180 billion

**Lascufloxacin**

- Superior ability to combat drug-resistant gram-positive bacteria (incl. MRSA)
- Has a powerful antimicrobial activity against anaerobic bacteria
- Expectation of high clinical effects with excellent tissue penetration
- High degree of safety expected (including for blood sugar level irregularities, photodermatitis and digestive system organs)

Antibacterial agent market  
Oral agent  
Approx. ¥190 billion

Injection market  
Approx. ¥130 billion

**Vibegron**

- Expectation of high compliance in taking medicine with less side effects than the conventional drugs for overactive bladder
- Less drug interaction as β3 receptor agonist
- β3 agonist including this agonist may constitute the first-line drug for treatment of overactive bladder.

Overactive bladder market  
Approx. ¥80 billion

**Maximizing the Spread of a Combination Drug for Asthma Treatment Flutiform**



Priority Strategy **3**

Promotion of Generic Drugs Business by Making the Most of Its Characteristics

## Take advantage of handling of new drugs for flexible business operations

For details, please refer to page 25.

While the use of generics accelerates and the market grows as we move towards the realization of efficient medical care being promoted as a government policy, the competition among corporations is expected to become increasingly severe. In this environment, the Kyorin Group will make use of the merits of in-house development, production, and sales and of handling new drugs within the Kyorin Group to conduct flexible business development. We will also promote the distinctive features of the generic drugs business such as acquiring new authorized generics, continuing on from the authorized generic version of Kipres due to go on sale from September 2016.

Priority Strategy **4**

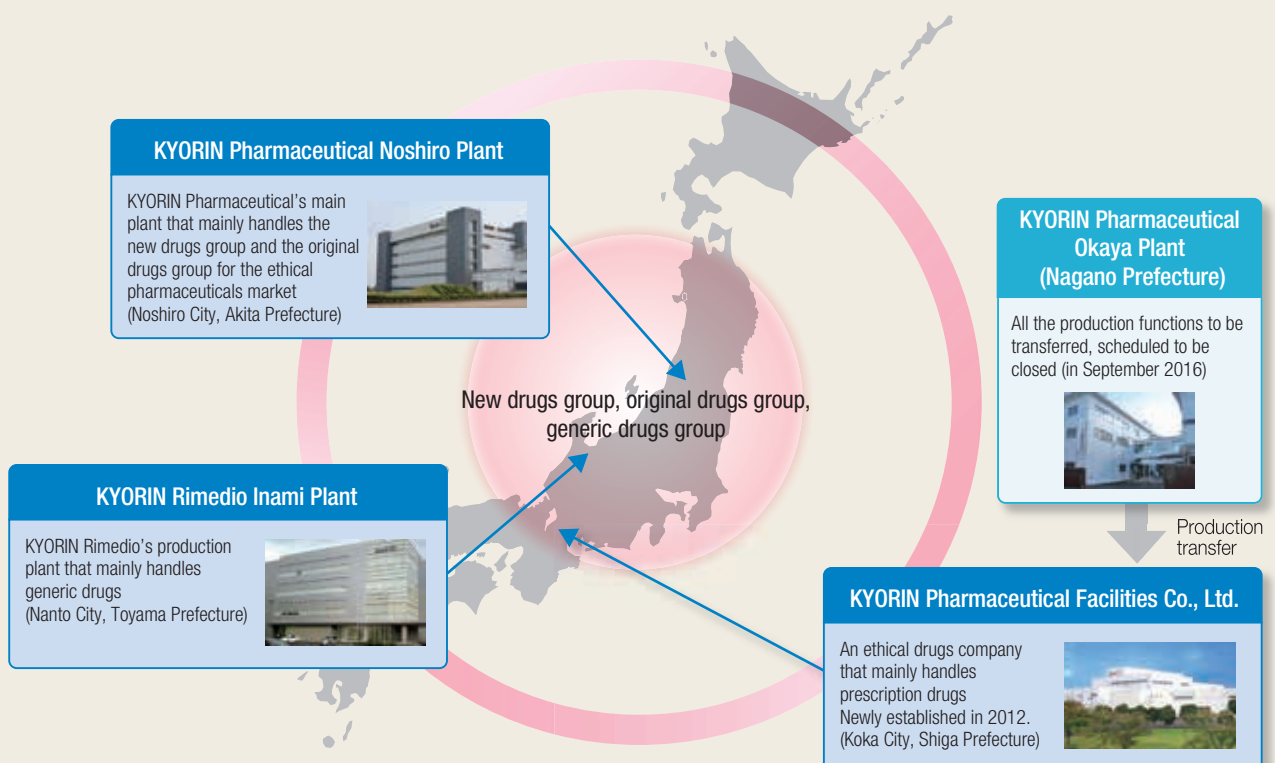
Enhanced Low Cost

## Change of the cost structure by ensuring optimization within the Group

For details, please refer to page 24.

In a difficult environment for the domestic pharmaceutical industry, the Kyorin Group will strongly push cost reduction efforts, such as undertaking the rebuilding of the Group production system to ensure a stable, low-cost supply of high-quality products. By working together and exceeding the bounds of the original drugs group, new drugs group and generic drugs group in addition to moving beyond the confines of Group companies, we can work on overall optimization of production within the Group (including by undertaking the leveling of plant utilization rates and efficient use of assets).

### Group Production Bases



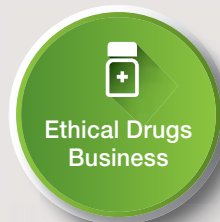
# The Core Company of the Kyorin Group and Overview of Business

The Kyorin Group comprises KYORIN Holdings, Inc. and five consolidated subsidiaries and is engaged in the development, production and sale of new and generic drugs in the ethical drugs business. We are also pushing ahead with skincare, the environmental hygiene business, over-the-counter drugs and others as part of the healthcare business.

## The Kyorin Group



From the standpoint of enhancing corporate value from the medium- to long-term, we combine a fusion of the ethical drugs business and healthcare business to disperse risk and promote sustainable growth.



New drugs business P. 20-24

Generic drugs business P. 25



Environmental hygiene business P. 26

Skincare P. 27

Over-the-counter drugs and others P. 27



**As the core company for the Kyorin Group,  
we aim to be a pharmaceutical manufacturer  
that is trusted by patients and medical professionals,  
and realizes sustainable growth.**

Since its founding in 1923, each and every employee of KYORIN Pharmaceutical has added unstinting effort to high ideals to bring about the creation, development, production and provision of new drugs sought by the medical frontlines to realize the corporate philosophy shared throughout the Kyorin Group of “Kyorin continues to fulfill its mission of cherishing life and benefiting society by contributing to better health” to bring smiles to the faces of patients and their families.

Currently, Japan’s pharmaceuticals industry faces an uncertain environment with the full-scale arrival of an aging society and continued implementation of policies involved with dealing with that by restraining the costs of medical care and medicines. Under such circumstances, our company has adopted the slogan of being “a pharmaceutical manufacturer that is trusted by patients and medical professionals, and is recognized for its presence in society,” as we work under the Kyorin Group’s long-term vision HOPE100. We will seek to create new medicine that contributes to health worldwide, and establish a strong presence in the specific fields of respiratory, otolaryngology, and urology.

We ask our stakeholders for your continued support.

**Mitsutomo Miyashita**

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





**Drug  
Discovery /  
R&D**

**Driving innovation to promote continuous discovery of new products and maximization of their value**

KYORIN Pharmaceutical Co., Ltd. seeks to continue growing sustainably with new drug manufacturers from HOPE100—Stage 2—, and creating the continuous discovery of innovative new products. To this end, in July 2015, we established the WATARASE Research Center, which brings together our collective capabilities. Through this, 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 of drug candidate compounds. This enables us to maximize efficiency and coordination in terms of people, organization and systems. 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 (respiratory, otolaryngology, and urology) and also shorten the development time from drug creation to market entry.

Backed by our ability to create innovative new ideas, KYORIN Pharmaceutical aims to become a manufacturer of original new drugs that can contribute to the health of the world’s people.

**Initiatives under the New Medium-term Business Plan HOPE100—Stage 2—**

The Discovery Research Division continuously produces original drugs that contribute to the health of people around the world under our long-term vision HOPE100, and has set a goal of establishing a strong presence in the Company’s specific fields. To do this, we believe 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.

In the drug discovery process, we are leveraging our foundation research in areas such as inflammation, immunity, and infectious diseases as core technologies as the basis for identifying novel drug discovery targets, aiming to create first-in-class new drugs in specific fields. We actively utilize existing drug discovery platforms (kinase and receptors) based on low molecular weight and new technologies (peptides, gene therapy, and so forth). With regard to our new technologies, we are promoting not just research within the Company but also collaboration with academia such as universities and research institutes and through other ventures. We will select highly original research themes and pursue R&D activities.

The Ministry of Health, Labour and Welfare has issued the Comprehensive Strategy to Strengthen the Pharmaceutical Industry. Under the strategy, the Ministry has stated that its vision

for the role of new drug manufacturers is the creation of innovative pharmaceuticals with global potential, assuming that we have entered an age where generics make up 80% of the market. In order for us to survive and continue creating new products as a new drug manufacturer, we will take the following initiatives.

- 1. Expand the pipeline of original new drugs**
  - 1) Expand feasibility research to generate themes for novel drug discovery
  - 2) Actively promote open innovation
  - 3) Out-license to global mega partners for the global expansion of original new drugs developed in-house and to accelerate development
- 2. Enhance the product portfolio to realize sustainable growth**
  - 1) Formulate product strategies to advance development themes (KRP-AM1977X/Y and KRP-114V) and maximize value
  - 2) Examine options and decide on life cycle management themes
  - 3) Examine options for licensing new products

KYORIN Pharmaceutical will make a companywide effort to advance these themes at a faster rate, with the spirit of a drug discovery venture company.

## Products under Development (As of July 29, 2016)

### Ph III-Approval

Compound / Code	Therapy area / Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
Urology 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	
Respiratory / Otolaryngology KRP-AM1977X (Oral agent)	New quinolone synthetic antibacterial agent	In-house	<ul style="list-style-type: none"> <li>Superior ability to combat drug-resistant gram-positive bacteria (incl. MRSA)</li> <li>Has a powerful antimicrobial activity against anaerobic bacteria</li> </ul>			4/2015	
Respiratory / Otolaryngology KRP-AM1977Y (injection)	New quinolone synthetic antibacterial agent	In-house	<ul style="list-style-type: none"> <li>Expectation of high clinical effects with excellent tissue penetration</li> <li>High degree of safety expected (including for blood sugar level irregularities, photodermatosis and digestive system organs)</li> </ul>			3/2016	

### [Reference]

General name	Therapy area / Action	Feature	Stage
Otolaryngology Desloratadine	Allergic rhinitis, hives, itching resulting from skin diseases (eczema/dermatitis, pruritus cutaneous)	Second generation histamine H1-receptor antagonist	Application submitted by MSD K.K. (10/2015)

\* Kyorin will have the exclusive right to market the drugs. (5/2016) \* Signed a contract for the co-promotion with Kaken Pharmaceutical. (7/2016)

### POC Project (Ph I-Ph II)

Compound / Code	Therapy area / Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
Otolaryngology 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.		8/2015		
Respiratory 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			

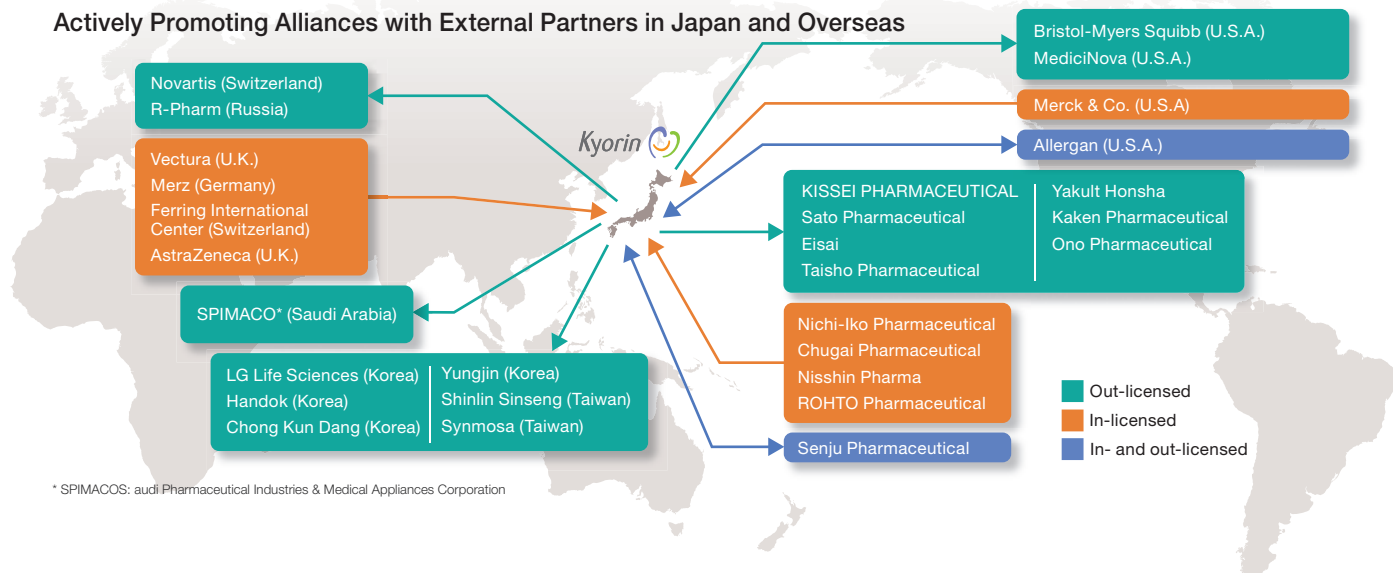
### Licensing Development (Preclinical)

Compound / Code	Licensee / Collaborative research	Therapy area / Action	Origin	Features	Comments	Stage				
						Preclinical	Ph I	Ph II	Ph III	NDA
KRP-203	Novartis (Switzerland)	Graft-versus-host disease (GvHD)	In-house	Sphingosine-1-Phosphate Receptor Agonist immunomodulatory drug	License agreement with Novartis (2/2006) Novartis has decided to proceed with development of KRP-203 for GvHD (announced 11/2015)					
FPR2 agonist program	Bristol-Myers Squibb Company (U.S.A.)	Non-disclosure	In-house	FPR-2 agonists that mainly inhibit the migration of neutrophils and exhibit anti-inflammatory action	License agreement with Bristol-Myers Squibb Company (12/2015)					

## Alliances Strategy

KYORIN Pharmaceutical is working to reinforce and enhance its product pipeline. This is an important priority for us as a drug maker, and our approach includes both in-house drug discovery and active collaboration with external partners. We intend to continue striving to build an even more attractive product pipeline going forward.

### Actively Promoting Alliances with External Partners in Japan and Overseas



\* SPIMACOS: audi Pharmaceutical Industries & Medical Appliances Corporation





**Sales**

**Innovating and strengthening our sales capabilities for early-stage market penetration**

KYORIN Pharmaceutical’s sales division is striving to establish its presence among franchise customers in the specific fields of respiratory, otolaryngology and urology. We have approximately 750 medical representatives (MRs), who 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. Our aim is to be a new drug manufacturer that is trusted by patients and those in the medical industry and recognized as being useful to society.

**Initiatives under the New Medium-Term Business Plan HOPE100—Stage 2—**

Recently, business risks have been increasing with the Japanese government promoting policies to curtail the annual spending of the National Health Insurance system amid rising drug costs in the ethical drug industry. Moreover, the formulation and implementation of a regional healthcare vision based on secondary medical districts is promoting functional separation and clarification of medical institutions. Furthermore, we are facing the expiry of its patent for Kipres in fiscal 2016.

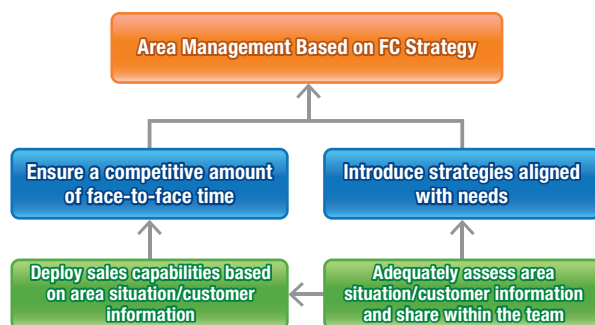
In this environment, under the new medium-term business plan HOPE100—Stage 2—, our top priority for ensuring sustainable growth is to increase the ratio of the new drugs group. We recognize that this group is more important than ever before, and we will aim to achieve early penetration and maximize the spread of newly developed products. Accordingly, we see the main missions of the Sales & Marketing Headquarters as being to quickly achieve the planned launch and market penetration of four products: Desloratadine, a treatment for allergic rhinitis; KRP-114V, an overactive bladder treatment; and KRP-AM1977X and KRP-AM1977Y, which are new quinolone synthetic antibacterial agents, and to promote the spread and early-stage maximization of Flutiform, a combination drug for asthma treatment, and Eklira Genuair, a treatment for chronic obstructive pulmonary disease (COPD).

Transforming the sales strategy to anticipate changes is essential for responding accurately amid harsh environmental changes. In Stage 2, we reorganized our team areas based on the secondary medical districts (branch, sales office, and team), with headquarters and branches working together to implement

strategies in line with area management, a specified agent policy, and redeployment of sales resources.

Specifically, KYORIN Pharmaceutical has instituted a team-based sales structure in which a number of MRs are made responsible for a certain area. In order to develop the areas for all teams, we swiftly respond to diverse medical needs as an organization. We will continue to evolve these measures going forward, thereby fostering a climate in which MRs experience the pleasure of achieving a goal as a team.

We will treasure the relationships of trust that we have built with medical professionals working in our specific fields, as we continue to evolve our franchise customer (FC) strategy. The market environment is changing with the times. We will optimize our list of regularly visited physicians and build further layers of expertise, personal contacts, and networks, leveraging these to accelerate new product development. We will do our utmost to deliver new drugs to patients in key disease domains as quickly as possible.



# Mainstay Products

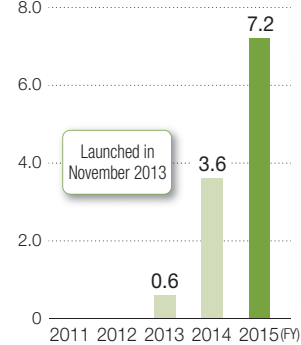
Respiratory

## Flutiform



### Sales

(Billions of yen)



### Combination drug for asthma treatment

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

Respiratory

## Eklira Genuair



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.

### COPD treatment

Eklira 400 µg Genuair for 30 Inhalations  
Eklira 400 µg Genuair for 60 Inhalations

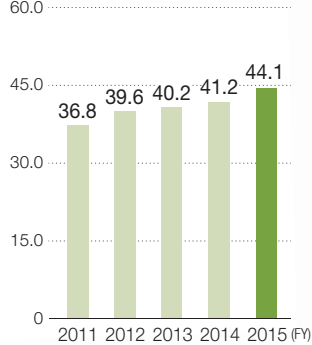
Respiratory and Otolaryngology

## Kipres



### Sales

(Billions of yen)



### Leukotriene receptor antagonist Anti-bronchial asthma and allergic rhinitis drug

Kipres Tablets 5 mg / Kipres Tablets 10 mg  
Kipres OD Tablets 10 mg

### Leukotriene receptor antagonist Anti-bronchial asthma drug

Kipres Fine Granules 4 mg /  
Kipres Chewable Tablets 5 mg

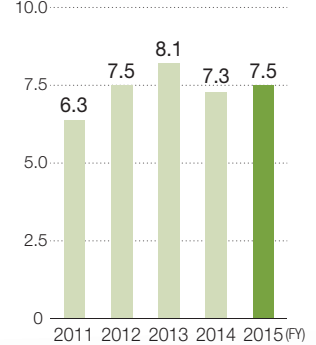
Urology

## Uritos



### Sales

(Billions of yen)



### Therapeutic agent for overactive bladder

Uritos Tablets 0.1 mg  
Uritos OD Tablets 0.1 mg

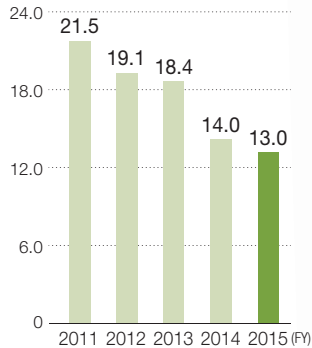
Respiratory and Otolaryngology

## Mucodyne



### Sales

(Billions of yen)



### Mucoregulating drug

Mucodyne Tablets 250 mg /  
Mucodyne Tablets 500 mg  
Mucodyne Syrup 5% /  
Mucodyne DS 50%

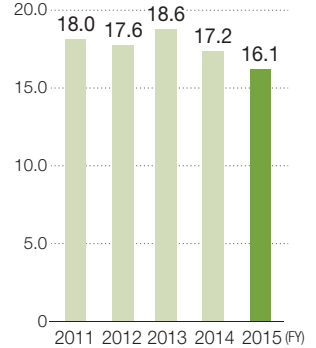
IBD\*

## Pentasa



### Sales

(Billions of yen)



### Ulcerative colitis and Crohn's disease remedy

Pentasa Tablets 250 mg /  
Pentasa Tablets 500 mg  
Pentasa Granules 94%

### Ulcerative Colitis Remedy

Pentasa Intestinal Infusion 1 g /  
Pentasa Suppositories 1 g

\* Inflammatory Bowel Diseases

**Production**

**Building the foundation for realizing the long-term vision HOPE100 through production revitalization**

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 also all over the world by building a strong, cohesive production organization for the overall Group and fulfilling our mission.

**Initiatives under the New Medium-Term Business Plan HOPE100—Stage 2—**

In Stage 2, we are working swiftly to anticipate environmental changes by reviewing our existing work structures and approaches from the ground up (reform) and creating them anew (renovation). We will advance to a new stage by quickly achieving overall optimization of production within the Group, aiming to build a new production system for the stable supply of high-quality products at low costs. Specifically, as we strive to realize our long-term vision HOPE100, we will continue and accelerate our ongoing efforts under Stage 1 on the following priorities to achieve sustainable growth.

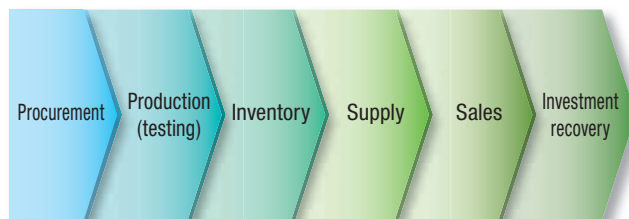
- 1) Low-cost operations
- 2) Overall optimization in production within the Group
- 3) Advance to a Global New Production & Delivery (GNP) system
- 4) Human resources development

The key points are to swiftly reorganize and optimize the Group’s production system, rebuild supply chain management with a goal of shortening lead times, and reinforce a structure that can reduce risk and provide a stable supply of products.

**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. Right now, it is essential that we promote Kyorin supply chain management (SCM) to raise speed and accuracy through product-by-product management (visualization) on a worldwide basis, from raw material procurement to production (production management and manufacturing), inventory, and supply (shipping). Ultimately, by carrying out our SCM strategy we will advance and achieve the targets under the medium-term business plan.

**Supply Chain Management (SCM)**





Generic Drugs

The national government is promoting the use of generic drugs to improve the state of medical care expenses without sacrificing any medical care quality. The Kyorin Group sees the arrival of the 80% generics era as an opportunity to display its strength of being able to provide a stable supply of high-quality generic drugs. The Kyorin Group started the new medium-term business plan HOPE100—Stage 2— from the fiscal year under review, with one business strategy forming part of that being the “promotion of generic drugs business by making the most of its characteristics.”

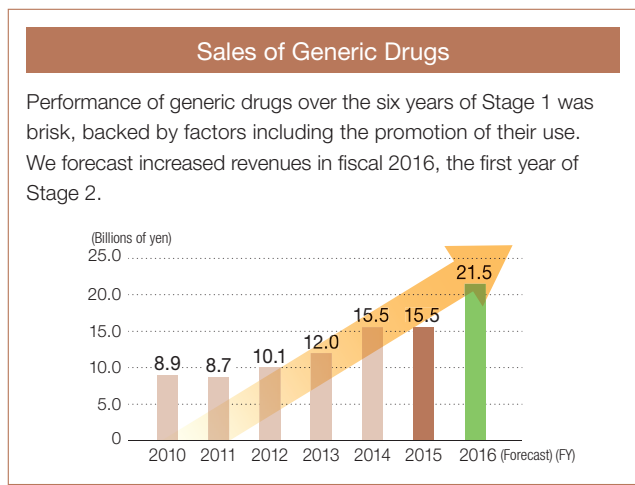
Kyorin Group subsidiary KYORIN Rimedio Co., Ltd. will play a central role in strengthening this business (through such means as pharmaceutical development capability, sales capability and production systems). Going forward, the Kyorin Group will continue working for a high-quality, stable product supply and appropriate information provision, and to continue to produce products used with peace of mind, in addition, it will provide generic drugs that meet the needs of medical professionals and patients and aim for sustained growth.

Initiatives for Authorized Generics

In September 2016, by handling both authorized generic Montelukast tablets (KM) and a treatment for bronchial asthma and allergic rhinitis drug Kipres, we aim to respond to the needs of medical professionals and patients. Moreover, in addition to Montelukast tablets (KM), the Kyorin Group will actively examine acquisition of further authorized generics to become the source of growth for the generic drugs business.

Construction of a New Research Institute

KYORIN Rimedio Co., Ltd. will build a new research institute in Takaoka-shi, Toyama, as a strengthening measure for business promotion. This new research institute will handle research and development of solid formulations and solutions through to manufacturing of investigational new drugs and will be capable of developing about double the existing number of items. Construction of this research institute will enhance the quality and speed of formulation development in the generic drugs business and increase the number of attractive original new drugs.



Overview of New Research Institute Plan

- Address: 11 Takaoka Office Park, Takaoka-shi, Toyama
- Building: Building site area 1,809 m<sup>2</sup>  
Total floor space 3,510 m<sup>2</sup>  
S-structure and earthquake-resistant structure, three stories above ground
- Construction start: Scheduled for July 2016
- Construction completion: Scheduled for March 2017
- Operations start: Scheduled for July 2017
- Construction cost: Approximately ¥2 billion planned



## Developing businesses to respond to diversifying healthcare needs, and from the standpoints of prevention, prognosis and enhancing health

The Kyorin Group is focusing on the expansion of the ethical drugs business from the perspective of enhancing corporate value over the medium- to long-term. Additionally, to respond to diversifying healthcare requirements, and from the perspective of supplementing growth from the ethical drugs business, by complexly combining the healthcare business, we aim to disperse corporate risk and become a company that supports sound and healthy lifestyles, is robust and achieves sustainable growth.

The healthcare business, which consists of skincare, environmental hygiene and over-the-counter drugs and other businesses, will be made into a core business and pave the way for candidates that will be the next core.

### Environmental Hygiene Business

The Kyorin Group entered the environmental hygiene business in 2011, focusing on the increasing importance of daily infection prevention at medical institutions and the like and the belief that we should contribute to medical needs and health through the control of environmental infection. Looking ahead, we aim to contribute to the control of various types of infection risk and are engaged in the development of environmental hygiene and activities to disseminate it further.

### Multi-purpose Disinfectant Cleaner RUBYSTA

The multi-purpose disinfectant cleaner RUBYSTA was introduced from the U.S.-based DuPont and is a product that has been widely used for hygiene management at medical institutions and the like around the world both for infection prevention and to prevent the spread of pathogens. The Kyorin Group launched this product in Japan in 2012. In the environmental hygiene business, the Group contributes to medical needs and health through the control of environmental transmission. Additionally, we have expanded uses and enhanced the product lineup by launching the RUBYSTA Vomit Disposal Kit and RUBYSTAR Powder 5g, and worked to broaden sales channels to accelerate the spread of the products going forward.



### Overseas developments

Overseas expansion has become a crucial issue for the Kyorin Group as Japan's population is forecast to decline. The healthcare business is developing initiatives anticipating direct overseas expansion, centered on Asia. One of these initiatives involved the conclusion in January 2016 of a basic agreement on transactions related to RUBYSTA in Indonesia with P.T. Meiji Indonesian Pharmaceutical Industries, a subsidiary of Meiji Seika Pharma Co., Ltd. The Group aims to disseminate RUBYSTA within the Indonesian market with P.T. Meiji Indonesian Pharmaceutical Industries, which has a wealth of business experience in Indonesia and regards infectious diseases as one of its strengths, while advancing with business development possibilities in the ASEAN region, where awareness of infection control is rising.

### Disinfectant Milton

Since its launch in 1963, the disinfectant Milton has assisted mothers hoping for the healthy growth of their babies. As the leading brand of baby bottle disinfectant, it has maintained stable sales, backed by many consumers as well as medical professionals. In 2016, we launched a new product "Detergent Milton," which can be used to clean baby bottles, milkers and vegetables, under the concept of creating hygienic environments for babies.

Looking ahead, the Kyorin Group will provide information across a wide area about the awareness of assured disinfectant methods in addition to the importance of disinfecting in advance to enable the display of assured disinfectant effects. We will also deliver the Milton brand message of "unchanging safety into the future."



## Skincare

Dr. Program Co., Ltd. creates new value (skincare products) found nowhere else in the world and aims to contribute to the physical and mental beauty and health of women. Our hope is to provide customers with cosmetics that are safe and have real effectiveness.

### The Trinityline Skincare Brand

Regardless of however outstanding a particular beauty ingredient may be, it is meaningless if the ingredient is unable to firmly penetrate the skin down to the depths of the keratinous layer. It is widely known that the skin has barriers that prevent its moisture from evaporating and protect it against external stimulants, but these same functions work as an obstacle to penetration of cosmetic functions. Trinityline employs a nanocapsule developed from a drug delivery system using pharmacological technology to resolve this issue. The nanocapsule passes through the minute gaps in the keratinous layer to close in the beauty ingredients and enables effective delivery of components to the places where they are needed. Trinityline cosmetics supply a full amount of moisture and vitality to the keratinous layer.

#### ■ New Product shi zu me essence gel

In April 2016, we launched the long-awaited new product shi zu me, an essence gel. This product has the fundamental concept of transforming from anti-aging to un-aging and proposes new value to resolve current skin issues so that they do not develop into future skin issues.

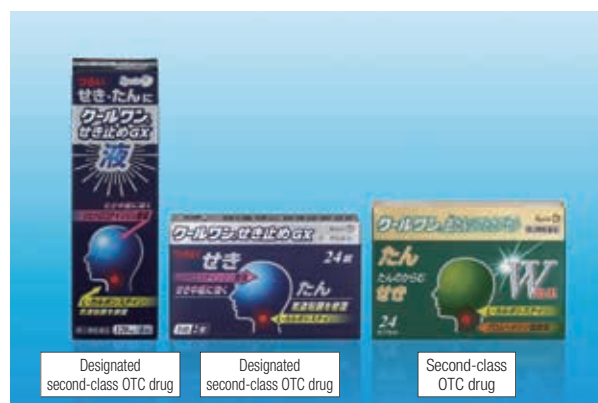


## Over-the-counter Drugs and Others

Against a social backdrop of a low birthrate, aging and rapid escalation of lifestyle diseases while trying to control medical care costs, common sense about health is changing as health consciousness is increasing. The Kyorin Group responds to various needs and provides over-the-counter drugs that are safe, reliable and trustworthy.

### Over-the-counter Drugs Responding to the Era of Self-medication

At a time when awareness of self-medication is rising, the Kyorin Group sells mainly the COOL ONE series, applying ingredients that proved to be effective for ethical drugs to an over-the-counter drug. By appropriately providing safe and effective information that had been accumulated in the ethical drugs business, the series is also highly regarded by medical professionals. In August 2016, COOL ONE Cough Medicine GX Syrup, a first liquid drug in the COOL ONE series, was newly launched. At a time when lifestyles are changing and requirements for health are diversifying, providing products with characteristics such as these will contribute to people's health.





# Corporate Governance

## Basic Management Policies

We will pursue diverse expansion and development of our healthcare business\* under our corporate philosophy and the long-term vision HOPE100, striving to advance as a group that supports sound and healthy lifestyles.

\* A broad definition of the meaning of the healthcare business: Supporting healthy lifestyles through our business in the treatment and prevention of disease and the maintenance and promotion of good health

### 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 to secure ethical and transparent corporate activities. To ensure transparency and fair disclosure, we release appropriate information without delay for the benefit of shareholders and investors. 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.

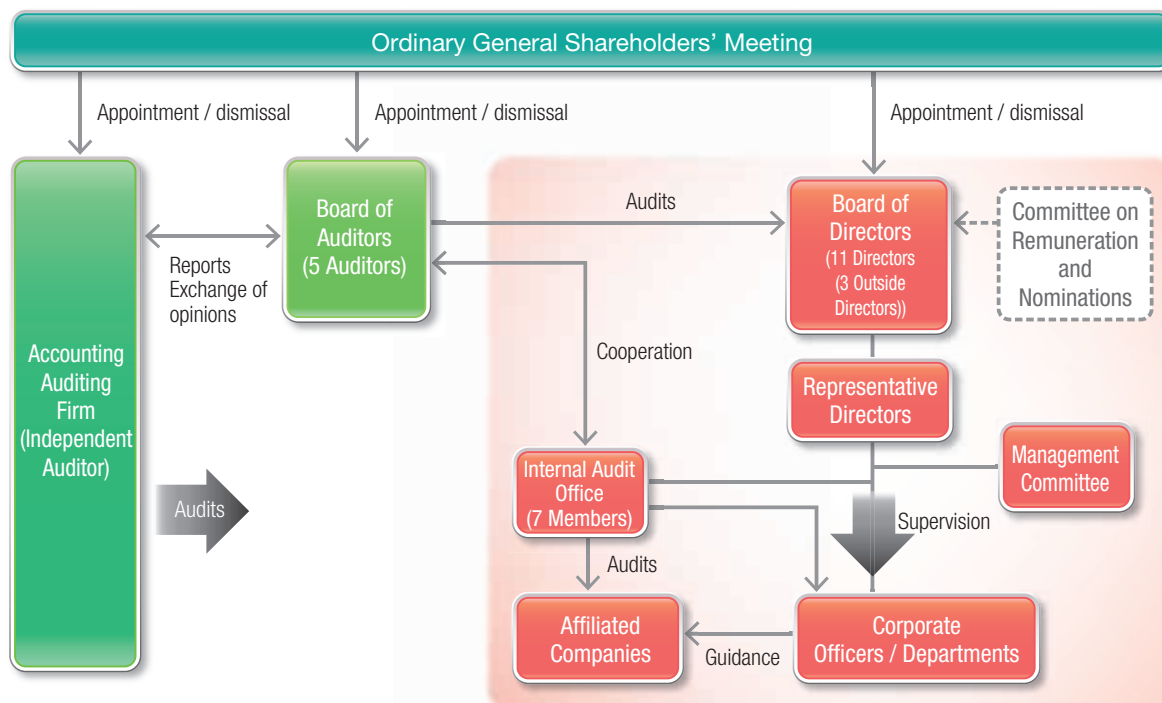
Kyorin is a Company with a Board of Corporate Auditors based on the Companies Act of Japan. The Board of Corporate Auditors, including the three outside corporate auditors, endeavors to fully demonstrate its auditing and supervising functions and to ensure the transparency of the decisions being made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

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

### Corporate Governance and Management Structure

(As of June 24, 2016)



## 1. Management Organization

To clarify the roles of our eleven directors, who are responsible for making business decisions and supervising business execution, and three corporate officers, who are responsible for business execution, Kyorin has established a corporate officer system. The Board of Directors usually meets once a month, deciding important operational matters in a timely manner after debating issues as well as supervising each director's duties. To oversee business execution, we established a Management Committee, comprising the president and directors, which discusses key operational matters concerning the Group. In addition, at its Ordinary General Shareholders' Meeting held in June 2016, 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.

Nomination of a candidate to become a director or corporate auditor is based on the selection of candidates regardless of gender or nationality, and who have outstanding characteristics and knowledge and appropriately strong awareness of compliance with laws and corporate ethics.

The (voluntary) Committee on Remuneration and Nominations deliberates in advance on whether a candidate to become a director or a corporate auditor meets selection standards, and the Board of Directors makes a decision.

## 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

### a) 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.

### b) 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 corporate 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.

### c) Outside directors and outside corporate auditors

Kyorin has three outside directors and three outside corporate auditors.

Outside director Senji Ozaki has experience as a representative 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 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.

Kyorin selects outside directors and outside corporate auditors 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.

#### d) 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 10 certified public accountants and 19 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 Corporate Auditors

None to report.

### 5. Compensation of Directors and Corporate Auditors

#### a) 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)	228	228		8
Corporate auditors (Excluding outside corporate auditors)	30	30		2
Outside directors or corporate auditors	41	10		7

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

None to report.

#### c) 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

There are two forms of compensation for directors and corporate auditors: basic compensation and stock options. These are provided as incentives and compensation for the roles that directors and corporate auditors should play. Under the Kyorin Group corporate philosophy, the roles of the directors and corporate auditors include executing management based on management

policy and taking into consideration the value creation of various stakeholders, and enhancing corporate value through the sustainable and stable growth of the Group. However, as outside directors and outside corporate auditors perform their role of supervising and overseeing management from an independent position, payment is not linked to performance each year.

The (voluntary) Committee on Remuneration and Nominations deliberates in advance on the remuneration system for directors and basic policies, using industry standards and the Company's performance as reference, and the Board of Directors makes a decision based on such deliberations.

### 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

#### a) 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 a 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.

#### b) 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 a 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: 27 different stocks ¥25,847 million



# Directors, Corporate Auditors, and Corporate Officers

(As of June 24, 2016)

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 Corporate Auditors

**Seiyu Miyashita**

**Hiroaki Hama**

Senior Managing Director

**Tomiharu Matsumoto**

General Affairs & Human Resources,  
Finance & Accounting, Legal and  
Compliance

Senior Executive Director

**Yutaka Ogihara**

President's Office

Senior Executive Director

**Shigeru Ogihara**

Intellectual Property

Outside Corporate Auditors

**Masaji Obata**

**Yuuji Konishi**

**Takao Yamaguchi**

Executive Director

**Kunio Kajino**

Sales & Marketing Strategy

Executive Director

**Kenji Akutsu**

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

Outside Director

**Senji Ozaki**

Senior Corporate Officers

**Yoh Ito**

**Kei Takahashi**

Outside Director

**Noriyuki Shikanai**

Outside Director

**Takashi Takahashi**

Corporate Officer

**Michiro Oonota**



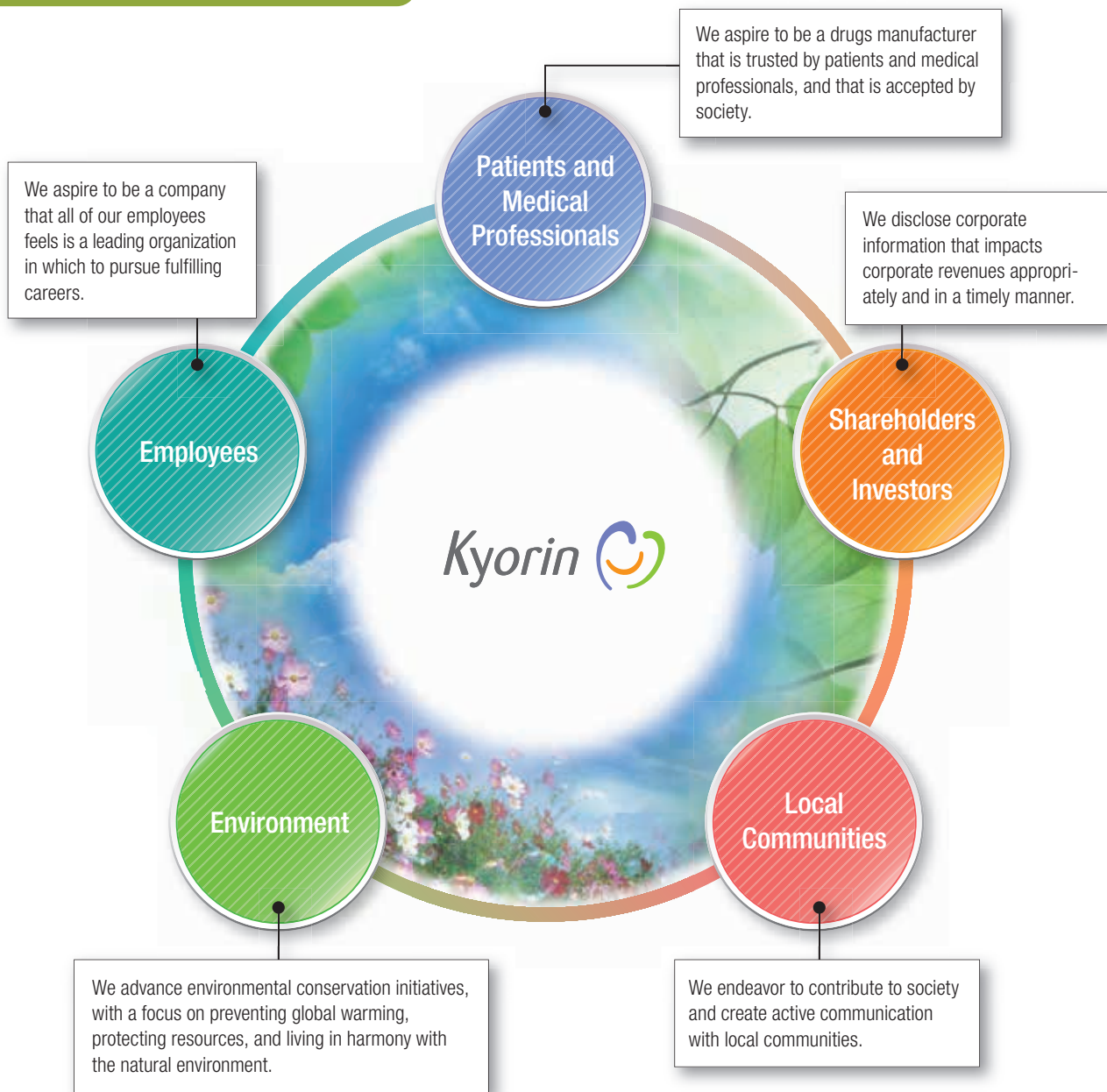
From the left: Takashi Takahashi, Yutaka Ogihara, Senji Ozaki, Mitsutomo Miyashita, Kunio Kajino, Masahiro Yamashita, Shigeru Ogihara, Minoru Hogawa, Kenji Akutsu, Tomiharu Matsumoto and Noriyuki Shikanai

# 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.”

The Kyorin Group will fulfill its corporate social responsibility, with a belief in the importance of building and maintaining a relationship of trust with all stakeholders – including patients, medical professionals, shareholders and investors, employees, business partners, and local communities – by offering trusted products and services.

## CSR of the Kyorin Group



**Compliance** | The Kyorin Group acts with a strong sense of ethics, complying with all laws and regulations, standards of conduct and the spirit thereof.

## Patients and Medical Professionals

### Meeting Needs from Patients' Perspectives

We endeavor to meet a variety of needs, listening to feedback from clinical practice. We put ourselves in our patients' shoes, striving to develop pharmaceutical forms that are easy to administer, and imprinting them with their names to keep patients from taking the wrong medicine.

### Providing Ailments Information

At the Kyorin Group, we provide assistance to help patients correctly understand their ailments and improve their quality of life by creating informed-consent tools and providing patients with information about their ailments through their healthcare providers.

### "Drug Information Center" Helpline

We opened the "Drug Information Center" as a helpline for inquiries relating to Kyorin products. We respond swiftly and accurately to various inquiries from physicians and pharmacists, from the standpoint of correct usage. We also provide accurate and easy-to-understand responses to inquiries from patients and the general public. In fiscal 2015, we responded to more than 20,000 inquiries.

### Publishing Websites for Medical Professionals

As a way of providing information through websites to medical professionals, we created Kyorin Medical Bridge. We endeavor to meet the needs of medical professionals by enhancing information about our products, latest academic news, and information that will be useful in day-to-day clinical practice.



Website for medical professionals  
Kyorin Medical Bridge

### Providing Information via "Doctor Salon"

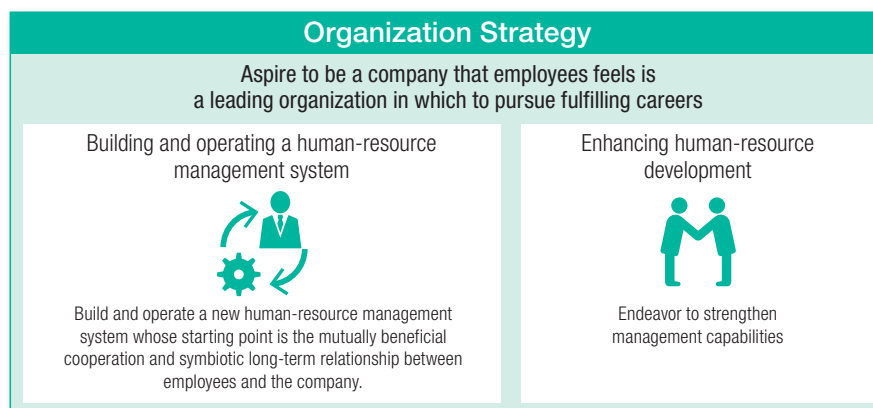
At the Kyorin Group, we provide information by sponsoring "Doctor Salon," a radio program for physicians, on Radio NIKKEI (shortwave), producing and distributing brochures, and offering back issues on the web. "Doctor Salon" is a program that provides answers to issues that are highly relevant to clinical practice. It is extremely popular among physicians, especially primary-care doctors.

## Employees

### Human Resources Management

The Kyorin Group positions valuing employees and empowering people/organizations as the most important challenge under the long-term vision for executing business strategy and realizing achievements. To this end, we aspire to be the most rewarding place for our employees to work; a place where employees take pride in their work, trust the company and its organizations, and

where all employees are united with their peers. Under our basic policy of human-resource management, we will strive to rebuild the human-resource management system of each Group company (including hiring, placement, training, evaluation, transfers, remuneration, and welfare), and strengthen our human resources development.



## Mental Health

KYORIN Pharmaceutical Co., Ltd. provides mental-health education to managers and employees. Our manager training focuses on prevention and early detection of mental illness, by encouraging managers to pay attention to their subordinates and promoting understanding of the specific symptoms of mental disorders. We also encourage employees to gain knowledge about maintaining mental health via our intranet and other means, and have created a hassle-free system for employees and their families to seek help. When a mental health issue arises,

the employee's department, industrial psychiatrists, and Human Resources Department work together to help the employee recover, return to work, and prevent relapse.

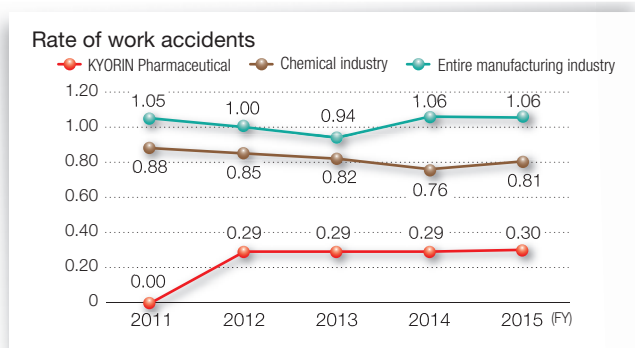
## Childcare Support

KYORIN Pharmaceutical has introduced programs to create an environment that facilitates balancing work with family. These programs include childcare leave, shortened work hours, and maternity/paternity leave. We also endeavor to create a culture that supports a work-family balance of employees.

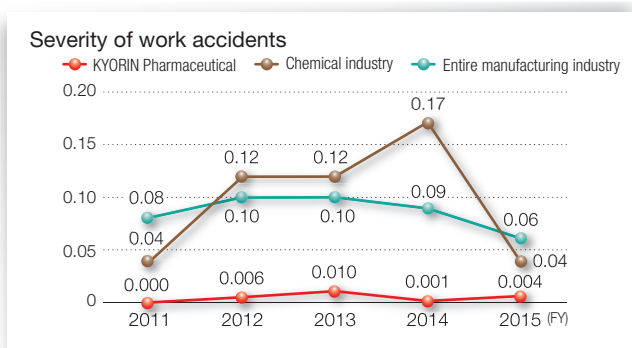
## Industrial Safety and Hygiene

In fiscal 2004, the KYORIN Pharmaceutical head office and all plants, research laboratories, branches and sales offices obtained OHSAS 18001 certification. They have not had a fatality due to

a work-related accident since their founding, and the rate and severity of work accidents are substantially below the industry averages.



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: 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

## Environment

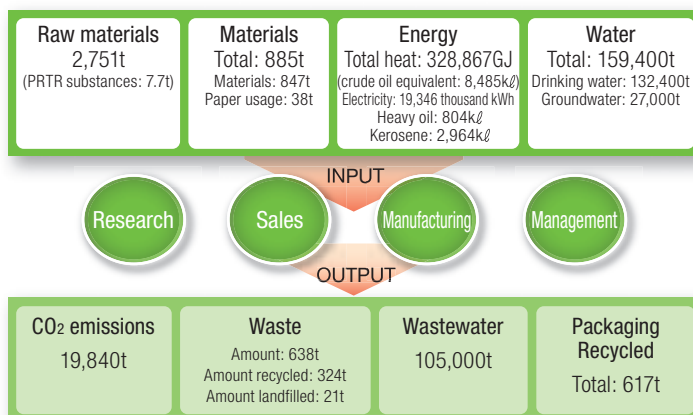
### Environmental Conservation Initiatives

We are actively committed to environmental conservation, focusing on the following major themes: preventing global warming, protecting resources, and living in harmony with the natural environment. We are working to reduce the environmental burden and promote effective use of limited resources by conserving energy and resources, reducing waste and strengthening our management of chemical substances. In 2004, the KYORIN Pharmaceutical head office and all plants, research

laboratories, and branch offices obtained certification in the ISO 14001 international standard for environmental management systems.

In its efforts to reduce CO<sub>2</sub> emissions to combat global warming, we set a target of reducing CO<sub>2</sub> emissions by 25% from the base year of fiscal 2009 (21,099 tons) by fiscal 2015 (to 15,824 tons) and are promoting such efforts. In fiscal 2015, our CO<sub>2</sub> emissions were 19,840 tons.

**KYORIN  
Pharmaceutical  
Co., Ltd.  
material flow**  
(fiscal 2015)



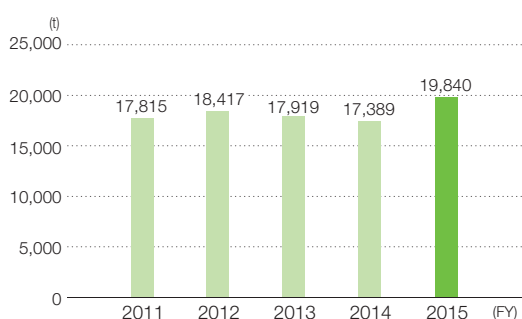


KYORIN Pharmaceutical Co., Ltd. environmental targets and progress (fiscal 2015)

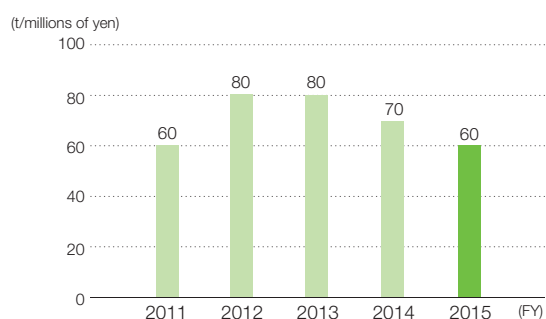
Target initiatives	Method for achieving	Fiscal 2015 plan (incl. numerical targets)	Fiscal 2015 actual	Self-assessment
1. Preventing global warming (CO <sub>2</sub> reduction and energy conservation)	Reduce fuel consumption (crude oil equivalent) through new capital investment	7,166kℓ (fiscal 2014 actual)	8,485kℓ (118.4%)	★
	Use eco-cars to improve fuel efficiency and reduce exhaust emissions	934/939 (99.5%, fiscal 2014 actual)	948/948 (100%)	★★★
	Reduce total CO <sub>2</sub> emissions	15,824t (When nuclear power plants are operational)	19,840t (When nuclear power plants are operational: 17,681t)	★
2. Reducing waste volume	Reduce total waste	659t (fiscal 2014 actual)	638t	★★★
	Promote recycling	48% (fiscal 2014 actual)	50.8%	★★★
	Amount landfilled	27t (fiscal 2014 actual)	21t	★★★
	Zero-landfill challenge	Under 5.0%	3.3%	★★★
3. Managing chemical substances	Manage substances covered by the Pollutant Release and Transfer Register (PRTR) Law and revise management method	9.8t (fiscal 2014 actual)	7.7t	★★★
4. Preventing atmospheric pollution	Measure and control amounts of soot and smoke, nitrogen oxide (NO <sub>x</sub> ) and sulfur oxide (SO <sub>x</sub> ) emitted by boilers and generators	Continuous measurement	At or below standards	★★★
5. Preventing water pollution	Process wastewater, including by primary processing plants, and management of pH, biochemical oxygen demand (BOD), and suspended solids (SS) levels	Continuous measurement	At or below standards	★★★
6. Preventing deforestation	Recycle paper, use recycled paper, and promote a paperless office environment	48t (fiscal 2014 actual)	38t	★★★
7. Protecting destruction of ozone layer	Eliminate all devices that use Chlorofluorocarbon (CFC) and Hydrofluorocarbon (HFC)	Elimination completed in fiscal 2010	—	★★★
8. Preventing ground subsidence	Reduce groundwater usage and increase drinking water reuse	81.1% (fiscal 2014 actual)	83.1%	★★★
9. Noise reduction	Periodic measurement	Continuous measurement	At or below standards	★★★
10. Protecting biodiversity	Communicate with local communities (activities to contribute to local communities)	Plan for each business facility	Achieved targets at all business facilities	★★★
11. Publishing environmental information	Create and publish environmental report	Publish on website in August	Published on website in August	★★★

\* Self-assessment scale: ★★★ achieved; ★★ largely achieved; ★ more work required

CO<sub>2</sub> Emissions from Factories and Research Laboratories



Reduction of Waste



Starting Operation of Environmentally Aware R&D Facility

In July 2015, we began full-scale operation of our new R&D facility, the WATARASE Research Center. The center realizes an environmentally friendly R&D facility by adopting energy-efficient equipment, and utilizing geothermal energy and other measures.

Reference: Geothermal energy system

Two adjacent buildings (a shared building and the research building) improve their heat-utilization efficiency through a heat interchange system by connecting multiple heat sources, including geothermal energy and unused waste heat harvested from water cooling systems and other equipment, and multiple heat consumers (air conditioners and water heaters) to a single water loop (heat medium).



WATARASE Research Center

## Local Communities

### Communication with Local Communities

•**Cherry blossom viewing parties and summer evening parties**  
KYORIN Pharmaceutical Co., Ltd.'s WATARASE Research Center and each plant hold cherry blossom viewing parties and summer evening parties. These events are popular among local residents.



### •Local cleanup activities

Each of our Group companies participates in local cleanup activities. One example is the *Kaze-No-Matsubara* volunteer cleanup activities at the Noshiro Plant.



### •Work experience programs

Each Group facility provides opportunities for internships, gives tours and workplace experience opportunities to middle and high-school students, and provides remote classes and workshops.



### •Sponsoring sporting events

The annual *Shimotsuke Soccer Workshop in Nagi* was held for the 16th time. Many local children attended, and we saw them giving their all playing soccer under the coaching of former Japan national team player Tetsuo Nakanishi.

The Kyorin Group supports many other events that contribute to people's health.



### Employee-Driven Efforts to Contribute to the Community

Since fiscal 2007, KYORIN Pharmaceutical Co., Ltd. has implemented the Kyorin Smile Program, a program with employee participation aimed at creating "a society that smiles."

#### <Major Initiatives>

- Charity donations (donations to UNICEF)
- Collecting used stamps (donations to JOICFP)
- Collecting plastic bottle caps (sending vaccines to developing countries)
- Blood drives at each business facility
- Distributing eco-bags to employees (KYORIN Pharmaceutical Co., Ltd.)

### Initiative to Raise Awareness of Maternity Mark

Since 2009, KYORIN Pharmaceutical Co., Ltd. has been placing "Milton" advertisements near priority seats in various trains mainly in Tokyo and Kansai regions. The advertisements raise awareness of the Maternity Mark, with the aim of increasing recognition of the symbol and contribute to creating an environment that is friendly to pregnant women.



### Support for Great East Japan Earthquake Recovery

Since fiscal 2011, KYORIN Pharmaceutical Co., Ltd. has supported the Sunflower Project, which brings cheer to regions affected by the Great East Japan Earthquake. We continued our support in fiscal 2015, growing 300 pots of sunflower seedlings at WATARASE Research Center, and donating them to the city of Natori, in Miyagi Prefecture.



### 2016 Kumamoto Earthquake Relief

At the Kyorin Group, we donated ¥10 million to provide relief to victims of the earthquake and assist in the recovery efforts.

## Shareholders and Investors

### Information Disclosure and Communication

We established our Basic Policy and Principles of Conduct for Information Disclosure as our basic stance on disclosure of corporate information. We endeavor to swiftly, accurately, and fairly disclose corporate information necessary to make investment decisions, including important corporate information requiring thorough timely disclosure.

We hold an Ordinary General Shareholders' Meeting (in June of each year) and financial results presentations (second quarter and full year) as opportunities for information disclosure and communication with our shareholders and investors. We also focus on enhancing the Investor Relations section of our website with the goal of providing information to our shareholders and investors in a timely manner. We publish information as needed on our Investor Relations website, including financial statements, press releases, presentation documents for investors, and Annual Reports.

Feedback from our shareholders is communicated to management in a timely and appropriate manner. Valuable views received through dialog with our shareholders are regularly reported to top management and the Director in charge of Investor Relations, and presentations are made to the Executive Committee as needed.



Investor Relations website: <http://www.kyorin-gr.co.jp/en/ir/>

## Compliance

### 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.

### Corporate Charter and Compliance Guidelines

To ensure that the Kyorin Group's activities are based on a high standard of corporate ethics, we established the KYORIN Holdings Corporate Charter and Compliance Guidelines (August 2006). Furthermore, we have also built and promote a compliance system by establishing a Compliance Committee that meets on a monthly basis and other measures.

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. The Compliance Committee was established to provide overall supervision of corporate ethics and compliance systems. Each Kyorin company has a compliance promotion manager who is responsible for the understanding and instilling of corporate ethics and compliance.



### Education and Training

The Promotion Compliance & External Relations Department leads an effort in collaboration with each department to spread awareness of and strengthen corporate ethics and compliance through in-house education.

### Guidelines for Transparency

The mission of an R&D-driven pharmaceutical company is to contribute to the realization of patient-focused medical care, through continuous research and development of new drugs and their stable supply, thereby contributing to global medical care and people's health. To fulfill this mission, partnerships between pharmaceutical companies, research laboratories and medical institutions including universities and others are essential, and we are required to properly manage our relationships where there is a potential conflict of interest with pharmaceutical companies.

Under these circumstances, the Kyorin Group established the Guidelines for Transparency of Relationships between Corporate Activities and Medical Institutions, etc., and the Guidelines on Transparency of Relationships between Corporate Activities and Patient Groups. In accordance with these guidelines, we publish information about capital funding to medical institutions, patient groups, and others on our website.

### 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.

# Financial Analysis

## Industry Trends in Japan

During fiscal 2015, the domestic pharmaceutical industry showed upper-single-digit growth despite the continued implementation of measures to control prices for drugs and medical services; however, the operating environment became increasingly challenging, with major changes to the market structure expected as a result of the Ministry of Health, Labour and Welfare's announcement of a Comprehensive Strategy to Strengthen the Pharmaceutical Industry, as well as the finalization of fiscal 2016 drug price revisions intended to strengthen controls on outlays for social security costs.

The operating environment for the healthcare business saw weak consumer spending as economic growth remained flat.

Against this backdrop, the Kyorin Group, in the final year of its medium-term business plan HOPE100–Stage 1– (fiscal 2010–2015), worked toward rebuilding our business strategy to address a variety of changes in our operating environment and achieving growth in new core businesses under the management principles of advancing initiatives related to the Pharma Complex Model (PC Model: new drugs business model) and accelerating growth in healthcare operations, as we strove for continuous growth and greater support and recognition from stakeholders.

## Consolidated Operating Results

### Net Sales

Although net sales for fiscal 2015 fell short of the target set in Stage 1, sales of new ethical drugs were significantly higher year on year, and overall net sales rose ¥6,362 million, or 5.6%, to ¥119,483 million, reaching an all-time high.

In the ethical drugs business in Japan, the Kyorin Group's core operating company KYORIN Pharmaceutical Co., Ltd. pursued its franchise customer (FC) strategy of focusing marketing activities on physicians and medical institutions in the specific fields of respiratory, otolaryngology, and urology. In the respiratory field, we strove to maximize the use of main products including Flutiform, a combination drug for asthma treatment, and Kipres, a treatment for bronchial asthma and allergic rhinitis, while at the same time striving to raise our presence in the field with the new chronic obstructive pulmonary disease (COPD) treatment Eklira Genuair, released in May 2015. Ethical drug sales were also boosted by the new dosage forms Kipres OD Tablets (orally disintegrating tablets) and the ulcerative colitis and Crohn's disease treatment drug Pentasa Granules 94%, both released in December 2015. In terms of mainstay products, sales of Flutiform grew ¥3.6 billion from the previous year, and Kipres and the overactive bladder treatment Uritos grew as well. On the other hand, sales of longstanding pharmaceutical products Pentasa and the mucoregulant Mucodyne declined from the previous year. As a result, sales of ethical drugs in Japan rose 1.8% from the previous year, to ¥92,695 million.

Sales of ethical drugs overseas rose 441.2% from the previous year, to ¥5,586 million. Royalty income for gatifloxin ophthalmic solution (outlicensed to Allergan, Inc. (U.S.A.)) increased, and KYORIN Pharmaceutical Co., Ltd. concluded a licensing agreement with Bristol-Myers Squibb Company of the United States for KYORIN Pharmaceutical's FPR2 agonist program, which resulted in the recording of one-time revenue.

Sales of generic drugs declined 0.1% from the previous year, to ¥15,465 million. The market grew as measures to promote the

use of generics took root and from the effect of sales of authorized generics, and although health insurance pharmacy market's sales increased, lower sales in the contract manufacturing resulted in a slight overall decline.

In the over-the-counter drugs and others business, sales rose 7.3% from the previous year, to ¥4,490 million, on growth in environmental hygiene-related sales from increased sales of mainstay products RUBYSTA, a multi-purpose disinfectant cleaner, and the disinfectant Milton for baby bottles and nursing mothers. As a result, net sales in the pharmaceutical business rose 5.8% from the previous year, to ¥118,238 million, with a 33.8% increase in operating income, to ¥19,499 million.

The healthcare business recorded lower sales at Dr. Program Co., Ltd., which handles skincare products, amid weak consumer spending and increased competition from other companies, and as a result segment net sales declined 7.8% from the previous year, to ¥1,244 million, with an operating loss of ¥77 million, compared with a ¥20 million operating loss in the previous year.

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

Gross profit grew ¥5,599 million from the previous year on increased sales of mainstay products and one-time contract revenue. At the same time, even though SG&A expenses increased ¥700 million (including a ¥495 million decrease in R&D expenses), operating income rose ¥4,898 million, or 33.2%, to a record ¥19,636 million, nearly reaching the Stage 1 target.

## Outlook for Fiscal 2016

With the NHI drug price revisions implemented in April 2016, the operating environment for the ethical drugs business is seen becoming increasingly challenging. In addition, the patents on several of the Kyorin Group's mainstay products are set to expire, and we are therefore facing unprecedented changes in our operating environment. Given this situation, the Kyorin Group will strive to develop a pharmaceutical business model with an ethical drugs business that can generate continuous growth and pursue strategies for concentration and development in the healthcare business to build a new core business, in order to achieve our targets under the new medium-term business plan and gain greater support and recognition from stakeholders as we pursue the achievement of the HOPE100 long-term vision under the medium-term business plan HOPE100–Stage 2– (fiscal 2016–2019). Although we expect a decrease from fiscal 2015 in sales of new ethical drugs, we are forecasting a slight increase in overall net sales on higher sales of generic drugs. The reasons for the anticipated decline in sales of new ethical drugs include the NHI drug price revisions implemented in April 2016 and the expiry of our patents on several mainstay products. We are forecasting growth in generic drug sales based on a generic drug market that is expected to grow as the use of generics is increasingly promoted, further boosted by the release of authorized generics.

We are forecasting a decline in profit, mainly from the effects of the drug price revisions and patent expiries, and the absence of the previous year's one-time revenue from the conclusion of a licensing agreement.



## 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

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2015	2016
Current assets:			
Cash and cash in banks (Notes 4, 11 and 13)	¥ 45,712	¥ 30,652	\$ 405,644
Notes and accounts receivable (Note 11)	48,296	47,007	428,574
Short-term investments (Notes 5 and 11)	5,989	17,867	53,146
Inventories:			
Merchandise and finished goods	14,808	13,868	131,405
Work in process	1,408	1,205	12,494
Raw materials and supplies	11,449	10,855	101,597
Deferred tax assets (Note 14)	2,903	2,471	25,761
Other	7,966	5,194	70,690
Less allowance for doubtful accounts	(50)	(58)	(444)
Total current assets	138,483	129,064	1,228,885
Property, plant and equipment:			
Land	2,022	2,019	17,943
Buildings and structures	38,282	30,604	339,711
Machinery and vehicle	20,436	19,006	181,347
Leased assets	557	559	4,943
Construction in progress	49	3,526	435
Other	8,007	8,082	71,053
Less accumulated depreciation and impairment loss	(46,568)	(44,423)	(413,240)
Property, plant and equipment, net	22,788	19,374	202,218
Investments and other assets:			
Investment securities (Notes 5 and 11)	33,464	31,008	296,956
Long-term loans	2	3	18
Asset for retirement benefits (Note 12)	42	1,034	373
Trademark	—	2	—
Deferred tax assets (Note 14)	113	84	1,003
Other	3,057	2,940	27,128
Less allowance for doubtful accounts	(126)	(129)	(1,118)
Total investments and other assets	36,554	34,944	324,377
Total assets	¥197,825	¥183,383	\$1,755,480

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2015	2016
Current liabilities:			
Notes and accounts payable (Note 11)	¥ 11,792	¥ 11,259	\$ 104,641
Short-term bank loans (Note 6)	1,862	1,372	16,523
Lease obligations (Note 6)	112	83	994
Accrued income taxes (Note 14)	3,121	2,440	27,695
Accrued bonuses to employees	3,252	3,288	28,858
Reserve for sales returns	29	26	257
Provision for point card certificates	35	34	311
Other	7,845	9,267	69,616
<b>Total current liabilities</b>	<b>28,052</b>	<b>27,773</b>	<b>248,931</b>
Long-term liabilities:			
Long-term debt (Note 6)	3,926	2,227	34,839
Lease obligations (Note 6)	543	277	4,819
Deferred tax liabilities (Note 14)	2,613	2,815	23,188
Accrued retirement benefits for directors and corporate auditors	13	10	115
Liability for retirement benefits (Note 12)	3,087	368	27,394
Other	2,539	1,309	22,531
<b>Total long-term liabilities</b>	<b>12,723</b>	<b>7,009</b>	<b>112,903</b>
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized – 297,000,000 shares in 2016 and 2015			
Issued – 74,947,628 shares in 2016 and 2015	700	700	6,212
Capital surplus	4,752	4,752	42,169
Retained earnings	147,331	137,577	1,307,401
Treasury stock, at cost:			
1,273,045 shares in 2016			
996,611 shares in 2015	(2,975)	(2,511)	(26,400)
<b>Total shareholders' equity</b>	<b>149,808</b>	<b>140,518</b>	<b>1,329,381</b>
Accumulated other comprehensive income:			
Unrealized holding gain on other securities	10,372	7,798	92,040
Translation adjustments	160	168	1,420
Retirement benefits liability adjustments	(3,292)	115	(29,213)
<b>Total accumulated other comprehensive income</b>	<b>7,241</b>	<b>8,082</b>	<b>64,256</b>
<b>Total net assets</b>	<b>157,049</b>	<b>148,600</b>	<b>1,393,637</b>
<b>Total liabilities and net assets</b>	<b>¥197,825</b>	<b>¥183,383</b>	<b>\$1,755,480</b>

See notes to consolidated financial statements.

# Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2015	2016
Net sales	¥119,483	¥113,121	\$1,060,280
Cost of sales	47,360	46,598	420,268
Gross profit	72,122	66,522	640,004
Selling, general and administrative expenses (Note 8)	52,486	51,785	465,756
Operating income	19,636	14,737	174,248
Other income (expenses):			
Interest and dividend income	313	279	2,778
Interest expense	(17)	(6)	(151)
Equity in losses of affiliates	(24)	(7)	(213)
Foreign exchange gains (losses)	(126)	130	(1,118)
Subsidy income	115	65	1,020
Gain on sales and retirement of property, plant and equipment, net (Note 9)	1,467	4,306	13,018
Gain on sales of investment securities, net (Note 5)	47	—	417
Loss on devaluation of investment securities	(0)	(2)	(0)
Impairment loss (Note 10)	—	(2,232)	—
Loss on closure of plant	(2,695)	—	(23,915)
Other, net	98	291	870
Other income (expenses), net	(820)	2,823	(7,277)
Profit before income taxes	18,815	17,561	166,962
Income taxes (Note 14):			
Current	5,191	4,712	46,064
Deferred	(15)	785	(133)
Total income taxes	5,175	5,497	45,922
Profit	13,639	12,064	121,031
Profit attributable to shareholders of KYORIN Holdings, Inc.	¥ 13,639	¥ 12,064	\$ 121,031

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2015	2016
Profit	¥13,639	¥12,064	\$121,031
Other comprehensive income (Note 15):			
Unrealized holding gain on other securities	2,591	4,322	22,992
Translation adjustments	(7)	155	(62)
Retirement benefits liability adjustments	(3,407)	1,014	(30,233)
Share of other comprehensive income of affiliates accounted for using equity method	(17)	41	(151)
Total other comprehensive income	(841)	5,534	(7,463)
Comprehensive income	¥12,798	¥17,598	\$113,568
Total comprehensive income attributable to:			
Shareholders of KYORIN Holdings, Inc.	¥12,798	¥17,598	\$113,568
Non-controlling 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, 2016

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, 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)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	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 April 1, 2015	74,947,628	700	4,752	137,577	(2,511)	140,518	7,798	168	115	8,082	148,600
Cash dividends	—	—	—	(3,885)	—	(3,885)	—	—	—	—	(3,885)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	13,639	—	13,639	—	—	—	—	13,639
Purchase of treasury stock	—	—	—	—	(1,040)	(1,040)	—	—	—	—	(1,040)
Disposals of treasury stock	—	—	—	—	576	576	—	—	—	—	576
Other changes	—	—	—	—	—	—	2,573	(7)	(3,407)	(841)	(841)
Net changes during the year	—	—	—	9,753	(463)	9,290	2,573	(7)	(3,407)	(841)	8,448
Balance as of March 31, 2016	<b>74,947,628</b>	<b>¥700</b>	<b>¥4,752</b>	<b>¥147,331</b>	<b>¥(2,975)</b>	<b>¥149,808</b>	<b>¥10,372</b>	<b>¥160</b>	<b>¥(3,292)</b>	<b>¥7,241</b>	<b>¥157,049</b>

Thousands of U.S. dollars (Note 3)

	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, 2015	74,947,628	\$6,212	\$42,169	\$1,220,845	\$(22,282)	\$1,246,943	\$69,199	\$1,491	\$ 1,020	\$71,719	\$1,318,662
Cash dividends	—	—	—	(34,475)	—	(34,475)	—	—	—	—	(34,475)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	121,031	—	121,031	—	—	—	—	121,031
Purchase of treasury stock	—	—	—	—	(9,229)	(9,229)	—	—	—	—	(9,229)
Disposals of treasury stock	—	—	—	—	5,111	5,111	—	—	—	—	5,111
Other changes	—	—	—	—	—	—	22,833	(62)	(30,233)	(7,463)	(7,463)
Net changes during the year	—	—	—	86,547	(4,109)	82,439	22,833	(62)	(30,233)	(7,463)	74,967
Balance as of March 31, 2016	<b>74,947,628</b>	<b>\$6,212</b>	<b>\$42,169</b>	<b>\$1,307,401</b>	<b>\$(26,400)</b>	<b>\$1,329,381</b>	<b>\$92,040</b>	<b>\$1,420</b>	<b>\$(29,213)</b>	<b>\$64,256</b>	<b>\$1,393,637</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2015	2016
<b>Operating activities</b>			
Profit before income taxes	¥18,815	¥17,561	\$166,962
Depreciation and amortization	3,730	3,053	33,100
Impairment loss	—	2,232	—
Loss on closure of plant	2,695	—	23,915
Increase (decrease) in allowance for doubtful accounts	(11)	10	(98)
Decrease in accrued bonuses to employees	(35)	(21)	(311)
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	2	(3)	18
Increase in asset for retirement benefits	(1,172)	(843)	(10,400)
Increase (decrease) in liability for retirement benefits	19	(382)	169
Equity in losses of affiliates	24	7	213
Interest and dividend income	(313)	(279)	(2,778)
Interest expense	17	6	151
Gain on sales and retirement of property, plant and equipment, net	(1,467)	(4,305)	(13,018)
Gain on sales of investment securities, net	(47)	—	(417)
Loss on devaluation of investment securities	0	2	0
Increase in notes and accounts receivable	(1,288)	(2,877)	(11,430)
Increase in inventories	(1,736)	(4,230)	(15,405)
Increase in notes and accounts payable	532	202	4,721
(Decrease) increase in consumption taxes payable	(1,446)	1,117	(12,832)
Other, net	(2,978)	(503)	(26,426)
Subtotal	15,338	10,748	136,108
Interest and dividend received	320	289	2,840
Interest paid	(17)	(6)	(151)
Income taxes paid	(4,504)	(4,640)	(39,968)
Net cash provided by operating activities	11,137	6,391	98,829
<b>Investing activities</b>			
Payments for time deposits	(622)	(777)	(5,520)
Proceeds from withdrawal of time deposits	1,358	622	12,051
Purchase of short-term investments	—	(8,398)	—
Proceeds from sales and redemption of short-term investments	5,100	11,100	45,257
Purchase of property, plant and equipment	(6,812)	(5,383)	(60,449)
Proceeds from sales of property, plant and equipment	2,066	4,756	18,333
Purchase of intangible assets	(530)	(472)	(4,703)
Purchase of investment securities	(8,008)	(6,905)	(71,062)
Proceeds from sales and redemption of investment securities	8,301	4,413	73,662
Other, net	(202)	(320)	(1,793)
Net cash provided by (used in) investing activities	650	(1,364)	5,768
<b>Financing activities</b>			
Increase (decrease) in short-term bank loans, net	100	(240)	887
Repayments of lease obligations	(99)	(99)	(879)
Proceeds from long-term debt	2,853	2,227	25,317
Repayments of long-term debt	(764)	(308)	(6,780)
Net increase in treasury stock	(458)	(2,186)	(4,064)
Cash dividends	(3,876)	(4,626)	(34,395)
Net cash used in financing activities	(2,245)	(5,233)	(19,922)
<b>Effects of exchange rate changes on cash and cash equivalents</b>	(226)	105	(2,006)
<b>Increase (decrease) in cash and cash equivalents</b>	9,315	(100)	82,660
<b>Cash and cash equivalents at beginning of year</b>	35,727	35,828	317,038
<b>Cash and cash equivalents at end of year (Note 4)</b>	¥45,043	¥35,727	\$399,707

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2016

## 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 2015 consolidated financial statements to conform to the 2016 presentation. These reclassifications have no effect on consolidated profit 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 Business Combinations, etc.**

Effective from the year ended March 31, 2016, the Company and its consolidated subsidiaries have applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013 (hereinafter, the “Statement No. 21”)), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013 (hereinafter, the “Statement No. 22”)) and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013 (hereinafter, the “Statement No. 7”)), etc. Accordingly, any differences associated with changes in the Company’s ownership interest of subsidiaries over which the Company continues to control are recorded as capital surplus and acquisition-related costs are expensed in the fiscal year in which the costs are incurred. In addition, for business combinations carried out on or after the beginning of the year ended March 31, 2016, reallocation of acquisition costs on completion of the provisional accounting treatment is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. Furthermore, the presentation of net income, etc. has been changed and the presentation of minority interests has been changed to non-controlling interests. The 2015 consolidated financial statements has been reclassified to conform to these changes in presentation.

In the consolidated statement of cash flows for the year ended March 31, 2016, the cash flows related to acquisition or sale of subsidiaries’ shares not resulting in a change in scope of consolidation are classified as “Cash flows from financing activities,” and cash flows related to acquisition-related costs for subsidiaries’ shares resulting in a change in scope of consolidation or expenses arising from acquisition or sale of subsidiaries’ shares not resulting in a change in scope of consolidation are classified as “Cash flows from operating activities.”

The accounting standard for business combinations, etc. have been applied in accordance with provisional treatments prescribed in Article 58-2 (4) of the Statement No. 21, Article 44-5 (4) of the Statement No. 22, and Article 57-4 (4) of Statement No. 7. These standards are prospectively applied from the beginning of the year ended March 31, 2016.

The effect on the consolidated financial statements for the year ended March 31, 2016 is immaterial.

*(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 & Customer 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 remaining in the Trust are presented as treasury stock in net assets with carrying value in the Trust (excluding ancillary expenses). As of March 31, 2016 and 2015, the carrying amount of the treasury shares were ¥1,608 million (\$14,269 thousand) and ¥2,185 million, respectively, and the total number of treasury shares were 562 thousand shares and 764 thousand shares, respectively.

#### **(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 were ¥1,765 million (\$15,662 thousand) and ¥2,227 million as of March 31, 2016 and 2015, respectively.

At a meeting of the Board of Directors held on February 23, 2016, the Company (KYORIN Holdings, Inc.) resolved that KYORIN Pharmaceutical Co., Ltd. ("KYORIN Pharmaceutical"), a subsidiary of the Company introduces an incentive plan referred to as the Employee Stock Delivery Trust (the "J-ESOP") (hereinafter, the "ESOP Plan") under which the Company's shares will be delivered to employees of KYORIN Pharmaceutical.

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**

Under the ESOP Plan, the Company's shares will be delivered to eligible employees of KYORIN Pharmaceutical who satisfy certain requirements, based on the share delivery rules prescribed by KYORIN Pharmaceutical in advance.

KYORIN Pharmaceutical will award its employees a set number of points based on business performance and his or her personal contribution and deliver or pay the Company's shares and cash to its employees who attained rights to receive such delivery or payment under certain conditions. The Trust will acquire the Company's shares to be delivered including future delivery portion using the entrusted money, and separately manage as trust assets.

Through introduction of the ESOP Plan, it is expected to contribute to employees' work motivation, by increasing interest in improvement of business performance and the Company's share price. In addition, it is expected that various stakeholders including shareholders will receive shared benefits from improvement in the Company's corporate value.

#### **(2) Company shares remaining in trust**

Treasury shares remaining in the Trust are presented as treasury stock in net assets with carrying value in the Trust (excluding ancillary expenses). As of March 31, 2016, the carrying amount of the treasury shares was ¥1,039 million (\$9,220 thousand), and the total number of treasury shares was 477 thousand shares.

### 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 ¥112.69 = U.S.\$1.00, the approximate rate of exchange on March 31, 2016. 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, 2016 and 2015 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and cash in banks	¥45,712	¥30,652	\$405,644
Short-term investments	83	6,562	737
Time deposits with a maturity over three months	(752)	(1,487)	(6,673)
Cash and cash equivalents	¥45,043	¥35,727	\$399,707

### 5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2016 and 2015 is as follows:

#### Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2016			2016		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 8,706	¥24,135	¥15,428	\$ 77,256	\$214,172	\$136,907
Debt securities:						
Government bonds	11,008	11,028	19	97,684	97,861	169
Corporate bonds	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
Subtotal	19,714	35,163	15,448	174,940	312,033	137,084
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	2,026	1,448	(577)	17,979	12,849	(5,120)
Debt securities:						
Government bonds	400	400	(0)	3,550	3,550	(0)
Corporate bonds	500	498	(1)	4,437	4,419	(9)
Other bonds	1,000	989	(10)	8,874	8,776	(89)
Subtotal	3,926	3,336	(589)	34,839	29,603	(5,227)
Total	¥23,640	¥38,500	¥14,859	\$209,779	\$341,645	\$131,857

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 8,222	¥19,583	¥11,361
Debt securities:			
Government bonds	13,299	13,386	86
Corporate bonds	—	—	—
Other bonds	—	—	—
Subtotal	21,522	32,970	11,447
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	30	27	(3)
Debt securities:			
Government bonds	13,405	13,402	(3)
Corporate bonds	500	500	—
Other bonds	1,000	964	(35)
Subtotal	14,935	14,894	(41)
Total	¥36,458	¥47,864	¥11,406

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 ¥401 million (\$3,558 thousand) and ¥416 million as of March 31, 2016 and 2015, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Proceeds from sales	¥2,101	¥200	\$18,644
Gains on sales	59	—	524
Losses on sales	11	—	98

## 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, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term bank loans	¥1,230	¥1,130	\$10,915
Current portion of long-term debt	632	242	5,608
Current portion of lease obligations	112	83	994
Total	¥1,974	¥1,455	\$17,517

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2016 and 2015 are 0.4% and 0.5%, respectively.



Long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan) and lease obligations as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Long-term debt, due through 2017 at average interest rate of 0.5% in 2016 and 2015	¥4,558	¥2,469	\$40,447
Lease obligations due through 2030 in 2016 and 2015	656	361	5,821
Current portion of long-term debt and lease obligations due within one year	(744)	(326)	(6,602)
<b>Total</b>	<b>¥4,470</b>	<b>¥2,504</b>	<b>\$39,666</b>

Interest expenses related to a trust-based employee shareholding incentive plan (see Note 2(n)) are excluded from the calculation of the average interest rate applicable to long-term debt because interest expenses on such debt are not recorded as interest expense in the consolidated statement of income.

Long-term debt from Japan Science and Technology Agency (National Research and Development Agency), amounting to ¥164 million (\$1,455 thousand) as of March 31, 2016, bears no interest.

The annual maturities of long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan and long-term debt from Japan Science and Technology Agency (National Research and Development Agency)) and lease obligations are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥744	\$6,602
2018	735	6,522
2019	727	6,451
2020	703	6,238
2021	168	1,491

The annual maturities of long-term debt from Japan Science and Technology Agency (National Research and Development Agency) are excluded from the above table because authorization date of success in development and other matters are not determinable.

The annual maturities of long-term debt related to a trust-based employee shareholding incentive plan are excluded from the above table because its repayment amount is 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 avail-

able for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

*(c) Treasury Stock and Stock Option*

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

## 8. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2016 and 2015 were ¥13,019 million (\$115,529 thousand) and ¥13,514 million, respectively.

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

Significant components of the gain on sales and retirement of property, plant and equipment, net for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gain:			
Buildings and structures	¥ 608	¥ 615	\$ 5,395
Machinery and vehicle	0	0	0
Land	1,272	3,889	11,288
Other	—	0	—
	¥1,881	¥4,505	\$16,692
Loss:			
Buildings and structures	¥ (361)	¥ (64)	\$ (3,203)
Machinery and vehicle	(26)	(2)	(231)
Other	(25)	(131)	(222)
	(413)	(199)	(3,665)
Total	¥1,467	¥4,306	\$13,018

## 10. Impairment Loss

In principle, the Company and its consolidated subsidiaries group assets into the smallest units that generate independent cash flow that is almost independent from cash flows provided by other assets or asset groups, and assets to be disposed are grouped by each asset.

For the year ended March 31, 2016, the Company and its consolidated subsidiaries recognized a loss on impairment of long-lived assets:

Location	Use	Type of assets
Okaya-shi, Nagano Prefecture	Assets to be disposed	Land, buildings and structure, other

In the fiscal year ended March 31, 2016, 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 relocation and closure of Okaya plant's manufacturing functions and recorded an impairment loss of ¥380 million (\$3,372 thousand) under extraordinary loss.

The components of the impairment loss were building and structures of ¥320 million (\$2,840 thousand), land of ¥51 million (\$453 thousand), other property, plant and equipment of ¥8 million (\$71 thousand).

The recoverable amount of assets to be disposed is calculated based on real estate appraised values less estimated costs of disposal.

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

Location	Use	Type of assets
Nogi-machi Shimotsuga-gun, Tochigi Prefecture and others	Assets to be disposed	Land, buildings and structure, other

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 and recorded an impairment loss of ¥2,232 million under extraordinary loss.

The components of the impairment loss were building and structures of ¥646 million, land of ¥171 million and dismantlement and other costs of ¥1,414 million.

The recoverable amount of assets to be disposed is based on the net selling value, but as it is difficult to convert to other uses and sell the assets, the recoverable amount is valued at memorandum value.

## 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, fund for the introduction of the Employee Stock Delivery Trust (the "J-ESOP") and funding support for development expenses from Japan Science and Technology Agency (National Research and Development Agency).

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

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

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

Carrying values, fair values, and their differences of financial instruments as of March 31, 2016 and 2015 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2016			2016		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 45,712	¥ 45,712	¥—	\$ 405,644	\$ 405,644	\$—
Notes and accounts receivable	48,296	48,296	—	428,574	428,574	—
Short-term investments and investment securities	38,500	38,500	—	341,645	341,645	—
Total assets	¥132,509	¥132,509	¥—	\$1,175,872	\$1,175,872	\$—
Notes and accounts payable	¥ 11,792	¥ 11,792	¥—	\$ 104,641	\$ 104,641	\$—
Total liabilities	¥ 11,792	¥ 11,792	¥—	\$ 104,641	\$ 104,641	\$—

	Millions of yen		
	2015		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 30,652	¥ 30,652	¥—
Notes and accounts receivable	47,007	47,007	—
Short-term investments and investment securities	47,864	47,864	—
Total assets	¥125,524	¥125,524	¥—
Notes and accounts payable	¥ 11,259	¥ 11,259	¥—
Total liabilities	¥ 11,259	¥ 11,259	¥—

Unlisted securities and others of ¥953 million (\$8,457 thousand) and ¥1,011 million whose fair values are extremely difficult to determine as of March 31, 2016 and 2015, respectively, are not included in the above tables.

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

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

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

**Short-term investments and Investment securities**

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

**Notes and accounts payable**

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



The redemption schedule for monetary receivables and securities with maturities subsequent to March 31, 2016 is as follows:

	Millions of yen			
	2016			
	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	¥45,712	¥ —	¥ —	¥—
Notes and accounts receivable	48,296	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	5,900	5,500	—	—
Bonds	—	—	500	—
Other	—	1,000	—	—
<b>Total</b>	<b>¥99,908</b>	<b>¥6,500</b>	<b>¥500</b>	<b>¥—</b>

	Thousands of U.S. dollar			
	2016			
	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	\$405,644	\$ —	\$ —	\$—
Notes and accounts receivable	428,574	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	52,356	48,806	—	—
Bonds	—	—	4,437	—
Other	—	8,874	—	—
<b>Total</b>	<b>\$886,574</b>	<b>\$57,680</b>	<b>\$4,437</b>	<b>\$—</b>

## 12. Retirement Benefit Plans

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

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

### Defined benefit plans

(1) The changes in the retirement benefit obligation for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligation at the beginning of the year	¥30,062	¥29,589	\$266,767
Service cost	964	967	8,554
Interest cost	390	384	3,461
Actuarial loss	4,317	169	38,309
Retirement benefits paid	(1,256)	(1,048)	(11,146)
<b>Retirement benefit obligation at the end of the year</b>	<b>¥34,478</b>	<b>¥30,062</b>	<b>\$305,954</b>

(2) The changes in plan assets for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at the beginning of the year	¥31,033	¥27,902	\$275,384
Expected return on plan assets	620	558	5,502
Actuarial gain or loss	(547)	1,662	(4,854)
Contributions paid by the employer	1,934	1,958	17,162
Retirement benefits paid	(1,256)	(1,048)	(11,146)
Plan assets at the end of the year	¥31,784	¥31,033	\$282,048

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability (asset) for retirement benefits at the beginning of the year	¥305	¥367	\$2,707
Retirement benefits costs	136	46	1,207
Retirement benefits paid	(8)	(32)	(71)
Contributions to the plans	(82)	(76)	(728)
Liability (asset) for retirement benefits at the end of the year	¥350	¥305	\$3,106

(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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligation	¥34,856	¥30,373	\$309,309
Plan assets	(32,196)	(31,387)	(285,704)
	2,660	(1,014)	23,605
Unfunded retirement benefit obligation	384	347	3,408
Net liability (asset) for retirement benefits	¥ 3,044	¥ (666)	\$ 27,012
Liability for retirement benefits	¥ 3,087	¥ 368	\$ 27,394
Asset for retirement benefits	(42)	(1,034)	(373)
Net liability (asset) for retirement benefits	¥ 3,044	¥ (666)	\$ 27,012

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

(5) The components of retirement benefits costs for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service costs	¥964	¥967	\$8,554
Interest costs	390	384	3,461
Expected return on plan assets	(620)	(558)	(5,502)
Amortization of actuarial loss	16	162	142
Amortization of prior service costs	(67)	(88)	(595)
Retirement benefits costs based on the simplified method	136	46	1,207
Retirement benefits costs	¥820	¥914	\$7,277

(6) Prior service costs and actuarial gain or loss included in other comprehensive income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service costs	¥ 67	¥ 88	\$ 595
Actuarial gain or loss	4,848	(1,656)	43,021
Total	¥4,915	¥ (1,567)	\$43,615

(7) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service costs	¥ (473)	¥(540)	\$ (4,197)
Unrecognized actuarial loss	5,218	369	46,304
Balance at the end of the year	¥4,745	¥(170)	\$42,107

(8) Plan assets

The breakdown of plan assets is as follows:

	2016	2015
Domestic debt securities	24.4%	50.7%
Domestic equity securities	4.9	6.0
Foreign debt securities	24.4	6.2
Foreign equity securities	12.0	11.9
General account	7.8	—
Other	26.5	25.2
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

	2016	2015
Discount rate	0.5%	1.3%
Expected rate of return on plan assets	2.0%	3.0%

#### Defined contribution plans

The Company and its consolidated subsidiaries contributed ¥308 million (\$2,733 thousand) and ¥316 million to the defined contribution plans for the years ended March 31, 2016 and 2015, respectively.

### 13. Pledged Assets

Assets pledged as collateral for guaranty deposits as of March 31, 2016 and 2015 are as follows:

Assets pledged as collateral:	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
For guaranty deposits			
Cash and cash in banks	¥10	¥10	\$89
Total	¥10	¥10	\$89

## 14. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Liability for retirement benefits	¥1,571	¥ 63	\$13,941
Accrued bonuses to employees	986	1,067	8,750
Allowance for doubtful accounts	55	59	488
Accrued enterprise tax	201	189	1,784
Loss on retirement of inventories	189	157	1,677
Loss on devaluation of investment securities	169	181	1,500
Loss on retirement of property, plant and equipment	1,110	1,058	9,850
Impairment loss	396	419	3,514
Amortization of deferred assets	555	813	4,925
Loss on closure of plant	824	—	7,312
Tax loss carryforward	128	203	1,136
Other	1,198	1,107	10,631
Subtotal	7,386	5,320	65,543
Valuation allowance	(345)	(373)	(3,061)
Total deferred tax assets	7,040	4,947	62,472
Deferred tax liabilities:			
Reserve for reduction entry of property, plant and equipment	(1,446)	(51)	(12,832)
Reserve for special account for advanced depreciation of non-current assets	—	(1,182)	—
Unrealized holding gain on other securities	(4,548)	(3,688)	(40,359)
Prepaid pension cost	(639)	(279)	(5,670)
Other	(2)	(4)	(18)
Total deferred tax liabilities	(6,637)	(5,207)	(58,896)
Net deferred tax assets (liabilities)	¥ 403	¥(259)	\$ 3,576

Taxes on income consist of corporate, inhabitants and enterprise taxes. Reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Statutory tax rate	33.1%	35.6%
Entertainment expenses and others that are not tax deductible permanently	0.8	1.2
Inhabitants' per capita taxes	0.5	0.5
Adjustment to deferred tax assets and liabilities from change in the statutory tax rate	1.1	1.6
Tax credits for research and development expenses	(6.2)	(6.4)
Valuation allowance	(0.9)	0.5
Internal profit elimination	(0.3)	(0.6)
Other	(0.6)	(1.2)
Effective tax rate	27.5%	31.3%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet session on March 29, 2016.

Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 33.1% to 30.9% for the temporary differences expected to be realized or settled in the fiscal years beginning between April, 2016 and March 31, 2018. The effective statutory tax rate was also changed



to 30.6% for the temporary differences expected to be realized or settled in the fiscal years beginning on or after April 1, 2018.

As a result, deferred tax assets (net of deferred tax liabilities) as of March 31, 2016 decreased by ¥49 million (\$435 thousand), while unrealized holding gain on other securities as of March 31, 2016 and income taxes-deferred for the year ended March 31, 2016 increased by ¥255 million (\$2,263 thousand) and ¥206 million (\$1,828 thousand), respectively.

## 15. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized holding gain on other securities:			
Gain arising during the year	¥3,454	¥6,131	\$30,650
Reclassification adjustments	(1)	—	(9)
Before income tax effects	3,452	6,131	30,633
Income tax effects	(861)	(1,809)	(7,640)
Unrealized holding gain on other securities	2,591	4,322	22,992
Translation adjustments:			
Adjustments arising during the year	(7)	155	(62)
Retirement benefits liability adjustments:			
Gain (loss) arising during the year	(4,864)	1,493	(43,163)
Reclassification adjustments	(51)	73	(453)
Before income tax effects	(4,915)	1,567	(43,615)
Income tax effects	1,508	(552)	13,382
Retirement benefits liability adjustments	(3,407)	1,014	(30,233)
Share of other comprehensive income of affiliates accounted for using equity method:			
Gain (loss) arising during the year	(17)	41	(151)
Total other comprehensive income	¥ (841)	¥5,534	\$ (7,463)

## 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				
	2016				
	Reportable segment				
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥118,238	¥1,244	¥119,483	¥ —	¥119,483
Inter-segment sales or transfers	50	40	90	(90)	—
Total	¥118,288	¥1,285	¥119,574	¥ (90)	¥119,483
Segment profit (loss)	¥ 19,499	¥ (77)	¥ 19,421	¥ 214	¥ 19,636
Segment assets	¥172,292	¥ 699	¥172,992	¥24,833	¥197,825
Other items:					
Impairment loss	¥ 380	¥ —	¥ 380	¥ —	¥ 380
Depreciation and amortization	3,348	9	3,358	372	3,730
Investments in affiliates accounted for using equity method	551	—	551	—	551
Increase in property, plant and equipment and intangible assets	7,093	2	7,096	134	7,230
					Thousands of U.S. dollars
					2016
					Reportable segment
	Pharmaceutical Business	Consumer Healthcare (Skincare) Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	\$1,049,232	\$11,039	\$1,060,280	\$ —	\$1,060,280
Inter-segment sales or transfers	444	355	799	(799)	—
Total	\$1,049,676	\$11,403	\$1,061,088	\$ (799)	\$1,060,280
Segment profit (loss)	\$ 173,032	\$ (683)	\$ 172,340	\$ 1,899	\$ 174,248
Segment assets	\$1,528,902	\$ 6,203	\$1,535,114	\$220,366	\$1,755,480
Other items:					
Impairment loss	\$ 3,372	\$ —	\$ 3,372	\$ —	\$ 3,372
Depreciation and amortization	29,710	80	29,799	3,301	33,100
Investments in affiliates accounted for using equity method	4,890	—	4,890	—	4,890
Increase in property, plant and equipment and intangible assets	62,943	18	62,969	1,189	64,158
					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

1. "Adjustments" for "Segment profit (loss)" of ¥214 million (\$1,899 thousand) and ¥181 million for the years ended March 31, 2016 and 2015, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥24,833 million (\$220,366 thousand) and ¥19,564 million as of March 31, 2016 and 2015, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥372 million (\$3,301 thousand) and ¥361 million for the years ended March 31, 2016 and 2015, 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 ¥134 million (\$1,189 thousand) and ¥195 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015.

*(b) Information by Geographical Area*

**(1) Sales**

Information about sales by geographical area is omitted for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015*

Name of customer	Millions of yen	
	Sales amount	Related segments
Alfresa Corporation	<b>¥20,583</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>18,334</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>17,363</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>15,828</b>	Pharmaceutical Business
	Thousands of U.S. dollars	
Name of customer	2016	
	Sales amount	Related segments
Alfresa Corporation	<b>\$182,652</b>	Pharmaceutical Business
SUZUKEN CO., LTD.	<b>162,694</b>	Pharmaceutical Business
MEDIPAL HOLDINGS CORPORATION	<b>154,078</b>	Pharmaceutical Business
Toho Pharmaceutical Co., Ltd.	<b>140,456</b>	Pharmaceutical Business

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

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

There is no unamortized balance of goodwill at the years ended March 31, 2016 and 2015.

## 17. Contingent Liabilities

Contingent liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantors of indebtedness of employees	¥1	¥1	\$9

## 18. Amounts per Share

Amounts per share for the years ended March 31, 2016 and 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Basic profit	¥ 184.28	¥ 161.63	\$ 1.64
Cash dividends	58.00	52.00	0.51
Net assets	2,131.67	2,009.45	18.92

Basic profit per share was computed based on the profit attributable to common shareholders of KYORIN Holdings, Inc. and the weighted average number of shares of common stock outstanding during the year. Diluted profit per share is omitted because no potentially dilutive shares were outstanding during the years ended March 31, 2016 and 2015.

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 attributable to common shareholders of KYORIN Holdings, Inc. 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 profit 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 numbers of treasury shares during the fiscal year that were excluded from the calculation of the amount of profit per share were 698,516 and 76,875 for the years ended March 31, 2016 and 2015, respectively.

The numbers of these treasury shares at the end of the fiscal year that were excluded from the calculation of net assets per share were 1,040,100 and 764,100 as of March 31, 2016 and 2015, respectively.

## 19. Subsequent Events

There are no relevant items.



# Independent Auditor's Report



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## Independent Auditor's Report

The Board of Directors  
KYORIN Holdings, Inc.

We have audited the accompanying consolidated financial statements of KYORIN Holdings, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

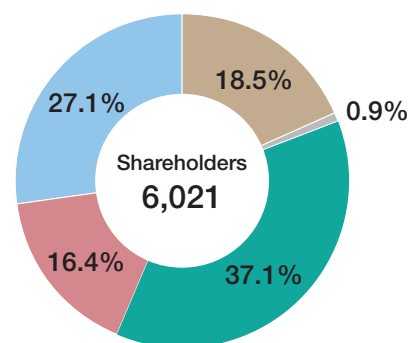
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

  
June 27, 2016

# Corporate Overview/Stock Information (As of March 31, 2016)

<b>Head Office</b>	6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3525-4700 URL: <a href="http://www.kyorin-gr.co.jp/en/">http://www.kyorin-gr.co.jp/en/</a>
<b>Establishment</b>	1958
<b>Common Stock</b>	¥700 million
<b>Outstanding Shares</b>	74,947,628
<b>Shareholders</b>	6,021
<b>Listing</b>	Tokyo Stock Exchange, First Section
<b>Transfer Agent</b>	Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028 Phone: +81-3-3278-8111

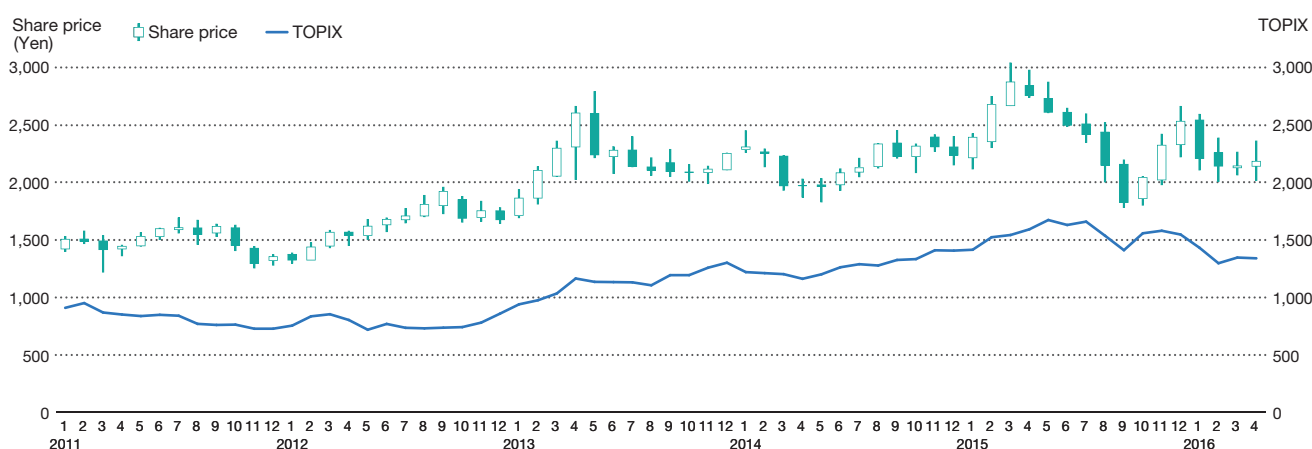
## Major Shareholders



Financial institutions	18.5%
Financial instruments firms	0.9%
Other corporations	37.1%
Foreign corporations	16.4%
Individuals and other	27.1%

Major Shareholders	Percentage of shares held
TEIJIN LIMITED	19.12%
Mykam Co., Ltd.	3.66%
Japan Trustee Services Bank, Ltd. (Trust Account)	3.66%
Minoru Ogihara	2.97%
Banrina Co., Ltd.	2.60%
Archans Co., Ltd.	2.60%
Yutaka Ogihara	2.49%
Mariko Ogihara	2.35%
Hiroko Ogihara	2.33%
Kyorin Group Stock Ownership Association	2.26%

## Change in Share Price



### 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

## Subsidiaries and Affiliate

### 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: 6F Niikura Building, 2-11, Kanda Tsukasamachi 2-chome, Chiyoda-ku, Tokyo 101-0048  
 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: 34-14, Hatagaya 1-chome, Shibuya-ku, Tokyo 151-0072  
 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 Affiliate

#### Nippon Rika Co., Ltd.

Capital: ¥411 million  
 Percentage of ownership: 29.9%  
 Head office: 2-2, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo 103-0023  
 Operations: Production and sales of pharmaceuticals, reagents, intermediates, and other products

## Corporate 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

## 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.





**KYORIN Holdings, Inc.**

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