



2017

ANNUAL REPORT ▶ Year ended March 31, 2017



Corporate Philosophy of the Kyorin Group



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

Long-Term Vision

HOPE 100

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.

Corporate Objectives

Five HOPEs



- Be a company employees can be proud of, have trust in, and make united efforts for
- Be a company that contributes to people's health through the Consumer Healthcare Business
- Be a company that promotes business expansion overseas
- Be a company that is well-regarded for its products and services and practices excellent *Monozukuri*
- Be a company with a positive brand image
- Be a company that works to foster positive relationships with society
- Be a company that acts with the social good in mind
- Be a company that maintains positive business results and excellent financial standing

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Editorial Policy

Annual Report 2017 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 Readers

Shareholders, investors and other stakeholders

Period Covered by Report

Fiscal 2016 (April 1, 2016 to March 31, 2017); some information also relates to fiscal 2017 activities.

To Our Stakeholders

To realize our corporate philosophy, “to cherish life and benefit society by contributing to better health,” the Kyorin Group formulated HOPE100 as a long-term vision for 2023, which marks the 100th anniversary of the founding of KYORIN Pharmaceutical Co., Ltd., our core subsidiary. Under the long-term vision HOPE100, we will comprehensively integrate our ethical drugs business and healthcare business and work to disperse business risks, while focusing on increasing corporate value over the medium to long term, with the aim of achieving healthy, continuous growth as “a company that supports sound and healthy lifestyles.”



Masahiro Yamashita
Representative Director, Chairman



Minoru Hogawa
Representative Director, President and
Chief Executive Officer

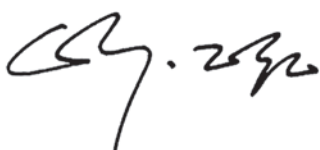
We will pursue “transformation” with new ideas that go beyond our previous growth track, with the aim of achieving our long-term vision HOPE100 and medium-term business plan HOPE100–Stage 2–.

As the external environment surrounding the ethical drugs business becomes increasingly challenging, the Kyorin Group faces major changes to its operating environment, including the expiration of a patent on a key product. This uncertain and unpredictable situation means that it will be difficult to address issues using only our existing mindset. We are therefore working to create and implement new approaches that go beyond our previous growth track, for dynamic innovation in the way we carry out our business.

In fiscal 2016, the Kyorin Group formulated and began operating its medium-term business plan HOPE100–Stage 2–, covering fiscal 2016 through fiscal 2019, to further strengthen its operating base and achieve continuous growth. We have established “making reforms (changes and innovations) and achieving continuous growth in an effort to realize our long-term vision” as our statement for Stage 2, and all Group employees are working as one, making every effort to achieve the Plan’s targets through the pursuit of our business strategies (four priority strategies and two development strategies) and organization strategies.

We ask for the continued understanding and support of all of our stakeholders.

July 2017



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

• Clearly stated the corporate philosophy and the vision (1995)

1923 » 1950

1951 » 1980

1981 » 2000



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**
Kyorin Chemical Laboratory 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 broad-spectrum 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 broad-spectrum 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.).

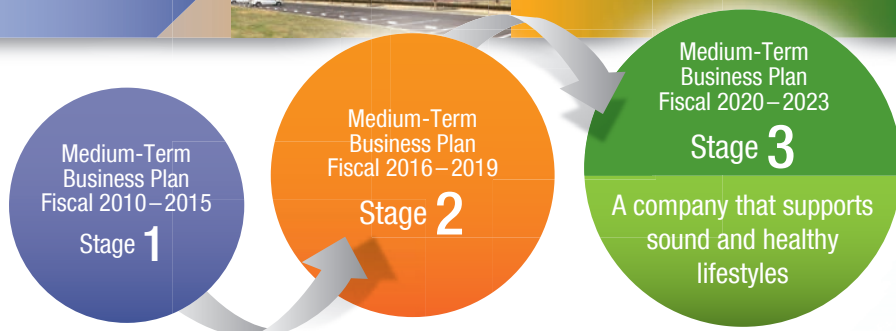
- **1992**
KYORIN Pharmaceutical Co., Ltd. and Kyorin Yakuhin Co., Ltd. were merged, and the new KYORIN Pharmaceutical Co., Ltd. was founded.
- **1995**
The Noshiro Plant was started.
- **1996**
A joint venture, Nisshin KYORIN Pharmaceutical Co., Ltd., was established with Kyorin's capital participation.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

KYORIN Pharmaceutical Co., Ltd., the core company within the Kyorin Group, was established 94 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 diseases and the maintenance and promotion of good health.

Corporate Vision for 2023

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

2001 » 2010 —————>> 2017 —————>> 2023



- **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.

- **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 Co., Ltd. merged with Nisshin Kyorin Pharmaceutical Co., Ltd.
- **2010**
KYORIN Co., Ltd. changed its name to KYORIN Holdings, Inc.

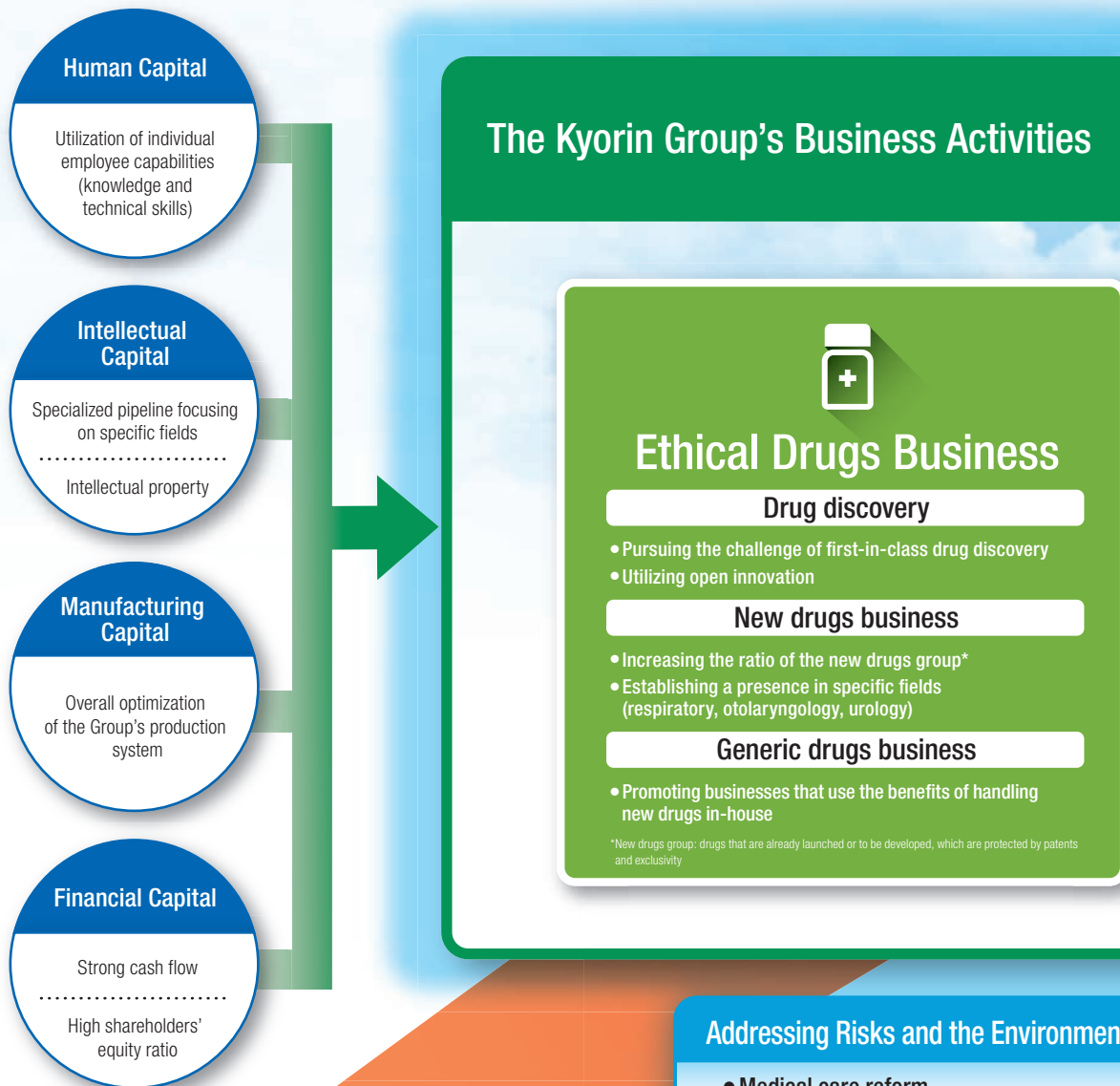
- **2011**
Uritos Orally Disintegrating (OD) Tablets 0.1 mg, an overactive bladder drug, was launched.
- **2012**
RUBYSTA, a multi-purpose disinfectant cleaner, was launched.
Transfer of business related to a topical antifungal prescription drug Pekiron cream 0.5% to Galderma S.A. (Switzerland).
- **2013**
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**
Ekliira 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.
- **2016**
Montelukast Tablets "KM" was launched.
Desalex 5 mg Tablets, an antiallergic agent, was launched.

- **2012**
The Shiga Plant of MSD K.K. was acquired (conversion into subsidiary) and KYORIN Pharmaceutical Facilities Co., Ltd. was established.
- **2013**
The Head Office was moved to Ochanomizu sola city in Kanda Surugadai.
- **2015**
KYORIN Pharmaceutical Co., Ltd.'s WATARASE Research Center was established.
- **2017**
All shares of Dr. Program Co., Ltd. were transferred to Taisho Pharmaceutical Co., Ltd.
KYORIN Rimedio Co., Ltd.'s Takaoka Drug Discovery Laboratory was established.

The Kyorin Group's Vision and Value Creation Process

As a pharmaceutical manufacturer, the Kyorin Group sees its mission as continuously discovering and providing innovative, new drugs that can contribute to the health of people around the world, and we believe this to be the source of our value creation.

While maintaining ethical drugs as our core business, we are developing a business that comprehensively combines the healthcare business from the standpoint of responding to various health needs and supplementing the growth of the ethical drugs business, using a variety of capital, and addressing environmental, social, and governance (ESG) issues to increase our corporate value.



Human Capital

- Utilization of individual employee capabilities (knowledge and technical skills)

Intellectual Capital

- Specialized pipeline focusing on specific fields
- Intellectual property

Manufacturing Capital

- Overall optimization of the Group's production system

Financial Capital

- Strong cash flow
- High shareholders' equity ratio

The Kyorin Group's Business Activities

Ethical Drugs Business

- Drug discovery**
 - Pursuing the challenge of first-in-class drug discovery
 - Utilizing open innovation
- New drugs business**
 - Increasing the ratio of the new drugs group*
 - Establishing a presence in specific fields (respiratory, otolaryngology, urology)
- Generic drugs business**
 - Promoting businesses that use the benefits of handling new drugs in-house

*New drugs group: drugs that are already launched or to be developed, which are protected by patents and exclusivity

Addressing Risks and the Environment

- Medical care reform
- Addressing diseases with low degree of medical satisfaction
- Changes in medical needs, sense of values





Corporate Vision for 2023
Long-Term Vision

HOPE100

A Company That Supports
Healthy Lifestyles



Aiming to integrate our ethical drugs business and healthcare business and to disperse business risks with a focus on enhancing corporate value over the medium to long term, for healthy, continuous growth.



Healthcare Business

Environmental hygiene

- Working to grow into a core business

Over-the-counter drugs and others

- Contributing to diversified needs such as self-medication



Value Provided to Stakeholders

- 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

- Competition with other companies
- Changes in economic conditions overseas
- Sustainability as a company



Performance Highlights

Consolidated Financial Highlights

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

Millions of yen

| | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|--|---------|---------|---------|---------|----------|
| Net sales | 107,031 | 111,400 | 113,121 | 119,483 | 115,373 |
| Operating income | 17,948 | 17,607 | 14,737 | 19,636 | 10,413 |
| Profit attributable to shareholders of KYORIN Holdings, Inc. | 12,422 | 12,025 | 12,064 | 13,639 | 7,305 |
| Net cash provided by operating activities | 11,544 | 19,293 | 6,391 | 11,137 | 16,386 |
| Net cash provided by (used in) investing activities | (7,187) | (2,477) | (1,364) | 650 | (13,142) |
| Net cash used in financing activities | (5,132) | (3,704) | (5,233) | (2,245) | (5,721) |
| Free cash flow | 4,357 | 16,816 | 5,027 | 11,787 | 3,244 |
| R&D expenses | 11,059 | 11,359 | 13,514 | 13,019 | 13,569 |
| Capital expenditures | 6,576 | 6,500 | 2,655 | 7,218 | 3,051 |
| Depreciation and amortization | 2,738 | 3,153 | 3,053 | 3,730 | 3,619 |

| | | | | | |
|------------------|---------|---------|---------|---------|---------|
| Total assets | 154,968 | 169,378 | 183,383 | 197,825 | 192,668 |
| Total net assets | 129,099 | 137,821 | 148,600 | 157,049 | 157,837 |

Yen

Amounts per Share

| | | | | | |
|----------------|----------|----------|----------|----------|----------|
| Net assets | 1,727.86 | 1,844.61 | 2,009.45 | 2,131.67 | 2,146.83 |
| Basic profit | 166.25 | 160.95 | 161.63 | 184.28 | 99.45 |
| Cash dividends | 50.00 | 52.00 | 52.00 | 58.00 | 58.00 |

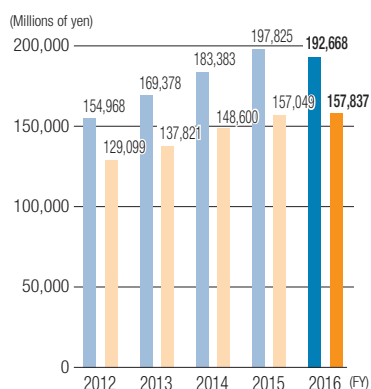
Key Performance Indicators

| | | | | | |
|--|------|------|------|------|------|
| Operating income margin (%) | 16.8 | 15.8 | 13.0 | 16.4 | 9.0 |
| Profit attributable to shareholders of KYORIN Holdings, Inc. / Net sales ratio (%) | 11.6 | 10.8 | 10.7 | 11.4 | 6.3 |
| R&D expenses / Net sales ratio (%) | 10.3 | 10.2 | 11.9 | 10.9 | 11.8 |
| Total shareholders' equity ratio (%) | 83.3 | 81.4 | 81.0 | 79.4 | 81.9 |
| ROE (%) | 10.0 | 9.0 | 8.4 | 8.9 | 4.6 |
| ROA (%) | 8.3 | 7.4 | 6.8 | 7.2 | 3.7 |
| Consolidated payout ratio (%) | 30.1 | 32.3 | 32.2 | 31.8 | 59.3 |

| | | | | | |
|---------------------|-------|-------|-------|-------|-------|
| Number of employees | 2,444 | 2,452 | 2,445 | 2,420 | 2,382 |
|---------------------|-------|-------|-------|-------|-------|

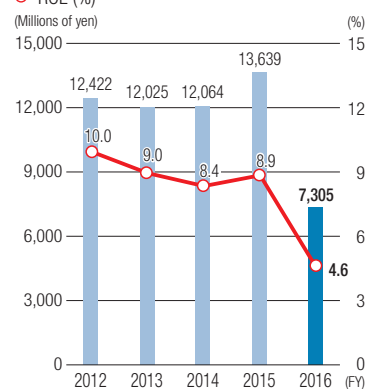
Total assets/Total net assets

■ Total assets
■ Total net assets



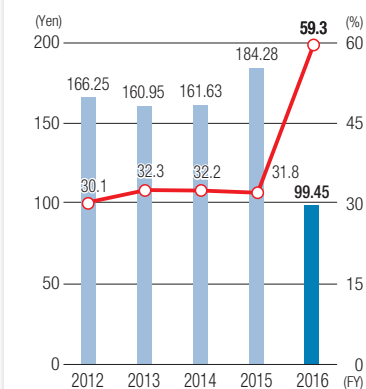
Profit attributable to shareholders of KYORIN Holdings, Inc./ROE

■ Profit attributable to shareholders of KYORIN Holdings, Inc.
○ ROE (%)



Basic profit per share/Consolidated payout ratio

■ Basic profit per share
○ Consolidated payout ratio

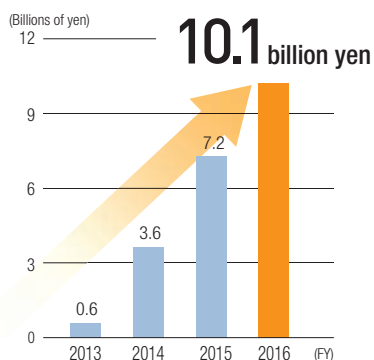


Fiscal 2016 Highlights

Status of New Ethical Drugs

Combination drug for asthma treatment

Sales growth for Flutiform



Release of Desalex, a treatment for allergic diseases

(launched in November 2016)



Development of Pipeline

Application for manufacturing and marketing approval of KRP-AM1977X, a quinolone synthetic antibacterial agent

(April 2017)

KRP-114V, an overactive bladder treatment

(completion of phase III, preparing for application)

Expansion of the Generic Drugs Business

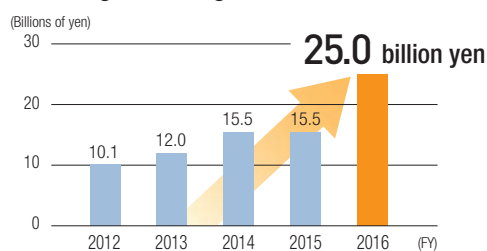
Release of Montelukast Tablets "KM", a treatment for bronchial asthma and allergic rhinitis (September 2016)

(Fiscal 2016 sales of ¥8.2 billion)

Commencement of operations of Takaoka Drug Discovery Laboratory

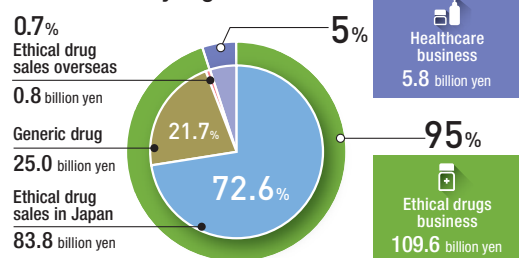
(July 2017)

Sales for generic drugs business



Status by Segment

Sales volume by segment



Sales of major products

| | Ethical drugs business | | Healthcare business | |
|-----------------------------|--------------------------|------------------|---------------------|------------------|
| Ethical drug sales in Japan | Flutiform | 10.1 billion yen | Kipres | 32.7 billion yen |
| | Uritos | 7.5 billion yen | Pentasa | 15.5 billion yen |
| | Desalex | 1.0 billion yen | Mucodyne | 9.9 billion yen |
| | | | Milton | 2.2 billion yen |
| Generic drug | Montelukast Tablets "KM" | 8.2 billion yen | RUBYSTA | 1.0 billion yen |

Interview with the President



Within the drastically changing business environment, we will pursue steady transformation toward the achievement of the medium-term business plan HOPE100–Stage 2–.

Minoru Hogawa

Representative Director, President and Chief Executive Officer



How would you recap fiscal 2016?



We worked toward continuous growth in a drastically changing business environment.

The ethical drug industry in Japan has experienced sluggish market conditions as a result of government policies to promote the use of generic drugs, with a target of having generics account for 80% of the market in terms of quantitative share, combined with the drug price revisions implemented in April 2016. In addition to this market effect, the Kyorin Group's ethical drugs business is facing the expiration of a patent on a key product, creating a situation requiring an unprecedented response. The market for the healthcare business remains uncertain, as consumer spending remains flat despite a gradual pickup in the economy.

Against this backdrop, the Kyorin Group has been striving to achieve its long-term vision HOPE100 under the medium-term business plan HOPE100–Stage 2–, covering the four years from fiscal 2016, by developing a business model that enables continuous growth. In the ethical drugs business, this has meant working to overcome the drop in new drug sales from the expiration of a patent on a key product. In the healthcare business, which includes skincare, environmental hygiene, and over-the-counter drugs, we worked to develop core businesses by selecting and concentrating on these businesses.

Q | Please give us an overview of business results for fiscal 2016.

A Sales and profit both declined, mainly because of drug price revisions and a decline in prescription volumes for long listed drugs.

In fiscal 2016, domestic sales in the ethical drugs business rose from the previous year on increased sales of generic drugs, from the release of Montelukast AG, the authorized generic version of Kipres, despite a decline in domestic sales of new drugs from the effect of drug price revisions and a decline in prescription volumes for long listed drugs. On the other hand, overseas sales of ethical drugs declined in the absence of an upfront payment recorded in the previous year related to the out-licensing of the FPR2 agonist program.

In the healthcare business, sales of skincare products declined from the previous year, but sales of over-the-counter drugs and environmental hygiene and other products rose, led by sales growth for its main products RUBYSTA (multi-purpose disinfectant cleaner) and Milton (baby bottle disinfectant) combined with the releases of new over-the-counter drugs and other products.

As a result, consolidated net sales for fiscal 2016 declined 3.4% from the previous year, to ¥115,373 million.

Operating income for fiscal 2016 declined 47.0%, to ¥10,413 million, mainly from the effect of drug price revisions and the absence of an upfront payment recorded in the previous year from an out-licensing agreement. Profit attributable to shareholders of KYORIN Holdings, Inc., decreased 46.4%, to ¥7,305 million, which included approximately ¥1,000 million in extraordinary loss related to the settlement of a lawsuit involving out-licensed synthetic antibacterial Gatifloxacin-eyedrops.



Q | How was the progress of R&D during fiscal 2016?

A Our R&D pipeline showed steady progress.

Our development pipeline in Japan showed major advances with the conclusion of Phase III clinical trials of the quinolone synthetic antibacterial agent KRP-AM1977X and the overactive bladder treatment KRP-114V. In addition, KRP-116D (general name: dimethyl sulfoxide), which we decided in fiscal 2013 to develop as an unapproved drug with high medical needs, entered Phase III clinical trials as a treatment for interstitial cystitis in March 2017.

In terms of in-house drug discovery, operations at the WATARASE Research Center, which opened in July 2015, are running smoothly, with drug discovery research focused on specific disease categories based on basic research fields (inflammation, immunization, and infectious diseases). Going forward, we will focus on these specific areas, working with other drug manufacturers and academia for efficient and vigorous research and development activities.

Q | How is the progress of the medium-term business plan HOPE100–Stage 2– ?

A We are moving forward with our four priority strategies and two development strategies. Based on our progress in fiscal 2016, we will seek to achieve our targets in fiscal 2017.

Under the medium-term business plan HOPE100–Stage 2–, we are pursuing our four priority strategies of “enhancing drug discovery capabilities,” “increasing the ratio of the new drugs group,” “promoting the generic drugs business by making the most of its characteristics,” and “enhancing cost reductions,” and our two development strategies of “healthcare business” and “overseas expansion.”

Enhancing our drug discovery capabilities is the most important issue facing the Kyorin Group, and during fiscal 2016 we strove to combine open innovation with Japanese

and overseas pharmaceutical manufacturers, academia, and venture businesses with our in-house drug discovery at the WATARASE Research Center in Japan and ActivX Biosciences Inc. in the United States, to revitalize our existing drug discovery platforms and make use of new technologies including peptides and gene therapy. Looking ahead, we will steadily move forward to create and manufacture original new drugs, with a determination to become a first-in-class drug discovery company.

In terms of increasing the ratio of the new drugs group, our goal is to launch four new drugs during the period covered by Stage 2, and to promote these new products along with Flutiform, a combination drug for asthma treatment that has already been launched, to the greatest extent possible. During fiscal 2016, we launched Desalex, a treatment for allergic diseases, in November 2016. Going forward, we will work for the swift popularization of this product while also putting maximum effort into making applications, receiving approvals, and launching the quinolone synthetic antibacterial agent KRP-AM1977X and the overactive bladder treatment KRP-114V.

To promote the generic drugs business using the characteristics of generic drugs, we released Montelukast Tablets "KM". We have begun working as a Group in the area of authorized generics, and will pursue the development of our next authorized generics.

For enhanced cost reductions, we have decided to establish a new manufacturing subsidiary and consolidate the Group's manufacturing functions at this subsidiary, to integrate the Group's manufacturing structure. By working to reduce differences in plant capacity utilization and use assets efficiently, we will strive to build a Group production infrastructure that remains competitive through providing high-quality products at stable, low costs.

In terms of our development strategies, we are working to further expand the environmental hygiene business and develop it into a core business.

Q | What initiatives are you pursuing in fiscal 2017?

A We are addressing new issues that we have identified in light of recent changes in the business environment and our activities in fiscal 2016, while also investing to build a foundation for growth.

We are forecasting a decline in net sales in fiscal 2017 from factors including the full-year impact of the expiration of the patent for the adult-use formulation of Kipres and the release of a generic version of its child-use formulation. In terms of profit, we are forecasting growth, mainly from an increase in revenue related to overseas out-licensing and a reduction in selling, general and administrative (SG&A) expenses. Our forecasts are for a 1.7% decline in net sales, to ¥113.4 billion, with a 16.2% increase in operating income, to ¥12.1 billion.

Against this backdrop, the Kyorin Group will instill further awareness of profitability while at the same time investing to build a foundation for future growth, and balancing these two components as we implement measures from a medium- to long-term perspective to achieve continuous growth.

Specifically, we will strive to reduce our cost of sales ratio and make efficient use of SG&A expenses to raise near-term profitability, while also working to create markets for new drugs such as KRP-AM1977X/KRP-AM1977Y and KRP-114V to build a foundation for growth. Under the business plan's



Stage 3 (covering fiscal 2020 to fiscal 2023) and beyond, we will work toward continuous growth by placing a priority on acquiring licensed products in the ethical drugs business to expand and reinforce our innovative development pipeline.

Q | Please tell us about your environmental, social and governance (ESG) activities.

A We are proactively addressing ESG issues to create corporate value for the Kyorin Group over the medium to long term, with the aim of achieving continuous growth.

We recognize that contributing to all stakeholders—patients, medical professionals, shareholders and investors, employees, business partners, and local communities—is essential to the creation of corporate value for the Kyorin Group over the medium to long term and to achieving continuous growth. In light of heightened interest in environmental and social issues in recent years, we are working on ESG issues at the Group level.

Under the long-term vision HOPE100, in addition to working proactively to manufacture the innovative new drugs that are the source of the Kyorin Group's value creation on an ongoing basis, we are also emphasizing compliance and risk management, human resources management, environmental management, and social contribution activities as important themes in our role as a corporate citizen. In the area of human resources management in particular, we place a high value on employees, based on the idea that energizing employees and the organization is the driving force behind corporate growth. We are reorganizing our structures for hiring, assigning, training, evaluating, transferring, compensating, and providing social welfare, while strengthening human resources development with the aim of becoming the leading company for career fulfillment among our employees.

In terms of corporate governance, we are concentrating on expediting decision making, strengthening appropriate management oversight functions, and ensuring transparency in corporate activities firmly rooted in our corporate ethics, to create a management environment that will be trusted by the general public. We have established a voluntary Committee on Remuneration and Nominations, and actively engage our outside directors. Through these initiatives, we aim to continue to enhance corporate value.



Q | Do you have any message in closing for shareholders?

A We aim to achieve continuous growth by creating innovative new drugs on an ongoing basis. I ask for your continued support.

The Kyorin Group's basic policy is to maintain a healthy financial foundation while investing for growth and providing a stable return to shareholders. In fiscal 2016, we maintained the full-year dividend at ¥58 per share despite a decline in profit. In light of our policy of maintaining stable dividends, we plan to pay a full-year dividend of ¥58 per share again in fiscal 2017.

We will also continue to work toward the achievement of the long-term vision HOPE100 and the medium-term business plan HOPE100 –Stage 2–, with the aim of achieving continuous growth. I ask for the continued support of all stakeholders going forward.

Overview of Medium-Term Business Plan HOPE100–Stage 2–

Positioning of Medium-Term Business Plan HOPE100–Stage 2–

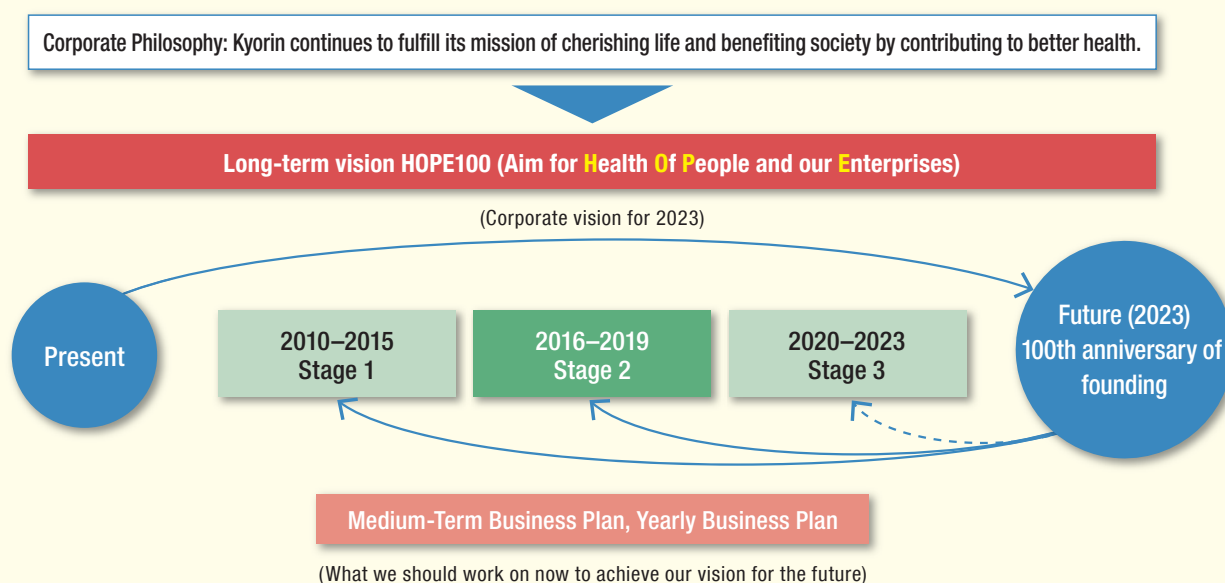
To realize our corporate philosophy, “Kyorin continues to fulfill its mission of cherishing life and benefiting society by contributing to better health,” in 2010 the Kyorin Group formulated HOPE100 (Aim for Health Of People and our Enterprises) as a long-term vision for 2023, which is the 100th anniversary of the founding of our core subsidiary KYORIN Pharmaceutical Co., Ltd.

The period covered by HOPE100 is broken down into three stages (Stage 1: FY2010–2015; Stage 2: FY2016–2019; and Stage 3: FY2020–2023), and with a focus on enhancing corporate value over the medium to long term, we will work to comprehensively integrate our ethical drugs business and healthcare business and to disperse business risks, with the aim of achieving healthy, continuous growth as “a company that supports sound and healthy lifestyles.”

We are currently operating under HOPE100–Stage 2–, which began in fiscal 2016 as the second step toward the realization of this long-term vision.

Background behind the Formulation of HOPE100–Stage 2–

Drug price revisions and other developments are creating an increasingly challenging business environment for the ethical drugs business. In addition, the Group is faced with the issue of major changes to its operating environment with the expiration of a patent on a key product. Given this environment, it will be difficult to address issues using only our existing mindset. To create and implement new approaches that go beyond our previous growth track and add dynamism to the way we have previously carried out our businesses, we formulated the medium-term business plan for the four-year period beginning in fiscal 2016 based on making reforms (changes and innovations).



Structure of Medium-Term Business Plan HOPE100–Stage 2–

We have established “making reforms (changes and innovations) and achieving continuous growth in an effort to realize our long-term vision” as our statement for Stage 2, and are pursuing the three areas of **Strategy** (business strategies: four priority strategies and two development strategies), **Organization** (organizational strategies), and **Performance** (performance targets).





Strategy

| Priority strategies | Priority items |
|---|---|
| <p>1 Enhancing drug discovery capabilities: Initiatives for first-in-class new drug discovery</p> | <ul style="list-style-type: none"> ■ Build a structure that continuously creates innovative new drugs <ul style="list-style-type: none"> • Identify novel drug discovery targets in franchise customer areas. • Create first-in-class new drugs utilizing existing drug discovery platforms based on low molecular weight (kinase and receptors) and new technologies (peptides, gene therapy, etc.). • Aim for early collaboration with global partners to accelerate the global expansion and development of original new drugs. |
| <p>2 Increasing the ratio of new drugs group: Significantly increase the ratio of new drugs group by promoting the group to the greatest extent possible</p> | <ul style="list-style-type: none"> ■ Increase the ratio of new drugs group to offset sales declines <ul style="list-style-type: none"> • Aim to launch four new drugs (Desloratadine*, KRP-AM1977X/KRP-AM1977Y, and KRP-114V) and promote these new products along with Flutiform to the greatest extent possible. ■ Realign the marketing structure <ul style="list-style-type: none"> • Restructure along the lines of area management based on franchise customer strategy. <p>*Launched as Desalex in November 2016</p> |
| <p>3 Promoting generic drugs business by making the most of its characteristics</p> | <ul style="list-style-type: none"> ■ Proactively address authorized generics (AG) <ul style="list-style-type: none"> • Aim to acquire a large share within the generics market for Montelukast Tablets "KM". • Consider new AG acquisitions to follow Montelukast Tablets "KM". ■ Strengthen business promotion capabilities of KYORIN Rimedio Co., Ltd. <ul style="list-style-type: none"> • Strengthen sales capabilities, pharmaceutical development capabilities, and production system. |
| <p>4 Enhancing cost reductions: Change of cost structure by ensuring optimization within the Group</p> | <ul style="list-style-type: none"> ■ Comprehensively optimize production capabilities through cooperation within the Group <ul style="list-style-type: none"> • Manufacture at appropriate locations without regard to distinctions between new drugs group, original drugs group, and generic drugs group. • Reduce differences in capacity utilization across plants and use assets efficiently. |
| Development strategies | Priority items |
| <p>Overseas expansion</p> | <ul style="list-style-type: none"> • Partner to promote the global expansion of innovative new drugs created by Kyorin (with early inroads into the U.S. and Europe) and capture overseas sales. • Work in collaboration with other companies to lay the foundations for future direct expansion (ethical drugs business, healthcare business), with a focus on Asia. |
| <p>Enhancing healthcare business</p> | <ul style="list-style-type: none"> • Expand the environmental hygiene business and strengthen cooperation with existing businesses to create a core business. |



Organization

Aiming to be the leading company for career fulfillment for employees

■ Establishing and operating a system for managing human resources

- Build and operate a human resources management system that is based on creating mutually beneficial cooperation and symbiotic long-term relationships between the Company and its employees.

■ Strengthening human resources development

- Work to strengthen management capabilities.



Performance

Numerical targets

Final targets for Stage 2

- Consolidated net sales: average annual growth rate of 3% or more
- Consolidated operating income margin: 15% or more

Capital policy

- Invest for growth and provide stable returns to shareholders while maintaining a healthy financial base
- Returns to shareholders: stable dividends
 - Cash dividends per share
 - FY2016 full-year dividend: ¥58 (actual)
 - FY2017 full-year dividend: ¥58 (forecast)



Progress of Medium-Term Business Plan HOPE100–Stage 2–

The medium-term business plan HOPE100–Stage 2– was formulated to overcome changes in the external environment and operating issues for continuous growth. Under this plan, we are strengthening our drug discovery capabilities and raising the portion of the new drugs group, as we pursue the following four priority strategies and two development strategies to achieve our targets of 3% or more for the average annual growth rate of consolidated net sales and 15% or more for the consolidated operating income margin.

1 Enhancing drug discovery capabilities: Initiatives for first-in-class new drug discovery

Many unmet medical needs still exist. We believe that continuing to create innovative new drugs that contribute to people's health around the world is the mission of the Kyorin Group. At the WATARASE Research Center, our base for new drug creation, we are promoting stronger cooperation and greater efficiency among people, organizations, and systems during the ongoing course of drug discovery, as we work to create original new drugs focusing on first-in-class drug discovery in our designated areas of respiratory, otolaryngology, and urology.

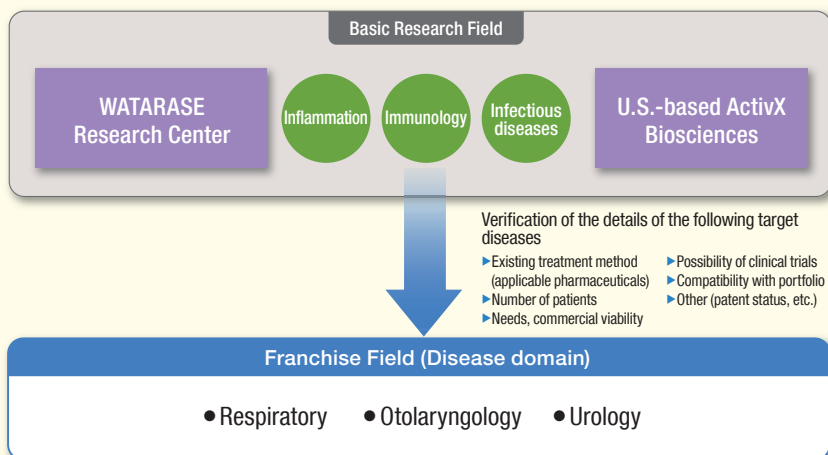
Enhancing Basic Research and Theme Selection

KYORIN Pharmaceutical Co., Ltd. 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.

We are using fundamental research in our core technologies of inflammation, immunology, and infectious diseases as the

basis for identifying novel drug discovery targets, while further strengthening our technologies, expertise, human resources, and networks cultivated to date. Based on our portfolio strategy, we are verifying medical needs, commercial viability, and the possibility of clinical trials as we select themes in priority areas.

Enhancing Basic Research and Theme Selection



KYORIN Pharmaceutical's WATARASE Research Center

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 diseases. We aim to achieve this through the target-based approach*1 and the phenotype-based approach*2.

*1: Target-based approach: Search for new drug discovery targets from disease-related proteins that are new or for which their functions remain unknown. Following this, an assay is built and hit compounds are acquired from HTS.

*2: Phenotype-based approach: An original assay of the disease's model cells is built and hit compounds are acquired from HTS. Following this, lead optimization research is carried out in parallel with the new drug discovery target search.

System for Creating Novel New Drug Discovery Targets

We discover original new themes by strengthening our feasibility research. We have identified novel drug discovery targets using receptor technology at KYORIN Pharmaceutical's WATARASE Research Center and KiNativ technology at U.S.-based ActivX Biosciences Inc. and are engaged in drug discovery using low molecular weight compounds in these areas. In terms of new technologies, in addition to in-house efforts to accelerate drug discovery and increase the likelihood of success, we are aggressively pursuing research via open intervention (with academia, venture companies, and domestic and overseas

pharmaceutical companies) using technologies other than low molecular technology, including peptides, nucleic acid medicines, and gene therapy. While pursuing research and development in highly original research themes, we are also developing out-licensing with overseas partners to accelerate research and development. The Kyorin Group is using its comprehensive strength in the continuous pursuit of drug discovery research with the determination of being a "drug discovery venture enterprise."

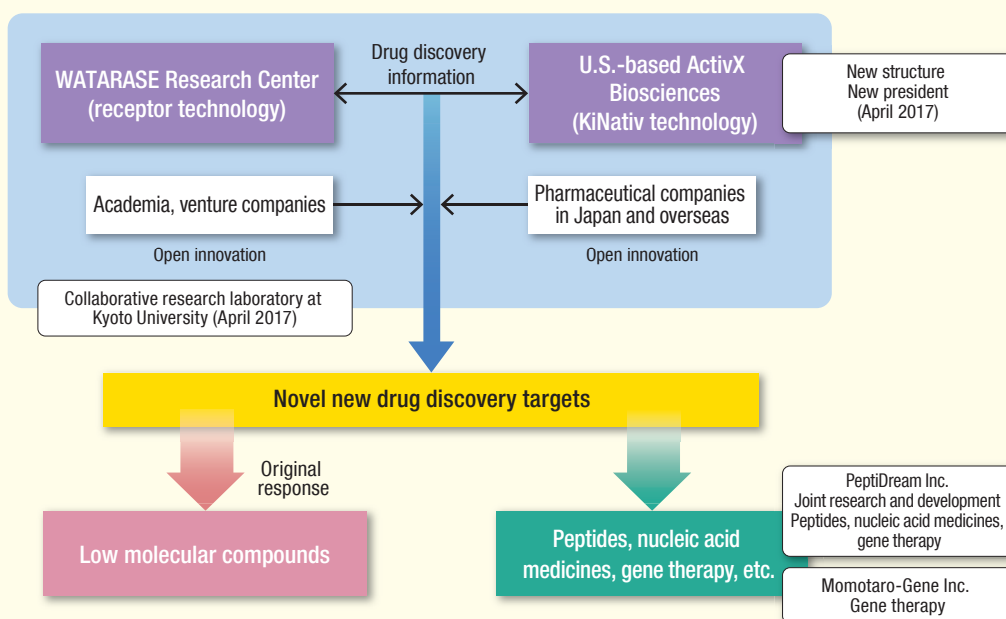
Strengthening cooperation with KYORIN Pharmaceutical's WATARASE Research Center and ActivX Biosciences

To establish a structure for creating first-in-class drug discovery, Hugh Rosen, an acclaimed researcher in the field of chemical biology, has been named the new president of ActivX Biosciences. We are further strengthening our cooperation with KYORIN Pharmaceutical's WATARASE Research Center, which has the low molecular drug discovery technology, and with ActivX Biosciences, which has the KiNativ platform (exhaustive analysis technology for kinase/protease), and further evolving ActivX Biosciences' technologies to make maximum use of their potential in our drug discovery activities. In this way, we are creating novel drug discovery targets and working to discover compound drugs from those targets.

Pursuing open innovation with Kyoto University

With the aim of discovering innovative therapies in Japan, KYORIN Pharmaceutical has established a collaborative research laboratory, Department of Drug Discovery for Lung Diseases at the Graduate School of Medicine of Kyoto University. Fusing academia's capabilities in pathological research and basic research with KYORIN Pharmaceutical's proactive first-in-class drug discovery, research is being conducted to identify genetic factors related to respiratory illness and verify possibilities for drug creation targets, to identify new targets for drug creation. In this course, along with researching the pathological causes of fibrosis processes of organs such as pulmonary fibrosis, basic technology using iPS cells is being applied to advance drug discovery evaluation.

System for Creating Novel New Drug Discovery Targets



Priority Strategies **2** Increasing the ratio of new drugs group: Significantly increase the ratio of new drugs group by promoting the group to the greatest extent possible

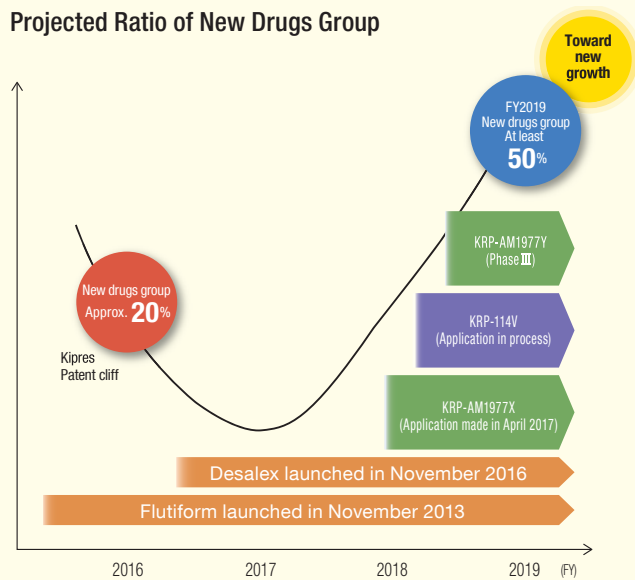
We believe that strengthening our domestic new drugs business is essential for continuous growth in the current business environment. The Kyorin Group recognizes that the new drugs group is more important than ever, and we are working to expand the development pipeline, accelerate new drug development, and promote the use of new drugs to the greatest extent possible. To achieve our target of having new drugs account for at least 50% of the ethical drugs business in the final year under Stage 2 (fiscal 2019), we are putting maximum emphasis on the new drugs group.

Four Products Targeted for Launch during Stage 2 and Maximizing the Spread of Flutiform

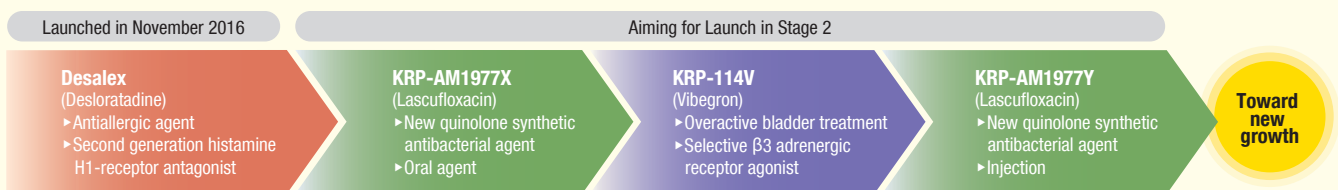
To offset the decline in the ratio of new drugs from the expiration of the patent on Kipres, the important theme is the secure launch and popularization of three products: the quinolone synthetic antibacterial agents KRP-AM1977X and KRP-AM1977Y, and the overactive bladder treatment KRP-114V. We will also promote Flutiform, a combination drug for asthma treatment, and Desalex, an antiallergic agent, which have already been launched, to the greatest extent possible for rapid market penetration, to reach our target of having sales from the new drugs group account for at least 50% of sales for the ethical drugs business in fiscal 2019, the final year under Stage 2.

In terms of progress in fiscal 2016, Desalex was launched in November 2016, and KRP-AM1977X and KRP-114V completed Phase III clinical trials. The application for manufacture and sales approval of KRP-AM1977X was submitted to the Ministry of Health, Labour and Welfare in April 2017. Sales of Flutiform, which had already been launched, showed significant growth, with a 39% increase over the previous year, to ¥10.1 billion.

Projected Ratio of New Drugs Group



Aiming for the Launch of Four Products in Stage 2



Desalex

- Shows high affinity for histamine H1 receptors and demonstrates certain effect
- Long half-life means a single daily dose suppresses symptoms for a long time
- Being non-drowsy and unaffected by food fits patients' lifestyles

Antihistamine market
Approx. ¥180.0 billion

Lascufloxacin

Superior clinical efficacy of one 75 mg dose per day has been confirmed (community-acquired infection for respiratory and otolaryngology).

- Shows strong antimicrobial activity against pathogenic bacteria for respiratory and otolaryngological infections and against beta-lactam and macrolide antimicrobial resistant strains.
- Favorable penetration for lung tissue, more than 10 times that of blood plasma ratio

Expectations for high level of safety

- Lower likelihood of concerns associated with the same strain of antibacterial agent, including abnormal blood sugar levels, photosensitivity, arthropathy, and digestive symptoms.

Antibacterial agent market
Oral agent
Approx. ¥190.0 billion

Injection market
Approx. ¥130.0 billion

Vibegron

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

Overactive bladder market
Approx. ¥80.0 billion

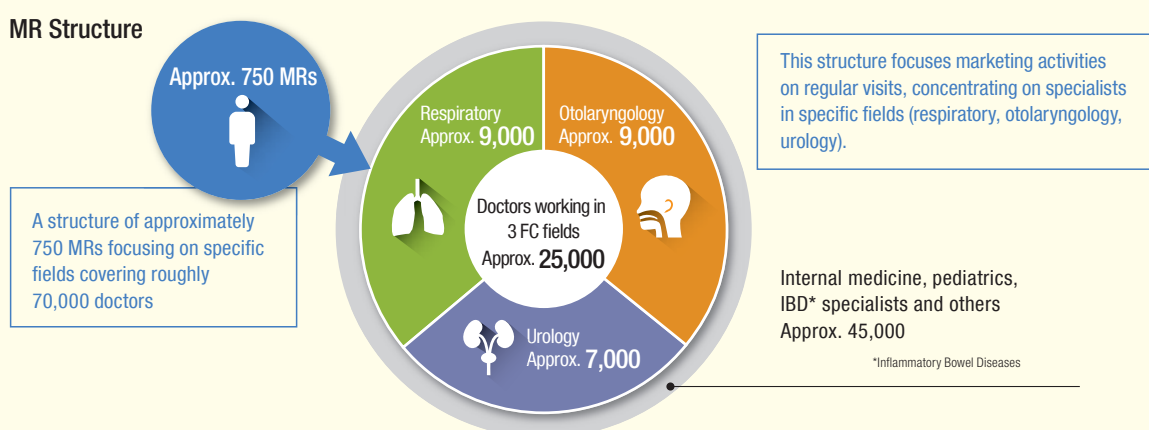
Establishing a Presence in Specific Fields

KYORIN Pharmaceutical Co., Ltd., which handles new drugs, has approximately 750 medical representatives (MRs), who regularly visit doctors, focusing on specialists in our specific fields (respiratory, otolaryngology, urology) to build strong relationships of trust with these physicians with the aim of establishing a presence for KYORIN Pharmaceutical in these fields.

The marketing structure is organized around a franchise customer (FC) strategy*, and by promoting area management that conforms to the circumstances of each area, we are working on steadily spreading drugs through providing, collecting, and transmitting information regarding the appropriate use of pharmaceutical products by identifying the needs of various medical professionals as well as for specific areas. We are also building market platforms by area to ensure the early recognition of new drugs scheduled for launch in those markets. The marketing organization has introduced the “team” as the smallest management

unit. With groups of several MRs covering a designated area, the team works as a unit to develop the area in an organized manner. Specifically, 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. By fully understanding physicians’ methods of treatment, MRs aim to offer solutions that meet a variety of needs, gain the trust and appreciation of patients and medical professionals, and be recognized as being significant members of society.

*Franchise customer strategy: A strategy that emphasizes marketing activities and provision of information to physicians and medical institutions in specific fields, focusing on respiratory, otolaryngology, and urology specialists.



Enhance the Product Portfolio to Realize Sustainable Growth

The Kyorin Group is working to enhance its product portfolio to achieve sustainable growth. We are working to ensure that the application process goes smoothly and create a strategy that maximizes the product value of our future growth drivers: the quinolone synthetic antibacterial agents KRP-AM1977X and KRP-AM1977Y, and the overactive bladder treatment KRP-114V.

We will also consider licensing new products through life cycle management (LCM) and alliances, and bolster the development pipeline, with the aim of building a product portfolio (released products, products in development, in-licensed products, out-licensed products, LCM) linked to specific fields (respiratory, otolaryngology, urology).

Main Products and Development Pipeline in FC Fields

| | Main Products | Development Pipeline |
|----------------|---|---|
| Respiratory | Flutiform Eklira Genuair Kipres Mucodyne | KRP-AM1977X KRP-AM1977Y Ad-SGE-REIC |
| Otolaryngology | Desalex Kipres Mucodyne | KRP-AM1977X KRP-AM1977Y KRP-209 |
| Urology | Uritos | KRP-114V KRP-116D |

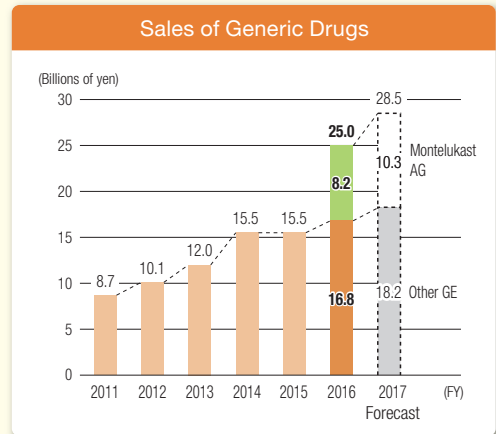


Priority Strategies 3 Promoting generic drugs business by making the most of its characteristics

We view the coming age of generic drugs accounting for 80% of the pharmaceutical market by share as an opportunity for the Kyorin Group to demonstrate its strength in being able to provide a stable supply of high-quality generic drugs. The Group will utilize its expertise gained through the development of new drugs and strive to strengthen the generic drugs business focused on KYORIN Rimedio Co., Ltd. and capitalize on the benefit of integrated in-house development, manufacturing, and sales, to flexibly develop its generic drugs business.

Initiatives for Authorized Generics (AG)

The Kyorin Group began handling AGs for the first time with the launch in September 2016 of Montelukast Tablets “KM”, the authorized generic version of Kipres, a treatment for bronchial asthma and allergic rhinitis. With the Group handling both Kipres and Montelukast Tablets “KM”, we will work to meet the needs of medical professionals and patients, as well as social demand. We will aggressively consider developing other generics to follow Montelukast Tablets “KM” as the source of growth for the generic drugs business, with the aim of acquiring a large share of the generics market.



Commencement of Operations at the New Takaoka Drug Discovery Laboratory

To promote further increases in use of generics, KYORIN Rimedio has built the Takaoka Drug Discovery Laboratory in Takaoka City, Toyama Prefecture, as a new research facility to strengthen and promote the generic drugs business, and the facility commenced operations in July 2017. The laboratory has multiple lines for investigational new drug manufacturing, making it possible to research and develop a greater number of solid formulations and solutions and thereby develop higher-quality drugs with greater speed. The laboratory is created through an ingenious design with a compact layout intended to prevent crossover contamination in researchers' lines of flow, while at the same time ensuring adequate space to facilitate communication among researchers. With the construction of this laboratory, we intend to increase the number of products developed in-house and add even more attractive and characteristic features to these items, while also moving forward to provide generic drugs that consider peace of mind by maintaining high quality, delivering stable supplies, and providing appropriate information.



Overview of Takaoka Drug Discovery Laboratory

Address: 11 Takaoka Office Park, Takaoka City, Toyama
 Building: Building site area 1,809 m², Total floor space 3,510 m², S-structure and earthquake-resistant structure, three stories above ground
 Construction start: July 2016
 Construction completion: June 2017
 Operations start: July 2017
 Construction cost: Approximately ¥2.0 billion

Manufacturing Methods for Generic Drugs

KYORIN Rimedio strives to provide generic drugs that consider peace of mind and a sense of satisfaction by constantly taking into account the perspectives of both medical professionals and patients. Specifically, the company is introducing proprietary manufacturing and packaging processes to prevent errors by dispensing pharmacists and erroneous ingestion by patients, and to promote adherence to prescribed dosages.

Examples of Manufacturing and Packaging Methods

| | |
|-----------------|--|
| PTP sheets | Product name is displayed in large letters in the center, and the ingredients, content, and effects are printed on each tablet. |
| Eyedrop bottles | Product name is printed on the cap's shrink wrap. |
| Tablets | To prevent confusion, the name of active ingredients and dosages are printed on the tablet (to prevent erroneous dispensing and ingestion). Tablets are made smaller for ease of swallowing. |

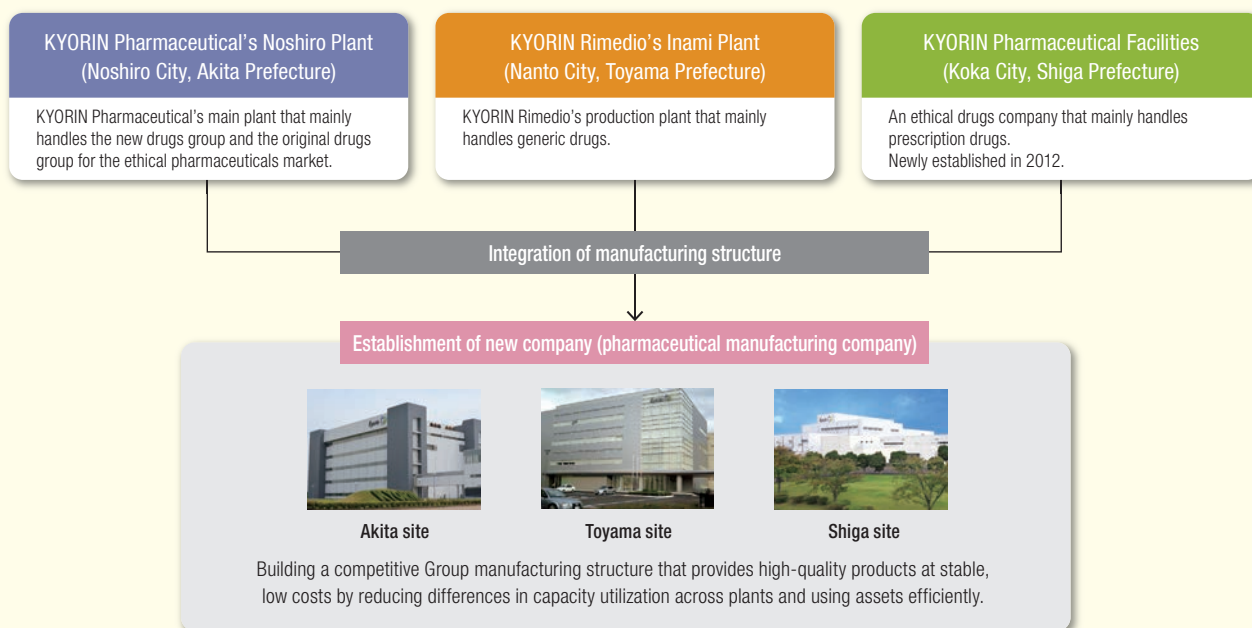
Priority Strategies **4** **Enhancing cost reductions: Change of cost structure by ensuring optimization within the Group**

The Kyorin Group has identified “Enhancing cost reductions: Change of cost structure by ensuring optimization within the Group” as one of its priority strategies under Stage 2. With the domestic pharmaceutical industry facing an increasingly challenging environment, the Group is coordinating manufacturing within the Group for overall optimization and cost reductions, to provide high-quality pharmaceuticals at stable, low costs.

Consolidation of Manufacturing Functions

In recent years, with the shift from long listed drugs to generics accelerating more rapidly than anticipated, imbalances have arisen in the capacity utilization of manufacturing lines at the Group’s plants. To address this, the Group decided in May 2017 to establish a new manufacturing subsidiary to create an integrated internal manufacturing structure and consolidate the Group’s manufacturing functions. We plan to launch this new manufacturing subsidiary in April 2018 by transferring KYORIN Pharmaceutical Co., Ltd.’s Noshiro Plant (Noshiro City, Akita

Prefecture) and KYORIN Rimedio Co., Ltd.’s Manufacturing Division (Nanto City, Toyama Prefecture) to the new company via an absorption-type company split, and by merging KYORIN Pharmaceutical Facilities Co., Ltd. (Koka City, Shiga Prefecture) into the new company. By consolidating these Group manufacturing functions, we intend to build a competitive Group manufacturing structure that provides high-quality products at stable, low costs by reducing differences in capacity utilization across plants and using assets efficiently.

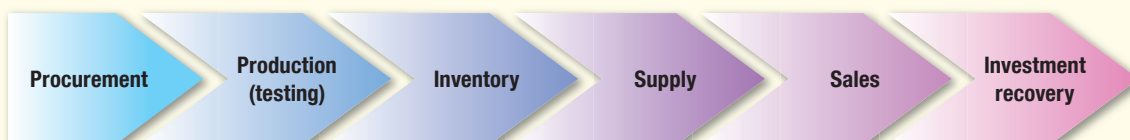


Strategic Promotion of Supply Chain Management

To establish solid earnings strength in a changing environment, we are comprehensively addressing the Kyorin Group’s overall supply chain to achieve more efficient manufacturing and a stable supply structure that can flexibly respond to changes in demand. We are currently promoting supply chain management (SCM) by managing (visualizing) processes from materials

procurement to manufacturing (production management, manufacturing), warehousing, and supply (shipping) globally by product. This is intended to strengthen a structure that shortens lead times, reduces risks, and facilitates stable supplies, to enhance speed and accuracy.

Supply Chain Management (SCM)



Products under Development (As of May 11, 2017)

Ph III –Approval

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|--------------------------|---|---------------------------|---|------------------------|-------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| KRP-114V | Overactive bladder | Merck & Co. Inc. (U.S.A.) | <ul style="list-style-type: none"> Expectation of high compliance in taking medicine with less side effects than conventional drugs for overactive bladder Less drug interaction as $\beta 3$ receptor agonist $\beta 3$ agonist including this agonist may constitute a first-line drug for treatment of overactive bladder. | Application in process | | | |
| KRP-AM1977X (Oral agent) | New quinolone synthetic antibacterial agent | In-house | Superior clinical efficacy of one 75 mg dose per day has been confirmed (community-acquired infection for respiratory and otolaryngology). <ul style="list-style-type: none"> Shows strong antimicrobial activity against pathogenic bacteria for respiratory and otolaryngological infections and against beta-lactam and macrolide antimicrobial resistant strains. Favorable penetration for lung tissue, more than 10 times that of blood plasma ratio Expectations for high level of safety Lower likelihood of concerns associated with the same strain of antibacterial agent, including abnormal blood sugar levels, photosensitivity, arthropathy, and digestive symptoms. | 4/2017 | | | |
| KRP-AM1977Y (Injection) | New quinolone synthetic antibacterial agent | In-house | Expectations for high level of safety <ul style="list-style-type: none"> Lower likelihood of concerns associated with the same strain of antibacterial agent, including abnormal blood sugar levels, photosensitivity, arthropathy, and digestive symptoms. | 3/2016 | | | |
| KRP-116D | Interstitial cystitis | — | Dimethyl sulfoxide (DMSO), an unapproved and off-label drug with high medical needs | 3/2017 | | | |

*Antiallergic agent "Desalex 5 mg Tablets" launched in November 2016

POC Project (Ph I –Ph II)

| Compound/Code | Therapy area/Action | Origin | Features | Stage | | | |
|---------------|--------------------------------|--------------------|---|-----------------------|-------|--------|-----|
| | | | | Ph I | Ph II | Ph III | NDA |
| KRP-209 | Tinnitus | Merz (Germany) | KRP-209 (Neramexane) is expected to improve the patients' annoyance and difficulties in their life caused by tinnitus, mainly through its two pharmacological properties: 1) NMDA antagonistic activity and 2) Nicotinic acetylcholine antagonistic activity. | 8/2015 (redeveloping) | | | |
| 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 |
| 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 (12/2015) | | | | |

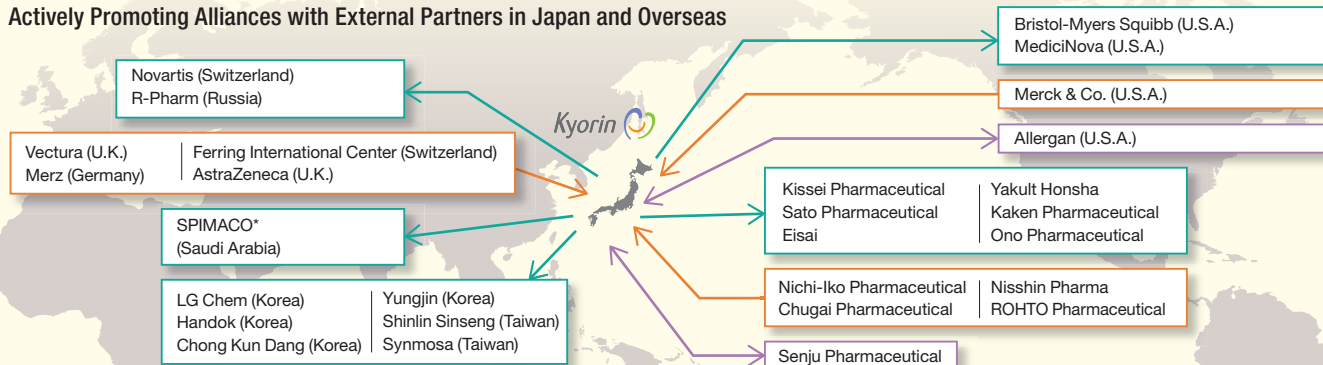
Development strategies Overseas expansion

As we move forward with the realignment of policies from a global perspective, overseas expansion is an important issue for the Kyorin Group. We are therefore developing initiatives that anticipate partnering and direct expansion focusing on Asia, to provide original new drugs to people around the world.

Alliance 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



*SPIMACO: Saudi Pharmaceutical Industries & Medical Appliances Corporation

Main Products

Respiratory

Flutiform



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

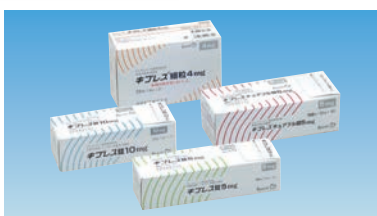


COPD treatment

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

Respiratory and Otolaryngology

Kipres



Anti-bronchial asthma and allergic rhinitis drug

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

Anti-bronchial asthma drug

Kipres Fine Granules 4 mg/
Kipres Chewable Tablets 5 mg

Respiratory and Otolaryngology

Mucodyne



Mucoregulating drug

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

Otolaryngology

Desalex



Antiallergic agent

Desalex Tablets 5 mg

IBD*

Pentasa



*Inflammatory Bowel Diseases

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

Urology

Uritos



Therapeutic agent for overactive bladder

Uritos Tablets 0.1 mg
Uritos OD Tablets 0.1 mg

The Kyorin Group is working toward the comprehensive integration of its ethical drugs business and healthcare business while dispersing business risks, with the aim of achieving healthy, continuous growth as “a company that supports sound and healthy lifestyles.” Under the medium-term business plan HOPE100–Stage 2–, we are pursuing to grow businesses related to environmental hygiene and enhance their links to existing businesses, to develop core businesses within the healthcare business, while also proactively promoting businesses that have the potential to grow into core businesses in the future.



Environmental Hygiene Business

In recent years, medical institutions have been implementing a variety of measures to address the growing importance of preventing infections in daily operations. Against this backdrop, the Kyorin Group is working toward further growth in businesses related to environmental hygiene. By controlling the risk of various infections, we are striving to develop and promote hygiene management products that address medical needs and contribute to people's health.

Multi-Purpose Disinfectant Cleaner RUBYSTA

RUBYSTA, a multi-purpose disinfectant cleaner launched in Japan by the Kyorin Group in 2012, has become widely used for hygiene management by medical institutions around the world, to prevent infections and stop the spread of pathogenic microbes. We are working to promote this product further, by expanding our lineup in this business while also obtaining scientific evaluation data from medical and research institutions.

In terms of overseas development, PT. Meiji Indonesian Pharmaceutical Industries, a subsidiary of Meiji Seika Pharma Co., Ltd., began selling RUBYSTA in Indonesia in March 2017. In addition to making inroads into the Indonesian market, we are considering new possibilities for business development in other ASEAN countries, where there is increased awareness for managing infections.



Over-The-Counter Drugs and Others

We offer reliable over-the-counter drugs that can be used with peace of mind, to address diversifying health needs.

Over-The-Counter Drugs Responding to the Era of Self-Medication

Against the backdrop of a declining birthrate and aging population, an increase in lifestyle-related diseases, and high medical costs under the national health insurance system, the Japanese government introduced a “self-medication tax system” (special tax deductions for medical expenses) in January 2017. There is increasing awareness for people's health, and as a result their ways of thinking are changing. Self-initiative in health management and disease prevention is expected to lead to long, healthy lives and also reduce expenses for the national health insurance system.

The Kyorin Group sells the COOL ONE series of over-the-counter drugs which apply ingredients that have proved effective for ethical drugs (“switch OTC drugs”). By appropriately providing safe and effective information accumulated in the ethical drugs business, the series is also highly regarded by medical professionals. At a time when lifestyles are changing and requirements for health are diversifying, providing products with such characteristics will contribute to people's health.



*COOL ONE Cough Medicine GX tablets and syrup and COOL ONE expectorant capsules, are eligible under the self-medication tax system.

Expansion of Hand Hygiene Products

Infection through hand contact is one of the means for healthcare-related infections. Hand hygiene is the most fundamental way to prevent infection through direct contact, which is why medical practitioners should always maintain hand hygiene. The Kyorin Group offers Noahtect, an alcohol-free hand-sanitizer which is easy on the skin, and TRINITYLINE Hand Care Treatment for dry skin. In addition, we expanded our hand sanitizer line in 2017 with the conclusion of a sales alliance agreement with Air Liquide Japan, Ltd. Going forward, we intend to promote hand sanitizers to encourage more thorough hand hygiene, which is essential for fighting healthcare-related infections.

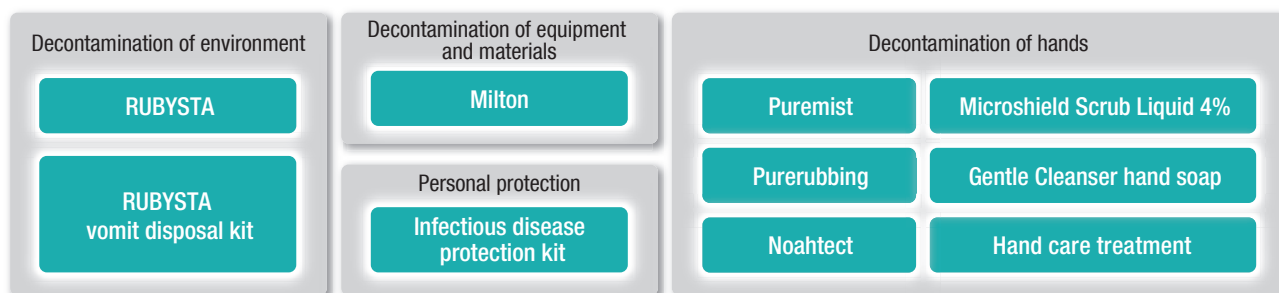


Milton Brand

Since its release in 1963, Milton has assisted mothers in protecting the healthy growth of infants as the leading brand for baby bottle disinfectant. Through its brand message, “unchanging safety into the future,” Milton has achieved steady sales with the support of medical practitioners and general consumers that continues today. In 2016, we expanded the lineup with the launch of Detergent Milton, which can be used to clean baby bottles, milkers and vegetables, under the concept of creating hygienic environments for babies. We are also providing a wide range of information about the importance and appropriate methods for disinfecting in advance, which is necessary for ensuring complete disinfection.



Kyorin Group's Environmental Hygiene Products

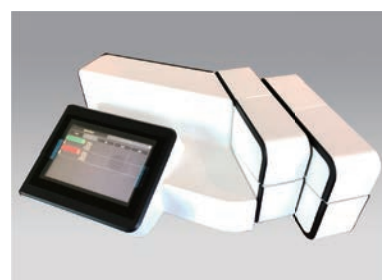


New Initiatives

Pursuing New Challenges in the Area of Infection Diagnosis

In July 2017, KYORIN Pharmaceutical Co., Ltd. acquired all of the outstanding shares of jTAS Inc., which developed the GeneSoC ultrahigh-speed genetic measurement device using proprietary technology.

A global effort is being made to address the issue of antimicrobial resistance (AMR) in the treatment of infections, by promoting the appropriate selection of antimicrobials and the proper use of drugs. As part of this effort, GeneSoC was developed as an ultrahigh-speed genetic measurement device that can quickly, accurately, and simply identify pathogenic bacteria, and its use for diagnosing infectious diseases is expected to contribute to the proper use of antimicrobials. The device makes it possible to select appropriate medicines using POCT*, and we believe that promoting the proper use of antimicrobials will contribute to AMR measures. The Kyorin Group is working to commercialize this device as quickly as possible.



*Point Of Care Testing (POCT): Testing conducted by a medical practitioner in physical contact with the subject. Through the benefits of less time spent on examination and giving the subject a feeling of closeness, POCT offers swift and appropriate diagnosis and nursing care, prevents diseases, contributes to advancement of health, and helps to raise the quality of medical care and the subject's quality of life.

Corporate Governance

The Kyorin Group will work to improve sustainable corporate value in order to gain the confidence and live up to the expectations of all stakeholders. As part of these efforts, the Group considers strengthening and enhancing corporate governance to be an important management issue.

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.

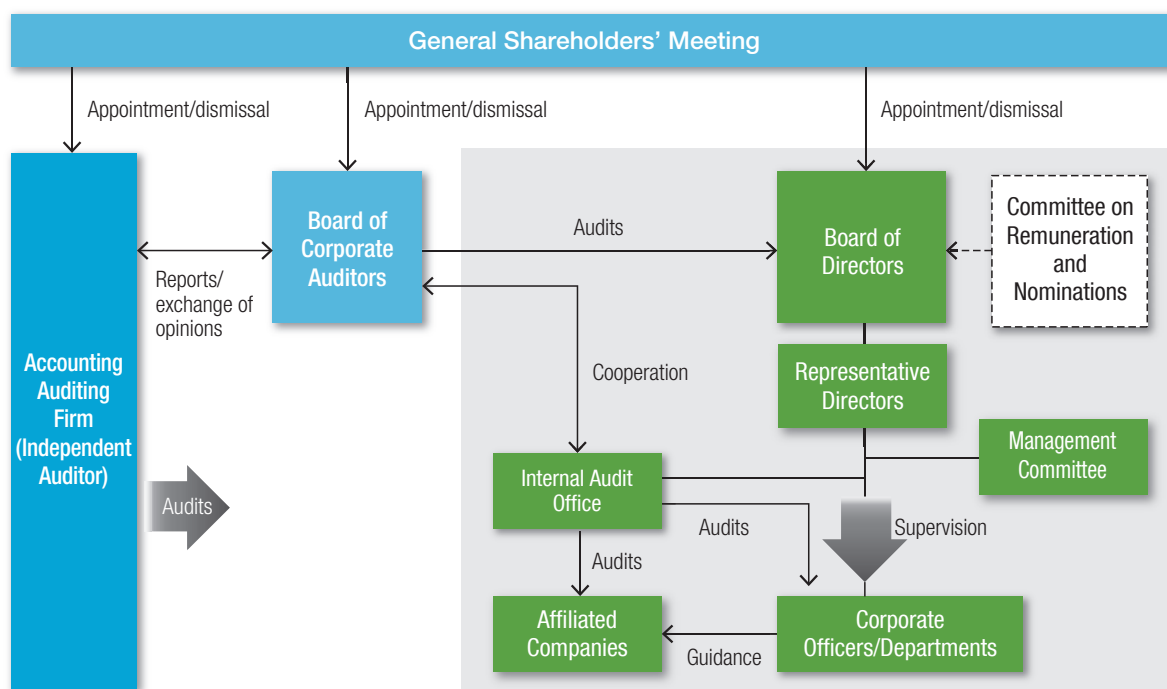
Kyorin is a company with a board of corporate auditors based on the Companies Act of Japan. The Board of Corporate Auditors, including the three outside corporate auditors, endeavors to fully demonstrate its auditing and supervising functions and to ensure the transparency of the decisions being made 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 23, 2017)



1. Management Organization

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

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.

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 Corporate 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.

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 Ken Shigematsu has experience as an officer of Isetan Mitsukoshi Holdings Ltd. and other companies. With his wide-ranging insight developed from his rich management experience, Mr. Shigematsu was deemed well-qualified overall for appointment to outside director. Note that no purchasing, sales, or other trade relationship exists between Kyorin and MFSJ Co., Ltd.

Outside director Yoh Goto has experience as an officer of the Teijin Group. With his wide-ranging insight developed from his rich management experience, Mr. Goto was deemed 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. The appointment of outside directors Noriyuki Shikanai and Ken Shigematsu and outside corporate auditors Masaji Obata and Takao Yamaguchi as independent directors/corporate auditors has been reported to the Tokyo Stock Exchange.

d) Independent auditor

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) Ryuzo Shiraha, designated limited liability partner and engagement partner; and Hidemitsu Kato, designated limited liability partner and engagement partner.

A further 11 certified public accountants and 19 assistant accountants assisted with the audit.

The Board of Corporate 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) | 238 | 238 | 8 |
| Corporate auditors (Excluding outside corporate auditors) | 33 | 33 | 2 |
| Outside directors or corporate auditors | 48 | 48 | 6 |

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. 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 general shareholders' meeting. The aim is to allow management to exercise a capital policy as deemed appropriate.

9. Requirements for Special Resolution by a 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 a 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 a 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 holding company) in terms of investment securities (amount of investment stocks) reported on the balance sheet, are as follows.

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

28 different stocks ¥22,131 million

For details, please refer to:

<http://www.kyorin-gr.co.jp/en/company/governance.shtml>

Directors, Corporate Auditors, and Corporate Officers

(As of June 23, 2017)



From the left: Yoh Goto, Shigeru Ogihara, Noriyuki Shikanai, Tomiharu Matsumoto, Tomiya Sasahara, Masahiro Yamashita, Kenji Akutsu, Minoru Hogawa, Michiro Oonota, Yutaka Ogihara, Takeshi Shigematsu

Representative Director, Chairman

Masahiro Yamashita

Representative Director, President
and Chief Executive Officer

Minoru Hogawa

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

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
Research and Development

Executive Director

Kenji Akutsu

General Affairs & Human Resources
and Personnel Affairs
Healthcare Business

Executive Director

Tomiya Sasahara

Quality Assurance & Reliability

Executive Director

Michiro Oonota

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

Outside Director

Noriyuki Shikanai

Outside Director

Takeshi Shigematsu

Outside Director

Yoh Goto

Senior Corporate Auditors

Seiyu Miyashita

Hiroaki Hama

Outside Corporate Auditors

Masaji Obata

Yuuji Konishi

Takao Yamaguchi

Senior Corporate Officers

Yoh Ito

Kei Takahashi

Corporate Officers

Yasuo Nii

Kikou Obi

Corporate Social Responsibility

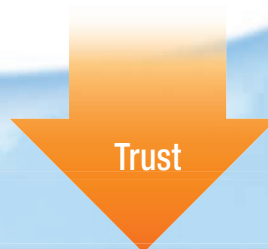
Under the corporate philosophy, “KYORIN continues to fulfill its mission of cherishing life, and benefiting society by contributing to better health,” the Kyorin Group works to make a significant contribution to the creation of an energetic society and economic development through activities based on the ESG (environment, society and governance) viewpoint. Through these activities, the Group also aims to achieve sustainable corporate growth and create corporate value in the medium to long term. To achieve this, we consider it important to take our Corporate Charter to heart, and to build and maintain relationships of trust with all stakeholders*, and provide reliable products and services as a “company that supports healthy lifestyles,” while at the same time continuously striving as a corporate citizen to fulfill our corporate social responsibility (CSR), beginning with the fundamentals of compliance and risk management and also emphasizing themes including human resources management, environmental management, and activities that contribute to society.

*The Kyorin Group’s stakeholders: patients and medical professionals, shareholders and investors, employees, business partners and local communities

Relationship between the Kyorin Group and the General Public

Society

A vigorous society in which people can live a healthy and heartfelt life



The Kyorin Group

“The Leading Company for Career Fulfillment”

Corporate Activities

Corporate Citizenship

Major Themes:

- Compliance/Risk Management
- Human Resources Management
- Environmental Management
- Social Contribution Activities

Compliance/Risk Management

The Kyorin Group abides by all laws, regulations, and codes of conduct, and the spirit thereof, and acts with high ethical standards, as well as promoting activities to appropriately manage internal and external risk pertaining to the business with a view to the ongoing enhancement of corporate value. Each Group company establishes a Compliance Committee and a Risk Management Committee that adopt a variety of measures to raise awareness and otherwise promote Group compliance and risk management.

■ 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 promoted 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

Internal training is held to ensure an understanding and familiarity with Kyorin's corporate philosophy and compliance.

1. Focusing on departments responsible for compliance and each division's compliance promotion managers, Company-wide level-specific training (newly hired employees, newly appointed managers, etc.) and functional training are held to teach corporate ethics and compliance, and efforts are made to ensure that an understanding and consideration of compliance is reflected in the work performed by directors, corporate auditors and officers, and employees.
2. June and November are designated as "compliance enhancement months," with the Corporate Charter and Compliance Guidelines read out at morning meetings and other activities to ensure a thorough understanding and familiarity with compliance Groupwide.

■ Risk Management

Kyorin established a Risk Management Committee in order to prevent risks from materializing and deal with any risks that do materialize. The committee's roles are as follows:

1. Direct risk assessments to related divisions to identify and understand latent risks.
2. Prepare various guidelines and operation manuals for related divisions, and implement training for employees and other preventive measures as necessary, to ensure that

latent risks do not materialize.

3. Prepare procedure manuals and carry out simulated drills at related divisions, and take out insurance and implement other measures as necessary, to minimize losses in the event a risk event does occur.

Also, a risk management promotion officer has been appointed at each company to raise awareness relating to risk management.

■ Initiatives Related to Transparency in Relationships with Medical Institutions and Other Parties

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.

Human Resources Management

The Kyorin Group considers it fundamental for its sustained operations and growth to ensure that its employees are passionate about their work. As such, we create, operate, and establish new human resources management systems with the aim of engendering in our employees the sense that this is the very best place to work. The Group is also striving to improve its level of safety and health with the goal of attaining zero workplace injuries, by preventing work accidents, improving the health of everyone who works here and further enhancing the comfort of the working environment.

■ Human Resources Management System

The 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. We therefore aim to be “the leading company for career fulfillment,” where employees take pride in their work, have trust in the Company and its organizations,

and work in solidarity with their coworkers. We are working to restructure the human resources management system (hiring, assigning, training, evaluation, transfers, compensation, social welfare, etc.) and strengthen training at all Group companies under our basic policy for human resources management.

Basic Concepts of the Human Resources Management System

“Long-Term Reciprocal Partnership”

By continuously fulfilling the responsibilities expected of each other over the long term, the Company and its employees become partners for their mutual benefit (employees contribute to the Company’s development, the Company contributes to rich and rewarding lives for employees).

Employees

By carrying out their duties, contribute to achievement of the Company’s (organization’s) goals and targets.

- Carry out duties by performing operations proactively with a sense of initiative.
- Strive to maintain and enhance their own humanity and ability in carrying out their duties.
- Cooperate with coworkers for the success of the organization.

Company

People are considered assets (drivers of growth) of the Company, which values its employees and supports their growth.

- Each employee is assigned duties that conform to their abilities and work style.
- Each employee’s contribution is comprehensively understood, and employees are evaluated and treated fairly and consistently.
- The Company provides a comfortable and rewarding work environment that fosters a “desire to work” among employees.

■ Regular Surveys on Employee Satisfaction

The Kyorin Group seeks to create a comfortable and rewarding work environment that further enhances its employees’ “desire to work.” To this end, the Group conducts surveys on job satisfaction with all of its employees.

This survey has been carried out annually for the past seven

years. The results of the survey are used as reference in creating our unique human resources management system, with the aim of becoming “the leading company for career fulfillment,” where employees take pride in their work, have trust in the Company, and work in solidarity with their coworkers.

■ Support for Employees’ Childcare and Nursing Care

KYORIN Pharmaceutical Co., Ltd. supports employees’ daily lives throughout their life cycle, including when they require childcare or nursing care, with the aim of providing an environment in which they are easily able to balance their lives between work and family. Childcare support includes childcare leave, shortened work hours, and maternity/paternity leave. The Company has also introduced programs including financial support for childbirth and education fees, hourly-based paid

leave, financial subsidies for the use of nurseries and preschools, and the use of company vehicles to take and pick up the children of medical representatives to and from nurseries or preschools. Support for employees engaged in nursing care includes increased nursing care leave and nursing care breaks, and a system to support remote nursing care has also been introduced, to create an environment where employees can focus on their work knowing that they have a healthy family life.

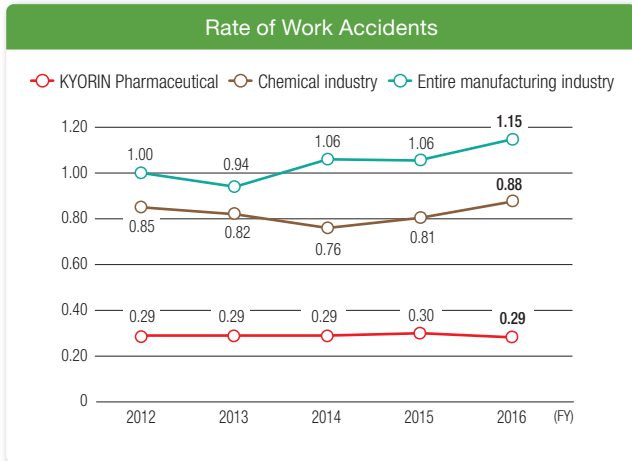
■ Mental Health

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

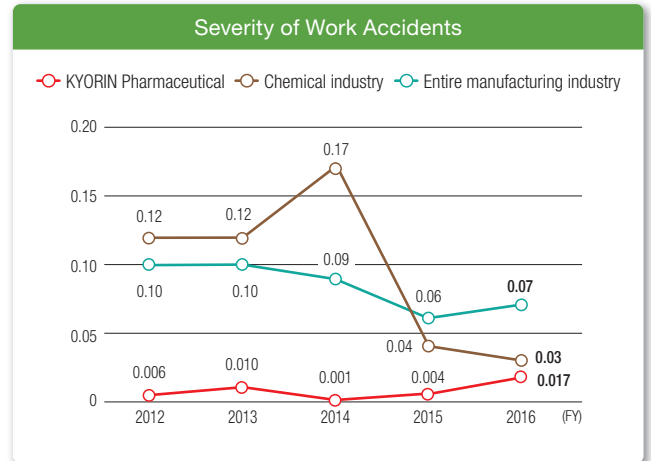
about maintaining mental health via our intranet and other means, and have created a hassle-free system for employees and their families to seek help. When a mental health issue arises, the employee’s department, industrial psychiatrists, public health nurses, and Human Resources Department work together to help the employee recover, return to work, and prevent relapse.

Industrial Safety and Hygiene

KYORIN Pharmaceutical Co., Ltd. has not had a fatality due to a work-related accident since its 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 (indicates magnitude of accidents)
 Calculation method: No. of lost working days / Total working hours x 1,000

Respect for Human Rights

The Kyorin Group respects the human rights of all people. The Compliance Guidelines state that “There will be no discrimination or harassment inside or outside the Company based on race, ethnicity, nationality, gender, age, religion, beliefs, ideology, academic background, disability, or disease.” The Company also respects the individuality of each employee, and has

formulated guidelines to prevent harassment, to create a comfortable workplace environment where employees feel at ease. These guidelines cover sexual and power harassment, as well as harassment related to pregnancy, childbirth, and childcare and nursing care leave.

Shareholders and Investors



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

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 Management Committee as needed.

Environmental Management

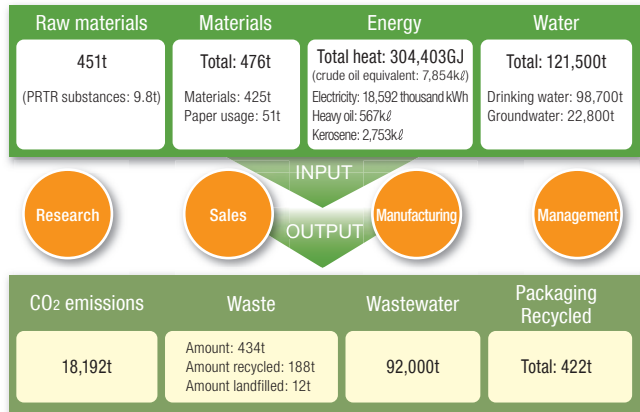
The Kyorin Group regards environmental issues as a challenge shared by all humanity, and is actively striving to preserve the environment and prevent pollution by establishing and reviewing objectives and targets as needed; promoting the reduction of substances that place a burden on the environment, for example through energy and resource saving, waste reduction, and enhanced management of chemicals; and promoting the effective use of our limited resources.

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, all plants and research laboratories of KYORIN Pharmaceutical Co., Ltd. obtained certification in the ISO 14001 international standard for environmental management systems.

In our efforts to reduce CO₂ emissions to combat global warming, we set a target of reducing CO₂ emissions by 2% on average annually until fiscal 2019, based on CO₂ emissions of fiscal 2015 (19,840 tons) and are promoting such efforts. In fiscal 2016, our CO₂ emissions were 18,192 tons.

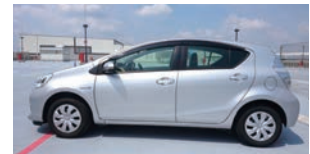
KYORIN Pharmaceutical's Material Flow (fiscal 2016)



Introducing Hybrid Cars to Reduce CO₂ Emissions

KYORIN Pharmaceutical Co., Ltd. is proactively introducing low-emission cars, hybrid cars, and other environmentally friendly vehicles for its sales force as a way of preventing global warming. As of March 2017, all 940 vehicles used by the sales force met the standard for having low emission (a 75% reduction in emissions from the 2005 standard), and of these, 460 (approximately 50%)

are hybrid vehicles, which were introduced in 2004. In addition, these vehicles adhere to the Ministry of the Environment's "Eco-Driving" guidelines, as their operation regards the impact on the environment and traffic safety.



Biodiversity

KYORIN Pharmaceutical Co., Ltd.'s Noshiro Plant participates in a citizen's volunteer activity to protect the Kaze-no-Matsubara pine forest near the plant, to provide local residents with a place to relax. In fiscal 2016, a total of 25 plant employees removed dead brush as part of an activity to preserve local biodiversity.

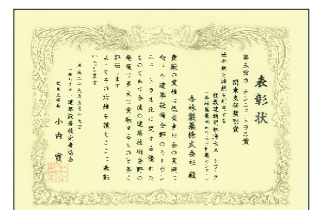
In addition, KYORIN Pharmaceutical's Okaya Plant has been participating in a program to "adopt" and take care of a section of

a shore along Lake Suwa for 15 years. During fiscal 2016, the plant's final year of operation, a total of 21 employees from the plant picked up trash and removed debris from the shore.



Environmentally Friendly R&D Center

In May 2017, the ReHP technology newly installed at the WATARASE Research Center, which commenced operations in fiscal 2015, was awarded an honorable mention for the Kanto chapter of the Japanese Association of Building Mechanical and Electrical Engineers' carbon neutral prize for construction equipment contributing to the achievement of a low-carbon society. During fiscal 2016, this system reduced electric power consumption by 98,276 kWh and CO₂ emissions by roughly 50 tons compared with conventional heat pumps for air conditioning and heating, for approximately 35% in energy savings.



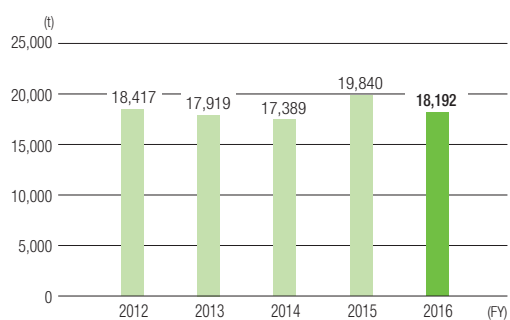
A Renewable Energy Heat Pump (ReHP) is a highly efficient heat pump that uses renewable energy, and the ReHP installed at two adjacent buildings (CS and LAB1) at the WATARASE Research Center uses geothermal heat and unused waste heat from a water chiller as a heat source, and circulates heated water in a single loop, which is used by air conditioning and water heating equipment, to increase energy efficiency.

KYORIN Pharmaceutical Co., Ltd. Environmental Targets and Progress (Fiscal 2016)

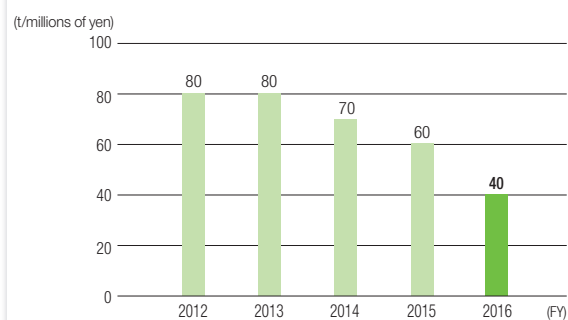
| Target initiatives | Method for achieving | Fiscal 2016 plan (incl. numerical targets) | Fiscal 2016 actual | Self-assessment |
|--|--|--|---|-----------------|
| 1. Preventing global warming (CO ₂ reduction and energy conservation) | Reduce fuel consumption (crude oil equivalent) through new capital investment | 8,485kℓ (fiscal 2015 actual) | 7,854kℓ (92.6%) | ★★★ |
| | Use hybrid cars to improve fuel efficiency and reduce exhaust emissions | 378/925 (40.9%, fiscal 2015 actual) | 466/940 (49.6%) | ★★★ |
| | Reduce total CO ₂ emissions | 19,840t | 18,192t | ★★★ |
| 2. Reducing waste volume | Reduce total waste | 638t (fiscal 2015 actual) | 434t | ★★★ |
| | Promote recycling | 50.8% (fiscal 2015 actual) | 43.3% | ★★★ |
| | Amount landfilled | 21t (fiscal 2015 actual) | 12t | ★★★ |
| | Zero-landfill challenge | Under 3.3% | 2.8% | ★★★ |
| 3. Managing chemical substances | Manage substances covered by the Pollutant Release and Transfer Register (PRTR) Law and revise management method | 7.7t (fiscal 2015 actual) | 9.8t | ★★ |
| 4. Preventing atmospheric pollution | Measure and control amounts of soot and smoke, nitrogen oxide (NO _x) and sulfur oxide (SO _x) 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 | 38t (fiscal 2015 actual) | 51t | ★ |
| 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 | 83.1% (fiscal 2015 actual) | 81.7% | ★★ |
| 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

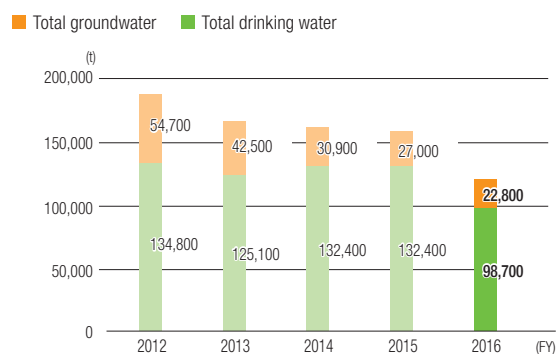
CO₂ Emissions from Factories and Research Laboratories



Reduction of Waste



Volume of Water Used



Social Contribution Activities

The Kyorin Group endeavors to contribute to society in cooperation with local communities in order to realize a mutually beneficial relationship with society. The Group promotes social contribution activities that are fitting for “a company that supports healthy lifestyles,” in order to create vibrant local communities where the foundation of its business activities lies so that people can live healthy, affluent lives, and to ensure that the Group continues to develop in a sustainable manner.

■ Communication with Local Communities

Cherry Blossom Viewing Parties and Summer Evening Parties

KYORIN Pharmaceutical Co., Ltd.'s WATARASE Research Center and Noshiro Plant and KYORIN Rimedio Co., Ltd.'s Inami office hold cherry blossom viewing parties and summer evening



festivals for local residents, and these events are well received as opportunities to gain a deeper understanding of our corporate activities.

Support for Health-Related Events

The Kyorin Group is a special sponsor of the health-related event “Kyorin Group Presents the Great Adventure for the Body’s Secrets.” This is a new type of participatory, hands-on science event where the entire venue is likened to a giant human body, allowing visitors to study the structure of the human body as they walk around inside.



Kyorin supports the objectives of this event—to encourage children to become interested in their own bodies and study them while having fun—and became a special sponsor in 2016.

Work Experience Programs

Each Group facility offers internships, provides workplace tours and hands-on workshops for junior and senior high school students, and sends staff to teach in classrooms.



Sponsoring Sporting Events

The annual Shimotsuke Soccer Workshop in Nogi 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.



Activities with 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.

“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 2016, we responded to more than 20,000 inquiries.

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.



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

First-Aid and Lifesaving Courses for Employees

As part of KYORIN Pharmaceutical Co., Ltd.'s CSR activities, the Company's approximately 750 medical representatives receive first-aid training, covering the necessity of first aid, CPR, the use of AEDs, and ways to stop bleeding. Some employees from the head offices of KYORIN Holdings Inc., KYORIN Pharmaceutical Co., Ltd., and KYORIN Rimedio Co., Ltd. also attend these classes. In addition to its corporate activities of collecting and providing information regarding the appropriate use of pharmaceutical products, the Kyorin Group strives to coexist in harmony as a corporate citizen of local communities.



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.



Kyorin Medical Bridge, a website for medical professionals

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 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 2017, 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.

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.

Support for the Department of Drug Discovery Medicine

To cultivate innovative human resources for Japan's drug discovery in the post-genome era through cooperation with industry and academia, KYORIN Pharmaceutical Co., Ltd. helped establish and provides assistance to the Department of Drug Discovery Medicine at the Kyoto University Graduate School of Medicine.

Financial Analysis

Industry Trends in Japan

In the domestic pharmaceutical industry during fiscal 2016, the market was stagnant due to factors including the impact of drug price revisions implemented by the National Health Insurance (NHI) in April 2016. In addition, the Kyorin Group underwent a critical juncture requiring unprecedented corporate activities, including response to the expiration of patents for its main products. Furthermore, while a challenging operating environment can be expected in the future with the start of concrete studies on matters such as revisions to the NHI drug pricing system based on the Basic Policy for Fundamental Reform of the Drug Pricing System formulated in December 2016, there have also been discussions on efforts to accelerate evaluation of innovation, and trends toward possible support for R&D.

As for the operating environment of the healthcare business, uncertainties continued to exist as consumer spending remained flat despite a gradual economic recovery.

Against this backdrop, in the first year (fiscal 2016) of its medium-term business plan HOPE100–Stage 2– (fiscal 2016–2019) aimed at achieving the long-term vision HOPE100, the Kyorin Group worked towards evolving an ethical drugs business model that enables sustainable growth in the ethical drugs business and creating core businesses in the healthcare business, as it strove to attain goals and greater support and recognition from stakeholders.

Consolidated Operating Results

Net Sales

Although sales of new ethical drugs in Japan decreased in fiscal 2016 due to the impact of the NHI's drug price revisions and a decrease in prescription volumes for long listed drugs, sales of generic drugs grew due to factors including the launch of Montelukast, an authorized generic version (hereinafter, "AG") of Kipres, resulting in a year-on-year increase in sales for the ethical drugs business in Japan. On the other hand, as sales of new ethical drugs overseas declined in reaction to one-time revenue related to an out-licensing agreement recorded in the previous fiscal year, overall sales fell ¥4,109 million, or 3.4%, from the previous year, to ¥115,373 million.

In the new ethical drugs business in Japan, sales increased significantly year on year for Flutiform, a combination drug for asthma treatment. Meanwhile, sales decreased for Kipres, a treatment for bronchial asthma and allergic rhinitis, due to the expiration of its patent. Furthermore, sales were also down year on year for Pentasa, a treatment drug for ulcerative colitis and Crohn's disease, and Mucodyne, a mucoregulant, both long listed drugs. Based on a policy of evolving the franchise customer (FC) strategy of focusing marketing activities on physicians and medical institutions in specific fields (respiratory, otolaryngology and urology) and implementing a sales strategy in line with area management, KYORIN Pharmaceutical Co., Ltd. has responded to drastic changes in the business environment while working to maximize the spread of its existing main products and to promptly instill the features of new products. During fiscal 2016, we launched Desalex Tablets 5 mg, a treatment for allergic diseases, in November 2016 in an effort to improve our presence in the field of otolaryngology. KYORIN Pharmaceutical Co., Ltd. has entered into a co-promotion agreement with Kaken Pharmaceutical Co., Ltd. for sales of Desalex to dermatology physicians and medical institutions, and both companies have worked towards the early adoption of the drug. As a result, sales in the new ethical drugs business in Japan declined 9.9% from the

previous year, to ¥83,777 million.

In the new ethical drugs business overseas, sales decreased 86.3% from the previous year, to ¥764 million, in reaction to the recording of one-time revenue related to an out-licensing agreement with Bristol-Myers Squibb Company (U.S.A.) in December 2015 and as a result of a decrease in royalty income for gatifloxacin ophthalmic solution (out-licensed to Allergan, Inc. (U.S.A.)).

As for the generic drugs business, in September 2016 KYORIN Rimedio Co., Ltd. launched Montelukast Tablets 10 mg and 5 mg "KM" (AG for Kipres and Singulair sold by KYORIN Pharmaceutical Co., Ltd. and MSD K.K.) in response to the expiration of the patent for Kipres, a treatment for bronchial asthma and allergic rhinitis, which is one of KYORIN Pharmaceutical Co., Ltd.'s main products. Sales of Montelukast Tablets 10 mg and 5 mg "KM" contributed to a significant increase in sales of generic drugs. In addition, in line with the Japanese government's policies to promote the use of generic drugs, with a target of having generics account for 80% of the market in terms of quantitative share, sales of drugs other than Montelukast Tablets 10 mg and 5 mg "KM" also grew. As a result, overall sales of generic drugs increased 62.0% from the previous year, to ¥25,024 million.

In the healthcare business, although sales decreased year on year for skincare products, sales increased for environmental hygiene products, over-the-counter drugs, and other products thanks to sales growth for its main products RUBYSTA, a multi-purpose disinfectant cleaner, and Milton, a disinfectant for baby bottles and nursing mothers, and the launch of new products (over-the-counter drugs, etc.).

As a measure for enhancing its environmental hygiene business, in January 2017 KYORIN Pharmaceutical Co., Ltd. entered into a sales partnership agreement with Air Liquide Japan, Ltd. for hand hygiene products in the Japanese market, and launched sales of these products in March 2017. Going forward, the KYORIN Group will work to expand its lineup of environmental hygiene products to create a core business within its healthcare business. The above factors resulted in a 5.3% year-on-year increase in segment sales, to ¥5,807 million, and an operating loss of ¥1 million, compared with an operating loss of ¥187 million in the previous year.

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

In terms of profit, gross profit decreased ¥7,595 million from the previous year as a result of factors including drug price revisions and a decrease in one-time revenue for out-licensed products. In addition, because SG&A expenses increased ¥1,627 million (including a ¥549 million increase in R&D expenses), operating income fell ¥9,222 million, or 47.0%, from the previous year, to ¥10,413 million. Profit attributable to shareholders of KYORIN Holdings, Inc. declined 46.4% from the previous year, to ¥7,305 million, due to the recording under extraordinary loss of approximately ¥1,000 million in litigation settlement-related expenses resulting from a violation of the U.S. antitrust law related to an out-licensed product (Gatifloxacin-eyedrops).

Outlook for Fiscal 2017

The operating environment for the ethical drugs business in Japan is expected to become increasingly challenging due to intense discussions on drug price revisions based on the Basic Policy for Fundamental Reform of the Drug Pricing System. Under these circumstances, the Kyorin Group faced major changes within its management environment during fiscal 2016

as patents expired for the Group's main products. Against this backdrop, based on its medium-term business plan HOPE100 –Stage 2– (fiscal 2016–2019) formulated in fiscal 2016 aimed at achieving the long-term vision HOPE100, the Kyorin Group will implement its priority strategies and development strategies set forth under the plan with the aim of evolving an ethical drugs business model that enables sustainable growth in the ethical drugs business and creating core businesses in the healthcare business, and strive for the attainment of goals and greater support and recognition from stakeholders.

While we expect higher sales in the generic drugs and healthcare businesses, we anticipate a decrease from the previous

fiscal year in sales of new ethical drugs. Therefore, we are forecasting a slight decrease in overall net sales. In new ethical drugs, we anticipate a decrease in sales as the generic drug for Kipres, released in December 2016, will affect sales of Kipres over the entire fiscal year, and launches of generic drugs for pharmaceuticals for children are also expected, despite the anticipated sales growth of Flutiform and Desalex and revenue for out-licensed products. In generic drugs, sales are expected to increase due to factors including continuous growth of Montelukast AG.

In terms of profit, we are anticipating an increase mainly due to higher revenue for out-licensed products.

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 and Medical Device Act, 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) |
|---|-----------------|-----------------|--|
| | 2017 | 2016 | 2017 |
| Current assets: | | | |
| Cash and cash in banks (Notes 4, 11 and 13) | ¥ 43,619 | ¥ 45,712 | \$ 388,761 |
| Notes and accounts receivable (Note 11) | 46,192 | 48,296 | 411,693 |
| Short-term investments (Notes 5 and 11) | 5,007 | 5,989 | 44,626 |
| Inventories: | | | |
| Merchandise and finished goods | 12,901 | 14,808 | 114,982 |
| Work in process | 1,521 | 1,408 | 13,556 |
| Raw materials and supplies | 9,956 | 11,449 | 88,734 |
| Deferred tax assets (Note 14) | 2,136 | 2,903 | 19,037 |
| Other | 4,976 | 7,966 | 44,349 |
| Less allowance for doubtful accounts | (44) | (50) | (392) |
| Total current assets | 126,267 | 138,483 | 1,125,374 |
| Property, plant and equipment: | | | |
| Land | 2,010 | 2,022 | 17,914 |
| Buildings and structures | 33,187 | 38,282 | 295,784 |
| Machinery and vehicle | 20,957 | 20,436 | 186,783 |
| Leased assets | 591 | 557 | 5,267 |
| Construction in progress | 1,041 | 49 | 9,278 |
| Other | 7,871 | 8,007 | 70,152 |
| Less accumulated depreciation and impairment loss | (43,227) | (46,568) | (385,267) |
| Property, plant and equipment, net | 22,432 | 22,788 | 199,929 |
| Investments and other assets: | | | |
| Investment securities (Notes 5 and 11) | 40,647 | 33,464 | 362,273 |
| Long-term loans | 2 | 2 | 18 |
| Asset for retirement benefits (Note 12) | 109 | 42 | 971 |
| Deferred tax assets (Note 14) | 381 | 113 | 3,396 |
| Other | 2,893 | 3,057 | 25,784 |
| Less allowance for doubtful accounts | (65) | (126) | (579) |
| Total investments and other assets | 43,968 | 36,554 | 391,872 |
| Total assets | ¥192,668 | ¥197,825 | \$1,717,184 |

| Liabilities and net assets | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------|--|
| | 2017 | 2016 | 2017 |
| Current liabilities: | | | |
| Notes and accounts payable (Note 11) | ¥ 11,157 | ¥ 11,792 | \$ 99,439 |
| Short-term bank loans (Note 6) | 1,321 | 1,862 | 11,774 |
| Lease obligations (Note 6) | 98 | 112 | 873 |
| Accrued income taxes (Note 14) | 1,194 | 3,121 | 10,642 |
| Accrued bonuses to employees | 2,690 | 3,252 | 23,975 |
| Reserve for sales returns | 32 | 29 | 285 |
| Provision for point card certificates | 36 | 35 | 321 |
| Other | 8,502 | 7,845 | 75,775 |
| Total current liabilities | 25,033 | 28,052 | 223,111 |
| Long-term liabilities: | | | |
| Long-term debt (Note 6) | 3,630 | 3,926 | 32,353 |
| Lease obligations (Note 6) | 478 | 543 | 4,260 |
| Deferred tax liabilities (Note 14) | 2,067 | 2,613 | 18,422 |
| Accrued retirement benefits for directors and corporate auditors | 16 | 13 | 143 |
| Liability for retirement benefits (Note 12) | 1,676 | 3,087 | 14,938 |
| Other | 1,928 | 2,539 | 17,184 |
| Total long-term liabilities | 9,797 | 12,723 | 87,317 |
| Contingent liabilities (Note 17) | | | |
| Net assets: | | | |
| Shareholders' equity (Note 7): | | | |
| Common stock, no par value: | | | |
| Authorized – 297,000,000 shares in 2017 and 2016 | | | |
| Issued – 74,947,628 shares in 2017 and 2016 | 700 | 700 | 6,239 |
| Capital surplus | 4,752 | 4,752 | 42,353 |
| Retained earnings | 150,301 | 147,331 | 1,339,581 |
| Treasury stock, at cost: | | | |
| 1,426,589 shares in 2017 | | | |
| 1,273,045 shares in 2016 | (3,168) | (2,975) | (28,235) |
| Total shareholders' equity | 152,585 | 149,808 | 1,359,938 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on other securities | 7,645 | 10,372 | 68,137 |
| Translation adjustments | 115 | 160 | 1,025 |
| Retirement benefits liability adjustments | (2,510) | (3,292) | (22,371) |
| Total accumulated other comprehensive income | 5,251 | 7,241 | 46,800 |
| Total net assets | 157,837 | 157,049 | 1,406,747 |
| Total liabilities and net assets | ¥192,668 | ¥197,825 | \$1,717,184 |

See notes to consolidated financial statements.

Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|--|
| | 2017 | 2016 | 2017 |
| Net sales | ¥115,373 | ¥119,483 | \$1,028,280 |
| Cost of sales | 50,847 | 47,360 | 453,182 |
| Gross profit | 64,526 | 72,122 | 575,098 |
| Selling, general and administrative expenses (Note 8) | 54,113 | 52,486 | 482,291 |
| Operating income | 10,413 | 19,636 | 92,807 |
| Other income (expenses): | | | |
| Interest and dividend income | 374 | 313 | 3,333 |
| Interest expense | (29) | (17) | (258) |
| Equity in gains (losses) of affiliates | 23 | (24) | 205 |
| Foreign exchange loss | (5) | (126) | (45) |
| Gains (losses) on sales and retirement of property, plant and equipment, net (Note 9) | (135) | 1,467 | (1,203) |
| Gain on sales of investment securities, net (Note 5) | 3 | 47 | 27 |
| Loss on devaluation of investment securities | — | (0) | — |
| Loss on closure of plant | — | (2,695) | — |
| Settlement-related costs | (1,025) | — | (9,135) |
| Other, net | 97 | 214 | 865 |
| Other expenses, net | (696) | (820) | (6,203) |
| Profit before income taxes | 9,716 | 18,815 | 86,595 |
| Income taxes (Note 14): | | | |
| Current | 1,597 | 5,191 | 14,234 |
| Deferred | 814 | (15) | 7,255 |
| Total income taxes | 2,411 | 5,175 | 21,488 |
| Profit | 7,305 | 13,639 | 65,107 |
| Profit attributable to shareholders of KYORIN Holdings, Inc. | ¥ 7,305 | ¥ 13,639 | \$ 65,107 |

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|---------|--|
| | 2017 | 2016 | 2017 |
| Profit | ¥7,305 | ¥13,639 | \$65,107 |
| Other comprehensive income (Note 15): | | | |
| Unrealized holding gain (loss) on other securities | (2,732) | 2,591 | (24,349) |
| Translation adjustments | (45) | (7) | (401) |
| Retirement benefits liability adjustments | 781 | (3,407) | 6,961 |
| Share of other comprehensive income of affiliates accounted for using equity method | 5 | (17) | 45 |
| Total other comprehensive income | (1,990) | (841) | (17,736) |
| Comprehensive income | ¥5,315 | ¥12,798 | \$47,371 |
| Total comprehensive income attributable to: | | | |
| Shareholders of KYORIN Holdings, Inc. | ¥5,315 | ¥12,798 | \$47,371 |
| 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, 2017

Millions of yen

| | Number of shares issued (Common stock) | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | Total net assets |
|--|--|----------------------|-----------------|-------------------|-------------------------|----------------------------|--|-------------------------|---|--|------------------|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity | Unrealized holding gain (loss) on other securities | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | |
| 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 April 1, 2016 | 74,947,628 | 700 | 4,752 | 147,331 | (2,975) | 149,808 | 10,372 | 160 | (3,292) | 7,241 | ¥157,049 |
| Cash dividends | — | — | — | (4,333) | — | (4,333) | — | — | — | — | (4,333) |
| Profit attributable to shareholders of KYORIN Holdings, Inc. | — | — | — | 7,305 | — | 7,305 | — | — | — | — | 7,305 |
| Purchase of treasury stock | — | — | — | — | (832) | (832) | — | — | — | — | (832) |
| Disposals of treasury stock | — | — | — | — | 639 | 639 | — | — | — | — | 639 |
| Other changes | — | — | — | — | — | — | (2,726) | (45) | 781 | (1,990) | (1,990) |
| Net changes during the year | — | — | — | 2,971 | (193) | 2,778 | (2,726) | (45) | 781 | (1,990) | 788 |
| Balance as of March 31, 2017 | 74,947,628 | ¥700 | ¥4,752 | ¥150,301 | ¥(3,168) | ¥152,585 | ¥ 7,645 | ¥115 | ¥(2,510) | ¥5,251 | ¥157,837 |

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 (loss) on other securities | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | |
| Balance as of April 1, 2016 | 74,947,628 | \$6,239 | \$42,353 | \$1,313,111 | \$(26,515) | \$1,335,187 | \$92,442 | \$1,426 | \$(29,340) | \$64,537 | \$1,399,724 |
| Cash dividends | — | — | — | (38,619) | — | (38,619) | — | — | — | — | (38,619) |
| Profit attributable to shareholders of KYORIN Holdings, Inc. | — | — | — | 65,107 | — | 65,107 | — | — | — | — | 65,107 |
| Purchase of treasury stock | — | — | — | — | (7,415) | (7,415) | — | — | — | — | (7,415) |
| Disposals of treasury stock | — | — | — | — | 5,695 | 5,695 | — | — | — | — | 5,695 |
| Other changes | — | — | — | — | — | — | (24,296) | (401) | 6,961 | (17,736) | (17,736) |
| Net changes during the year | — | — | — | 26,480 | (1,720) | 24,759 | (24,296) | (401) | 6,961 | (17,736) | 7,023 |
| Balance as of March 31, 2017 | 74,947,628 | \$6,239 | \$42,353 | \$1,339,581 | \$(28,235) | \$1,359,938 | \$68,137 | \$1,025 | \$(22,371) | \$46,800 | \$1,406,747 |

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|----------------|--|
| | 2017 | 2016 | 2017 |
| Operating activities | | | |
| Profit before income taxes | ¥ 9,716 | ¥18,815 | \$ 86,595 |
| Depreciation and amortization | 3,619 | 3,730 | 32,255 |
| Loss on closure of plant | — | 2,695 | — |
| Decrease in allowance for doubtful accounts | (67) | (11) | (597) |
| Decrease in accrued bonuses to employees | (561) | (35) | (5,000) |
| Increase in accrued retirement benefits for directors and corporate auditors | 3 | 2 | 27 |
| Increase in asset for retirement benefits | (1,326) | (1,172) | (11,818) |
| Increase in liability for retirement benefits | 21 | 19 | 187 |
| Equity in (gains) losses of affiliates | (23) | 24 | (205) |
| Interest and dividend income | (374) | (313) | (3,333) |
| Interest expense | 29 | 17 | 258 |
| Losses (gains) on sales and retirement of property, plant and equipment, net | 135 | (1,467) | 1,203 |
| Gain on sales of investment securities, net | (3) | (47) | (27) |
| Loss on devaluation of investment securities | — | 0 | — |
| Decrease (increase) in notes and accounts receivable | 2,102 | (1,288) | 18,734 |
| Decrease (increase) in inventories | 3,286 | (1,736) | 29,287 |
| (Decrease) increase in notes and accounts payable | (634) | 532 | (5,651) |
| Increase (decrease) in consumption taxes payable | 945 | (1,446) | 8,422 |
| Other, net | 2,935 | (2,978) | 26,159 |
| Subtotal | 19,804 | 15,338 | 176,506 |
| Interest and dividend received | 381 | 320 | 3,396 |
| Interest paid | (29) | (17) | (258) |
| Income taxes paid | (3,769) | (4,504) | (33,592) |
| Net cash provided by operating activities | 16,386 | 11,137 | 146,043 |
| Investing activities | | | |
| Payments for time deposits | (1,443) | (622) | (12,861) |
| Proceeds from withdrawal of time deposits | 1,079 | 1,358 | 9,617 |
| Proceeds from sales and redemption of short-term investments | — | 5,100 | — |
| Purchase of property, plant and equipment | (2,208) | (6,812) | (19,679) |
| Proceeds from sales of property, plant and equipment | 89 | 2,066 | 793 |
| Purchase of intangible assets | (437) | (530) | (3,895) |
| Purchase of investment securities | (16,600) | (8,008) | (147,950) |
| Proceeds from sales and redemption of investment securities | 6,403 | 8,301 | 57,068 |
| Other, net | (26) | (202) | (232) |
| Net cash (used in) provided by investing activities | (13,142) | 650 | (117,130) |
| Financing activities | | | |
| (Decrease) increase in short-term bank loans, net | (600) | 100 | (5,348) |
| Repayments of lease obligations | (116) | (99) | (1,034) |
| Proceeds from long-term debt | 916 | 2,853 | 8,164 |
| Repayments of long-term debt | (1,153) | (764) | (10,276) |
| Net increase in treasury stock | (445) | (458) | (3,966) |
| Cash dividends | (4,322) | (3,876) | (38,520) |
| Net cash used in financing activities | (5,721) | (2,245) | (50,989) |
| Effects of exchange rate changes on cash and cash equivalents | (65) | (226) | (579) |
| (Decrease) increase in cash and cash equivalents | (2,543) | 9,315 | (22,665) |
| Cash and cash equivalents at beginning of year | 45,043 | 35,727 | 401,453 |
| Cash and cash equivalents at end of year (Note 4) | ¥42,499 | ¥45,043 | \$378,779 |

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2017

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 2016 consolidated financial statements to conform to the 2017 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 and facilities attached to buildings and other non-building structures acquired on or after April 1, 2016, 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 service 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 benefit 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**Application of Practical Solution on a Change in Depreciation Method**

Due to amendments to the Japanese Corporation Tax Act, the Company and its consolidated subsidiaries have applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 32, June 17, 2016

(hereinafter, "PITF No. 32")) from the fiscal year ended March 31, 2017 and changed the depreciation method for facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. The effect of this change on profit and loss for the year ended March 31, 2017 is immaterial.

(n) Additional Information

Application of Guidance on Recoverability of Deferred Tax Assets

The Company and its consolidated subsidiaries have applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")) from the fiscal year ended March 31, 2017.

Trust-Based Employee Shareholding Incentive Plan

At a meeting of the Board of Directors held on February 2, 2015, the Company 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" (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, 2017 and 2016, the carrying amounts of the treasury shares were ¥968 million (\$8,627 thousand) and ¥1,608 million, respectively, and the total numbers of treasury shares were 338 thousand shares and 562 thousand shares, respectively.

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

The carrying amounts of debt recorded through the application of the gross price method were ¥1,269 million (\$11,310 thousand) and ¥1,765 million as of March 31, 2017 and 2016, respectively.

Employee Stock Delivery Trust (the “J-ESOP”)

At a meeting of the Board of Directors held on February 23, 2016, the Company 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” (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, 2017 and 2016, the carrying amounts of the treasury shares were ¥1,645 million (\$14,661 thousand) and ¥1,039 million, respectively, and the total numbers of treasury shares were 754 thousand shares and 477 thousand shares, respectively.

Performance-Linked Stock Compensation Plan

At the 58th Ordinary General Meeting of Shareholders held on June 24, 2016, the Company resolved to introduce a performance-linked stock compensation plan (hereinafter, the “Plan”) for directors (excluding outside directors) of KYORIN Holdings, Inc. and KYORIN Pharmaceutical (hereinafter, the “Group Directors”).

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” (PITF No. 30, March 26, 2015).

(1) Outline of transactions

The Plan is a stock-based compensation plan whereby the Company’s shares are acquired through a trust with the funds contributed by the Company, and the Company’s shares and the amount of cash equivalent to the Company’s shares at their fair value (hereinafter, the “Company’s Shares, etc.”) are paid to eligible Group Directors based on the stock benefit rules for directors prescribed by the Company and its subsidiary.

The Company adopts a Board Benefit Trust system when introducing the Plan. In principle, the Group Directors shall receive the Company’s Shares, etc. on a certain date during the trust period set out by the stock benefit rules for directors or upon their retirement, whichever is earlier.

(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, 2017, the carrying amount of the treasury shares was ¥226 million (\$2,014 thousand), and the total number of treasury shares was 100 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 ¥112.20 = U.S.\$1.00, the approximate rate of exchange on March 31, 2017. 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, 2017 and 2016 for the consolidated statements of cash flows consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Cash and cash in banks | ¥43,619 | ¥45,712 | \$388,761 |
| Short-term investments | — | 83 | — |
| Time deposits with a maturity over three months | (1,120) | (752) | (9,982) |
| Cash and cash equivalents | ¥42,499 | ¥45,043 | \$378,779 |

5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2017 and 2016 is as follows:

Marketable other securities

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|------------------|----------------|------------------------|---------------------------|----------------|------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Equity securities | ¥ 8,744 | ¥19,927 | ¥11,183 | \$ 77,932 | \$177,602 | \$99,670 |
| Debt securities: | | | | | | |
| Government bonds | 5,501 | 5,508 | 6 | 49,029 | 49,091 | 53 |
| Corporate bonds | — | — | — | — | — | — |
| Other bonds | — | — | — | — | — | — |
| Subtotal | 14,246 | 25,436 | 11,189 | 126,970 | 226,702 | 99,724 |
| Securities whose carrying value does not exceed their acquisition cost: | | | | | | |
| Equity securities | 2,012 | 1,780 | (231) | 17,932 | 15,865 | (2,059) |
| Debt securities: | | | | | | |
| Government bonds | 16,400 | 16,382 | (17) | 146,168 | 146,007 | (152) |
| Corporate bonds | — | — | — | — | — | — |
| Other bonds | 1,000 | 980 | (19) | 8,913 | 8,734 | (169) |
| Subtotal | 19,412 | 19,143 | (268) | 173,012 | 170,615 | (2,389) |
| Total | ¥33,658 | ¥44,579 | ¥10,921 | \$299,982 | \$397,317 | \$97,335 |

| | Millions of yen | | |
|---|------------------|----------------|------------------------|
| | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Equity securities | ¥ 8,706 | ¥24,135 | ¥15,428 |
| Debt securities: | | | |
| Government bonds | 11,008 | 11,028 | 19 |
| Corporate bonds | — | — | — |
| Other bonds | — | — | — |
| Subtotal | 19,714 | 35,163 | 15,448 |
| Securities whose carrying value does not exceed their acquisition cost: | | | |
| Equity securities | 2,026 | 1,448 | (577) |
| Debt securities: | | | |
| Government bonds | 400 | 400 | (0) |
| Corporate bonds | 500 | 498 | (1) |
| Other bonds | 1,000 | 989 | (10) |
| Subtotal | 3,926 | 3,336 | (589) |
| Total | ¥23,640 | ¥38,500 | ¥14,859 |

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 ¥493 million (\$4,394 thousand) and ¥401 million as of March 31, 2017 and 2016, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2017 and 2016 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|--------|---------------------------|
| | 2017 | 2016 | 2017 |
| Proceeds from sales | ¥3 | ¥2,101 | \$27 |
| Gains on sales | 3 | 59 | 27 |
| Losses on sales | — | 11 | — |

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, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|---------------------------|
| | 2017 | 2016 | 2017 |
| Short-term bank loans | ¥ 630 | ¥1,230 | \$ 5,615 |
| Current portion of long-term debt | 691 | 632 | 6,159 |
| Current portion of lease obligations | 98 | 112 | 873 |
| Total | ¥1,419 | ¥1,974 | \$12,647 |

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2017 and 2016 are 0.4% and 0.4%, respectively.

Long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan) and lease obligations as of March 31, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------|------------------------------|
| | 2017 | 2016 | 2017 |
| Long-term debt, due through 2026 at average interest rate of 0.4% and 0.5% in 2017 and 2016, respectively | ¥4,321 | ¥4,558 | \$38,512 |
| Lease obligations due through 2030 in 2017 and 2016 | 576 | 656 | 5,134 |
| Current portion of long-term debt and lease obligations due within one year | (789) | (744) | (7,032) |
| Total | ¥4,108 | ¥4,470 | \$36,613 |

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 ¥490 million (\$4,367 thousand) and ¥164 million as of March 31, 2017 and 2016, respectively, 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 |
|-----------------------|-----------------|------------------------------|
| 2018 | ¥789 | \$7,032 |
| 2019 | 789 | 7,032 |
| 2020 | 773 | 6,889 |
| 2021 | 234 | 2,086 |
| 2022 | 129 | 1,150 |

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

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

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

(c) Treasury Stock and Stock Option

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

8. Research and Development Expenses

Research and development expenses included in general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥13,569 million (\$120,936 thousand) and ¥13,019 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, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|---------|------------------------------|
| | 2017 | 2016 | 2017 |
| Gain: | | | |
| Buildings and structures | ¥ — | ¥ 608 | \$ — |
| Machinery and vehicle | — | 0 | — |
| Land | 44 | 1,272 | 392 |
| Other | — | — | — |
| | ¥ 44 | ¥1,881 | \$ 392 |
| Loss: | | | |
| Buildings and structures | ¥ (73) | ¥ (361) | \$ (651) |
| Machinery and vehicle | (6) | (26) | (53) |
| Other | (100) | (25) | (891) |
| | (180) | (413) | (1,604) |
| Total | ¥(135) | ¥1,467 | \$(1,203) |

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.

There was no impairment loss recognized in the fiscal year ended March 31, 2017.

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

| <u>Location</u> | <u>Use</u> | <u>Type of assets</u> |
|------------------------------|-----------------------|--------------------------------------|
| 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 under extraordinary loss.

The components of the impairment loss were building and structures of ¥320 million, land of ¥51 million, other property, plant and equipment of ¥8 million.

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

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, 2017 and 2016 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|--|-----------------|------------|------------|---------------------------|-------------|------------|
| | 2017 | | | 2017 | | |
| | Carrying value | Fair value | Difference | Carrying value | Fair value | Difference |
| Cash and cash in banks | ¥ 43,619 | ¥ 43,619 | ¥— | \$ 388,761 | \$ 388,761 | \$— |
| Notes and accounts receivable | 46,192 | 46,192 | — | 411,693 | 411,693 | — |
| Short-term investments and investment securities | 44,579 | 44,579 | — | 397,317 | 397,317 | — |
| Total assets | ¥134,392 | ¥134,392 | ¥— | \$1,197,790 | \$1,197,790 | \$— |
| Notes and accounts payable | ¥ 11,157 | ¥ 11,157 | ¥— | \$ 99,439 | \$ 99,439 | \$— |
| Total liabilities | ¥ 11,157 | ¥ 11,157 | ¥— | \$ 99,439 | \$ 99,439 | \$— |

| | Millions of yen | | |
|--|-----------------|------------|------------|
| | 2016 | | |
| | Carrying value | Fair value | Difference |
| Cash and cash in banks | ¥ 45,712 | ¥ 45,712 | ¥— |
| Notes and accounts receivable | 48,296 | 48,296 | — |
| Short-term investments and investment securities | 38,500 | 38,500 | — |
| Total assets | ¥132,509 | ¥132,509 | ¥— |
| Notes and accounts payable | ¥ 11,792 | ¥ 11,792 | ¥— |
| Total liabilities | ¥ 11,792 | ¥ 11,792 | ¥— |

Unlisted securities and others of ¥1,075 million (\$9,581 thousand) and ¥953 million whose fair values are extremely difficult to determine as of March 31, 2017 and 2016, 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, 2017 is as follows:

| | Millions of yen | | | |
|---|-------------------------|---------------------------------------|--|---------------------|
| | 2017 | | | |
| | 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 | ¥43,619 | ¥ — | ¥— | ¥— |
| Notes and accounts receivable | 46,192 | — | — | — |
| Short-term investments and investment securities: | | | | |
| Other securities with maturities: | | | | |
| Government bonds | 5,000 | 16,900 | — | — |
| Bonds | — | — | — | — |
| Other | — | 1,000 | — | — |
| Total | ¥94,812 | ¥17,900 | ¥— | ¥— |

| | Thousands of U.S. dollars | | | |
|---|---------------------------|---------------------------------------|--|---------------------|
| | 2017 | | | |
| | 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 | \$388,761 | \$ — | \$— | \$— |
| Notes and accounts receivable | 411,693 | — | — | — |
| Short-term investments and investment securities: | | | | |
| Other securities with maturities: | | | | |
| Government bonds | 44,563 | 150,624 | — | — |
| Bonds | — | — | — | — |
| Other | — | 8,913 | — | — |
| Total | \$845,027 | \$159,537 | \$— | \$— |

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, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------------|---------------------------|
| | 2017 | 2016 | 2017 |
| Retirement benefit obligation at the beginning of the year | ¥34,478 | ¥30,062 | \$307,291 |
| Service cost | 1,160 | 964 | 10,339 |
| Interest cost | 172 | 390 | 1,533 |
| Actuarial loss | 157 | 4,317 | 1,399 |
| Retirement benefits paid | (1,264) | (1,256) | (11,266) |
| Retirement benefit obligation at the end of the year | ¥34,704 | ¥34,478 | \$309,305 |

(2) The changes in plan assets for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Plan assets at the beginning of the year | ¥31,784 | ¥31,033 | \$283,280 |
| Expected return on plan assets | 635 | 620 | 5,660 |
| Actuarial gain or loss | 330 | (547) | 2,941 |
| Contributions paid by the employer | 1,954 | 1,934 | 17,415 |
| Retirement benefits paid | (1,264) | (1,256) | (11,266) |
| Plan assets at the end of the year | ¥33,441 | ¥31,784 | \$298,048 |

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------|---------------------------|
| | 2017 | 2016 | 2017 |
| Liability (asset) for retirement benefits at the beginning of the year | ¥350 | ¥305 | \$3,119 |
| Retirement benefits costs | 53 | 136 | 472 |
| Retirement benefits paid | (17) | (8) | (152) |
| Contributions to the plans | (83) | (82) | (740) |
| Liability (asset) for retirement benefits at the end of the year | ¥303 | ¥350 | \$2,701 |

(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, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2017 | 2016 | 2017 |
| Funded defined benefit obligation | ¥35,095 | ¥34,856 | \$312,790 |
| Plan assets | (33,941) | (32,196) | (302,504) |
| | 1,153 | 2,660 | 10,276 |
| Unfunded retirement benefit obligation | 413 | 384 | 3,681 |
| Net liability (asset) for retirement benefits | ¥ 1,567 | ¥ 3,044 | \$ 13,966 |
| Liability for retirement benefits | ¥ 1,676 | ¥ 3,087 | \$ 14,938 |
| Asset for retirement benefits | (109) | (42) | (971) |
| Net liability (asset) for retirement benefits | ¥ 1,567 | ¥ 3,044 | \$ 13,966 |

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

(5) The components of retirement benefits costs for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-------|---------------------------|
| | 2017 | 2016 | 2017 |
| Service costs | ¥1,160 | ¥964 | \$10,339 |
| Interest costs | 172 | 390 | 1,533 |
| Expected return on plan assets | (635) | (620) | (5,660) |
| Amortization of actuarial loss | 1,020 | 16 | 9,091 |
| Amortization of prior service costs | (67) | (67) | (597) |
| Retirement benefits costs based on the simplified method | 53 | 136 | 472 |
| Retirement benefits costs | ¥1,704 | ¥820 | \$15,187 |

(6) Prior service costs and actuarial gain or loss included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|--------|---------------------------|
| | 2017 | 2016 | 2017 |
| Prior service costs | ¥ 67 | ¥ 67 | \$ 597 |
| Actuarial gain or loss | (1,194) | 4,848 | (10,642) |
| Total | ¥(1,126) | ¥4,915 | \$(10,036) |

(7) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Unrecognized prior service costs | ¥ (405) | ¥ (473) | \$ (3,610) |
| Unrecognized actuarial loss | 4,024 | 5,218 | 35,865 |
| Balance at the end of the year | ¥3,618 | ¥4,745 | \$32,246 |

(8) Plan assets

The breakdown of plan assets is as follows:

| | 2017 | 2016 |
|----------------------------|--------|--------|
| Domestic debt securities | 41.3% | 24.4% |
| Domestic equity securities | 5.7 | 4.9 |
| Foreign debt securities | 6.0 | 24.4 |
| Foreign equity securities | 12.5 | 12.0 |
| General account | 7.5 | 7.8 |
| Other | 27.0 | 26.5 |
| Total | 100.0% | 100.0% |

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

(9) Actuarial assumptions

| | 2017 | 2016 |
|--|------|------|
| Discount rate | 0.5% | 0.5% |
| Expected rate of return on plan assets | 2.0% | 2.0% |

Defined contribution plans

The Company and its consolidated subsidiaries contributed ¥306 million (\$2,727 thousand) and ¥308 million to the defined contribution plans for the years ended March 31, 2017 and 2016, respectively.

13. Pledged Assets

There are no assets pledged as collateral for guaranty deposits as of March 31, 2017.

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

| | Millions of yen |
|-------------------------------|-----------------|
| | 2016 |
| Assets pledged as collateral: | |
| For guaranty deposits | |
| Cash and cash in banks | ¥10 |
| Total | ¥10 |

14. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2017 | 2016 | 2017 |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥1,233 | ¥1,571 | \$10,989 |
| Accrued bonuses to employees | 818 | 986 | 7,291 |
| Allowance for doubtful accounts | 34 | 55 | 303 |
| Accrued enterprise tax | 44 | 201 | 392 |
| Loss on retirement of inventories | 230 | 189 | 2,050 |
| Loss on devaluation of investment securities | 506 | 169 | 4,510 |
| Loss on retirement of property, plant and equipment | 838 | 1,110 | 7,469 |
| Impairment loss | 121 | 396 | 1,078 |
| Amortization of deferred assets | 193 | 555 | 1,720 |
| Loss on closure of plant | 814 | 824 | 7,255 |
| Tax loss carryforward | 176 | 128 | 1,569 |
| Other | 1,088 | 1,198 | 9,697 |
| Subtotal | 6,102 | 7,386 | 54,385 |
| Valuation allowance | (225) | (345) | (2,005) |
| Total deferred tax assets | 5,876 | 7,040 | 52,371 |
| Deferred tax liabilities: | | | |
| Reserve for reduction entry of property, plant and equipment | (1,330) | (1,446) | (11,854) |
| Unrealized holding gain on other securities | (3,344) | (4,548) | (29,804) |
| Prepaid pension cost | (749) | (639) | (6,676) |
| Other | (3) | (2) | (27) |
| Total deferred tax liabilities | (5,427) | (6,637) | (48,369) |
| Net deferred tax assets | ¥ 449 | ¥ 403 | \$ 4,002 |

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, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|--|-------|-------|
| Statutory tax rate | 30.9% | 33.1% |
| Entertainment expenses and others that are not tax deductible permanently | 1.6 | 0.8 |
| Inhabitants' per capita taxes | 1.0 | 0.5 |
| Adjustment to deferred tax assets and liabilities from change in the statutory tax rate | — | 1.1 |
| Tax credits for research and development expenses | (3.4) | (6.2) |
| Valuation allowance | (3.4) | (0.9) |
| Internal profit elimination | (0.9) | (0.3) |
| Other | (1.0) | (0.6) |
| Effective tax rate | 24.8% | 27.5% |

15. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2017 | 2016 | 2017 |
| Unrealized holding gain on other securities: | | | |
| Gain arising during the year | ¥(3,934) | ¥3,454 | \$(35,062) |
| Reclassification adjustments | (3) | (1) | (27) |
| Before income tax effects | (3,937) | 3,452 | (35,089) |
| Income tax effects | 1,205 | (861) | 10,740 |
| Unrealized holding gain on other securities | (2,732) | 2,591 | (24,349) |
| Translation adjustments: | | | |
| Adjustments arising during the year | (45) | (7) | (401) |
| Retirement benefits liability adjustments: | | | |
| Gain (loss) arising during the year | 173 | (4,864) | 1,542 |
| Reclassification adjustments | 953 | (51) | 8,494 |
| Before income tax effects | 1,126 | (4,915) | 10,036 |
| Income tax effects | (344) | 1,508 | (3,066) |
| Retirement benefits liability adjustments | 781 | (3,407) | 6,961 |
| Share of other comprehensive income of affiliates accounted for using equity method: | | | |
| Gain (loss) arising during the year | 5 | (17) | 45 |
| Total other comprehensive income | ¥(1,990) | ¥ (841) | \$(17,736) |

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.

Under the New Medium-Term Business Plan, "HOPE 100: Stage 2," the Company is reviewing its consolidated group's business management categories. Accordingly, the reportable segments were changed from the Pharmaceutical Business and the Consumer Healthcare (Skincare) Business to the Ethical Pharmaceutical Business and the Consumer Healthcare (Skincare) Business from the year ended March 31, 2017.

The Ethical Pharmaceutical Business mainly produces, sells, and purchases ethical drugs and generic drugs. The Consumer Healthcare (Skincare) Business mainly produces, sells, and purchases environmental hygiene products, over-the-counter drugs and skincare products. Segment information for the year ended March 31, 2016 has been restated to reflect the new classification.

(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 | | | | |
|---|---------------------------------------|--|-------------|-------------|--------------|
| | 2017 | | | | |
| | Reportable segment | | | | |
| | Ethical Pharmaceutical Business | Consumer Healthcare (Skincare) Business | Total | Adjustments | Consolidated |
| Net sales: | | | | | |
| Sales to third parties | ¥109,566 | ¥5,807 | ¥115,373 | ¥ — | ¥115,373 |
| Inter-segment sales or transfers | 38 | 0 | 38 | (38) | — |
| Total | ¥109,604 | ¥5,807 | ¥115,412 | ¥ (38) | ¥115,373 |
| Segment profit (loss) | ¥ 10,106 | ¥ (1) | ¥ 10,104 | ¥ 308 | ¥ 10,413 |
| Segment assets | ¥161,023 | ¥7,613 | ¥168,636 | ¥24,031 | ¥192,668 |
| Other items: | | | | | |
| Impairment loss | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Depreciation and amortization | 3,236 | 58 | 3,294 | 324 | 3,619 |
| Investments in affiliates accounted for using equity method | 581 | — | 581 | — | 581 |
| Increase in property, plant and equipment and intangible assets | 2,863 | 103 | 2,967 | 98 | 3,065 |
| | Thousands of U.S. dollars | | | | |
| | 2017 | | | | |
| | Reportable segment | | | | |
| | Ethical Pharmaceutical Business | Consumer Healthcare (Skincare) Business | Total | Adjustments | Consolidated |
| Net sales: | | | | | |
| Sales to third parties | \$ 976,524 | \$51,756 | \$1,028,280 | \$ — | \$1,028,280 |
| Inter-segment sales or transfers | 339 | 0 | 339 | (339) | — |
| Total | \$ 976,863 | \$51,756 | \$1,028,627 | \$ (339) | \$1,028,280 |
| Segment profit (loss) | \$ 90,071 | \$ (9) | \$ 90,053 | \$ 2,745 | \$ 92,807 |
| Segment assets | \$1,435,143 | \$67,852 | \$1,502,995 | \$214,180 | \$1,717,184 |
| Other items: | | | | | |
| Impairment loss | \$ — | \$ — | \$ — | \$ — | \$ — |
| Depreciation and amortization | 28,841 | 517 | 29,358 | 2,888 | 32,255 |
| Investments in affiliates accounted for using equity method | 5,178 | — | 5,178 | — | 5,178 |
| Increase in property, plant and equipment and intangible assets | 25,517 | 918 | 26,444 | 873 | 27,317 |
| | Millions of yen | | | | |
| | 2016 | | | | |
| | Reportable segment | | | | |
| | Ethical Pharmaceutical Business | Consumer Healthcare (Skincare) Business | Total | Adjustments | Consolidated |
| Net sales: | | | | | |
| Sales to third parties | ¥113,970 | ¥5,512 | ¥119,483 | ¥ — | ¥119,483 |
| Inter-segment sales or transfers | 50 | 0 | 50 | (50) | — |
| Total | ¥114,020 | ¥5,512 | ¥119,533 | ¥ (50) | ¥119,483 |
| Segment profit (loss) | ¥ 19,608 | ¥ (187) | ¥ 19,421 | ¥ 214 | ¥ 19,636 |
| Segment assets | ¥165,279 | ¥7,712 | ¥172,992 | ¥24,833 | ¥197,825 |
| Other items: | | | | | |
| Impairment loss | ¥ 380 | ¥ — | ¥ 380 | ¥ — | ¥ 380 |
| Depreciation and amortization | 3,300 | 57 | 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 | 7,073 | 22 | 7,096 | 134 | 7,230 |

1. "Adjustments" for "Segment profit (loss)" of ¥308 million (\$2,745 thousand) and ¥214 million for the years ended March 31, 2017 and 2016, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥24,031 million (\$214,180 thousand) and ¥24,833 million as of March 31, 2017 and 2016, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥324 million (\$2,888 thousand) and ¥372 million for the years ended March 31, 2017 and 2016, 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 ¥98 million (\$873 thousand) and ¥134 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016.

(b) Information by Geographical Area

(1) Sales

Information about sales by geographical area is omitted for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016

| Name of customer | Millions of yen | |
|-------------------------------|---------------------------|---------------------------------|
| | Sales amount | Related segments |
| Alfresa Corporation | ¥20,561 | Ethical Pharmaceutical Business |
| SUZUKEN CO., LTD. | 18,251 | Ethical Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 16,867 | Ethical Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 15,076 | Ethical Pharmaceutical Business |
| | Thousands of U.S. dollars | |
| Name of customer | 2017 | |
| | Sales amount | Related segments |
| Alfresa Corporation | \$183,253 | Ethical Pharmaceutical Business |
| SUZUKEN CO., LTD. | 162,665 | Ethical Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 150,330 | Ethical Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 134,367 | Ethical Pharmaceutical Business |

| Name of customer | Millions of yen | |
|-------------------------------|-----------------|---------------------------------|
| | Sales amount | Related segments |
| Alfresa Corporation | ¥20,583 | Ethical Pharmaceutical Business |
| SUZUKEN CO., LTD. | 18,334 | Ethical Pharmaceutical Business |
| MEDIPAL HOLDINGS CORPORATION | 17,363 | Ethical Pharmaceutical Business |
| Toho Pharmaceutical Co., Ltd. | 15,828 | Ethical 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, 2017 and 2016.

17. Contingent Liabilities

Contingent liabilities as of March 31, 2017 and 2016 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
| | 2017 | 2016 | 2017 |
| Guarantors of indebtedness of employees | ¥7 | ¥1 | \$62 |

18. Amounts per Share

Amounts per share for the years ended March 31, 2017 and 2016 are as follows:

| | Yen | | U.S. dollars |
|----------------|-----------------|----------|----------------|
| | 2017 | 2016 | 2017 |
| Basic profit | ¥ 99.45 | ¥ 184.28 | \$ 0.89 |
| Cash dividends | 58.00 | 58.00 | 0.52 |
| Net assets | 2,146.83 | 2,131.67 | 19.13 |

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, 2017 and 2016.

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 1,255,816 and 698,516 for the years ended March 31, 2017 and 2016, 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 1,193,500 and 1,040,100 as of March 31, 2017 and 2016, 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, 2017, 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

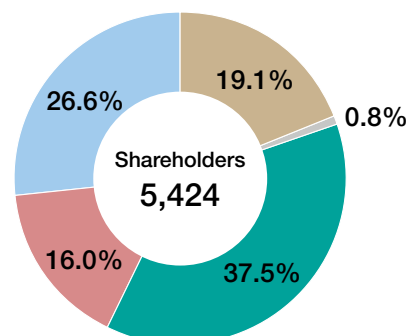
June 26, 2017

Corporate Overview/Stock Information (As of March 31, 2017)

| | |
|---------------------------|---|
| Head Office | KYORIN Holdings, Inc. 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3525-4700 URL: http://www.kyorin-gr.co.jp/en/ |
| Establishment | 1958 |
| Common Stock | ¥700 million |
| Outstanding Shares | 74,947,628 |
| Shareholders | 5,424 |
| Listing | Tokyo Stock Exchange, First Section |
| Transfer Agent | Mizuho Trust & Banking Co., Ltd., 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028 Phone: +81-3-3278-8111 |

| Major Shareholders | Percentage of shares held |
|---|---------------------------|
| TEIJIN LIMITED | 19.12% |
| Mykam Co., Ltd. | 3.66% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 3.06% |
| Minoru Ogihara | 2.97% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2.83% |
| Banrina Co., Ltd. | 2.60% |
| Archans Co., Ltd. | 2.60% |
| Yutaka Ogihara | 2.49% |
| Mariko Ogihara | 2.35% |
| Hiroko Ogihara | 2.33% |

Major Shareholders



| | |
|-----------------------------|-------|
| Financial institutions | 19.1% |
| Financial instruments firms | 0.8% |
| Other corporations | 37.5% |
| Foreign corporations | 16.0% |
| Individuals and other | 26.6% |

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.



The Kyorin Group

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: Drug discovery business, manufacture and sales of drugs (ethical drugs, over-the-counter drugs and others)

With a corporate vision of aiming to be "a pharmaceutical manufacturer that is trusted by patients and medical professionals, and is recognized for its presence in society," KYORIN Pharmaceutical works to establish its presence in the specific fields of respiratory, otolaryngology and urology, and create innovative new drugs that can be deployed on a global level.

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 drugs (generic drugs, over-the-counter drugs and others)

As the Kyorin Group subsidiary responsible for the generic drugs business, KYORIN Rimedio aims to become "a highly reliable generic drug manufacturer." To contribute to the health of patients, and recognizing critical social issues in reducing healthcare costs and helping to maintain social security infrastructure, KYORIN Rimedio will continue to ensure a stable supply of high-quality products and information, as it works to deliver distinctive generic drugs to the market.

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: Environmental hygiene, sales promotion, planning and production of advertising

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

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 Facilities commenced operations in October 2012 as a pharmaceutical manufacturing company. The company conducts business related to the manufacturing of ethical drugs using pharmaceutical manufacturing assets acquired from MSD K.K. The company works to provide a stable supply of high-quality products, enhance manufacturing technologies and streamline costs by building a framework that allows for flexible and rapid execution of a variety of measures in response to changes in the business environment.

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



Disclaimer Regarding Forward-Looking Statements

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



KYORIN Holdings, Inc.

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