



# ANNUAL REPORT 2019

Year ended March 31, 2019

Corporate Philosophy of the Kyorin Group

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



### 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

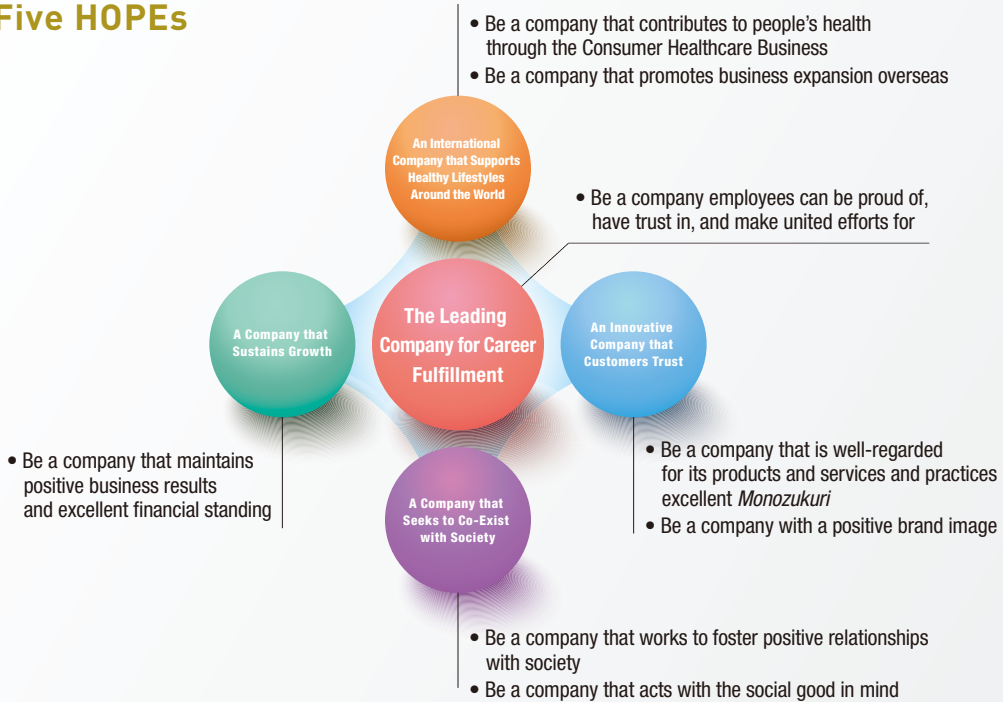


# HOPE100 (Aim for Health Of People and our Enterprises)

## 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.

## Five HOPEs



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**Editorial Policy** Annual Report 2019 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 2018 (April 1, 2018 to March 31, 2019); some information also relates to fiscal 2019 activities.

## To Our Stakeholders



**Minoru Hogawa**

Representative Director and  
Chairman

**Yutaka Ogihara**

Representative Director, President and  
Chief Executive Officer

Based on our corporate philosophy, “Kyorin continues to fulfill its mission of cherishing life and benefiting society by contributing to better health,” the Kyorin Group is working to achieve the HOPE100 long-term vision for 2023, which will mark the 100th anniversary of the founding of our core subsidiary, KYORIN Pharmaceutical Co., Ltd. We are comprehensively integrating our core ethical drugs business and healthcare business with a view toward the enhancement of corporate value over the medium to long term, with the aim of dispersing business risks and achieving healthy, continuous growth as “a company that supports sound and healthy lifestyles.”

**Your Health Is Kyorin’s Mission.**

## Executing the HOPE100–Stage 2– medium-term business plan under a new management structure, for steady “transformation” and continuous growth

With the drastic reform of the drug pricing system as part of the government’s bold measures to curtail outlays for social security costs, the operating environment for Japan’s pharmaceutical industry is undergoing dramatic changes more rapidly than had been foreseen.

For the Kyorin Group, fiscal 2019 is the final year under the HOPE100–Stage 2– medium-term business plan. Over the past three years, the Group has been able to address a variety of management issues to overcome the effect of the expiry of the patent on one of our main products, and in fiscal 2019, turn around to an underlying trend of revenue and profit growth. Nevertheless, we expect the changes taking place in the operating environment for pharmaceutical companies to present even greater challenges. Given this situation, we have determined that a new management team for the next generation of management would be optimal for the formulation and implementation of the next medium-term business plan, and we launched this new structure with Minoru Hogawa as Representative Director and Chairman and Yutaka Ogihara as Representative Director, President and Chief Executive Officer, from June.

Under this new structure, we will work with all Group employees as one during fiscal 2019 to achieve the HOPE100–Stage 2– targets, while at the same time steadily implementing “transformation” for continuous growth and formulating the new HOPE100–Stage 3– medium-term business plan, which will mark the achievement of the HOPE100 long-term vision.

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

July 2019



Minoru Hogawa  
Representative Director and Chairman  
KYORIN Holdings, Inc.



Yutaka Ogihara  
Representative Director, President and  
Chief Executive Officer  
KYORIN Holdings, Inc.

# History of the Kyorin Group

KYORIN Pharmaceutical Co., Ltd., the core company of the Kyorin Group, was established 96 years ago. Over that time, we have continuously created new drugs to fulfill our social mission of contributing to the treatment and prevention of disease, and to the maintenance and promotion of health. As we approach our 100th anniversary, we will continue to evolve as a “Company that supports sound and healthy lifestyles” under our HOPE100 long-term vision.

Product history

- 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.).
- 1981 Mucodyne, a mucoregulant, was launched.
- 1982 Norfloxacin (NFLX) was licensed to Astra (Sweden, present AstraZeneca) and Liade (Spain, 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.).
- 2001 Kipres, a leukotriene receptor antagonist and bronchial asthma treatment medicine, was launched.
- 2002 Gatiflo (GFLX), a broad-spectrum oral antibacterial agent, was launched.

Vision

1923»1970



1971 —————>> 2004



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.
- 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.
- 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.
- 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.

## 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.

### ●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.

### ●2010

Mucodyne DS 50%, a mucoregulant, was launched.

### ●2011

Uritos Orally Disintegrating (OD) Tablets 0.1 mg, an overactive bladder drug, was launched.

### ●2012

RUBYSTA, a multi-purpose disinfectant cleaner, was launched.  
Transfer of business related to a topical antifungal prescription drug Pekiron cream 0.5% to Galderma S.A. (Switzerland).

### ●2013

Pentasa Suppositories 1 g, a treatment for ulcerative colitis, was launched.  
Flutiform, a combination drug for asthma treatment, was launched.

### ●2014

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

### ●2015

Eklira Genuair, a treatment for COPD, was launched.  
FPR2 Agonist Program was licensed to Bristol-Myers Squibb Company (U.S.A.).  
Kipres OD, a treatment for bronchial asthma and allergic rhinitis, was launched.  
Pentasa Granules 94%, a treatment for ulcerative colitis and Crohn’s disease, was launched.

### ●2016

Montelukast Tablets “KM” was launched.  
Desalex 5 mg Tablets, an antiallergic agent, was launched.

### ●2018

Signed a license agreement with SANWA KAGAKU KENKYUSHO CO., LTD. for KRP-N118 (SK-1404), a therapeutic agent for the treatment of nocturia, covering Japan and Asia.  
Acquired the exclusive distribution rights in Japan for NASONEX® Nasal, a therapeutic agent for allergic rhinitis using a metered-dose manual pump spray unit, from MSD K.K.  
Beova Tablets 50mg, an overactive bladder drug, was launched.



## Corporate Vision for 2023

HOPE100 Long-Term Vision (FY2010–FY2023)

2005 —————>> 2019 —————>> 2023



### ●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.

### ●2012

The Shiga Plant of MSD K.K. was acquired (conversion into subsidiary) and KYORIN Pharmaceutical Facilities Co., Ltd. (head office: Shiga Prefecture) 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.  
KYORIN Pharmaceutical Co., Ltd. acquired all of the outstanding shares of JTAS Inc., and carried out an absorption-type merger of JTAS.

### ●2018

New manufacturing subsidiary, KYORIN Pharmaceutical Group Facilities Co., Ltd. (head office: Tokyo), commences operations.

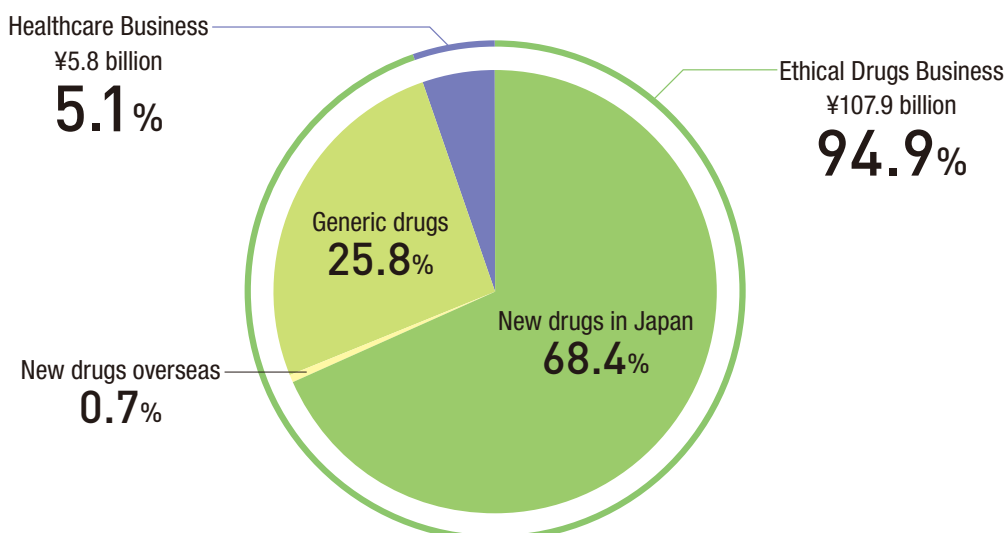
## The Kyorin Group's Core Companies and Businesses

The Kyorin Group is organized under the holding company KYORIN Holdings, Inc., with KYORIN Pharmaceutical Co., Ltd. as its core subsidiary operating an ethical drugs business and a healthcare business. The ethical drugs business is proactively engaged in proprietary drug discovery, while at the same time developing, manufacturing, and selling new drugs and generic drugs. The healthcare business primarily handles products related to environmental hygiene and over-the-counter drugs.

### The Kyorin Group



### Breakdown of net sales by business





## Main Products in Four Areas

### Respiratory and Otolaryngology

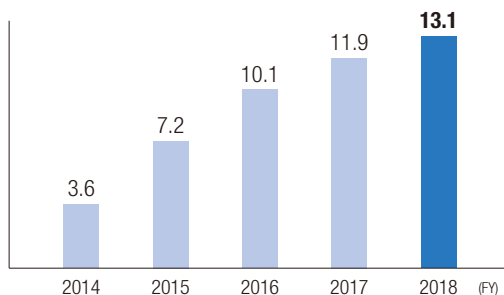


#### Flutiform

General name: Fluticasone/Formoterol  
 Indication: Bronchial asthma  
 Released: 2013

ICS/LABA: ¥120 billion  
 Market share in FY2018: 12%

#### Net sales (Billions of yen)



### Otolaryngology

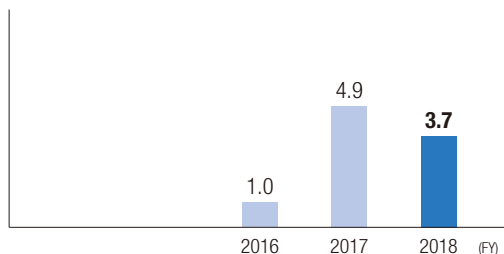


#### Desalex

General name: Desloratadine  
 Indication: Allergic disease  
 Released: 2016  
 Co-promotion with Kaken Pharmaceutical Co., Ltd.,  
 in field of dermatology

Antihistamine: ¥160 billion  
 Market share in FY2018: 3%

#### Net sales (Billions of yen)



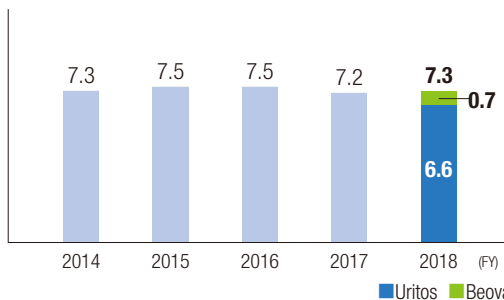
### Urology



#### Uritos

General name: Imidafenacin  
 Indication: Overactive bladder  
 Released: 2007  
 Co-development and co-marketing with Ono Pharmaceutical  
 Co., Ltd. (sold by Ono Pharmaceutical under the name  
 Staybla®)

#### Net sales (Billions of yen)



#### Beova

General name: Vibegron  
 Indication: Overactive bladder  
 Released: 2018  
 Co-development and co-marketing with Kissei  
 Pharmaceutical Co., Ltd.

OAB: ¥90 billion  
 Market share in FY2018: 8% (Uritos)  
 1% (Beova)

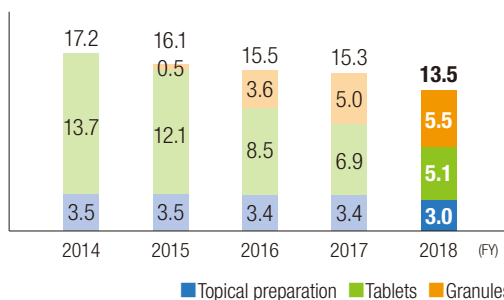
### IBD\*



#### Pentasa

General name: Mesalazine  
 Indications: Ulcerative colitis, Crohn's  
 disease  
 Released: 1996  
 2015 (granules)

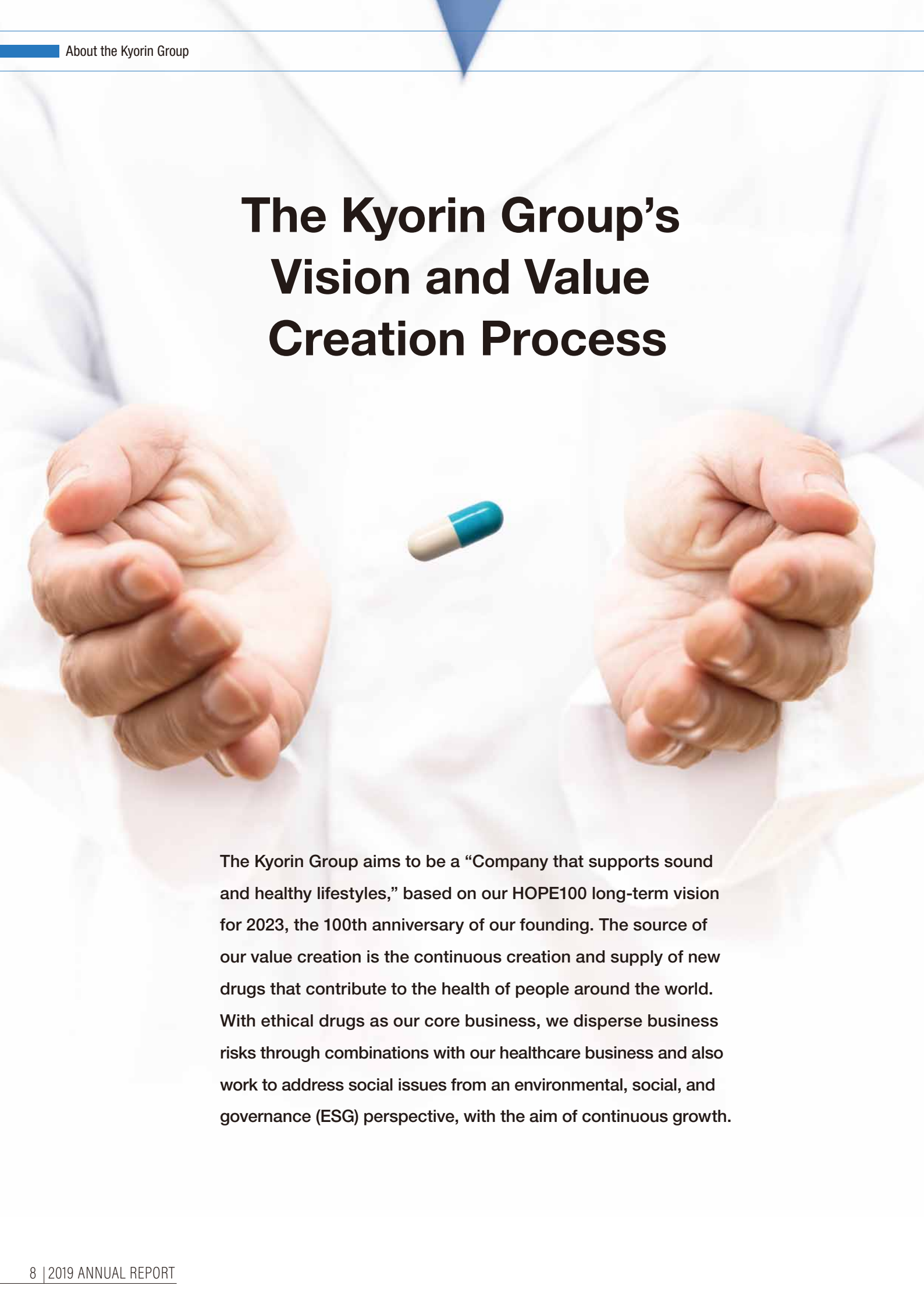
#### Net sales (Billions of yen)



\*Inflammatory Bowel Diseases

IBD: ¥40 billion  
 Market share in FY2018: 38%

# The Kyorin Group's Vision and Value Creation Process

A person wearing a white lab coat is shown from the chest up. Their hands are clenched into fists, held out towards the camera. A single blue and white capsule is suspended in the air between the two fists. The background is a soft, out-of-focus white.

The Kyorin Group aims to be a “Company that supports sound and healthy lifestyles,” based on our HOPE100 long-term vision for 2023, the 100th anniversary of our founding. The source of our value creation is the continuous creation and supply of new drugs that contribute to the health of people around the world. With ethical drugs as our core business, we disperse business risks through combinations with our healthcare business and also work to address social issues from an environmental, social, and governance (ESG) perspective, with the aim of continuous growth.

# Corporate Vision for 2023

# HOPE100

Long-Term Vision

Aiming to Evolve as a Company That Supports Sound and Healthy Lifestyles



## Value Provided to Stakeholders

- Creation of new innovative products
- Providing outstanding quality products and services
- Responding to unmet medical needs
- Enhancing the quality of life of patients and their families
- Combating infectious disease through environmental hygiene, diagnosis, and medical treatment

### Kyorin's strengths

Ability to identify novel targets

Development pipeline that prioritizes specific fields

Relationships of trust with medical professionals in specific fields

Stable supply of generic drugs with the same high quality as new drugs

Optimized Group manufacturing structure

## The Kyorin Group's Business Activities

We are developing our business through combinations of ethical drugs and healthcare businesses from the perspective of enhancing corporate value over the medium to long term.

### Ethical Drugs Business

Research/  
Development

Drug discovery

- Pursuing the challenge of first-in-class drug discovery
- Utilizing open innovation
- Creating markets with new drugs

New drugs business

- Increasing the ratio of the new drugs group\*
- Establishing a presence in specific fields (respiratory, otolaryngology, urology)

\*New drugs group: drugs that are already launched, which are protected by patents and exclusivity

Sales

Generic drugs business

- Promoting businesses that use the benefits of handling new drugs in-house
- Proactive initiatives in authorized generics (AG)

Production

### 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

## Environmental, Social, and Governance (ESG) Activities

### Group-Related Social Issues

- Rapidly aging population
- Unmet medical needs
- Combating infectious diseases
- Existing in harmony with local communities
- Addressing the increasing sophistication of medical technologies in areas including artificial intelligence (AI), the internet of things (IoT), and life sciences
- Increasing medical costs
- Diversifying medical needs
- Human resource development
- Social contribution

**Interview with  
the President**

**All Group employees working  
as one for steady transformation  
to secure a new path for growth**

**Yutaka Ogihara**

Representative Director, President  
and Chief Executive Officer



**Q**

**Please give us an overview of business results for fiscal 2018.**

**A**

**We overcame the effect of the patent expiry for Kipres, one of our main products, and achieved/recorded our first revenue and profit growth in three years.**

Japan's pharmaceutical industry experienced slow market growth during fiscal 2018, mainly due to drug price revisions (an industrywide average 7.5% reduction) as part of an extensive reform of the drug pricing system.

For the Kyorin Group, fiscal 2018 was the third year under the HOPE100–Stage 2– medium-term business plan, and under the management policy of “implementing speedy transformation,” we strove to strengthen our platform for growth and enhance our earnings strength. In terms of business results for the year, we were able to overcome the effect of the patent expiry for Kipres, one of our main products, and record increases in sales and profit for the first time in three years. With regard to new drugs in Japan, sales of Desalex declined from the previous year, from the effect of a voluntary recall by the manufacturer and distributor MSD K.K. following the discovery of a procedural flaw in a storage facility for the active pharmaceutical ingredient, but in addition to sales growth for Flutiform, contributions from the market launch of Beova and the transfer of distribution rights in Japan for Nasonex resulted in a ¥4.0 billion increase from the previous year for sales of new drugs in Japan.

Sales of new drugs overseas declined ¥2.5 billion from the previous fiscal year, in the absence of the previous year's one-time revenue associated with development progress for the out-licensed FPR2 agonist program. Generic drugs recorded sales growth of ¥1.6 billion on increased sales including generics released during fiscal 2018. The healthcare business saw increased sales of Rubysta but sales of other products declined, resulting in an overall decrease of ¥0.1 billion. As a result, consolidated net sales for fiscal 2018 rose 2.7% from the previous year, to ¥113,620 million.

In terms of profit, drug price revisions had the effect of raising the cost of sales ratio, and in the absence of the previous year's one-time revenue under an out-licensing

contract, gross profit declined, but this was absorbed by factors including a reduction in R&D expenditures and as a result, operating income rose 1.7%, to ¥8,972 million.

**Q**

**What are the main points of your business strategy for fiscal 2019?**

**A**

**We will use new drugs to secure a path of growth, to ensure continuous growth.**

Drug price revisions associated with the consumption tax increase are anticipated in fiscal 2019, and we expect an increasingly challenging operating environment in the domestic pharmaceutical market. We certainly feel like we are on an escalator that is going down, and I believe that growth can only be achieved by climbing upward at an even greater speed.

Although we face a difficult operating environment, our new drugs give the Kyorin Group an opportunity for growth, and fiscal 2019 will be an important year for reinforcing our platform for medium-term growth. We will work to ensure continuous growth by creating new markets through the increased prescription of Beova, owing to the elimination of restrictions on dosage periods, and the release and early market penetration of the quinolone synthetic antibacterial agent KRP-AM1977X.

Specifically, we will pursue the speedy implementation of the following six items to secure a path of growth.

### **1. Creating original new drugs with global potential**

First-in-class drug discovery requires the identification of new targets, and we intend to expand our feasibility research to an even greater degree through proactive outside collaboration and the acquisition of new technologies. KYORIN Pharmaceutical also established a new Discovery Research Planning Division in April as an organizational restructuring to strengthen our drug discovery strategy function.

### **2. Continuous drug discovery**

With regard to the discovery pipeline, along with re-examining target diseases and in addition to low molecular weight drug discovery, we are proactively introducing

necessary technologies from outside in areas like nucleic acid medicines as we pursue continuous drug discovery that overrides the framework of our past drug discovery. Our target going forward is to have a development pipeline that is able to bring at least one project to market each year.

### 3. Creating markets with new drugs

In addition to our three main drugs—Flutiform, Desalex, and Beova—with the expected market launch for KRP-AM1977X, we are pursuing the challenge of creating markets by centering on four products. Our future targets are for Flutiform to achieve a 30% market share in terms of volume, for Desalex to become the most prescribed drug in the field of otolaryngology, and for Beova to achieve a 30% share in terms of the number of prescribed patients. Our target for KRP-AM1977X after the introduction to market is to be the most prescribed drug in terms of the number of prescribed patients for respiratory and otolaryngology diseases.

Creating markets with new drugs also requires transformation in marketing activities. We expect stricter regulation to make it increasingly difficult to differentiate ourselves from our competitors, and will work to establish a marketing style that anticipates these changes in a short time.

### 4. Accelerating growth and increasing the earnings strength of peripheral businesses

The generic drug business is pursuing a two-pronged growth strategy of proactively incorporating authorized

generics and strengthening the business's driving force (products developed in-house). The strength of the Kyorin Group's generic drugs business lies in the fact that development, manufacturing, and sales are all handled within the Group. During fiscal 2019, we plan to bring an authorized generic of Nasonex to market and to pursue the development of new authorized generic products.

At the diagnostic business, during fiscal 2019 we plan to commercialize reagents for research and measuring devices, with the aim of starting to sell an extracorporeal diagnostic agent in 2021. Along with its main environmental hygiene products, the healthcare business aims to build a business model based on treatment, diagnosis, and prevention in the field of infectious diseases.

### 5. Pursuing low-cost operations

With an annual drug price revision within sight, lowering manufacturing costs is an important issue. In addition to cost reductions from the integration of KYORIN Pharmaceutical Group Facilities Co., Ltd., we are working to remove manufacturing imbalances among plants promptly under a new manufacturing structure. We are also looking for streamlining through overall examinations of the supply chain with a view toward drastic improvements while maintaining stable supplies, and in human resources by assigning the appropriate persons to the appropriate positions.

### 6. Improving employee satisfaction by promoting understanding of and improving the human resource management system

We will continue to work to ensure that employees understand the human resource management system, while also promoting work style reform based on employee feedback.



Q

Please tell us about the progress being made under the HOPE100–Stage 2– medium-term business plan covering fiscal 2016 through 2019.

A

We are making progress under a policy of “Promoting sustainable growth through innovative changes (changes and innovations) to realize our long-term vision.”

The HOPE100–Stage 2– medium-term business plan designates four priority strategies: first-in-class drug discovery, increasing the ratio of the new drugs group, promoting the generic drugs business by making the most of its characteristics, and enhancing cost reductions, as well as two development strategies, which we are pursuing as we strive to achieve the targets.

With regard to first-in-class drug discovery, we have succeeded in establishing a drug discovery structure to

a certain degree. In addition to proprietary drug discovery through cooperation between the WATARASE Research Center in Japan and ActivX Biosciences of the United States and open innovation with domestic and overseas pharmaceutical companies, academic institutions, and venture start-ups, we are striving to revitalize existing drug discovery platforms and to make use of and cultivate new technologies including peptides and gene therapy. In addition, since fiscal 2018 we have been pursuing selection and concentration in drug discovery programs and working toward multilayered program development, while at the same time proactively identifying and implementing external drug discovery programs. To increase the ratio of the new drugs group, we are moving forward without delay in the progress of the development pipeline and although we have successfully launched Beova, there have been some delays in the development of KRP-AM1977X that will still need to be resolved. The ratio of the new drugs group fell from 56% in fiscal 2015 to 29% in fiscal 2017, but rebounded to 41% in fiscal 2018, and we will promote Flutiform, Desalex, and Beova to the fullest extent possible and work to be certain to bring KRP-AM1977X to the market and quickly be popularized as we work to create markets as a way of accelerating our return to growth.

We are promoting the generic drugs business by making the most of its characteristics under a dual strategy of increasing authorized generics and expanding our lineup of products developed in-house (quality enhancement and expansion of the number of products), as we work to strengthen our development capabilities by quickly establishing a development structure.

To enhance cost reductions, KYORIN Pharmaceutical Group Facilities Co., Ltd., which was established through the consolidation of the Group's manufacturing functions, commenced full-scale operations in April 2018, and this has achieved a certain degree of cost reductions. Going forward, we will work toward further cost reductions by removing manufacturing imbalances among our plants.

Q

### What management indicators are you targeting?

A

**As the final year under the medium-term business plan, we will follow through on our efforts to achieve our numerical targets for fiscal 2019.**

Fiscal 2019 is the final year under the HOPE100–Stage 2– medium-term business plan, which covers fiscal 2016 through 2019, so please allow me to explain the correlation with the management indicators we have set as four-year targets.

Our numerical targets for Stage 2 are for average annual growth of at least 3% in consolidated net sales,

and a consolidated operating income margin of at least 15%. However, with delays in the development of KRP-AM1977X, the licensee's discontinuing development of the immunomodulator KRP-203, and a decline in sales from the temporary halt in supplies of Desalex and so forth, the trend in results is below our original projections, and we are now forecasting consolidated net sales of ¥114.1 billion, with operating income of ¥9.1 billion, for fiscal 2019. In terms of the management indicator targets, this represents an average annual decline of 1.1% for consolidated net sales, and a consolidated operating income margin of 8%.

In terms of capital policy, with a recovery in business results being expected to some extent and in light of the Group's financial foundation, in fiscal 2018 we changed course to emphasize capital efficiency and the further enhancement of shareholder value. With a basic policy of maintaining a healthy financial foundation while raising capital efficiency through investments for growth and returns to shareholders, and taking into account the dividend on equity (DOE) ratio, we strive to maintain a stable dividend as returns to shareholders.

We aim to achieve our fiscal 2019 targets for net sales and operating income by pursuing the six priority initiatives outlined above.



Q

**Please tell us about your environmental, social, and governance (ESG) initiatives.**

A

**We are strengthening our human resource development and corporate governance for the continuous enhancement of corporate value.**

In the course of our business activities, we are taking greater interest in responding to the calls from global society to contribute to the resolution of environmental and social issues. The Kyorin Group is strengthening its ESG initiatives based on a recognition that contributing to all stakeholders—patients and medical practitioners, shareholders and investors, employees, business partners, and local communities—is essential for the enhancement of corporate value and continuous growth.

In addition to the proactive, continuous creation of innovative new drugs that are the source of the Group's value creation and contributing to people's health, the HOPE100 long-term vision designates compliance and risk management, human resource management, environmental management, and social contribution activities as important themes, and we are working on ESG issues as a corporate citizen. Specifically, based on the belief that the vitality of employees and the organization is the driving force behind a company's growth, we value employees and aim to be their first choice as a satisfying place to work, as we continue to implement our human resource management system and promote work-style reform, while also preserving the environment with a sense of cohabitation with local communities, and continuously



developing new social contribution activities in which all employees participate.

In terms of corporate governance, we have put in place a management environment that will be trusted by society, and to reinforce this, we are working to implement swift decision-making, strengthen oversight functions for appropriate management, and maintaining transparency in our corporate activities, which are firmly rooted in our corporate philosophy. In addition to Noriyuki Shikanai and Ken Shigematsu, in June 2019 Hiromi Watanabe joined the Board of Directors as an Outside Director. With the advice they provide based on their extensive experience in various fields, Outside Directors are invigorating the deliberations of the Board of Directors and acting as a stronger check on its activities. By strengthening our ESG initiatives in these ways, we are working for the enhancement of corporate value and continuous growth going forward.

Q

**Having taken office as President and Chief Executive Officer, what message do you have for stakeholders regarding your aspirations and determination?**

A

**I want to ensure that we implement transformation and build a foundation for growth.**

I recognize that my mission is not only to work with all Group employees to achieve the final-year targets of the HOPE100–Stage 2– medium-term business plan, but also formulate the scenario for further growth under the new HOPE100–Stage 3– medium-term business plan, and ensure that the plan is fully implemented.

With drastic revisions to the drug pricing system, the review of the price maintenance premium system, and price revisions for long-listed drugs, transformation is inevitable for all companies in the pharmaceutical industry. The Kyorin Group views these measures as developments that could shake our management foundation. Facing this environment, I am confident that by making reforms (changes and innovations) under the HOPE100 long-term vision, the Kyorin Group will be able to achieve continuous growth and enhance its corporate value. I will focus in particular on the creation of innovation for first-in-class drug discovery and enhancement of the capacity to improve customer satisfaction.

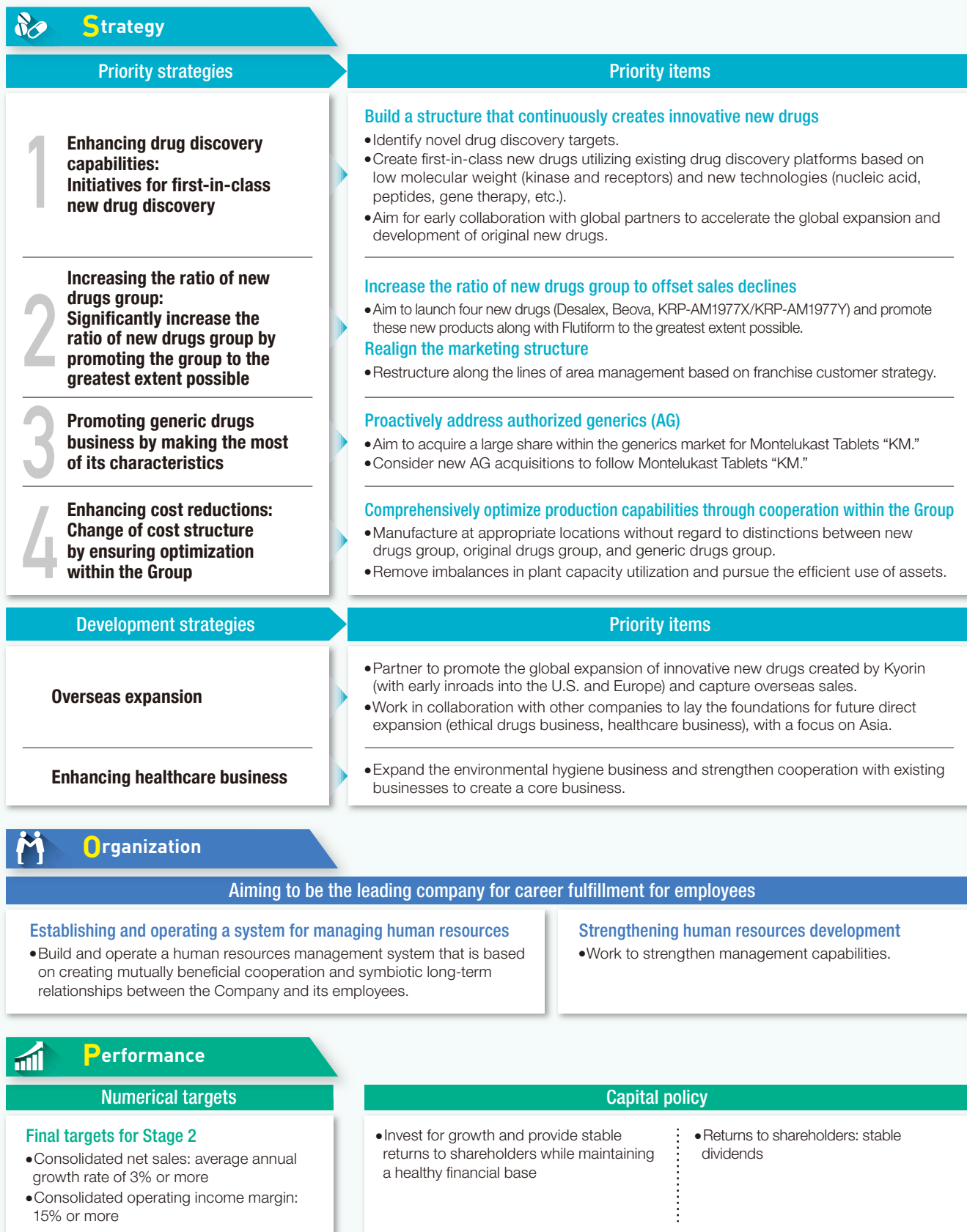
During fiscal 2019, we will aim to achieve the year's numerical targets as we continue to work toward the realization of the HOPE100 long-term vision.

I ask for the continued support of all stakeholders.



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

With the business environment for the ethical drugs business becoming ever more challenging and the patent on one of our main products having expired, the Kyorin Group is facing major changes in its operating environment. Given these significant external changes, we need to implement a dynamic transformation of the way we have done business to date and create and implement new measures that go beyond our historical growth track. We have established “making reforms (changes and innovations) and achieving continuous growth” as our statement for our HOPE100–Stage 2– medium-term business plan, and are pursuing the areas of **Strategy** (business strategies: four priority strategies and two development strategies) and **Organization** (organizational strategies) to achieve **Performance** (performance targets).



# Drug Discovery

## HOPE100–Stage 2– Medium-Term Business Plan

Priority Strategies

[ENHANCING DRUG DISCOVERY CAPABILITIES]

### Initiatives for first-in-class new drug discovery

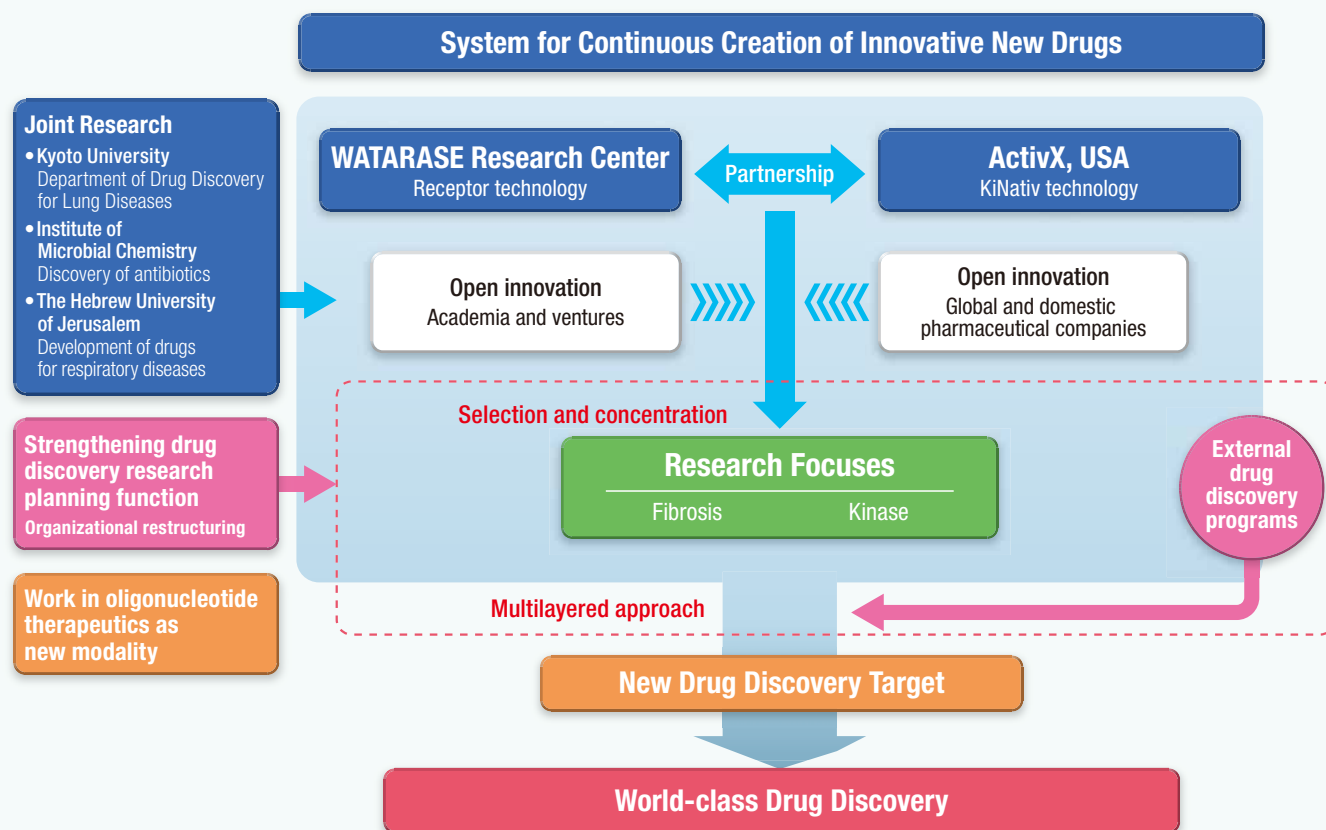
The Kyorin Group considers its mission as addressing medical needs including unmet medical needs, and contributing to the health of people around the world, through the continuous creation of innovative new drugs. In addition to our proprietary drugs created in cooperation with our research centers—the WATARASE Research Center and ActivX Biosciences (ActivX) in the United States—we are pursuing open innovation with pharmaceutical companies, academic institutions, and venture startups in Japan and overseas, as well as striving to revitalize existing drug discovery platforms and use new technologies (nucleic acids, peptides, gene therapy, and so forth), to create original, new drugs with global potential, while also proactively searching for and implementing outside drug discovery programs to discover first-in-class drugs with even greater speed than in the past.

### Selection and Concentration

KYORIN Pharmaceutical Co., Ltd. is clarifying its areas of priority research, and selecting drug discovery programs and focusing on those programs in the pursuit of multilayered drug discovery. Making maximum use of the potential of the WATARASE Research Center with low molecular weight drug discovery technology and ActivX's KiNativ platform (broad and quantitative analysis technology for kinase/protease), we are concentrating resources and working on themes with global potential, in the pursuit of efficient drug

discovery activities for the creation of novel compound drugs.

Focusing on the priority areas of kinase research and fibrosis research, we are working to bolster our early-exploration-stage themes (feasibility themes) both quantitatively and qualitatively, while at the same time acquiring multiple pharmacophores in the pursuit of multilayered drug discovery with a stronger backup structure that simultaneously evaluates compounds with different basic structures.



## Pursuit of Open Innovation

KYORIN Pharmaceutical is supplementing and further strengthening its proprietary drug discovery by proactively searching for external drug discovery programs and external early-stage compounds, and using its own evaluation technology platforms in areas including bladder function, auditory function, and infectious diseases to create a structure that can carry out speedy evaluations. This includes open innovation with academic institutions, venture start-ups, and domestic and overseas pharmaceutical companies for multiple drug discovery approaches to drug creation targets. In April 2017 we established the Department of Drug Discovery for Lung Diseases as a joint research

program at the Graduate School of Medicine Kyoto University, integrating the academic institution's pathological research and basic research capabilities with KYORIN Pharmaceutical's drug discovery capabilities to search for new targets for drug discovery. In addition, during fiscal 2018, KYORIN Pharmaceutical concluded a strategic partnership with the Technology Transfer Company of The Hebrew University of Jerusalem for drug discovery in the respiratory field, and also began joint research with the Microbial Chemistry Research Foundation's Institute of Microbial Chemistry to search for antibacterial drugs that are effective against anti-microbial resistant bacteria.

## Three Initiatives in Innovative New Drug Discovery

KYORIN Pharmaceutical's new drug discovery uses three approaches to achieve first-in-class drug discovery.

### ● Searching for novel targets

We are strengthening our early-exploration-stage research to search quickly for novel drug discovery targets and create innovative new drugs that are effective against those targets. To strengthen our early-stage drug discovery research both quantitatively and qualitatively, we are using human (patients), disease model animal tissue or cells and applying technologies including KiNativ and genome editing to enhance the quality of our target validation. We are also stepping up our fibrosis research as a priority research area. Working with academic institutions with strengths in basic research, we are making maximum use of cutting-edge technologies like human disease-specific iPS cells for an enhanced level of drug discovery evaluation to select candidate compounds for medications.

### ● Expansion of modalities

In addition to our existing low molecular weight drug discovery, we are exploring new compounds including medium molecular weight compounds and nucleic acid medicines, and working in gene therapy to pursue possibilities in new modalities and create new drugs with global potential that help to address medical needs that cannot be met with low molecular weight drugs.

### ● Consolidating drug discovery research centers

All research bases for the early-exploration stage to the development stage have been consolidated at the WATARASE Research Center, as we pursue drug discovery research with a structure that is effective and cooperative in the research areas of pharmacology, chemistry, safety, and pharmacokinetics, as well as formulation and analysis. Experts in each of these fields work in teams that cross organizational divisions, to conduct research and development with greater quality and speed for drug discovery research that is up to global standards.

## Exploratory Research for New Targets Using Kinase Technology

The WATARASE Research Center is working with ActivX in drug discovery that uses kinase analysis technology. There are more than 700 types of kinases, which control complex biological functions like cell specialization, multiplication, and apoptosis, and many of these functions have yet to be identified. ActivX has advanced, proprietary technologies that can perform exhaustive analysis of kinases' activities at the cellular and organ level, and are also used in the U.S. National Institutes of Health (NIH) databases. The incorporation of this cutting-edge technology in our Group and the ability to use it to the fullest in our drug discovery is a major strength in the creation of new, original drugs with global potential.

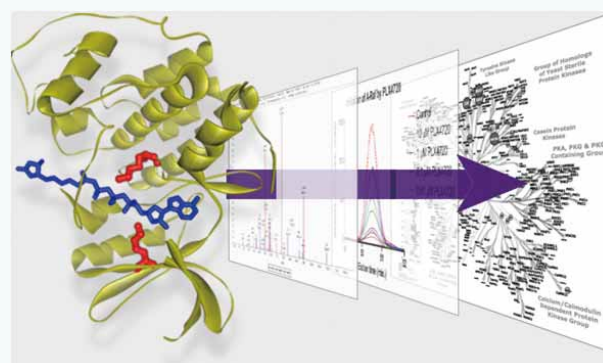
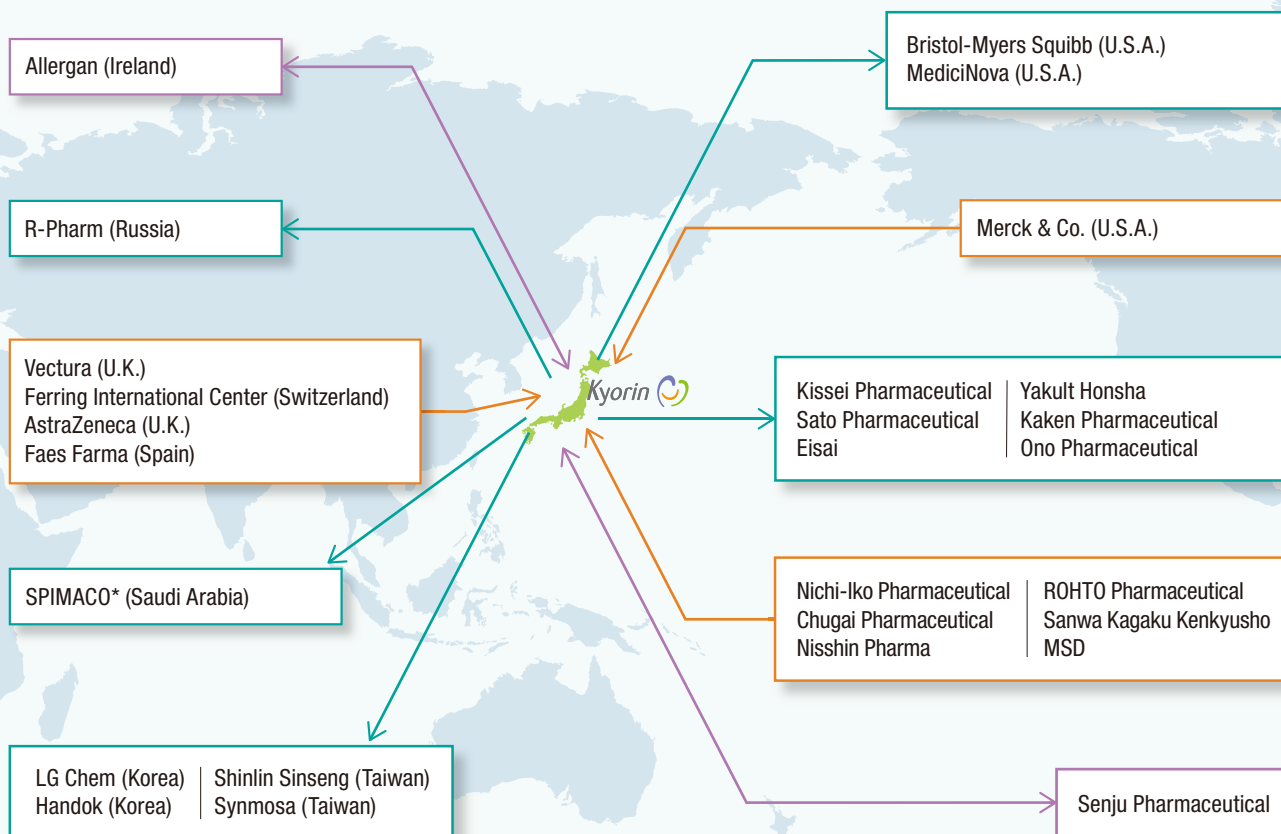


Image: Drug discovery using kinase analysis technology

## Overseas Development

With pharmaceutical manufacturers pursuing business activities from a global perspective, overseas development is an important issue for the Kyorin Group's ethical drugs business. We are expanding and strengthening our product pipeline through partnering and proactive outside collaboration to deliver original, new drugs to people around the world, with a view to direct overseas expansion in the future, focusing on Asia.

### Partnering with Companies in Japan and Overseas



\*SPIMACO: Saudi Pharmaceutical Industries & Medical Appliances Corporation

□ Out-licensed □ In-licensed □ In- and out-licensed

### Partnering

Through partnering, we are pursuing the global expansion of innovative new drugs that we have created in-house (through the out-licensing of early-stage products to major European and American pharmaceutical manufacturers and the expansion of Uritos into emerging market countries through local companies), accelerating development, and gaining overseas sales. We are also proactively partnering with outside entities (companies and academic institutions in Japan and overseas) to expand our product pipeline, which is an important issue for an ethical drugs manufacturer. Going forward, we will engage in partnering activities worldwide to build an attractive pipeline in the Kyorin Group's priority areas of respiratory, otolaryngology, and urology. (Diagram above: Partnering with Companies in Japan and Overseas)

### Overseas expansion

We established a representative office in Indonesia in March 2017 to lay the foundation for our direct expansion in the future, focusing on Asia and through cooperation with other companies. In addition to Indonesia, we are conducting market surveys and gathering information throughout the ASEAN region, as we proactively consider possibilities for business expansion in the fields of ethical drugs and healthcare. In March 2017, we began selling the multi-purpose disinfectant cleaner RUBYSTA in Indonesia through PT. Meiji Indonesian Pharmaceutical Industries, a subsidiary of Meiji Seika Pharma Co., Ltd., and in November 2017 we concluded a licensing agreement related to generic drug manufacturing technologies with a Vietnamese company. In addition, during 2019 we concluded a contract with a Mongolian company for distribution rights for generic drugs.

## New Products

### Products under Development (As of May 13, 2019)

#### Ph III – Approval

Compound/Code	Therapy area/Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
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). • Shows strong antimicrobial activity against pathogenic bacteria for respiratory and otolaryngological infections and against beta-lactam and macrolide antimicrobial resistant strains.				Apr 2017
KRP-AM1977Y (Injection)	New quinolone synthetic antibacterial agent	In-house	• 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.				Preparing application
KRP-116D	Interstitial cystitis	—	Dimethyl sulfoxide (DMSO), an unapproved and off-label drug with high medical needs				Preparing application
KRP-108P	Bronchial asthma	Vectura (U.K.)	Additional indication of pediatric use for Flutiform combination drug for asthma treatment				Preparing application

#### POC Project (Ph I – Ph II)

Compound/Code	Therapy area/Action	Origin	Features	Stage			
				Ph I	Ph II	Ph III	NDA
KRP-N118	Nocturia due to nocturnal polyuria	SANWA KAGAKU KENKYUSHO CO., LTD.	A vasopressin V2 receptor agonist that promotes the reabsorption of water by the collecting duct of the kidney to reduce the amount of urine (antidiuretic action). With its high efficacy and safety, the drug is expected to be a therapeutic agent for nocturia due to nocturnal polyuria.		Aug 2018		
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.		Jun 2018		

#### Out-Licensed Product

Compound/Code	Licensee/Collaborative research	Therapy area/Action	Origin	Features	Comments	Stage				
						Preclinical	Ph I	Ph II	Ph III	NDA
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 (Dec 2015)					

### Special Feature

## New Challenges in Diagnosing Infectious Diseases

—Business related to diagnosis of infectious diseases—

### GeneSoC® ultrahigh-speed genetic measurement device

—Making business related to diagnosis of infectious diseases our next core business

The GeneSoC® ultrahigh-speed genetic measurement device, which is currently in development, employs a nucleic acid amplification technique using proprietary microchannels to genetically test for pathogenic microorganisms in five to six minutes, enabling quick, accurate, and simple identification of pathogenic microorganisms. The device is a compact, table-top size, making it possible for the medical practitioner to carry out point of care testing (POCT) near the patient bedside, and select appropriate antimicrobial drugs on-site where the diagnosis is being made. This is therefore expected to be used for diagnosis of infectious diseases that contributes to the appropriate use of antimicrobial drugs.

We aim to bring the GeneSoC® to market during fiscal 2019, and in February 2019 we exhibited a reference display at an academic conference on infectious diseases. Medical practitioners gave the prototype model high marks, and many said they hoped it would be brought to market at an early date. Few new antimicrobial drugs are being brought to market, and needs have steadily been increasing for swift diagnosis and detection of infectious diseases as a way to address the recent issue of antimicrobial resistance (AMR). We intend to pursue this business going forward and develop it as our next core business.



# New Drugs Business Development/Marketing

## HOPE100–Stage 2– Medium-Term Business Plan

**Priority Strategies**

[INCREASING THE RATIO OF THE NEW DRUGS GROUP]  
**Significantly increase the ratio of new drugs group by promoting the group to the greatest extent possible**

The Kyorin Group is strengthening its new drugs business as a way to achieve continuous growth, and in particular we regard increasing the new drugs group’s portion of net sales as an important issue. In addition to working toward maximum market penetration for our main products, we will work to create new markets with the new drugs group, including new drugs released during fiscal 2018 and products we expect to release during fiscal 2019, as we make every effort to secure a path of growth.

### Accelerating a Return to Growth Through the New Drugs Group and New Products

With the expiry of the patent on Kipres, one of our main products, and an accelerating shift to generic versions of long-listed drugs causing an adverse operating environment for the Kyorin Group, we are working for the maximum market penetration of new drugs for which we hold patents (Flutiform, Desalex, Uritos, and Pentasa Granules) to increase the proportion of the new drugs group, which fell below 30% temporarily during “Stage 2,” to at least 50% in fiscal 2019. In addition, we released Beova (development code: KRP-114V), a treatment for the overactive bladder that acts selectively on the bladder’s β3-adrenergic receptor, during fiscal 2018 as per our target. With regard to the quinolone synthetic antibacterial agent KRP-AM1977X, which has experienced development delays, we are aiming for a definite fiscal 2019 release and will work to gain rapid market penetration to achieve our target.

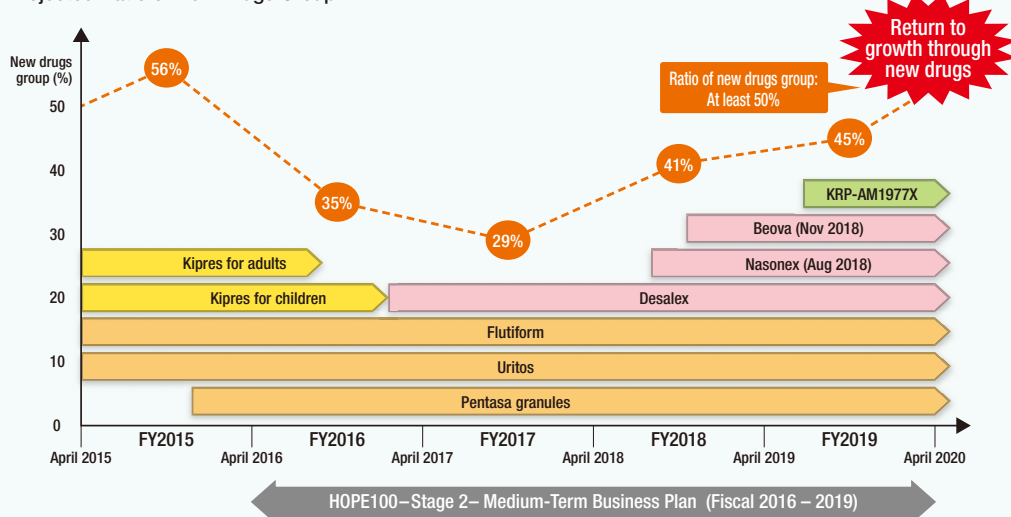
Fiscal 2018 sales of our main product Flutiform, the combination drug for asthma treatment, further rose 9.8% from the previous year, to ¥13.1 billion. Also contributing to increased sales of ethical drugs in fiscal 2018 were Nasonex, a therapeutic

agent for allergic rhinitis using a metered-dose manual pump spray unit that we launched in fiscal 2018, which recorded sales of ¥12.8 billion, and the launch of Beova, a treatment that we developed in-house, with sales of ¥0.7 billion. On the other hand, sales of Desalex, a long-acting selective H1 receptor antagonist for the treatment of allergic diseases, declined 24.1%, to ¥3.7 billion, after the product’s seller and manufacturer MSD K.K. launched a voluntary recall and temporarily halted supplies of the product from January 2019.

In terms of the R&D pipeline, during fiscal 2018 applications were being prepared for KRP-AM1977Y, the interstitial cystitis treatment KRP-116D, and the combination drug for asthma treatment KRP-108P (additional indication of Flutiform for pediatric use), and we aim to file the applications in fiscal 2019.

The delay in development of KRP-AM1977X and the temporary suspension of supplies of Desalex will present challenges in terms of bringing the new drug group’s portion of net sales to at least 50%, but we will make every effort to carry through and achieve this target.

Projected Ratio of New Drugs Group



## Establishing a Presence in the FC Fields

KYORIN Pharmaceutical, which handles new drugs, aims to establish a presence in the field of franchise customers (FC), focusing on the specific fields of respiratory, otolaryngology, and urology, and roughly 750 medical representatives (MRs) regularly visit doctors specializing in these fields to provide, collect, and pass on information regarding the appropriate use of pharmaceutical products.

During fiscal 2018 in the field of otolaryngology, we began selling Nasonex Nasal in 2018 following the transfer of distribution rights from MSD K.K. Together with the leukotriene receptor antagonist Kipres and the long-acting selective H1 receptor antagonist Desalex, we have been striving to raise our presence even further in the field of otolaryngology, with a product lineup

that is able to address a broad range of needs in the treatment of allergic rhinitis. In the field of urology, we launched the new product Beova in November 2018, and together with the previously released Uritos, we are providing a new alternative as a medication for the treatment of overactive bladder.

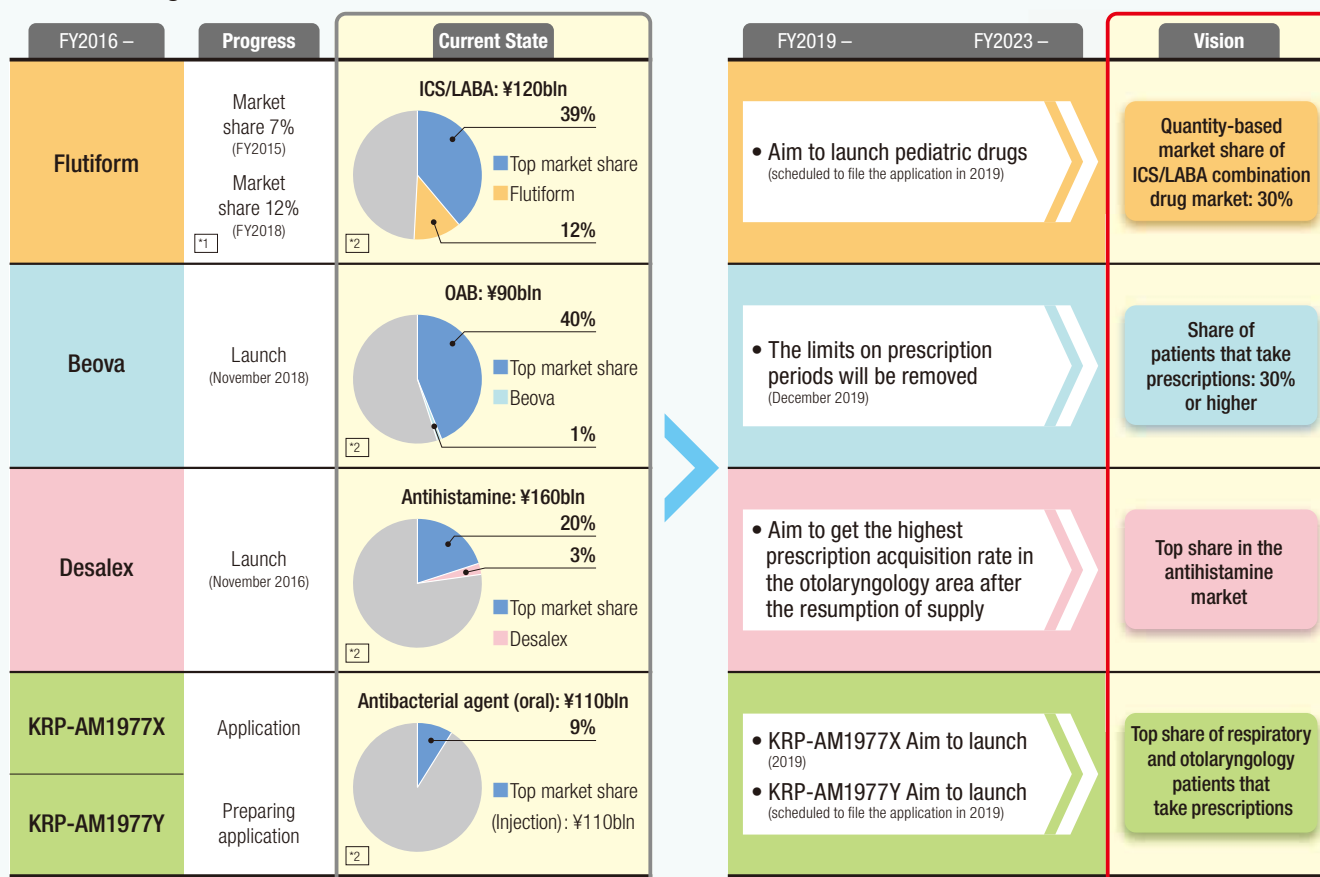
To address medical needs as they change with the times and as different needs arise in different areas, we have built an area coverage based on secondary medical districts to facilitate targeted responses to these needs. We have introduced a team structure in which multiple MRs cover one area, and by promoting independent area management based on the FC strategy, we aim to establish a strong presence in these specific fields.

## Creating Markets with New Drugs

One of the priority items included in the HOPE100–Stage 2–medium-term business plan is to launch the four new drugs during the period covered by the plan (Desalex, Beova, and KRP-AM1977X/Y) and along with the existing product Flutiform, promote them to the greatest extent possible. We expect to have this new drug group fully in place during fiscal 2019. We will clarify the gaps between our envisioned position for these

products (targets including share by volume and by number of prescribed patients) and their current position in the respective markets of drugs for bronchial asthma, overactive bladder, allergic rhinitis, and infectious disease, and make every effort to create new markets by steadily carrying out our unique initiatives within the time frame we established.

### Four New Drug Products



OAB market: Anticholinergic agents and β3 adrenoceptor agonists

Antibacterial agent market: Includes all systemic antibacterial agents and children in all markets. [1,2] (Source: Copyright 2019 IQVIA. IMS –JPM. Unauthorized copying prohibited)

# Manufacturing

## HOPE100–Stage 2– Medium-Term Business Plan

**Priority Strategies**

[ENHANCING COST REDUCTIONS]

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

Given the drastic environmental changes in Japan’s pharmaceutical market, combined with lower sales of long listed drugs and annual drug price revisions, we anticipate further declines in profitability. In response, we are consolidating and optimizing overall Group manufacturing functions in the pursuit of low-cost operations with a greater sense of speed, to build a competitive Group manufacturing structure that provides a stable supply of high-quality, low-cost products.

### New manufacturing subsidiary commences operations and new manufacturing structure established

One of the priority strategies outlined in the HOPE100–Stage 2–medium-term business plan is “Enhancing cost reductions: Change of cost structure by ensuring optimization within the Group.” KYORIN Pharmaceutical Group Facilities Co., Ltd., which was established as a new subsidiary specializing in manufacturing by consolidating the manufacturing functions that had been dispersed among various Group companies into three plants as manufacturing bases, commenced full-scale operations in April 2018. While each of the facilities will maintain a specific strength—low-cost, high-volume manufacturing of new drugs, small-lot manufacturing of many types of generic drugs, and subcontracted pharmaceutical manufacturing at global standards—we are optimizing the overall manufacturing structure so that the facilities will not be bound by these roles, and will be able to make the most efficient and effective use of each facility’s

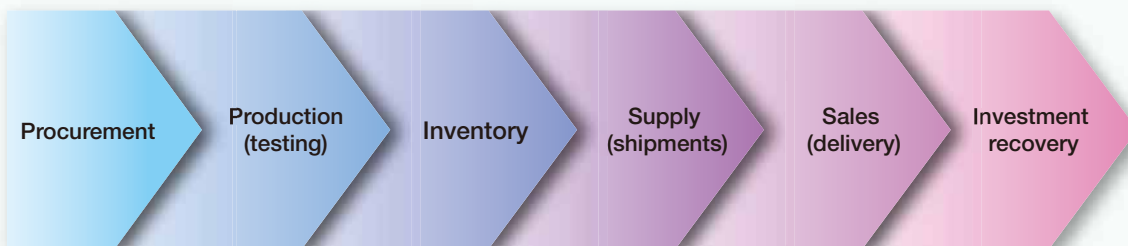
equipment, technologies, and human resources. We also have a proactive plan for capital investment for energy conservation, greater efficiency, and to meet customer needs. In addition, we are implementing personnel exchanges and the sharing of information among plants to build on our efforts to maintain quality, ensure stable supplies, and reduce costs in our manufacturing, while also building and operating a human resources management system and working to raise our Good Manufacturing Practices (GMP) level and technological level. Our aim is to establish a stable manufacturing structure that is highly competitive in its ability to offer a stable supply of high-quality products at a low cost. We are also focusing on increasing our subcontracted manufacturing from outside the Group, as we work to build a solid manufacturing foundation.

### Strategic Promotion of Supply Chain Management

Aiming to establish solid earnings strength in the face of environmental changes, the Kyorin Group is working to build a structure for more efficient manufacturing that offers a stable supply, with flexibility to address changes in demand, by comprehensively addressing the Group’s entire supply chain. We are pursuing supply chain management (SCM) that manages (makes visible) the entire process from domestic and overseas

procurement of raw materials to manufacturing (production management, manufacturing), warehousing, and supply (shipping) on an individual product basis. By quickly addressing issues such as reducing lead times from orders to delivery as they arise, we are working to ensure stable supplies and reduce risks, for reliable, stable supplies of products.

#### Supply Chain Management (SCM)





## Overview of KYORIN Pharmaceutical Group Facilities' Plants

### **Noshiro Plant** Low-cost, high-volume manufacturing. Integrated manufacturing from pharmaceutical ingredients to finished products.

The Noshiro Plant began operations as the pharmaceutical manufacturing plant of KYORIN Pharmaceutical, and is engaged in API (Active Pharmaceutical Ingredients) manufacturing of products developed in-house. Subsequently, as a manufacturing plant of finished products, automated transport of pharmaceutical ingredients and intermediate products, and robotic arms for labor saving have been introduced. Automation makes it possible to manufacture large volumes at a low cost with high productivity. Using these strengths, the facility has recently begun manufacturing generic drugs in large volumes in addition to new drugs, focusing on tablets and capsules. The plant has also achieved solid success in inspections by overseas regulatory authorities.



(Noshiro City, Akita Prefecture)

### **Shiga Plant** Focusing on subcontracted manufacturing incorporating global GMP.

For many years the Shiga Plant was a manufacturing base for a non-Japanese pharmaceutical manufacturer, and in 2012 it began operating as part of the Kyorin Group. In addition to manufacturing the Group's main products, the plant is unique for its high portion of manufacturing subcontracted from outside the Group, including the manufacturing of pharmaceutical products to be sold in Japan by overseas manufacturers. The plant's manufacturing is able to keep pace with the needs of the times, having implemented global GMP since its establishment with manufacturing equipment oriented to prevent things like cross contamination, and the ongoing introduction of the latest equipment. Using its abundant experience and expertise gained from subcontracted manufacturing from overseas global companies, the facility is working aggressively to increase its subcontracted manufacturing from outside the Group.



(Koka City, Shiga Prefecture)

### **Inami Plant** Small-lot manufacturing of numerous types of products, focusing on generic drugs.

The Inami Plant is our primary facility for generic drug manufacturing, and began operating as a Kyorin Group plant in 2005. The plant manufactures more than 200 products, including subcontracted manufacturing from outside the Group. The plant's specialty is its flexibility that enables it to manufacture small volumes of pharmaceutical products in various forms, including solid formulations taken internally, and liquid formulations including sterilized formulations for injections, eyedrops, and nose drops. Visits from drug manufacturers subcontracting to the plant provide information that has enabled the facility to gain expertise in maintaining stable supplies of high-quality products. Along with responding to the growth in demand for generic drugs seen in recent years, the facility is working with the Noshiro and the Shiga plants to create a stable supply structure, and striving for even higher productivity and reliability.



(Inami, Nanto City, Toyama Prefecture)

# Generic Drugs Business

## HOPE100–Stage 2– Medium-Term Business Plan

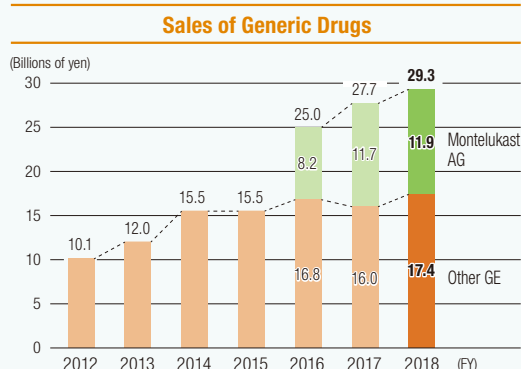
**Priority Strategies**

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

The Kyorin Group is pursuing the priority strategy of promoting the generic drugs business by making the most of its characteristics, with KYORIN Rimedio Co., Ltd. as the core company. The Japanese government has set a target of generic drugs accounting for 80% of drugs used by September 2020, and we will enhance our capability to address this environmental change. As a manufacturer of new and generic drugs, we will work to increase profitability by taking advantage of our integrated development, manufacturing, and sales functions while also proactively pursuing authorized generics.

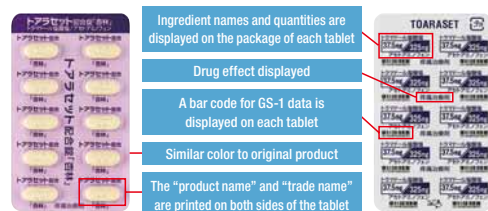
### Initiatives in Authorized Generics

We have released Montelukast Tablets “KM,” our first authorized generic version of Kipres. By handling both the original Kipres and the authorized generic within the Group, we are able to meet the various needs of patients and medical professionals, and this benefit has been recognized as we have steadily gained market share. During fiscal 2018, we maintained our market share for generic versions of Kipres above our initial target of 50%. The Kyorin Group has also received manufacturing approval of Mometasone Nasal Spray 50µg “Kyorin,” an authorized generic version of Nasonex, as our next authorized generic product. The timing for the release of this product will be strategically decided, as we move forward while following changes in the business environment.



### Strengthening Drug Development at the Takaoka Drug Discovery Laboratory

To provide generic drugs that can be used with greater peace of mind, KYORIN Rimedio has been working on formulations and packaging that address ease of use by medical institutions and the needs of patients when taking drugs, from the perspectives of both medical professionals and patients. The Takaoka Drug Discovery Laboratory commenced full-scale operations in July 2017, as a means of further strengthening our drug development. In addition to developing higher quality drugs more quickly, the Laboratory is working to increase the number of products it develops, with the aim of being a generic drug company that offers even more attractive generic drug products with unique characteristics.



### Agreement for Distribution Rights Concluded with Mongolian Company

Following its conclusion of a licensing agreement for generic drug manufacturing technologies with the Vietnamese company BinhDinh Pharmaceutical and Medical Equipment JSC in November 2017, KYORIN Rimedio concluded an agreement for distribution rights with Monospharm Trade Co., Ltd. of Mongolia in March 2019. We are looking beyond Japan to create drug markets using our proprietary drug manufacturing technologies in Southeast Asia as well, to contribute to the health of people around the world.

# Healthcare Business

## HOPE100–Stage 2– Medium-Term Business Plan

### Development Strategy

Based on the medium-term business plan’s development strategy to “Grow businesses related to environmental hygiene and strengthen their links to existing businesses to create a core business,” the Kyorin Group is striving to expand our product lineup and increase sales in the area of environmental hygiene. With further growth at businesses related to environmental hygiene, we will build a core business, and proactively work to pave the way for potential new businesses.



### Environmental Hygiene

We are currently faced with various issues in the fields of infectious diseases and infection control, including emerging and reemerging infectious diseases, antimicrobial resistance (AMR), and the global spread of infectious diseases. Kyorin is working in these fields as priority areas, and we continue to dedicate ourselves to contributing to infection control at medical institutions.

#### Multi-Purpose Disinfectant Cleaner Rubysta

The multi-purpose disinfectant cleaner Rubysta is widely used at medical institutions around the world to prevent infections and stop the spread of pathogenic microbes. In addition to expanding the business’s product lineup, we are obtaining scientific evaluation data for further product promotion.



#### Expansion of Hand Hygiene Products

We believe that hand hygiene is the most important way to prevent transmission of infectious pathogens in medical environments, and alcohol-based solutions are the basic ingredient used in hand sanitizers. At the same time, some medical practitioners find it difficult to use alcohol-based hand sanitizers for reasons including excessive sensitivity to alcohol or irritated skin on the hands and fingers. We have therefore begun selling non-alcoholic hand sanitizers that can be used by these people, and have expanded our lineup of hand hygiene products. In addition to hand sanitizers, we are developing total promotions to contribute to the enhancement of hand hygiene with products to care for irritated skin on the hands and fingers.



#### Milton Brand

Since its release in 1963, Milton has assisted persons involved in promoting the healthy growth of infants, and today it is the leading brand of 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. The lineup has been expanded further with the launch of Detergent Milton, which can be used to clean baby bottles, milkers, and vegetables, and 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.

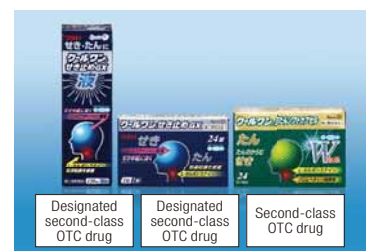


### Over-the-Counter Drugs

We are addressing diversifying health needs by offering over-the-counter drugs that can be used with peace of mind.

#### Over-the-Counter Drugs Addressing Diversifying Health Needs

With the Japanese government’s introduction of a “self-medication tax system” (special tax deductions for medical expenses) in January 2017, people have become more aware of their health. The Kyorin Group sells the COOL ONE series of over-the-counter drugs that apply active ingredients used in ethical drugs. This series is highly regarded because we are able to provide accurate information regarding the product’s effectiveness and safety gained at the ethical drugs business. We will continue to work to provide products that are able to address diversifying health needs.



Designated second-class OTC drug

Designated second-class OTC drug

Second-class OTC drug

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

## Kyorin’s Reliability Assurance System

### Reliability Assurance System

KYORIN Pharmaceutical’s corporate vision aims to be “a pharmaceutical manufacturer that is trusted by patients and medical professionals, and is recognized for its presence in society.” To achieve this, the company continuously needs to provide products and information that are trusted by broad sectors of society, and we consider this to be our highest priority. We take a unified approach to all operations—from (research and) development to sales—and place a maximum emphasis on compliance with relevant laws and regulations, and on ensuring reliability. The Quality Assurance & Reliability HQs has primary responsibility in this area, and is independent from research and development, manufacturing, and sales divisions, and proactively works to provide products and information that patients and medical professionals can use with peace of mind.



### Quality Assurance

Quality assurance is carried on investigational new drugs based on GMP at the development stage, through compliance with GMP and GQP after sales, and by confirming that products are manufactured using appropriate equipment and according to designated procedure manuals. After-sales inquiries regarding quality collected from patients and medical professionals are given the highest priority, and are addressed sincerely and quickly.

### Safety Management

Drugs can be effective for treating patients (benefits) but can have adverse reactions (risks), and side effects that were not foreseen at the development stage can become apparent after sales. This is why it is important to collect and analyze a wide range of information regarding benefits and risks after a product is launched, and to provide appropriate information swiftly to medical facilities while taking into account the balance between benefits and risks. At Kyorin, we strive to ensure safety and promote proper use by carrying out drug monitoring activities based on GVP. Post-manufacturing surveillance is carried out adhering to GPSP to collect and evaluate information regarding a drug’s safety and effectiveness after the product is launched. The analyzed information is provided to medical professionals, and released in professional publications.

The Kyorin Group’s HOPE100 long-term vision includes the statement that it will “Promote diversified healthcare business expansion and by 2023 be recognized both within and outside as a company that supports sound and healthy lifestyles.” To achieve this, we consider it important to build a sophisticated system for ensuring the reliability of drugs handled by the Group and products sold by the healthcare business. By working to ensure the consistent reliability of Kyorin products and providing users with high-quality products that can be used “safely and with peace of mind,” we are gaining the trust of broad sectors of society.

## A Message from an Outside Director



**As an Outside Director, I contribute to the Kyorin Group's sustainable growth by adding depth to the deliberations of the Board of Directors from an objective perspective.**

**Ken Shigematsu**  
Outside Director

I am very honored to be involved as an Outside Director in the management of KYORIN Holdings, Inc., with its social mission rooted in the areas of life and health, and I also feel a great sense of responsibility.

As one of the people responsible for the important task of strengthening corporate governance, I am engaged in management oversight from an objective perspective, and offer needed advice related to areas including management strategy, capital policies, and compliance.

During my many years with a department store, I was involved with the management of commercial products businesses, overseas businesses, and head office operations, and I observed these businesses from a perspective that is closest to the consumer. Subsequently, I was involved with the metal processing business, which is upstream on the supply chain, but in both capacities my fundamental management policies of “operating businesses with a view toward future value” and “healthy management with effective governance” have been the same.

The pharmaceutical industry's operating environment is undergoing major changes, from factors including rapid advances in medicine and science, and the overhaul of the drug price system in Japan. Against this backdrop, KYORIN Holdings, Inc. has formulated the HOPE100 long-term vision to establish a new business foundation, and is steadily moving forward with that process. This fiscal year is the final year of the vision's Stage 2, and will also be the year that we formulate Stage 3 for further transformation. As we pursue this, we will concentrate our efforts in the three specific areas of respiratory, otolaryngology, and urology, while clearly addressing issues including the creation of new drugs that are competitive globally and accelerating the growth of next-generation businesses.

When the Board of Directors' meetings are held, materials are distributed in advance and persons responsible provide appropriate explanations so that proposals are seriously considered. In addition, outside directors listen to the opinions of persons involved in operational execution and responsible staff, visit manufacturing sites, and engage in other activities as we strive to observe closely the current state of Kyorin's businesses.

In addition, outside directors play an important role on the Committee on Remuneration and Nominations, where they are given the information needed to make fair and strict decisions.

As an Outside Director, I seek to deepen the deliberations of the Board of Directors from an independent, objective perspective, and to contribute to the continuous enhancement of KYORIN Holdings' corporate value.

I ask for the continued support of our stakeholders going forward.

## 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 System

#### Board of Directors

The Company's Board of Directors comprises a total of eleven directors, including three outside directors. The Board of Directors usually meets once a month, resolving legal matters, formulating and deciding important management policies and strategies, and overseeing business execution, etc.

Chairperson: Yutaka Ogihara, Representative Director,  
President and Chief Executive Officer  
Executive Directors: Minoru Hogawa, Shigeru Ogihara, Kenji Akutsu,  
Tomiya Sasahara, Michiro Onoto, Koichiro Hagihara,  
Masahide Sugibayashi  
Outside Directors: Noriyuki Shikanai, Ken Shigematsu, Hiromi Watanabe

#### Board of Corporate Auditors

Kyorin is a company with a board of corporate auditors based on the Companies Act of Japan, which comprises three outside corporate auditors and two statutory corporate auditors. The Board of Corporate Auditors has established a system to ensure that exercise of authority for audits, etc., is carried out from an independent and objective standpoint through the active engagement of outside corporate auditors.

Chairperson: Tomiharu Matsumoto, Senior Corporate Auditor  
Senior Corporate Auditor: Shugo Tamaki  
Outside Corporate Auditors: Masaji Obata, Takao Yamaguchi, Naohiro Kamei

## Business Execution System

To oversee business execution, we established a Management Committee, comprising the president and directors, which discusses and decides key operational matters concerning the Group.

Chairperson: Yutaka Ogihara, Representative Director,  
President and Chief Executive Officer  
Executive Directors: Minoru Hogawa, Shigeru Ogihara, Kenji Akutsu,  
Tomiya Sasahara, Michiro Onoto, Koichiro Hagihara,  
Masahide Sugibayashi

In addition to the representative directors and the executive directors, who are engaged in ordinary business execution, we actively delegate authority to the corporate officers responsible for specific areas appointed as necessary, thus establishing a framework that allows prompt decision making and clarification of responsibility of business execution under the guidance and supervision of the Board of Directors. As of June 21, 2019, the Company has five corporate officers.

## Committee on Remuneration and Nominations

Regarding remuneration and nomination of directors and corporate auditors, Kyorin has established the voluntary Committee on Remuneration and Nominations mainly comprising independent outside directors to seek appropriate advice in order to enhance transparency of decision making.

Chairperson: Kenji Akutsu, Senior Executive Director  
Executive Director: Yutaka Ogihara  
Outside Directors: Noriyuki Shikanai, Ken Shigematsu, Hiromi Watanabe

## Corporate Governance System

Key Items	Description
Organizational design	Company with corporate auditors
Number of directors (including outside directors)	11 (3)
Number of corporate auditors (including outside corporate auditors)	5 (3)
Number of the Board of Directors' meetings (held during fiscal 2018) (Average attendance rate of outside directors) (Average attendance rate of outside corporate auditors)	14 times (100%) (95.2%)
Number of the Board of Corporate Auditors' meetings (held during fiscal 2018) (Average attendance rate of outside corporate auditors)	14 times (95.2%)
Term of office of directors	1 year
Adoption of the corporate officer system	Yes
Voluntary Committee of the Board of Directors	Committee on Remuneration and Nominations
Accounting auditing firm	Ernst & Young ShinNihon LLC

## Outside Directors and Outside Corporate Auditors

Kyorin has three outside directors and three outside corporate auditors.

We seek advice from an independent and objective standpoint from outside directors at Board of Directors' meetings, etc., and have established a highly effective management supervision system maintaining a certain degree of independence from business execution.

Outside director Noriyuki Shikanai, as an attorney well-versed in corporate law, 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 for appointment to outside director.

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.

Outside director Hiromi Watanabe has wide-ranging insight in a medical setting developed from her rich clinical practice and research experience as a physician, and through nursing education. Accordingly, she was deemed well-qualified for appointment to outside director.

Kyorin has three outside corporate auditors who are neutrally positioned and not compromised by relationships with

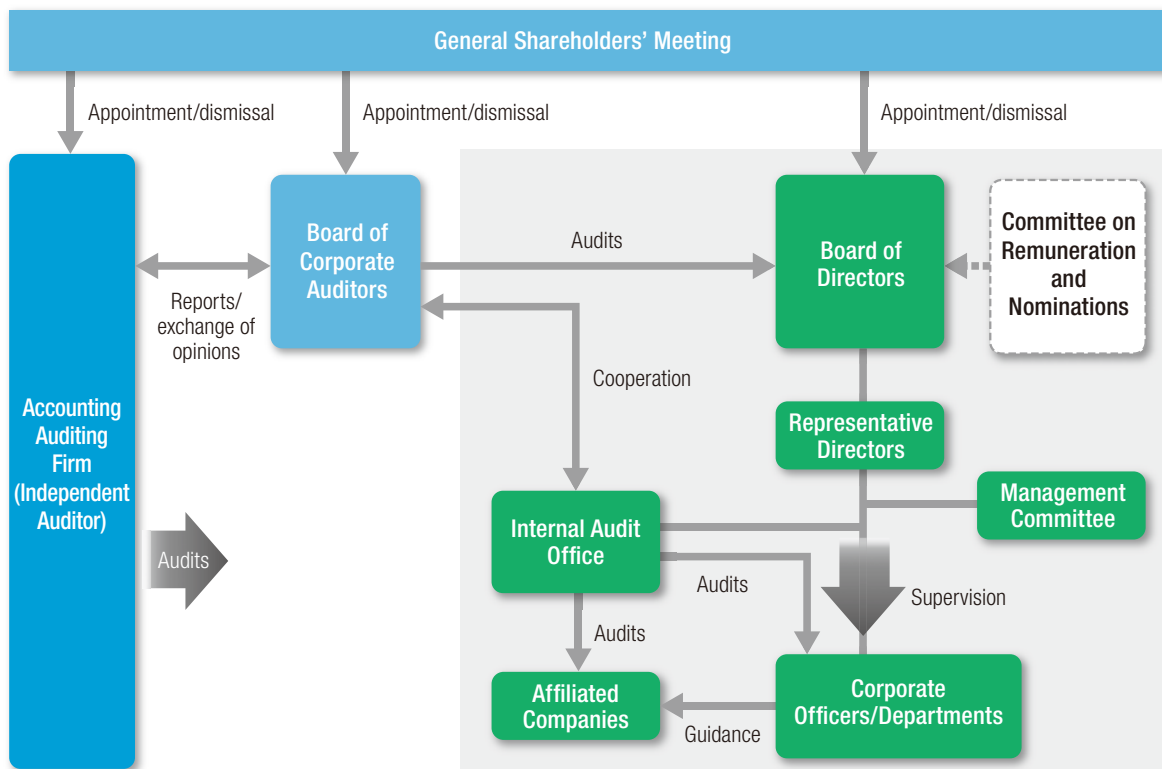
management or specified parties having a special interest. These outside corporate auditors all have a considerable level of knowledge of corporate legal matters, and matters of finance and accounting, etc., and perform a monitoring function with wide-ranging insight and from a broader perspective.

Outside corporate auditor Masaji Obata is well-versed in corporate 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. Outside directors Noriyuki Shikanai, Ken Shigematsu, and Hiromi Watanabe and outside corporate auditors Masaji Obata and Takao Yamaguchi fulfill the requirements as independent directors/corporate auditors stipulated by the Tokyo Stock Exchange and have been reported as independent directors/corporate auditors to the Tokyo Stock Exchange.

Corporate Governance and Management Structure (As of June 21, 2019)





## Compensation of Directors and Corporate Auditors

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.

### 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)	249	249		9
Corporate auditors (Excluding outside corporate auditors)	33	33		4
Outside directors or corporate auditors	49	49		7

Note: The amount of compensation paid and the number of applicable directors and corporate auditors above include one director and three corporate auditors who retired upon the conclusion of the 60th Ordinary General Shareholders' Meeting held on June 22, 2018.

## Internal Audits and Audits Conducted by Corporate Auditors

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

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

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 Group companies.

In order to ensure that audits are conducted effectively by corporate auditors, corporate auditors receive explanations on the contents of accounting audits from the accounting auditing firm of the Company and exchanges information with the firm. Corporate auditors also cooperate with the Internal Audit Office to conduct appropriate communication and to effectively perform the audits.

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. We assign one auditing staff member to assist the duties of the corporate auditors, and such human resource is carefully checked by directors and corporate auditors to ensure independence.

## Directors, Corporate Auditors, and Corporate Officers (As of June 21, 2019)

### Representative Director, Chairman



#### Minoru Hogawa

**Representative Director, Chairman**  
KYORIN Pharmaceutical Co., Ltd.  
Representative Director, Chairman

December 1976 Joined Kyorin Yakuhin Co., Ltd.  
June 2004 Corporate Officer, General Manager of Management Planning Department of KYORIN Pharmaceutical Co., Ltd.  
June 2005 Executive Director, Senior Executive Officer, Management Strategy Office of KYORIN Pharmaceutical Co., Ltd.  
January 2006 Executive Director, Management Strategy Office, General Manager of Management Planning Department, in charge of Accounting of KYORIN Holdings, Inc.  
April 2010 Executive Director, Senior Executive Officer, General Manager of Management Planning Department, in charge of Finance & Accounting Department of KYORIN Holdings, Inc.  
June 2010 Senior Executive Director, General Manager of Management Planning Department, in charge of Finance & Accounting Department of KYORIN Holdings, Inc.  
June 2012 Senior Managing Director, General Manager of Management Planning Department, in charge of Finance & Accounting Department of KYORIN Holdings, Inc.  
June 2015 Representative Director, President and Chief Executive Officer, in charge of Auditing Office of KYORIN Holdings, Inc.  
June 2017 Representative Director, President and Chief Executive Officer of KYORIN Pharmaceutical Co., Ltd.  
June 2019 Representative Director, Chairman of KYORIN Holdings, Inc. (current)  
June 2019 Representative Director, Chairman of KYORIN Pharmaceutical Co., Ltd. (current)

### Representative Director, President and Chief Executive Officer



#### Yutaka Ogihara

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

April 1990 Joined KYORIN Pharmaceutical Co., Ltd.  
June 2011 Executive Director, President's Office, in charge of Corporate Communication Department and Information System Management Department of KYORIN Holdings, Inc.  
June 2015 Executive Director, President's Office of KYORIN Holdings, Inc.  
June 2016 Senior Executive Director, President's Office of KYORIN Holdings, Inc.  
June 2016 Senior Executive Director of KYORIN Pharmaceutical Co., Ltd.  
April 2019 Senior Executive Director, Management Strategy Office, in charge of Information System Management Department of KYORIN Holdings, Inc.  
June 2019 Representative Director, President and Chief Executive Officer of KYORIN Holdings, Inc. (current)  
June 2019 Executive Director of KYORIN Pharmaceutical Co., Ltd. (current)

### Executive Directors



#### Tomiya Sasahara

**Executive Director**  
Promotion Compliance & External Relations  
Quality Assurance & Reliability

April 1986 Joined KYORIN Pharmaceutical Co., Ltd.  
April 2013 Corporate Officer, Quality Assurance & Reliability Office of KYORIN Pharmaceutical Co., Ltd.  
April 2015 Corporate Officer, Head of Quality Assurance & Reliability Headquarters of KYORIN Pharmaceutical Co., Ltd.  
June 2016 Executive Director, Head of Quality Assurance & Reliability Headquarters of KYORIN Pharmaceutical Co., Ltd. (current)  
June 2017 Executive Director, in charge of Quality Assurance & Reliability of KYORIN Holdings, Inc.  
June 2018 Executive Director, in charge of Quality Assurance & Reliability and Promotion Compliance & External Relations Department of KYORIN Holdings, Inc. (current)



#### Michiro Onota

**Executive Director**  
Generic Drugs Business  
KYORIN Pharmaceutical Group Facilities Co., Ltd.  
Representative Director, President and Chief Executive Officer

April 1985 Joined KYORIN Pharmaceutical Co., Ltd.  
April 2015 Representative Director, President and Chief Executive Officer of KYORIN Rimeido Co., Ltd.  
April 2015 Corporate Officer of KYORIN Holdings, Inc.  
June 2017 Executive Director of KYORIN Holdings, Inc.  
April 2018 Representative Director, President and Chief Executive Officer of KYORIN Pharmaceutical Group Facilities Co., Ltd. (current)  
June 2018 Executive Director of KYORIN Pharmaceutical Co., Ltd. (current)  
June 2019 Executive Director, in charge of Generic Drugs Business of KYORIN Holdings, Inc. (current)

### Outside Directors



#### Noriyuki Shikanai

**Outside Director**

October 1971 Passed the National Bar Examination  
April 1974 Registered with Daini Tokyo Bar Association  
March 1977 Established Shikanai Law Office (currently Kyobashi Law Office) (current)  
October 2002 Councilor of Keio University (current)  
October 2010 Trustee of Keio University (current)  
April 2012 Auditor of J. F. Oberlin University (current)  
June 2013 Outside Director of KYORIN Holdings, Inc. (current)



#### Ken Shigematsu

**Outside Director**

April 1971 Joined Mitsukoshi, Ltd.  
March 1999 Executive Officer, General Manager of Product Planning Division, Sales Headquarters of Mitsukoshi, Ltd.  
May 2002 Director, Executive Officer, Deputy General Manager of Sales Headquarters of Mitsukoshi, Ltd.  
March 2004 Director, Managing Executive Officer, General Manager of Merchandising Headquarters of Mitsukoshi, Ltd.  
March 2005 Director, Managing Executive Officer, Store Manager of Mitsukoshi Ginza of Mitsukoshi, Ltd.  
April 2008 Managing Executive Officer of Isetan Mitsukoshi Holdings Ltd. Director of Mitsukoshi, Ltd.  
April 2009 Director, Senior Managing Executive Officer, Special Appointive Officer of Mitsukoshi, Ltd.  
April 2010 Senior Managing Executive Officer of Isetan Mitsukoshi Holdings Ltd.  
Representative Director, President and Chief Executive Officer of Nagoya Mitsukoshi Ltd.  
October 2011 Representative Director, President and Chief Executive Officer of Endo Manufacturing Co., Ltd.  
October 2015 Representative Director, President and Chief Executive Officer of MFSJ Co., Ltd.  
June 2017 Outside Director of KYORIN Holdings, Inc. (current)

### Major Activities of Outside Directors and Outside Corporate Auditors (Year ended March 31, 2019)

Position	Name	Major Activities	Attendance at Meetings
Outside Directors	Noriyuki Shikanai	Utilizing his high degree of specialization and rich experience as an attorney, he makes appropriate comments to perform the monitoring function.	Attended 14 out of 14 Board of Directors' meetings
	Ken Shigematsu	Utilizing his rich experience and wide-ranging insight in corporate management, he makes appropriate comments to perform the monitoring function.	Attended 14 out of 14 Board of Directors' meetings
	Yoh Goto	Utilizing his rich experience and wide-ranging insight in corporate management, he makes appropriate comments.	Attended 14 out of 14 Board of Directors' meetings

## Executive Directors



### Shigeru Ogihara

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

April 1979 Joined Kyorin Yakuhin Co., Ltd.  
 June 2009 Corporate Officer of KYORIN Pharmaceutical Co., Ltd.  
 June 2011 Representative Director, President and Chief Executive Officer of KYORIN Rimedio Co., Ltd.  
 June 2011 Corporate Officer of KYORIN Holdings, Inc.  
 April 2012 Senior Corporate Officer of KYORIN Holdings, Inc.  
 June 2013 Executive Director of KYORIN Holdings, Inc.  
 June 2015 Executive Director, in charge of Drug Discovery Strategy of KYORIN Holdings, Inc.  
 June 2016 Senior Executive Director, Head of Discovery Research Headquarters and WATARASE Research Center of KYORIN Pharmaceutical Co., Ltd.  
 June 2016 Senior Executive Director, in charge of Intellectual Property Department of KYORIN Holdings, Inc.  
 June 2017 Senior Executive Director, in charge of Intellectual Property Department and Research and Development of KYORIN Holdings, Inc.  
 June 2019 Senior Managing Director of KYORIN Holdings, Inc. (current)  
 June 2019 Representative Director, President and Chief Executive Officer of KYORIN Pharmaceutical Co., Ltd. (current)



### Kenji Akutsu

**Senior Executive Director**  
 General Affairs & Human Resources  
 Finance & Accounting  
 Corporate Planning  
 Product Strategy  
 Information System Management

April 1978 Joined KYORIN Pharmaceutical Co., Ltd.  
 June 2009 Corporate Officer, Product Strategy Office of KYORIN Pharmaceutical Co., Ltd.  
 April 2014 Corporate Officer, General Manager of Discovery Research Management Department of KYORIN Pharmaceutical Co., Ltd.  
 April 2015 Representative Director, President and Chief Executive Officer of KYORIN Medical Supply Co., Ltd.  
 April 2015 Corporate Officer of KYORIN Holdings, Inc.  
 June 2016 Executive Director of KYORIN Holdings, Inc.  
 June 2017 Executive Director, General Manager of General Affairs & Human Resources Department, in charge of Human Resources and Healthcare Business of KYORIN Holdings, Inc.  
 June 2017 Executive Director, General Manager of Human Resources Department of KYORIN Pharmaceutical Co., Ltd.  
 June 2018 Executive Director, General Manager of General Affairs & Human Resources Department, in charge of Finance & Accounting Department, and Healthcare Business of KYORIN Holdings, Inc.  
 June 2019 Senior Executive Director of KYORIN Holdings, Inc. (current)  
 June 2019 Senior Executive Director of KYORIN Pharmaceutical Co., Ltd. (current)



### Koichiro Hagihara

**Executive Director**  
 Intellectual Property  
 Research and Development

April 1983 Joined Nisshin Flour Milling Inc.  
 April 1998 Dispatched to Nisshin KYORIN Pharmaceutical Co., Ltd.  
 October 2008 Joined KYORIN Pharmaceutical Co., Ltd.  
 April 2013 Corporate Officer, General Manager of Discovery Research Department of KYORIN Pharmaceutical Co., Ltd.  
 April 2016 Senior Corporate Officer, Head of Clinical Development Center, General Manager of Discovery Research Management Department of KYORIN Pharmaceutical Co., Ltd.  
 April 2017 Senior Corporate Officer, Deputy General Manager of Discovery Research Headquarters, Head of Clinical Development Center of KYORIN Pharmaceutical Co., Ltd.  
 June 2018 Executive Director, in charge of Legal Department and Clinical Development of KYORIN Holdings, Inc.  
 June 2018 Executive Director, Deputy General Manager of Discovery Research Headquarters, Head of Clinical Development Center of KYORIN Pharmaceutical Co., Ltd.  
 June 2019 Executive Director, in charge of Intellectual Property Department and Research and Development of KYORIN Holdings, Inc. (current)  
 June 2019 Executive Director, General Manager of Discovery Research Headquarters, Head of Clinical Development Center of KYORIN Pharmaceutical Co., Ltd. (current)



### Masahide Sugibayashi

**Executive Director**  
 Legal  
 Sales & Marketing  
 Healthcare Business

April 1981 Joined Kyorin Yakuhin Co., Ltd.  
 April 2006 General Manager of Saitama-Chiba Branch, Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 April 2009 General Manager of Tokyo Branch I, Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 April 2010 Corporate Officer, General Manager of Tokyo Branch, Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 April 2012 Corporate Officer, Head of Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 April 2013 Senior Corporate Officer, Head of Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 April 2015 General Manager of General Affairs & Human Resources Department of KYORIN Holdings, Inc.  
 April 2015 Senior Corporate Officer, General Manager of Human Resources Department of KYORIN Pharmaceutical Co., Ltd.  
 April 2017 Senior Corporate Officer, Head of Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd.  
 June 2018 Executive Director, Head of Sales & Marketing Headquarters of KYORIN Pharmaceutical Co., Ltd. (current)  
 June 2019 Executive Director, in charge of Legal Department, Sales & Marketing, and Healthcare Business of KYORIN Holdings, Inc. (current)



### Hiromi Watanabe

**Outside Director**

April 1972 Joined Internal Medicine Department of Tokyo Women's Medical University Hospital  
 April 1998 Assistant Professor of Internal Medicine, School of Nursing of Tokyo Women's Medical University  
 April 2007 Professor and Dean of Medical Science, College of Nursing of Shukutoku University  
 April 2010 Member of the Board of Dajo Shukutoku Gakuen  
 April 2011 Professor of Medical Science, College of Nursing and Nutrition of Shukutoku University  
 November 2014 President of Tokyo Branch of Japan Medical Women's Association (current)  
 April 2016 Professor of Graduate School of Nursing Division of Nursing of Shukutoku University  
 April 2018 Neurology Department of Yokufukai Hospital of Total Health and Medical Care Center for Seniors (social welfare corporation) (current)  
 June 2018 Member of the Board of 3.11 Fund for Children with Thyroid Cancer (NPO) (current)  
 June 2019 Outside Director of KYORIN Holdings, Inc. (current)

### Senior Corporate Auditors

Tomiharu Matsumoto  
 Shugo Tamaki

### Outside Corporate Auditors

Masaji Obata  
 Takao Yamaguchi  
 Naohiro Kamei

### Senior Corporate Officer

Yoh Ito

### Corporate Officers

Yasuo Nii  
 Kikou Obi  
 Hiroshi Hashizume  
 Yasuyuki Shimokawa

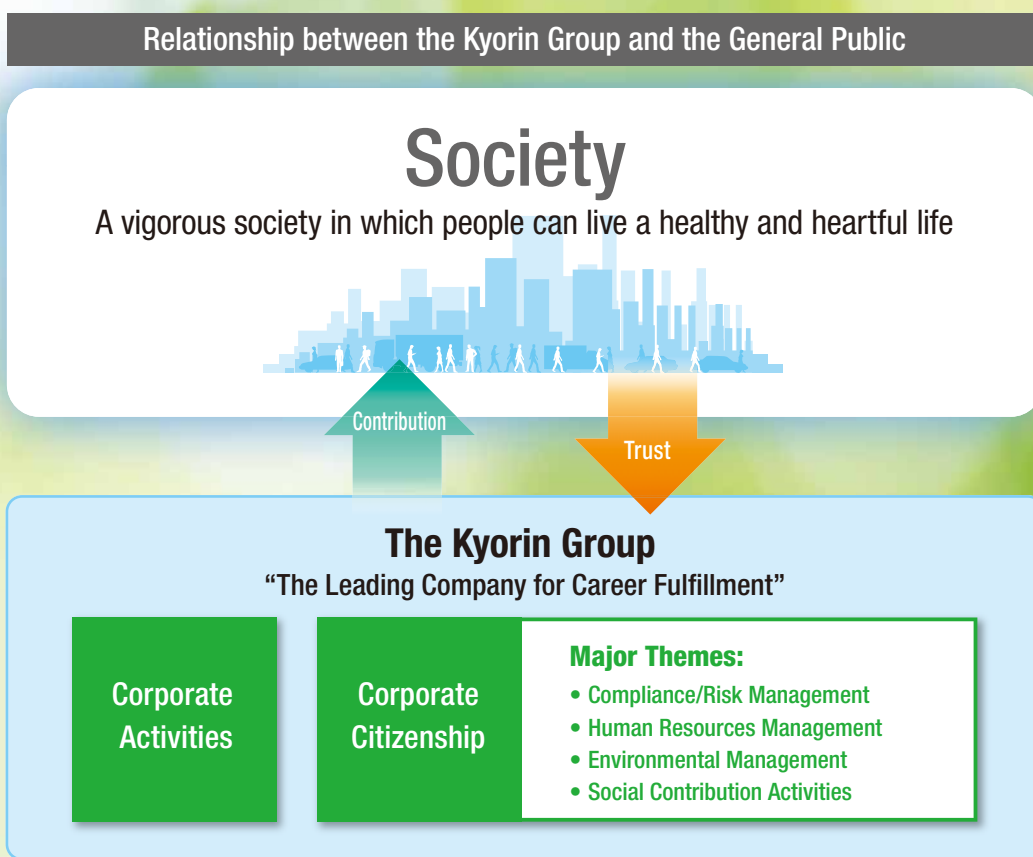
Position	Name	Major Activities	Attendance at Meetings
Outside Corporate Auditors	Masaji Obata	He makes comments as necessary based mainly on his specialist understanding as an attorney.	Attended 14 out of 14 Board of Directors' meetings and 14 out of 14 Board of Corporate Auditors' meetings
	Takao Yamaguchi	He makes comments as necessary based mainly on his specialist understanding of finance and accounting as a certified public accountant and a certified tax accountant.	Attended 12 out of 14 Board of Directors' meetings and 12 out of 14 Board of Corporate Auditors' meetings
	Naohiro Kamei	He makes comments appropriately to ensure accurate decision-making by the Board of Directors. In addition, he makes appropriate comments based on his experience and insight at meetings of the Board of Corporate Auditors.	Attended 11 out of 11 Board of Directors' meetings* and 10 out of 10 Board of Corporate Auditors' meetings*

\*Achievements since assumption of office in June 2018

# 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



## Sustainable Development Goals

The 2030 Agenda for Sustainable Development was adopted at a United Nations summit in September 2015, and sets international targets to be achieved from 2016 to 2030. The Agenda comprises 17 goals and 169 targets for the realization of a sustainable world.

The Kyorin Group is proactively working to protect the global environment and improve the industrial health and safety in the workplace through environmental, health, and safety (EHS) activities, recognizing that appropriately considering and addressing the Company’s environmental, social, and governance issues will contribute to the creation of a sustainable society.



## 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 our corporate philosophy, the Kyorin Group conducts its activities in Japan and around the world based on a high standard of corporate ethics, in compliance with both the letter and the spirit of relevant laws and regulations and international rules.

#### 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, Companywide 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

A management structure is in place to prevent the occurrence of risk events at Kyorin and its Group companies, and a Risk Management Committee has been established to address events that do occur. The Risk Management Committee oversees risk management initiatives across the entire Group, while also promoting activities to be implemented as necessary at respective divisions to build a structure to identify potential risks, reduce risks, and prevent risk events from occurring, and to minimize the damage from risk events that do occur unavoidably. The roles of the committee 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 our employees are passionate about their work. We have therefore restructured our human resources management system, and are promoting an understanding of that system and its appropriate operation, to make our employees feel that this is the very best place to work. We are also striving to improve levels 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 and appropriately operate 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.

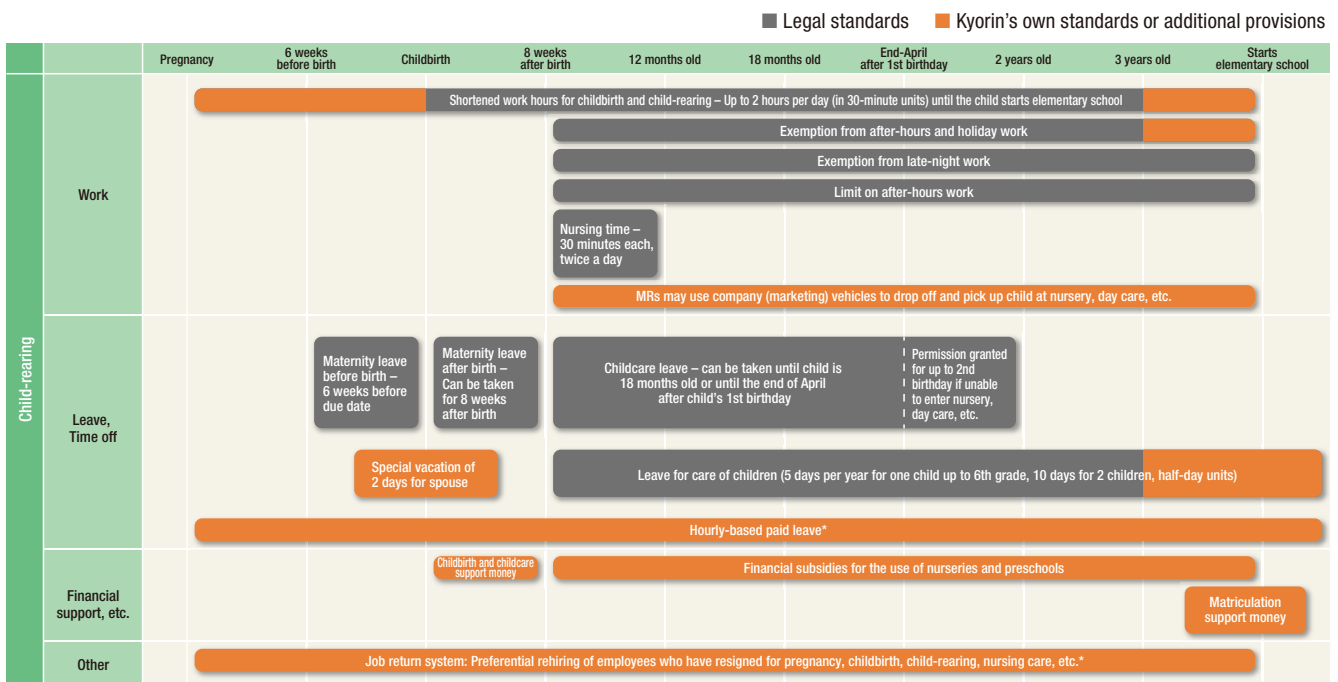
##### Company

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.

### 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. We strive to maintain an environment in which employees can feel fulfilled in their work, backed by a healthy home life.



\*Hourly-based paid leave and the job return system are also available for nursing care support

#### Nursing care

■ Expanded nursing care leave and breaks (186 days, vs. legally stipulated 93 days)

■ Support system for remote nursing care

■ Nursing care seminars

## Respect for Human Rights

The Kyorin Group is managed with respect for the human rights of all people, and our Compliance Guidelines clearly state, “Along with understanding international norms regarding universally recognized human rights, we will respect the values and character of each individual, and will not engage in any form of discrimination in any situation, regarding each individual as being equal with all others, regardless of position or function.” 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.

## 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 nine years. The results of the survey are used as reference as we

work to improve the operation and firmly establish our 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.

## Mental Health

The Kyorin Group 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.

## Recognized as a “2019 Certified Health & Productivity Management Outstanding Organization – White 500”

KYORIN Holdings, Inc. and KYORIN Pharmaceutical Co., Ltd. have both been recognized as “2019 Certified Health & Productivity Management Outstanding Organizations – White 500” by the Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi. To realize our corporate philosophy of “Kyorin continues to fulfill its mission of cherishing life and benefiting society by contributing to better health,” some of the aims outlined in the HOPE100 long-term vision are to be “The leading company for career fulfillment” and “A company that seeks to co-exist with society,” in addition, we are working for the creation and continuing development of a vigorous society

in which people can live a healthy and heartfelt life.

As a company that supports healthy lifestyles, we place the utmost priority on ensuring the “safety” and “health” of all persons involved with the Kyorin Group, and are proactively pursuing initiatives in the area of industrial safety and hygiene.



## Industrial Safety and Hygiene

The Kyorin Group places the highest priority on the “safety” and “health” of our employees, and we are proactively pursuing activities related to industrial safety and hygiene. One of our EHS activities has been to formulate an industrial safety and hygiene system, and we have set a goal of having zero

workplace accidents. As a result of the activities being implemented at workplaces across the Group, the frequency and extent of workplace accidents as measured by rate and severity are well below industry average levels.

## 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. KYORIN Pharmaceutical Group Facilities Co., Ltd. has obtained ISO 14001 certification, an international standard for environmental management systems, at its Noshiro Plant and Inami Plant.

In our efforts to reduce CO<sub>2</sub> emissions to combat global warming, we set a target of reducing CO<sub>2</sub> emissions by 2% on average annually until fiscal 2019, based on CO<sub>2</sub> emissions of fiscal 2015 (30,444 tons) and are promoting such efforts. In fiscal 2018, our CO<sub>2</sub> emissions were 28,823 tons.

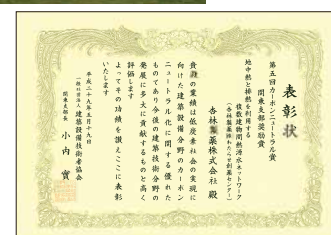
### Introducing Hybrid Cars to Reduce CO<sub>2</sub> Emissions

The Kyorin Group 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 2019, all 1,001 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, 652 (approximately 65%) 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.



### Environmentally Friendly R&D Center

In May 2017, the ReHP technology newly installed at KYORIN Pharmaceutical's 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 2018, this system reduced electric power consumption by 81,071 kWh and CO<sub>2</sub> emissions by roughly 41 tons compared with conventional heat pumps for air conditioning and heating, for approximately 32% 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.

### Biodiversity

KYORIN Pharmaceutical Group Facilities 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 2018, a total of 26 plant employees removed dead brush as part of an activity to preserve local biodiversity.

In addition, KYORIN Pharmaceutical's WATARASE Research Center has installed birdhouses in trees adjacent to the Watarase Yusuichi wetland and confirmed the location of nests as a way to enhance the environment for wild animals in the Center's grounds.





## The Kyorin Group Environmental Targets and Progress (Fiscal 2018)

Target initiatives	Method for achieving	Fiscal 2018 plan (incl. numerical targets)	Fiscal 2018 actual	Self-assessment
1. Preventing global warming (CO <sub>2</sub> reduction and energy conservation)	Reduce fuel consumption (crude oil equivalent) through new capital investment	13,036kℓ (FY2017 actual)	13,037kℓ (100.0%)	★★★
	Use hybrid cars to improve fuel efficiency and reduce exhaust emissions	683/1,025 (66.6%, FY2017 actual)	652/1,001 (65.2%)	★★
	Reduce total CO <sub>2</sub> emissions	29,432t	28,823t (97.9%)	★★★
2. Reducing waste volume	Reduce total waste	772t (FY2017 actual)	763t (98.8%)	★★★
	Promote recycling	57.6% (FY2017 actual)	59.4%	★★★
	Amount landfilled	63t (FY2017 actual)	68t (107.9%)	★★
	Zero-landfill challenge	8.2%	8.9%	★★
3. Managing chemical substances	Manage substances covered by the Pollutant Release and Transfer Register (PRTR) Law and revise management method	14.7t (FY2017 actual)	11.4t	★★★
4. Preventing atmospheric pollution	Measure and control amounts of soot and smoke, nitrogen oxide (NOx) and sulfur oxide (SOx) 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	55t (FY2017 actual)	50t (90.9%)	★★★
7. Protecting destruction of ozone layer	Eliminate all devices that use Chlorofluorocarbon (CFC) and Hydrofluorocarbon (HFC)	Elimination completed in FY2010	—	★★★
8. Preventing ground subsidence	Reduce groundwater usage and increase drinking water reuse	67.1% (FY2017 actual)	67.1%	★★
9. Noise reduction	Periodic measurement	Continuous measurement	At or below standards	★★★
10. Protecting biodiversity	Communicate with local communities (activities to contribute to local communities)	Plan for each business facility	Achieved targets at all business facilities	★★★
11. Publishing environmental information	Create and publish environmental report	Publish on website in August	Published on website in August	★★★

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

## 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.

### Initiatives to Nurture the Next Generation

#### Classroom Visits

Since fiscal 2017, we have planned and organized visits to schools by employees to teach and demonstrate the correct ways of using medicine and washing your hands to elementary and junior high school children, to nurture the next generation. During fiscal 2018, head office and Group company employees visited a total of 11 elementary and junior high schools in the communities of our workplaces around Japan. This is one of our social contribution activities that embodies our corporate philosophy of “Contributing to better health.”



#### 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.



#### Health Information Website for Children

The Kyorin Group has supported the “Kyorin Group Presents the Great Adventure for the Body’s Secrets” program since 2016, based on the idea of supporting healthy lives for the children of the next generation. During fiscal 2018, we launched a portal site related to this program, “Teacher, Teach Me about the Body’s Secrets” that shows videos of “impure things in the body” to deepen the understanding of diseases and how the body works to (nursery school through early elementary school) children.

We will continue to work to enable children to have an interest in and enjoy learning about their own bodies.

URL: <http://www.karada-kyorin.com> (Japanese only)



### Activities with Patients and Medical Professionals

#### Listening to patients and medical professionals as we strive to address a variety of needs

##### Drug Manufacturing from Patient’s Perspective

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, and also provide accurate and easy-to-understand responses to inquiries from patients and the general public. In fiscal 2018, we responded to more than 20,000 inquiries.

##### Providing Information via “Doctor Salon”

The Kyorin Group sponsors “Doctor Salon,” a radio program for physicians on Radio NIKKEI (shortwave) that answers questions related to day-to-day clinical practice from general practitioners across Japan. In addition, the program’s content is distributed as a brochure that also introduces overseas literature, and back issues are available via a website. The audio of “Doctor Salon” is also distributed as a podcast. It is extremely popular among physicians, especially primary-care doctors.



## Communication with Local Communities

### Health Challenge Program

The Health Challenge program was launched in 2017 as a new activity to promote employees' health and contribute to local communities by donating items that are useful for maintaining health. All Group employees form teams at their workplace and count how many steps they take during a two-month period, competing in terms of points based on the number of steps, and health equipment is donated to a social welfare center located near the workplaces of the two top teams. There were 207 teams that participated during fiscal 2018, and health equipment including a "body fat monitor," a "body composition monitor" and exercise bike was donated to facilities in Nanto City, Toyama Prefecture, and the town of Nogi in Tochigi Prefecture, where the two top teams are located.



### 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.

### Sponsoring Sporting Events

Based on our corporate message of "Your Health is Kyorin's Mission," the Shimotsuke Soccer Workshop in Nogi was held for the 19th time with the aim of providing local children with an easily accessible opportunity to think about and experience their own health management and improve their skills. Coached by former J.League professional soccer player and current sports journalist Tetsuo Nakanishi, many children enjoy energetically playing soccer each year. Donations are also solicited at the workshop and are used to hold events to support the local community.



### Support for Great East Japan Earthquake Recovery

Since fiscal 2011, KYORIN Pharmaceutical Co., Ltd. has supported the Sunflower Project, which brings smiles and cheer to regions affected by the Great East Japan Earthquake. In fiscal 2019, the program's ninth year, 95 employees of the WATARASE Research Center cultivated 300 pots of sunflower seedlings and donated them to the city of Natori in Miyagi Prefecture.



### Publishing Websites for Medical Professionals and Patients

We strive to meet medical professionals' needs for information by posting product-related information, the latest academic information, and useful information for day-to-day clinical practice on websites for medical professionals including Kyorin Medical Bridge. We also launched a website for patients in July 2019. This site endeavors to raise patients' adherence by providing information on the correct ways to take medications and information on illnesses.



Kyorin Medical Bridge, a website for medical professionals



Website for patients

### Providing Ailments Information

We create ailment information tools to be used when a medical professional obtains a patient's informed consent, with the aim of helping the patient correctly understand their ailments and improve their quality of life.

### 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.

## Ten-Year Consolidated Financial Highlights

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

	2010	2011	2012	2013
Net sales	¥ 99,764	¥ 104,069	¥ 103,232	¥ 107,031
Ethical drugs business*1	96,422	101,271	100,654	105,162
Healthcare business*2	3,342	2,797	2,577	1,869
Operating income	13,261	16,443	14,464	17,948
Profit attributable to shareholders of KYORIN Holdings, Inc.	8,848	10,927	9,231	12,422
Net cash provided by operating activities	12,027	6,805	8,913	11,544
Net cash provided by (used in) investing activities	412	(1,806)	(4,926)	(7,187)
Net cash provided by (used in) financing activities	(3,297)	201	(7,412)	(5,132)
Free cash flow	12,439	4,999	3,987	4,357
R&D expenses	11,807	12,495	13,964	11,059
Capital expenditures	1,291	1,668	1,952	6,576
Depreciation and amortization	2,810	2,458	2,363	2,738
Total assets	137,190	147,234	145,673	154,968
Total net assets	104,911	111,706	118,201	129,099

### Per Share Information

Net assets	¥ 1,403.60	¥ 1,494.83	¥ 1,581.94	¥ 1,727.86
Basic profit	118.37	146.21	123.54	166.25
Cash dividends	52.00	45.00	45.00	50.00

### Key Performance Indicators

Operating income margin (%)	13.3	15.8	14.0	16.8
Profit attributable to shareholders of KYORIN Holdings, Inc. / Net sales ratio (%)	8.9	10.5	8.9	11.6
R&D expenses / Net sales ratio (%)	11.8	12.0	13.5	10.3
Total shareholders' equity ratio (%)	76.5	75.9	81.1	83.3
ROE (%)	8.8	10.1	8.0	10.0
Consolidated payout ratio (%)	42.2	30.8	36.4	30.1
PER (times)	11.42	9.68	12.68	13.82

### Non-Financial Information

Number of employees	2,246	2,294	2,297	2,444
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\*1 From fiscal 2016 (ended March 31, 2017), the pharmaceutical business was renamed the ethical drugs business. Until fiscal 2015 (ended March 31, 2016), the pharmaceutical business comprised new drugs, generic drugs, and over-the-counter drugs, but from fiscal 2016 over-the-counter drugs were included in the healthcare business.

\*2 With the transfer of the skin care business effective April 1, 2017, from fiscal 2017 (ended March 31, 2018) the healthcare business consisted of environmental hygiene products and over-the-counter drugs and others.

\*3 Figures shown are adjusted to retroactively apply certain revisions to accounting standards related to tax-effect accounting.

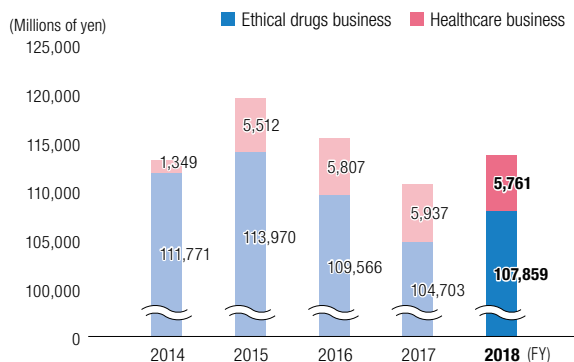
Millions of yen

2014	2015	2016	2017	2018*3	2019
¥ 111,400	¥ 113,121	¥ 119,483	¥ 115,373	¥ 110,640	¥ 113,620
109,678	111,771	113,970	109,566	104,703	107,859
1,721	1,349	5,512	5,807	5,937	5,761
17,607	14,737	19,636	10,413	8,822	8,972
12,025	12,064	13,639	7,305	6,574	6,869
19,293	6,391	11,137	16,386	10,456	340
(2,477)	(1,364)	650	(13,142)	(6,038)	14,939
(3,704)	(5,233)	(2,245)	(5,721)	(3,735)	(27,315)
16,816	5,027	11,787	3,244	4,418	15,279
11,359	13,514	13,019	13,569	14,243	10,790
6,500	2,655	7,218	3,051	2,885	2,306
3,153	3,053	3,730	3,619	3,644	2,940
169,378	183,383	197,825	192,668	196,736	173,034
137,821	148,600	157,049	157,837	163,297	123,395
					yen
¥ 1,844.61	¥ 2,009.45	¥ 2,131.67	¥ 2,146.83	¥ 2,214.13	¥ 2,154.05
160.95	161.63	184.28	99.45	89.28	104.68
52.00	52.00	58.00	58.00	58.00	75.00
15.8	13.0	16.4	9.0	8.0	7.9
10.8	10.7	11.4	6.3	5.9	6.0
10.2	11.9	10.9	11.8	12.9	9.5
81.4	81.0	79.4	81.9	83.0	71.3
9.0	8.4	8.9	4.6	4.1	4.8
32.3	32.2	31.8	59.3	65.9	72.6
12.25	17.78	11.63	23.64	22.39	20.64
2,452	2,445	2,420	2,382	2,348	2,297

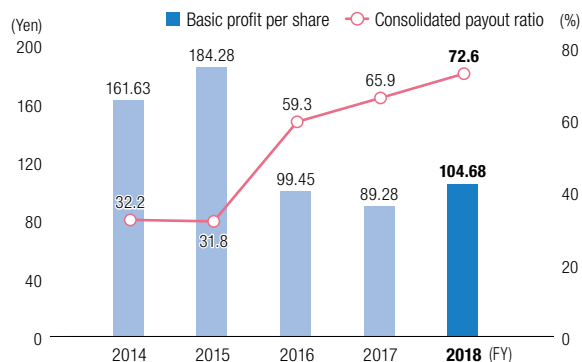
# Performance Highlights

## Financial Information

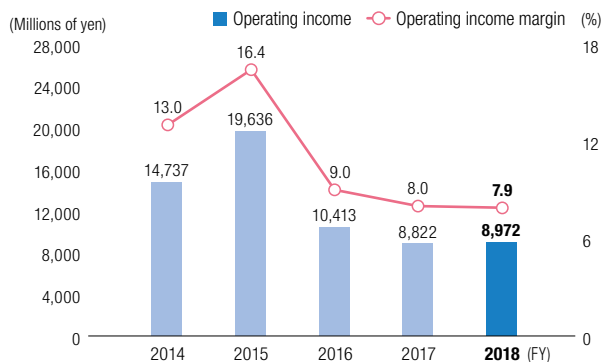
### Net sales



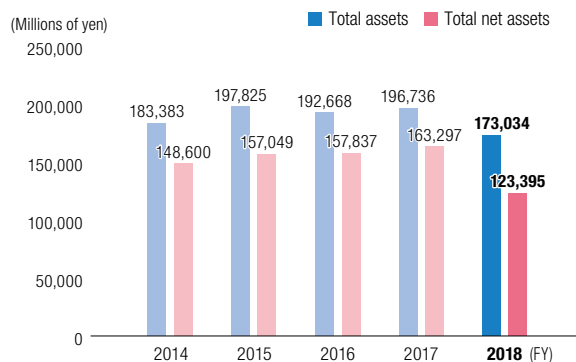
### Basic profit per share/Consolidated payout ratio



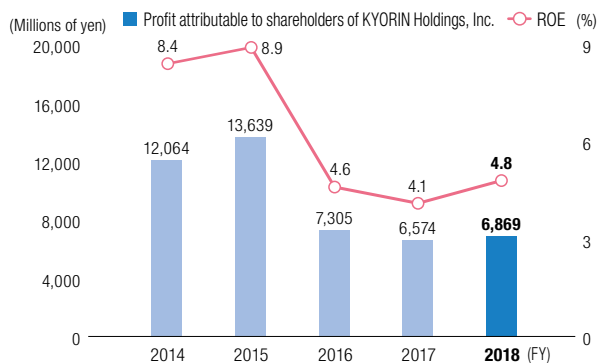
### Operating income/Operating income margin



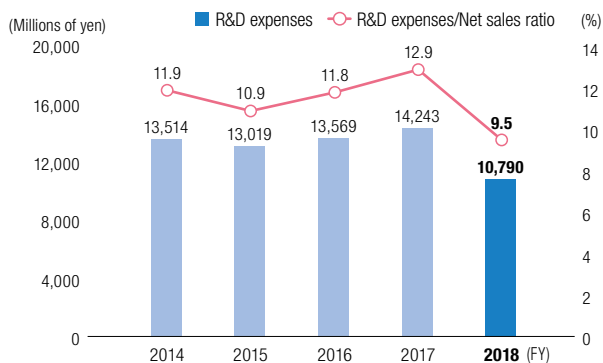
### Total assets/Total net assets



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



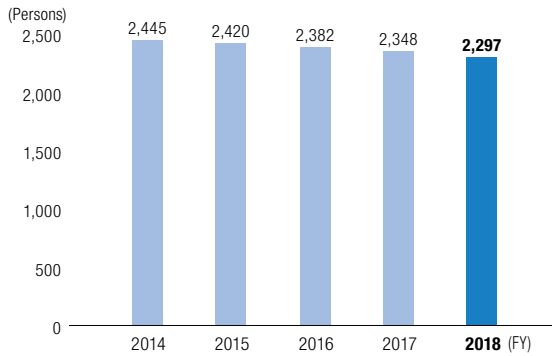
### R&D expenses/R&D expenses/Net sales ratio



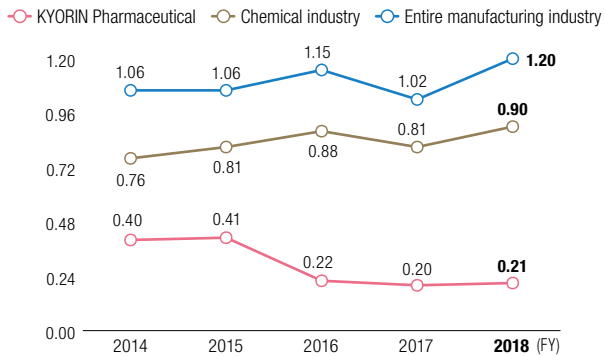
## Non-Financial Information

### Human Resources

#### Number of employees



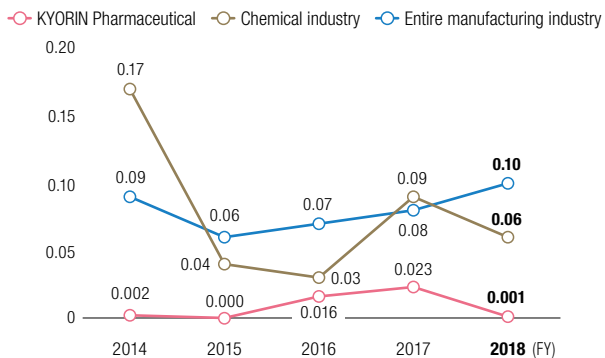
#### Rate of work accidents



Rate of work accidents: Number of deaths and injuries due to industrial accidents per total working hours x 1,000,000 (indicates frequency of accidents)

Calculation method: Number of deaths and injuries due to industrial accidents (excluding accidents while commuting) / Total working hours x 1,000,000

#### Severity of work accidents

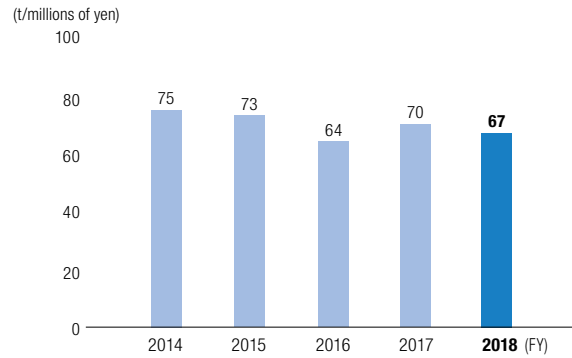


Severity of work accidents: Number of lost working days per total working hours x 1,000 (indicates magnitude of accidents)

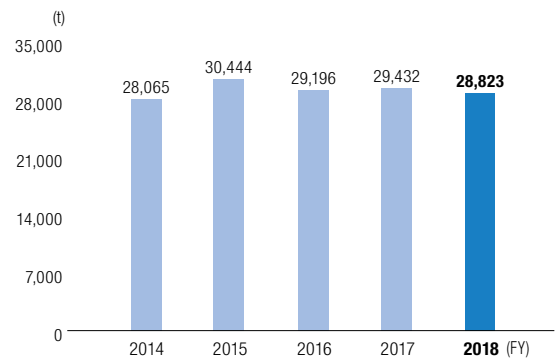
Calculation method: Number of lost working days (excluding accidents while commuting) / Total working hours x 1,000

### Environment

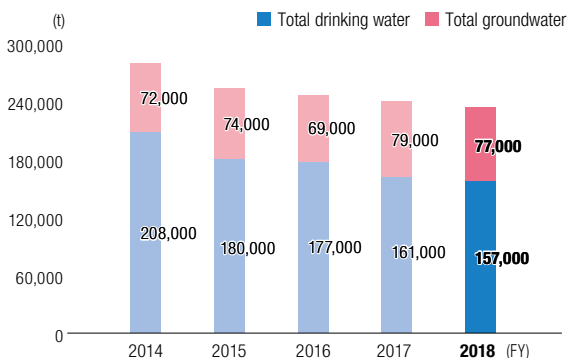
#### Waste volume



#### CO<sub>2</sub> emissions from factories and research laboratories



#### Volume of water used



## Financial Analysis

### Industry Trends in Japan

Japan's pharmaceutical industry experienced slow market growth during fiscal 2018, as the government introduced various measures to make medical spending and pharmaceutical spending more efficient, including drastic drug price revisions (a 7.5% reduction on an industry average basis) in April 2018, as a way to secure the financial resources needed to cover social security expenses.

Faced with this challenging environment, the Kyorin Group strove to strengthen its foundation for growth and enhance its earnings strength under the management slogan of "Implementing speedy transformation" for fiscal 2018, based on the HOPE100-Stage 2- medium-term business plan (covering fiscal 2016-2019) for achieving the Group's HOPE100 long-term vision (extending to fiscal 2023). The core ethical drugs business worked to create original new drugs with global potential and create a continuous stream of new drugs, and create markets for these new drugs with a greater sense of speed than in the past. In peripheral businesses, we worked to accelerate growth and enhance earnings strength while also pursuing low-cost operations Companywide, as we strove to achieve our numerical targets and gain greater support and recognition from stakeholders.

### Consolidated Operating Results

Consolidated net sales for fiscal 2018 rose ¥2,979 million from the previous fiscal year, or 2.7%, to ¥113,620 million. Despite the effect of the April 2018 drug price revisions (an overall reduction in the 7% range for KYORIN Pharmaceutical Co., Ltd.), total sales at the ethical drugs business rose, owing to an increase in domestic sales of new drugs on continued growth in our main products and on contributions from products for which sales were transferred to the Group and newly released products, which offset a decline in overseas sales of new drugs in the absence of the previous fiscal year's one-time revenue associated with progress in the development of an out-licensed product, while generic drug sales exceeded the sales of the previous fiscal year. Sales at the healthcare business declined marginally.

In terms of profit, drug price revisions raised the cost of sales ratio, and with a decrease in one-time revenue gross profit declined ¥4,166 million from the previous fiscal year. At the same time, expense reductions led to a ¥4,316 million reduction in SG&A expenses (including a ¥3,452 million decrease in R&D expenditures), absorbing the decline in gross profit, and as a result operating income rose ¥150 million, or 1.7%, to ¥8,972 million. Profit attributable to shareholders of KYORIN Holdings, Inc. rose 4.5%, to ¥6,869 million.

### Assets, Liabilities, and Net Assets

Current assets as of March 31, 2019 decreased ¥5,042 million from the previous fiscal year-end, on increases in notes and accounts receivable, merchandise and finished goods, and work in process, and a decrease in cash and cash in banks.

Fixed assets decreased ¥18,659 million, with an increase in intangible fixed assets and a decrease in investment securities. As a result, total assets decreased ¥23,701 million from the end of the previous fiscal year, to ¥173,034 million.

Liabilities grew ¥16,200 million from the previous fiscal year-end, to ¥49,639 million, on increases in notes and accounts payable and in short-term bank loans, and decreases in accrued income taxes, other current liabilities, and long-term debt.

Net assets decreased ¥39,902 million from the end of the previous fiscal year, to ¥123,395 million, reflecting decreases in retained earnings and in the unrealized holding gain on other securities, and from the acquisition and retirement of treasury stock shares.

As a result, the total shareholders' equity ratio at the fiscal year-end was 71.3%, marking an 11.7 percentage point decline from the end of the previous fiscal year.

### Cash Flows

Operating activities during fiscal 2018 generated net cash in the amount of ¥340 million, with the main items being profit before income taxes of ¥9,359 million, depreciation and amortization of ¥2,940 million, a ¥4,773 million increase in notes and accounts receivable, a ¥2,112 million increase in inventories, and the payment of ¥3,476 million in income taxes paid.

Investing activities generated net cash in the amount of ¥14,939 million, with outlays of ¥2,170 million for the purchase of property, plant and equipment and ¥2,199 million for the purchase of intangible assets being more than offset by ¥19,997 million of proceeds from the sales and redemption of investment securities.

Financing activities used net cash in the amount of ¥27,315 million, with ¥19,975 million of inflow from an increase in short-term bank loans, net, as well as outlays of ¥1,582 million for repayments of long-term debt, ¥40,839 million for the acquisition of treasury stock, and ¥5,068 million as cash dividends.

As a result, cash and cash equivalents at the end of fiscal 2018 totaled ¥30,914 million, marking a ¥12,057 million decrease from the previous fiscal year-end.

### Outlook for Fiscal 2019

We expect drug price revisions scheduled for October 2019 to create an even more challenging market environment for the domestic ethical drugs business.

As a result, the Kyorin Group will make every effort to evolve its pharmaceutical business model to facilitate continuous growth at the ethical drugs business based on the HOPE100-Stage 2- medium-term business plan (covering fiscal 2016-2019) for achieving the Group's HOPE100 long-term vision. We will also work to develop the healthcare business into a core business and search for potential new core businesses, as we strive to achieve the Kyorin Group's numerical targets and gain greater support and recognition from stakeholders.

With regard to net sales in fiscal 2019, although we expect lower domestic sales of new drug products, we are forecasting an overall increase in net sales at the ethical drugs business from



increased overseas sales of new drugs and of generic drugs. We are also forecasting increased sales at the healthcare business,\*1 for an overall increase in net sales. For domestic new drug products, although we expect sales growth for our main products Flutiform, Desalex, and Beova, in addition to the anticipated

effect of drug price revisions accompanying the consumption tax increase scheduled for October 2019, with the release of a generic version, we expect sales of NASONEX to decline. We are forecasting increased sales of generic drugs with the scheduled release of an authorized generic version of NASONEX.

## 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)
	2019	2018	2019
<b>Current assets:</b>			
Cash and cash in banks (Notes 4 and 10)	¥ 32,007	¥ 44,117	\$ 288,325
Notes and accounts receivable (Note 10)	52,635	47,862	474,146
Short-term investments (Notes 5 and 10)	501	599	4,513
Inventories:			
Merchandise and finished goods	12,924	11,749	116,422
Work in process	3,198	1,282	28,808
Raw materials and supplies	9,297	10,276	83,749
Other	4,384	4,101	39,492
Less allowance for doubtful accounts	(45)	(43)	(405)
<b>Total current assets</b>	<b>114,904</b>	<b>119,946</b>	<b>1,035,078</b>
<b>Property, plant and equipment:</b>			
Land	2,093	2,082	18,854
Buildings and structures	31,877	31,663	287,154
Machinery and vehicle	21,846	21,387	196,793
Leased assets	635	589	5,720
Construction in progress	644	41	5,801
Other	8,731	8,405	78,651
Less accumulated depreciation and impairment loss	(44,035)	(42,269)	(396,676)
<b>Property, plant and equipment, net</b>	<b>21,792</b>	<b>21,901</b>	<b>196,307</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 10)	29,799	50,715	268,435
Long-term loans	4	4	36
Asset for retirement benefits (Note 11)	88	133	793
Deferred tax assets (Note 12)	1,529	726	13,774
Other	4,961	3,356	44,690
Less allowance for doubtful accounts	(44)	(47)	(396)
<b>Total investments and other assets</b>	<b>36,338</b>	<b>54,888</b>	<b>327,340</b>
<b>Total assets</b>	<b>¥173,034</b>	<b>¥196,736</b>	<b>\$1,558,724</b>

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Current liabilities:			
Notes and accounts payable (Note 10)	¥ 11,441	¥ 10,266	\$ 103,063
Short-term bank loans (Note 6)	20,932	957	188,560
Lease obligations (Note 6)	80	99	721
Accrued income taxes (Note 12)	815	2,317	7,342
Accrued bonuses to employees	2,241	2,381	20,187
Reserve for sales returns	48	52	432
Provision for loss on guarantees	—	428	—
Other	5,919	8,631	53,320
Total current liabilities	41,480	25,134	373,660
Long-term liabilities:			
Long-term debt (Note 6)	2,634	3,912	23,728
Lease obligations (Note 6)	376	411	3,387
Deferred tax liabilities (Note 12)	2,064	1,255	18,593
Provision for stock-based payments	11	4	99
Liability for retirement benefits (Note 11)	2,485	2,136	22,385
Other	587	582	5,288
Total long-term liabilities	8,159	8,303	73,498
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized – 297,000,000 shares in 2019 and 2018			
Issued – 64,607,936 and 74,947,628 shares in 2019 and 2018	700	700	6,306
Capital surplus	4,752	4,752	42,807
Retained earnings	128,999	152,542	1,162,048
Treasury stock, at cost (Note 17):			
7,322,490 shares in 2019			
1,194,974 shares in 2018	(17,707)	(2,506)	(159,508)
Total shareholders' equity	116,744	155,489	1,051,653
Accumulated other comprehensive income:			
Unrealized holding gain on other securities	8,925	10,101	80,398
Translation adjustments	56	83	504
Retirement benefits liability adjustments	(2,331)	(2,377)	(20,998)
Total accumulated other comprehensive income	6,651	7,808	59,914
Total net assets	123,395	163,297	1,111,567
Total liabilities and net assets	¥173,034	¥196,736	\$1,558,724

See notes to consolidated financial statements.

## Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Net sales	¥113,620	¥110,640	\$1,023,511
Cost of sales	56,210	49,064	506,351
Gross profit	57,409	61,576	517,152
Selling, general and administrative expenses (Note 8)	48,436	52,753	436,321
Operating income	8,972	8,822	80,822
Other income (expenses):			
Interest and dividend income	415	398	3,738
Interest expense	(64)	(24)	(577)
Equity in gains of affiliates	36	28	324
Foreign exchange gain (loss)	54	(53)	486
Losses on sales and retirement of property, plant and equipment, net (Note 9)	(107)	(51)	(964)
Gain on sales of shares of subsidiaries and affiliates	—	576	—
Gain on sales of investment securities, net (Note 5)	28	—	252
Loss on devaluation of investment securities	(0)	—	(0)
Settlement-related costs	—	(379)	—
Provision for loss on guarantees	—	(428)	—
Commission for purchase of treasury stock	(245)	—	(2,207)
Subsidy income	138	53	1,243
Other, net	131	119	1,180
Other income, net	386	238	3,477
Profit before income taxes	9,359	9,061	84,308
Income taxes (Note 12):			
Current	2,004	2,759	18,052
Deferred	485	(272)	4,369
Total income taxes	2,490	2,486	22,430
Profit	6,869	6,574	61,877
Profit attributable to shareholders of KYORIN Holdings, Inc.	¥ 6,869	¥ 6,574	\$ 61,877

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Profit	¥6,869	¥6,574	\$61,877
Other comprehensive income (Note 13):			
Unrealized holding gain (loss) on other securities	(1,169)	2,456	(10,531)
Translation adjustments	(27)	(31)	(243)
Retirement benefits liability adjustments	46	133	414
Share of other comprehensive income of affiliates accounted for using equity method	(6)	(0)	(54)
Total other comprehensive income	(1,157)	2,557	(10,422)
Comprehensive income	¥5,711	¥9,132	\$51,446
Total comprehensive income attributable to:			
Shareholders of KYORIN Holdings, Inc.	¥5,711	¥9,132	\$51,446
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, 2019

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, 2017	74,947,628	¥700	¥4,752	¥150,301	¥ (3,168)	¥152,585	¥ 7,645	¥115	¥(2,510)	¥5,251	¥157,837
Cash dividends	—	—	—	(4,333)	—	(4,333)	—	—	—	—	(4,333)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	6,574	—	6,574	—	—	—	—	6,574
Purchase of treasury stock	—	—	—	—	(0)	(0)	—	—	—	—	(0)
Disposals of treasury stock	—	—	—	—	662	662	—	—	—	—	662
Retirement of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	2,455	(31)	133	2,557	2,557
Net changes during the year	—	—	—	2,241	662	2,903	2,455	(31)	133	2,557	5,460
Balance as of April 1, 2018	74,947,628	700	4,752	152,542	(2,506)	155,489	10,101	83	(2,377)	7,808	163,297
Cash dividends	—	—	—	(5,081)	—	(5,081)	—	—	—	—	(5,081)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	6,869	—	6,869	—	—	—	—	6,869
Purchase of treasury stock	—	—	—	—	(40,838)	(40,838)	—	—	—	—	(40,838)
Disposals of treasury stock	—	—	—	—	306	306	—	—	—	—	306
Retirement of treasury stock	10,339,692	—	—	(25,330)	25,330	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	(1,175)	(27)	46	(1,157)	(1,157)
Net changes during the year	—	—	—	(23,542)	(15,201)	(38,744)	(1,175)	(27)	46	(1,157)	(39,902)
Balance as of March 31, 2019	64,607,936	¥700	¥4,752	¥128,999	¥(17,707)	¥116,744	¥ 8,925	¥ 56	¥(2,331)	¥6,651	¥123,395

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, 2018	74,947,628	\$6,306	\$42,807	\$1,374,128	\$ (22,575)	\$1,400,676	\$90,992	\$748	\$(21,412)	\$70,336	\$1,471,012
Cash dividends	—	—	—	(45,771)	—	(45,771)	—	—	—	—	(45,771)
Profit attributable to shareholders of KYORIN Holdings, Inc.	—	—	—	61,877	—	61,877	—	—	—	—	61,877
Purchase of treasury stock	—	—	—	—	(367,877)	(367,877)	—	—	—	—	(367,877)
Disposals of treasury stock	—	—	—	—	2,757	2,757	—	—	—	—	2,757
Retirement of treasury stock	10,339,692	—	—	(228,178)	228,178	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	(10,585)	(243)	414	(10,422)	(10,422)
Net changes during the year	—	—	—	(212,071)	(136,934)	(349,014)	(10,585)	(243)	414	(10,422)	(359,445)
Balance as of March 31, 2019	64,607,936	\$6,306	\$42,807	\$1,162,048	\$(159,508)	\$1,051,653	\$80,398	\$504	\$(20,998)	\$59,914	\$1,111,567

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
<b>Operating activities</b>			
Profit before income taxes	¥ 9,359	¥ 9,061	\$ 84,308
Depreciation and amortization	2,940	3,644	26,484
Decrease in allowance for doubtful accounts	(1)	(16)	(9)
Decrease in accrued bonuses to employees	(139)	(293)	(1,252)
Decrease in accrued retirement benefits for directors and corporate auditors	—	(16)	—
Decrease in asset for retirement benefits	599	586	5,396
(Decrease) increase in liability for retirement benefits	(139)	61	(1,252)
Equity in gains of affiliates	(36)	(28)	(324)
(Decrease) increase in provision for loss on guarantees	(428)	428	(3,856)
Interest and dividend income	(415)	(398)	(3,738)
Interest expense	64	24	577
Purchase of treasury stock	245	—	2,207
Losses on sales and retirement of property, plant and equipment, net	107	51	964
Gain on sales of investment securities, net	(28)	—	(252)
Loss on devaluation of investment securities	0	—	0
Gain on sales of shares of subsidiaries and affiliates	—	(576)	—
Increase in notes and accounts receivable	(4,773)	(1,842)	(42,996)
(Increase) decrease in inventories	(2,112)	901	(19,025)
Increase (decrease) in notes and accounts payable	1,175	(834)	10,585
Increase (decrease) in consumption taxes payable	349	(912)	3,144
Other, net	(3,309)	1,889	(29,808)
Subtotal	3,459	11,729	31,159
Interest and dividend received	422	405	3,801
Interest paid	(64)	(24)	(577)
Income taxes paid	(3,476)	(1,655)	(31,312)
Net cash provided by operating activities	340	10,456	3,063
<b>Investing activities</b>			
Payments for time deposits	(622)	(768)	(5,603)
Proceeds from withdrawal of time deposits	659	722	5,936
Purchase of property, plant and equipment	(2,170)	(3,387)	(19,548)
Proceeds from sales of property, plant and equipment	23	91	207
Purchase of intangible assets	(2,199)	(486)	(19,809)
Purchase of investment securities	(620)	(7,099)	(5,585)
Proceeds from sales and redemption of investment securities	19,997	5,000	180,137
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(399)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	434	—
Other, net	(129)	(146)	(1,162)
Net cash provided by (used in) investing activities	14,939	(6,038)	134,573
<b>Financing activities</b>			
Increase (decrease) in short-term bank loans, net	19,975	(245)	179,939
Repayments of lease obligations	(104)	(104)	(937)
Proceeds from long-term debt	303	1,712	2,729
Repayments of long-term debt	(1,582)	(1,297)	(14,251)
Net (increase) decrease in treasury stock	(40,839)	524	(367,886)
Cash dividends	(5,068)	(4,325)	(45,654)
Net cash used in financing activities	(27,315)	(3,735)	(246,059)
<b>Effects of exchange rate changes on cash and cash equivalents</b>	(22)	(210)	(198)
<b>(Decrease) increase in cash and cash equivalents</b>	(12,057)	471	(108,612)
<b>Cash and cash equivalents at beginning of year</b>	42,971	42,499	387,091
<b>Cash and cash equivalents at end of year</b> (Note 4)	¥30,914	¥42,971	\$278,479

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries  
For the year ended March 31, 2019

## 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 2018 consolidated financial statements to conform to the 2019 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 straight-line method based on the estimated useful lives of the respective assets. 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) 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).

**(l) Accounting Change****Change in Accounting Policies Difficult to Distinguish from Changes in Accounting Estimates**

Previously, the Company and its domestic consolidated subsidiaries have applied the declining-balance method for the depreciation method of property, plant and equipment (excluding leased assets), and the straight-line method for buildings acquired on or after April 1, 1998 (excluding leasehold improvements) and leasehold improvements and structures acquired on or after April 1, 2016. Overseas consolidated subsidiaries have applied the straight-line method. The Company and its domestic consolidated subsidiaries changed the depreciation method to the straight-line method from the fiscal year ended March 31, 2019.

One of the priority strategies of the Group's (the Company and its consolidated subsidiaries) medium-term business plan (2016-2019), HOPE 100 Stage 2, is "Enhanced low cost structure: Reform of the cost structure through optimization within the Group" and the Group has been conducting the overall optimization of production operations through collaborations between its Group companies. As a result, the Noshiro Plant of KYORIN Pharmaceutical Co., Ltd. and the Production Division of KYORIN Rimedio Co., Ltd., which are consolidated subsidiaries of the Company, and KYORIN Pharmaceutical Group Facilities Co., Ltd. (Koka, Shiga), which was a consolidated subsidiary of the Company, were integrated into a new manufacturing subsidiary as of April 1, 2018.



Previously, the production volumes of the three plants differed. However, by integrating these plants, the Group will produce generic drugs, which are expected to increase in production, by using production facilities for new drugs and consolidate production of drugs with similar production processes and forms, regardless of new drugs or generic drugs and the Group expects to remove fluctuations in plant capacity utilization and pursue the efficient use of assets.

Furthermore, in research and development, priority strategies of the medium-term business plan (2016-2019), HOPE 100 Stage 2, are “Enhancing drug discovery capabilities: Initiatives for first-in-class new drug discovery” and “Promoting the generic drugs business by making the most of its characteristics.” Capital investments to achieve a high-level stabilization of research system came to an end by establishment of WATARASE Research Center and Takaoka Drug Discovery Laboratory so investment level will be stable going forward. In development of new drugs, the Group has been studying development of an organization system to be able to discover the early stage PCC (pre-clinical development candidates) through the efficient expansion of exploratory research and development research. Since the establishment of WATARASE Research Center in 2015, the Group has been working to assign facilities, organizations and personnel to achieve seamless, efficient and stable research activities and expects to ensure the discovery of the early stage PCC. In addition, generic drugs are now expected to account for 80% of the pharmaceutical market by volume. The Group established Takaoka Drug Discovery Laboratory in 2017 to handle the increase in the number of in-house development items and this will ensure a high-level stability in the number of items for generic drug development from the current fiscal year.

Under these situations, the Group reviewed the usage of property, plant and equipment and found the capacity utilization in the manufacturing department and research department will be stable and balanced going forward.

Accordingly, the Group decided to apply the straight-line method in place of the previous depreciation method based on the judgment that it is better suited for the actual condition of the Group’s management to allocate depreciation expenses evenly over the life of the assets.

As a result of this change, depreciation expense decreased by ¥697 million (\$6,279 thousand), operating profit and profit before income taxes increased by ¥664 million (\$5,981 thousand) and ¥663 million (\$5,972 thousand), respectively, compared with the previous method.

*(m) Accounting Standard Issued but Not Yet Effective*

**“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, issued on March 30, 2018)**

**“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued on March 30, 2018)**

**(1) Overview**

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board of the United States of America (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15, issued by the IASB and Topic 606, issued by the FASB) in May 2014. Considering that IFRS 15 has become applicable from fiscal years beginning on or after January 1, 2018 and Topic 606 from fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

The ASBJ’s basic policy in developing the accounting standard for revenue recognition was to establish accounting standards as a starting point in accordance with basic principles of IFRS 15 from the viewpoint of comparability of financial statements, which is one of benefits of maintaining consistency with IFRS 15, and to add alternative accounting treatments to the extent that they do not impair comparability in cases where common practices and others in Japan should be considered.

**(2) Date of application**

From the beginning of the fiscal year ending March 31, 2022.

**(3) Effect of application**

The effect of applying the “Accounting Standard for Revenue Recognition,” etc. on the consolidated financial statements is currently under assessment.

*(n) Change in Presentation***Change due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”**

The Company and its domestic consolidated subsidiaries applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, revised on February 16, 2018) from the beginning of the year ended March 31, 2019. As a result, deferred tax assets and deferred tax liabilities are presented in “Investments and other assets” and “Long-term liabilities,” respectively.

As a result of this change, deferred tax assets previously presented in “Current assets” decreased by ¥2,152 million and deferred tax assets in “Investments and other assets” increased by ¥537 million as of March 31, 2018. In addition, deferred tax liabilities in “Long-term liabilities” decreased by ¥1,614 million as of March 31, 2018. Further, “Total assets” decreased by ¥1,614 million due to offsetting deferred tax assets and deferred tax liabilities of the same taxable entity.

*(o) Additional Information***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 remains 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. The Trust was terminated in August 2018.

**(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, 2018, the carrying amounts of the treasury shares were ¥306 million, and the total number of treasury shares was 107 thousand shares. As of March 31, 2019, there were no treasury shares remaining in the Trust due to termination of the Trust during the fiscal year then ended.

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

The carrying amount of debt recorded through the application of the gross price method was ¥749 million as of March 31, 2018. There was no debt recorded as of March 31, 2019 due to termination of the Trust during the fiscal year then ended.

### **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, 2019 and 2018, the carrying amounts of the treasury shares were ¥1,645 million (\$14,818 thousand) and ¥1,645 million, respectively, and the total numbers of treasury shares were 754 thousand shares and 754 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, 2019 and 2018, the carrying amounts of the treasury shares were ¥226 million (\$2,036 thousand) and ¥226 million, respectively, and the total numbers of treasury shares were 100 thousand shares and 100 thousand shares, respectively.

### 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 ¥111.01 = U.S.\$1.00, the approximate rate of exchange on March 31, 2019. 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, 2019 and 2018 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and cash in banks	¥32,007	¥44,117	\$288,325
Short-term investments	—	—	—
Time deposits with a maturity over three months	(1,093)	(1,145)	(9,846)
Cash and cash equivalents	¥30,914	¥42,971	\$278,479

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

Information regarding marketable securities classified as other securities as of March 31, 2019 and 2018 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	¥10,673	¥23,460	¥12,787	\$ 96,144	\$211,332	\$115,188
Debt securities:						
Government bonds	1,500	1,501	1	13,512	13,521	9
Corporate bonds	200	200	0	1,802	1,802	0
Other bonds	—	—	—	—	—	—
Subtotal	12,373	25,162	12,789	111,458	226,664	115,206
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	13	11	(1)	117	99	(9)
Debt securities:						
Government bonds	2,900	2,898	(1)	26,124	26,106	(9)
Corporate bonds	—	—	—	—	—	—
Other bonds	1,000	989	(10)	9,008	8,909	(90)
Subtotal	3,913	3,900	(13)	35,249	35,132	(117)
Total	¥16,286	¥29,062	¥12,775	\$146,708	\$261,796	\$115,080

	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
2018			
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥10,747	¥25,242	¥14,495
Debt securities:			
Government bonds	500	501	1
Corporate bonds	—	—	—
Other bonds	—	—	—
Subtotal	11,247	25,744	14,496
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	8	8	(0)
Debt securities:			
Government bonds	23,499	23,477	(21)
Corporate bonds	—	—	—
Other bonds	1,000	987	(12)
Subtotal	24,508	24,473	(35)
<b>Total</b>	<b>¥35,756</b>	<b>¥50,217</b>	<b>¥14,461</b>

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 ¥612 million (\$5,513 thousand) and ¥493 million as of March 31, 2019 and 2018, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Proceeds from sales	<b>¥19,597</b>	¥—	<b>\$176,534</b>
Gains on sales	<b>52</b>	—	<b>468</b>
Losses on sales	<b>24</b>	—	<b>216</b>

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

Short-term bank loans and the current portion of long-term debt and lease obligations as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term bank loans	<b>¥20,100</b>	¥ 125	<b>\$181,065</b>
Current portion of long-term debt	<b>832</b>	832	<b>7,495</b>
Current portion of lease obligations	<b>80</b>	99	<b>721</b>
<b>Total</b>	<b>¥21,012</b>	¥1,056	<b>\$189,280</b>

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2019 and 2018 are 0.3% and 0.5%, respectively.

Long-term debt (excluding long-term debt related to a trust-based employee shareholding incentive plan) and lease obligations as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Long-term debt, due through 2027 at average interest rate of 0.3% and 0.4% in 2019 and 2018, respectively	<b>¥3,466</b>	¥4,745	<b>\$31,222</b>
Lease obligations due through 2030 in 2019 and 2018	<b>456</b>	510	<b>4,108</b>
Current portion of long-term debt and lease obligations due within one year	<b>(913)</b>	(931)	<b>(8,224)</b>
<b>Total</b>	<b>¥3,010</b>	¥4,324	<b>\$27,115</b>

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

Long-term debt from Japan Science and Technology Agency (National Research and Development Agency), amounting to ¥1,096 million (\$9,873 thousand) and ¥792 million as of March 31, 2019 and 2018, 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
2020	¥913	\$8,224
2021	377	3,396
2022	271	2,441
2023	255	2,297
2024	241	2,171

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, 2019 and 2018 were ¥10,790 million (\$97,198 thousand) and ¥14,243 million, respectively.

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

Significant components of the gain or loss on sales and retirement of property, plant and equipment, net for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gain:			
Buildings and structures	¥ 2	¥ –	\$ 18
Machinery and vehicle	3	–	27
Land	7	50	63
Other	0	0	0
	¥ 14	¥ 50	\$ 126
Loss:			
Buildings and structures	¥ (29)	¥ (40)	\$ (261)
Machinery and vehicle	(3)	(27)	(27)
Other	(87)	(35)	(784)
	(121)	(102)	(1,090)
Total	¥(107)	¥ (51)	\$ (964)

## 10. 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 have been procured to finance the purchase of treasury stocks, etc., and long-term debts are used for the funding support for development expenses from Japan Science and Technology Agency (National Research and Development Agency) and fund for capital investments, etc.

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, 2019 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2019			2019		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 32,007	¥ 32,007	¥ —	\$ 288,325	\$ 288,325	\$ —
Notes and accounts receivable	52,635	52,635	—	474,146	474,146	—
Short-term investments and investment securities	29,062	29,062	—	261,796	261,796	—
Total assets	¥113,705	¥113,705	¥ —	\$1,024,277	\$1,024,277	\$ —
Notes and accounts payable	¥ 11,441	¥ 11,441	¥ —	\$ 103,063	\$ 103,063	\$ —
Short-term bank loans	¥ 20,932	¥ 20,932	¥ —	\$ 188,560	\$ 188,560	\$ —
Total liabilities	¥ 32,374	¥ 32,374	¥ —	\$ 291,631	\$ 291,631	\$ —

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 44,117	¥ 44,117	¥ —
Notes and accounts receivable	47,862	47,862	—
Short-term investments and investment securities	50,217	50,217	—
Total assets	¥142,197	¥142,197	¥ —
Notes and accounts payable	¥ 10,266	¥ 10,266	¥ —
Short-term bank loans	¥ 957	¥ 957	¥ —
Total liabilities	¥ 11,224	¥ 11,224	¥ —

Unlisted securities and others of ¥1,238 million (\$11,152 thousand) and ¥1,097 million whose fair values are extremely difficult to determine as of March 31, 2019 and 2018, 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 and Short-term bank loans**

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



The redemption schedule for monetary receivables and securities with maturities subsequent to March 31, 2019 is as follows:

	Millions of yen			
	2019			
	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	¥32,007	¥ —	¥ —	¥ —
Notes and accounts receivable	52,635	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	500	3,900	—	—
Bonds	—	200	—	—
Other	—	1,000	—	—
<b>Total</b>	<b>¥85,142</b>	<b>¥5,100</b>	<b>¥ —</b>	<b>¥ —</b>

	Thousands of U.S. dollars			
	2019			
	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	\$288,325	\$ —	\$ —	\$ —
Notes and accounts receivable	474,146	—	—	—
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	4,504	35,132	—	—
Bonds	—	1,802	—	—
Other	—	9,008	—	—
<b>Total</b>	<b>\$766,976</b>	<b>\$45,942</b>	<b>\$ —</b>	<b>\$ —</b>

## 11. 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.

Certain domestic consolidated subsidiaries apply a simplified method that uses the amount that would be required to be paid at the year-end for voluntary termination as the retirement benefit obligation in computing liability for retirement benefits and retirement benefits costs.

### Defined benefit plans

(1) The changes in the retirement benefit obligation for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation at the beginning of the year	¥35,767	¥34,704	\$322,196
Service cost	1,245	1,165	11,215
Interest cost	178	173	1,603
Actuarial loss	62	436	559
Retirement benefits paid	(1,696)	(1,420)	(15,278)
Prior service costs	—	228	—
Increase due to change from simplified method to principle method	—	479	—
Decrease due to transfer	(56)	—	(504)
<b>Retirement benefit obligation at the end of the year</b>	<b>¥35,500</b>	<b>¥35,767</b>	<b>\$319,791</b>

(2) The changes in plan assets for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at the beginning of the year	¥33,955	¥33,441	\$305,873
Expected return on plan assets	679	668	6,117
Actuarial gain or loss	(633)	(82)	(5,702)
Contributions paid by the employer	1,011	959	9,107
Retirement benefits paid	(1,696)	(1,420)	(15,278)
Increase due to change from simplified method to principle method	—	389	—
Plan assets at the end of the year	¥33,315	¥33,955	\$300,108

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability (asset) for retirement benefits at the beginning of the year	¥191	¥303	\$1,721
Retirement benefits costs	47	128	423
Retirement benefits paid	(14)	(22)	(126)
Contributions to the plans	(12)	(69)	(108)
Decrease due to exclusion from consolidation	—	(20)	—
Decrease due to change from simplified method to principle method	—	(128)	—
Liability (asset) for retirement benefits at the end of the year	¥212	¥191	\$1,910

(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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded defined benefit obligation	¥35,622	¥35,911	\$320,890
Plan assets	(33,525)	(34,162)	(302,000)
	2,096	1,749	18,881
Unfunded retirement benefit obligation	300	253	2,702
Net liability (asset) for retirement benefits	¥ 2,397	¥ 2,002	\$ 21,593
Liability for retirement benefits	¥ 2,485	¥ 2,136	\$ 22,385
Asset for retirement benefits	(88)	(133)	(793)
Net liability (asset) for retirement benefits	¥ 2,397	¥ 2,002	\$ 21,593

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

(5) The components of retirement benefits costs for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥1,245	¥1,165	\$11,215
Interest costs	178	173	1,603
Expected return on plan assets	(679)	(668)	(6,117)
Amortization of actuarial loss	809	980	7,288
Amortization of prior service costs	(46)	(39)	(414)
Retirement benefits costs based on the simplified method	47	128	423
Decrease due to change from simplified method to principle method	—	(38)	—
Retirement benefits costs	¥1,555	¥1,699	\$14,008

(6) Prior service costs and actuarial gain or loss included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service costs	¥ 46	¥ 268	\$ 414
Actuarial gain or loss	(113)	(461)	(1,018)
Total	¥ (66)	¥(192)	\$ (595)

(7) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service costs	¥ (89)	¥ (136)	\$ (802)
Unrecognized actuarial loss	3,449	3,563	31,069
Balance at the end of the year	¥3,360	¥3,426	\$30,268

(8) Plan assets

The breakdown of plan assets is as follows:

	2019	2018
Domestic equity securities	4.8%	5.7%
Foreign debt securities	19.6	24.0
Foreign equity securities	11.1	10.7
General account	16.8	10.5
Short-term assets	25.5	22.9
Other	22.2	26.2
Total	100.0%	100.0%

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

(9) Actuarial assumptions

	2019	2018
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 ¥290 million (\$2,612 thousand) and ¥296 million to the defined contribution plans for the years ended March 31, 2019 and 2018, respectively.

## 12. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Liability for retirement benefits	¥1,108	¥1,187	\$ 9,981
Accrued bonuses to employees	668	719	6,017
Allowance for doubtful accounts	28	28	252
Accrued enterprise tax	23	91	207
Loss on retirement of inventories	145	249	1,306
Loss on devaluation of investment securities	140	125	1,261
Loss on retirement of property, plant and equipment	38	830	342
Amortization of deferred assets	661	906	5,954
Loss on closure of plant	602	586	5,423
Provision for loss on guarantees	—	131	—
Other	1,677	1,160	15,107
Subtotal	5,094	6,016	45,888
Valuation allowance (Note)	(57)	(185)	(513)
Total deferred tax assets	5,037	5,831	45,374
Deferred tax liabilities:			
Reserve for reduction entry of property, plant and equipment	(1,162)	(1,232)	(10,468)
Unrealized holding gain on other securities	(3,912)	(4,428)	(35,240)
Prepaid pension cost	(374)	(573)	(3,369)
Other	(123)	(126)	(1,108)
Total deferred tax liabilities	(5,572)	(6,360)	(50,194)
Net deferred tax assets (liabilities)	¥ (535)	¥ (529)	\$(4,819)

Note:

The valuation allowance decreased by ¥127 million (\$1,144 thousand), mainly due to a decrease in the Company's valuation allowance for future deductible temporary differences in the amount of by ¥118 million (\$1,063 thousand).

Taxes on income consist of corporate, inhabitants and enterprise taxes. A reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Entertainment expenses and others that are not tax deductible permanently	1.1	1.4
Inhabitants' per capita taxes	1.1	1.1
Tax credits for research and development expenses	(4.3)	(6.2)
Valuation allowance	(1.5)	1.3
Internal profit elimination	(0.2)	(0.1)
Dividends income that is not taxable permanently	(0.3)	(0.7)
Distribution amount of residual assets of Trust-Based Employee Shareholding Incentive Plan that is tax deductible	(0.3)	—
Difference on disposals of treasury stock of Trust-Based Employee Shareholding Incentive Plan	1.5	—
Effect of tax audit	(0.4)	—
Other	(0.7)	(0.2)
Effective tax rate	26.6%	27.4%

### 13. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized holding gain (loss) on other securities:			
Gain (loss) arising during the year	¥(1,657)	¥3,540	\$(14,927)
Reclassification adjustments	(27)	—	(243)
Before income tax effects	(1,685)	3,540	(15,179)
Income tax effects	516	(1,083)	4,648
Unrealized holding gain (loss) on other securities	(1,169)	2,456	(10,531)
Translation adjustments:			
Adjustments arising during the year	(27)	(31)	(243)
Retirement benefits liability adjustments:			
Loss arising during the year	(696)	(747)	(6,270)
Reclassification adjustments	762	940	6,864
Before income tax effects	66	192	595
Income tax effects	20	58	180
Retirement benefits liability adjustments	46	133	414
Share of other comprehensive income of affiliates accounted for using equity method:			
Loss arising during the year	(6)	(0)	(54)
Total other comprehensive income	¥(1,157)	¥2,557	\$(10,422)

### 14. Segment Information

#### (a) Overview of Reportable Segments

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

The Company has two reportable segments, the Ethical Pharmaceutical Business and the Consumer Healthcare Business, which are classified based on similarities in terms of products and services.

The Ethical Pharmaceutical Business mainly produces, sells, and purchases ethical drugs and generic drugs. The Consumer Healthcare Business mainly produces, sells, and purchases environmental hygiene products and over-the-counter drugs.

#### (b) Method of Calculating Net Sales, Profit, 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				
	2019				
	Reportable segment				
	Ethical Pharmaceutical Business	Consumer Healthcare Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥107,859	¥5,761	¥113,620	¥ —	¥113,620
Inter-segment sales or transfers	12	0	13	(13)	—
Total	¥107,872	¥5,761	¥113,633	¥ (13)	¥113,620
Segment profit	¥ 8,316	¥ 199	¥ 8,515	¥ 457	¥ 8,972
Segment assets	¥184,188	¥9,592	¥193,780	¥(20,745)	¥173,034
Other items:					
Depreciation and amortization	¥ 2,654	¥ 37	¥ 2,691	¥ 249	¥ 2,940
Investments in affiliates accounted for using equity method	625	—	625	—	625
Increase in property, plant and equipment and intangible assets	4,316	46	4,362	55	4,418
					Thousands of U.S. dollars
					2019
					Reportable segment
	Ethical Pharmaceutical Business	Consumer Healthcare Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	\$ 971,615	\$51,896	\$1,023,511	\$ —	\$1,023,511
Inter-segment sales or transfers	108	0	117	(117)	—
Total	\$ 971,732	\$51,896	\$1,023,629	\$ (117)	\$1,023,511
Segment profit	\$ 74,912	\$ 1,793	\$ 76,705	\$ 4,117	\$ 80,822
Segment assets	\$1,659,202	\$86,407	\$1,745,609	\$(186,875)	\$1,558,724
Other items:					
Depreciation and amortization	\$ 23,908	\$ 333	\$ 24,241	\$ 2,243	\$ 26,484
Investments in affiliates accounted for using equity method	5,630	—	5,630	—	5,630
Increase in property, plant and equipment and intangible assets	38,879	414	39,294	495	39,798
					Millions of yen
					2018
					Reportable segment
	Ethical Pharmaceutical Business	Consumer Healthcare Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	¥104,703	¥5,937	¥110,640	¥ —	¥110,640
Inter-segment sales or transfers	14	0	14	(14)	—
Total	¥104,718	¥5,937	¥110,655	¥ (14)	¥110,640
Segment profit	¥ 8,260	¥ 187	¥ 8,447	¥ 375	¥ 8,822
Segment assets	¥162,558	¥9,398	¥171,957	¥24,778	¥196,736
Other items:					
Depreciation and amortization	¥ 3,285	¥ 52	¥ 3,338	¥ 306	¥ 3,644
Investments in affiliates accounted for using equity method	603	—	603	—	603
Increase in property, plant and equipment and intangible assets	3,413	29	3,443	98	3,541

1. "Adjustments" for "Segment profit" of ¥457 million (\$4,117 thousand) and ¥375 million for the years ended March 31, 2019 and 2018, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥(20,745) million (\$186,875 thousand) and ¥24,778 million as of March 31, 2019 and 2018, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥249 million (\$2,243 thousand) and ¥306 million for the years ended March 31, 2019 and 2018, 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 ¥55 million (\$495 thousand) and ¥98 million for the years ended March 31, 2019 and 2018, respectively, were increases in property, plant and equipment and intangible assets of the Company.
5. "Segment profit" is adjusted to operating income disclosed in the accompanying consolidated statements of income.
6. As described in Note 2 (1) "Change in Accounting Policies Difficult to Distinguish from Changes in Accounting Estimates", previously, the Company and its domestic consolidated subsidiaries have applied the declining-balance method for the depreciation method of property, plant and equipment (excluding leased assets), and the straight-line method for buildings acquired on or after April 1, 1998 (excluding leasehold improvements) and leasehold improvements and structures acquired on or after April 1, 2016. However, the Company and its domestic consolidated subsidiaries changed the depreciation method to the straight-line method from the fiscal year ended March 31, 2019. As a result of this change, segment profit for the year ended March 31, 2019 increased by ¥629 million (\$5,666 thousand) in Ethical Pharmaceutical Business segment, ¥20 million (\$180 thousand) in Consumer Healthcare Business segment and ¥14 million (\$126 thousand) in Adjustments, respectively, compared with the previous method.

(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, 2019 and 2018.

**(b) Information by Geographical Area**

**(1) Sales**

Information about sales by geographical area is omitted for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018*

Name of customer	Millions of yen	
	2019	
	Sales amount	Related segments
Alfresa Holdings Corporation	¥21,025	Ethical Pharmaceutical Business, Consumer Healthcare Business
SUZUKEN CO., LTD.	19,020	Ethical Pharmaceutical Business, Consumer Healthcare Business
MEDIPAL HOLDINGS CORPORATION	16,979	Ethical Pharmaceutical Business, Consumer Healthcare Business
Toho Pharmaceutical Co., Ltd.	14,369	Ethical Pharmaceutical Business, Consumer Healthcare Business

Name of customer	Thousands of U.S. dollars	
	2019	
	Sales amount	Related segments
Alfresa Holdings Corporation	\$189,397	Ethical Pharmaceutical Business, Consumer Healthcare Business
SUZUKEN CO., LTD.	171,336	Ethical Pharmaceutical Business, Consumer Healthcare Business
MEDIPAL HOLDINGS CORPORATION	152,950	Ethical Pharmaceutical Business, Consumer Healthcare Business
Toho Pharmaceutical Co., Ltd.	129,439	Ethical Pharmaceutical Business, Consumer Healthcare Business

Name of customer	Millions of yen	
	2018	
	Sales amount	Related segments
Alfresa Holdings Corporation	¥19,562	Ethical Pharmaceutical Business, Consumer Healthcare Business
SUZUKEN CO., LTD.	17,344	Ethical Pharmaceutical Business, Consumer Healthcare Business
MEDIPAL HOLDINGS CORPORATION	16,248	Ethical Pharmaceutical Business, Consumer Healthcare Business
Toho Pharmaceutical Co., Ltd.	13,351	Ethical Pharmaceutical Business, Consumer Healthcare Business

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

There was no unamortized balance of goodwill as of March 31, 2019 and 2018.

**15. Contingent Liabilities**

Contingent liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Guarantors of indebtedness of employees	¥—	¥6	\$—

**16. Amounts per Share**

Amounts per share for the years ended March 31, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Basic profit	¥ 104.68	¥ 89.28	\$ 0.94
Cash dividends	75.00	58.00	0.68
Net assets	2,154.05	2,214.13	19.40



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, 2019 and 2018.

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 875,683 and 1,068,358 for the years ended March 31, 2019 and 2018, 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 854,700 and 961,700 as of March 31, 2019 and 2018, respectively.

## 17. Related Party Information

Material transactions of the Company with related parties for the year ended March 31, 2019 are as follows:

Category	Name of the related party	Location	Paid-in capital	Principal business
Principal shareholder	TEIJIN LIMITED	Osaka city	¥71,833 million	Research, manufacturing and sales of synthetic fibers and chemical products

Share of voting rights in the Company	Relationships with the related party	Description of the transactions	Transaction amount	Balance as of March 31, 2019
Directly owned: 19.2%	Sales of the Company's stock	Purchase of treasury stock	¥35,304 million (\$318,025 thousand)	—

The Company purchased treasury stock through Off-Auction Own Shares Repurchase Trading (ToSTNeT-3) of the Tokyo Stock Exchange the September 26, 2018 closing price. As a result of this transaction, the TEIJIN LIMITED's ownership ratio in the Company was reduced to 0%.

There were no applicable matters for the year ended March 31, 2018.

## 18. Business Combination

### Transaction under common control

Based on the resolution at a meeting of the Board of Directors held on December 19, 2017, KYORIN Pharmaceutical Group Facilities Co., Ltd. (Chiyoda-ku, Tokyo), a consolidated subsidiary of the Company, acquired the Noshiro Plant (Noshiro, Akita) of KYORIN Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, and the Production Division (Nanto, Toyama) of KYORIN Rimedio Co., Ltd., a consolidated subsidiary of the Company, through an absorption-type company demerger and acquired KYORIN Pharmaceutical Facilities Co., Ltd. (Koka, Shiga), a consolidated subsidiary of the Company, through an absorption-type merger effective as of April 1, 2018.

### 1. Purpose of the absorption-type demerger and the absorption-type merger

One of the priority strategies of the Group's medium-term business plan (2016-2019), HOPE 100 Stage 2, is "Enhanced low cost structure: Reform of the cost structure through optimization within the Group" and the Group has been conducting the overall optimization of production operations through collaborations between its Group companies. The Group is aiming at leveling of capacity utilization and the efficient use of assets, and the building of a competitive Group production structure for consistently providing high-quality products at low cost by consolidating the production functions.

## 2. Outline of the absorption-type demergers

### (1) Outline of the companies involved in the absorption-type demergers

	Demerged companies		Successor company
1. Name	KYORIN Pharmaceutical Co., Ltd.	KYORIN Rimedio Co., Ltd.	KYORIN Pharmaceutical Group Facilities Co., Ltd. (Newly established in October 2017)
2. Head office	6, Kanda Surugadai 4-Chome Chiyoda-ku, Tokyo	287-1, Shimocho, Moroe-Cho, Kanazawa-City, Ishikawa	6, Kanda Surugadai 4-Chome Chiyoda-ku, Tokyo
3. Representative	Minoru Hogawa	Hiroshi Hashizume	Michiro Onota
4. Business description	Manufacture and sales of prescription medicine	Manufacture and sales of prescription medicine	Manufacture and sales of prescription medicine
5. Year of establishment	1940	1947	2017
6. Closing date	March 31	March 31	March 31

### (2) Date of the demergers

April 1, 2018

### (3) Legal form of the demergers

Absorption-type demerger with KYORIN Pharmaceutical Co., Ltd. and KYORIN Rimedio Co., Ltd. as the demerged companies and KYORIN Pharmaceutical Group Facilities Co., Ltd. (Chiyoda-ku, Tokyo) as the successor company

### (4) Outline of the accounting treatment

The Company applied the accounting treatment stipulated by the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013) for the transaction under common control.

## 3. Outline of the absorption-type merger

### (1) Outline of the companies involved in the absorption-type mergers

	Surviving company	Absorbed company
1. Name	KYORIN Pharmaceutical Group Facilities Co., Ltd. (Newly established in October 2017)	KYORIN Pharmaceutical Facilities Co., Ltd.
2. Head office	6, Kanda Surugadai 4-Chome Chiyoda-ku, Tokyo	1-4 Sasagaoka, Mizukuchi-cho, Koka, Shiga
3. Representative	Michiro Onota	Kei Takahashi
4. Business description	Manufacture and sales of prescription medicine	Manufacture and sales of prescription medicine
5. Year of establishment	2017	2012
6. Closing date	March 31	March 31

### (2) Date of the merger

April 1, 2018

### (3) Legal form of the merger

Absorption-type merger with KYORIN Pharmaceutical Group Facilities Co., Ltd. (Chiyoda-ku, Tokyo) as the surviving company and KYORIN Pharmaceutical Facilities Co., Ltd. (Koka, Shiga) as the absorbed company

### (4) Outline of the accounting treatment

The Company applied the accounting treatment stipulated by the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013) for the transaction under common control.

# Independent Auditor's Report



Ernst & Young ShinNihon LLC  
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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, 2019, 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, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

We draw attention to Note 2 to the consolidated financial statements, which describes that KYORIN Holdings, Inc. and its domestic consolidated subsidiaries have changed the depreciation method of property, plant and equipment (except for leased assets) from the declining-balance method to the straight-line method from the year ended March 31, 2019. Our opinion is not qualified in respect of this matter.

### *Convenience Translation*

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

June 24, 2019

A member firm of Ernst & Young Global Limited

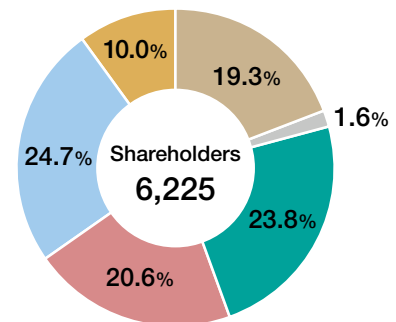
# Corporate Overview/Stock Information (As of March 31, 2019)

<b>Head Office</b>	KYORIN Holdings, Inc. 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3525-4700 URL: <a href="https://www.kyorin-gr.co.jp/en/">https://www.kyorin-gr.co.jp/en/</a>
<b>Establishment</b>	1958
<b>Common Stock</b>	¥700 million
<b>Outstanding Shares</b>	64,607,936
<b>Shareholders</b>	6,225
<b>Listing</b>	Tokyo Stock Exchange, First Section
<b>Transfer Agent</b>	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028 Phone: +81-3-3278-8111



Major Shareholders	Percentage of shares held
Mykam Co., Ltd.	8.32%
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.76%
Japan Trustee Services Bank, Ltd. (Trust Account)	3.84%
Banrina Co., Ltd.	3.35%
Archans Co., Ltd.	3.35%
Yutaka Ogihara	3.20%
Kyorin Group Stock Ownership Association	3.11%
Mariko Ogihara	3.02%
KAKEN PHARMACEUTICAL CO., LTD.	2.75%
Akira Ogihara	2.74%

### Major Shareholders



Financial institutions	19.3%
Financial instruments firms	1.6%
Other corporations	23.8%
Foreign corporations	20.6%
Individuals and other	24.7%
Treasury stock	10.0%

## Kyorin Group Website

Please visit the Kyorin Group website for the latest information about the Group and earnings-related materials.



➔ <https://www.kyorin-gr.co.jp/en/>



➔ IR Site: <https://www.kyorin-gr.co.jp/en/ir/>

## 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 products to the market.

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



Capital: ¥350 million  
 Percentage of ownership: 100%  
 Head office: 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311  
 Operations: Manufacture, sales, imports, and exports of prescription medicines

As a new pharmaceutical manufacturing subsidiary, KYORIN Pharmaceutical Group Facilities was created through the merger of KYORIN Pharmaceutical's Noshiro Plant, KYORIN Rimedio's Manufacturing Division, and the former KYORIN Pharmaceutical Facilities (Koka City, Shiga Prefecture), and commenced full-scale operations on April 1, 2018. By consolidating the Group's manufacturing functions, the company provides a stable supply of high-quality, low-cost pharmaceuticals, and aims to be an independent pharmaceutical manufacturing subcontractor that is relied upon by other companies both inside and outside the Kyorin Group.

#### 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 handles the environmental hygiene-related business, which is being positioned as one of the core operations of the Kyorin Group's healthcare business. The company is also involved in a wide range of communications businesses, focusing on the planning and production of pharmaceutical-related advertising, and contributes to society as a member of a corporate group that aims to support healthy lifestyles.

### 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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