Kyorin

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**

2020 ANNUAL REPORT

Year ended March 31, 2020

Kyorin
KYORIN Holdings, Inc.

6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311, Japan
Corporate Planning Division
TEL +81-3-3525-4707 URL https://www.kyorin-gr.co.jp/en/

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Kyorin
KYORIN Holdings, Inc.

Corporate Philosophy of the Kyorin Group

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

Corporate Message

Your Health is Kyorin's Mission

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.

Following our corporate philosophy, the Kyorin Group is working to realize its long-term vision, HOPE100, in 2023 to coincide with the centenary of the Group's core subsidiary, KYORIN Pharmaceutical Co., Ltd.
The overall vision comprises the **Statement and Five HOPEs.**

Long-Term Vision

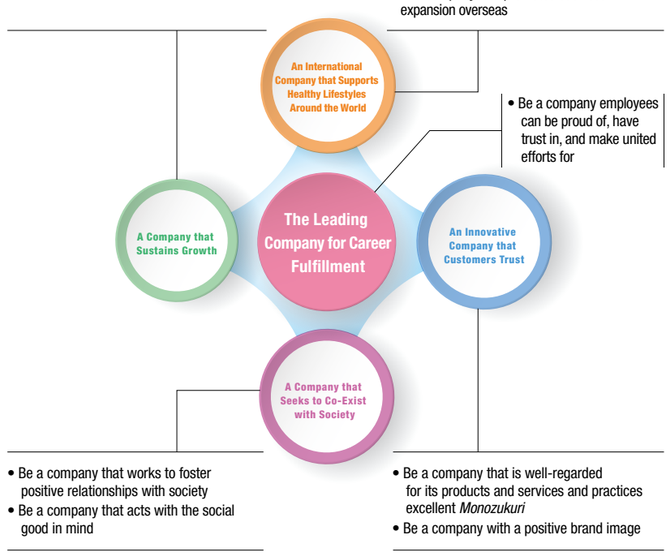
HOPE100 (Aim for Health Of People and our Enterprises)

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

- Be a company that maintains positive business results and excellent financial standing
- Be a company that contributes to people's health through the Consumer Healthcare Business
- Be a company that promotes business expansion overseas



- Be a company that works to foster positive relationships with society
- Be a company that acts with the social good in mind
- Be a company that is well-regarded for its products and services and practices excellent *Monozukuri*
- Be a company with a positive brand image

CONTENTS

Editorial Policy

Annual Report 2020 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 2019 (April 1, 2019 to March 31, 2020); some information also relates to fiscal 2020 activities.

To Our Stakeholders

Minoru Hogawa
Representative Director and Chairman

Yutaka Ogihara
Representative Director, President and Chief Executive Officer

The Kyorin Group has formulated the HOPE100 long-term vision for 2023, which will mark the 100th anniversary of the founding of our core subsidiary, KYORIN Pharmaceutical Co., Ltd. The period covered (fiscal 2010–2023) is divided into three stages, and from fiscal 2020, we are embarking on the new HOPE100–Stage 3– medium-term business plan, which will mark the completion of the long-term vision. To achieve this long-term vision, we will strive for continuous growth as a company and the medium- to long-term enhancement of corporate value based on this medium-term business plan.

Achieving the HOPE100 long-term vision by putting the Group on a growth trend through accelerated growth of the new drugs group

Under Stage 1 (fiscal 2010–2015), the first step of the HOPE100 long-term vision, the Kyorin Group achieved a degree of success as we strove to expand the ethical drugs business's development pipeline and maximize the promotion of major pharmaceutical products, while at the same time building and moving forward with a new pharmaceutical business model based on the statement "To bolster the forward momentum of its businesses by reorganizing them and building a framework for promoting each business."

Stage 2 (fiscal 2016–2019) was guided by the statement "Promoting sustainable growth through innovative changes (changes and innovations)," and we focused on responding to the patent expiry of the major product Kipres and setting a course for medium- to long-term growth through the new drugs group, thus laying the path for the final stage.

The ethical drugs business is currently facing an increasingly challenging external environment in the face of stepped-up government measures to contain costs for medical treatment and drugs, a higher degree of difficulty in new drug creation, and changes in activities of providing information. At the same time, internally we are creating the new drugs group that we expect to drive growth, and businesses including diagnostics are beginning to produce results, allowing us to view fiscal 2020 as the beginning of a period of growth. Against this backdrop, we are looking beyond previous concepts and ways of doing things and have formulated the new HOPE100–Stage 3– (fiscal 2020–2023) medium-term business plan to pursue "originality (unique competitive strength)" as we shift to a growth trend. In the form of a statement, the plan seeks to "realize a growth trend through the pursuit of originality," as we move forward by pursuing our business strategy and organizational strategy to achieve the targets we have set.

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

August 2020

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

Ninety-seven years have passed since the establishment of the Group's core subsidiary, KYORIN Pharmaceutical Co., Ltd. During that time, under our corporate philosophy of "benefiting society by contributing to better health," we have made contributions to the treatment and prevention of diseases and the maintenance and improvement of health. As the Company approaches its centenary, guided by our long-term vision, HOPE100, we are working to make progress on being recognized both within and outside as a company that supports sound and healthy lifestyles.

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.
  Kyorin Yakuhin Co., Ltd. was organized as an independent marketing division.
- 1947
  The Okaya Plant was started.
- 1967
  The Nogi Plant was opened.
- 1977
  Central Research Laboratories were opened.
- 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 opened.
- 1996
  The Research Center was established.
- 1999
  Listed on the Tokyo Stock Exchange, Second Section.
- 2000
  Listed on the Tokyo Stock Exchange, First Section.
- 2002
  A subsidiary company, Kyorin Europe GmbH (Germany), was established.
- 2004
  ActivX Biosciences, Inc. (U.S.A.) became a wholly owned subsidiary.
- 2005
  The stock of Toyo Pharma Co., Ltd. (present KYORIN Rimedio Co., Ltd.) was acquired, making it into a subsidiary company.
- 2006
  The Kyorin Group shifts to a holding company structure through a share exchange with KYORIN Co., Ltd.
  The Nogi Plant was closed.
- 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
  Establishment of the WATARASE Research Center of KYORIN Pharmaceutical Co., Ltd. through consolidation of the Drug Discovery Center (the former Central Research Laboratories) and the R&D Center (the former Research Center).
- 2016
  The Okaya Plant was closed.
- 2017
  KYORIN Rimedio Co., Ltd.'s Takaoka Pharmaceutical Technology Innovation Center was established.
- 2018
  New manufacturing subsidiary, KYORIN Pharmaceutical Group Facilities Co., Ltd. (head office: Tokyo), commences operations.
- 2020
  KYORIN Pharmaceutical Group Facilities Co., Ltd. and KYORIN Medical Supply Co., Ltd. merge.









1923 ⟶ ⟶ ⟶ 2020 ⟶ 2023

Vision

HOPE100 Long-Term Vision (FY2010–FY2023)

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.
- 1981
  Mucodyne, a mucoregulant, was launched.
- 1989
  Ketas, for bronchial asthma and cerebrovascular disorders, was launched.
- 1996
  Pentasa, a treatment for ulcerative colitis and Crohn's disease, was launched.
- 2001
  Kipres, a leukotriene receptor antagonist and bronchial asthma treatment medicine, was launched.
- 2007
  Uritos, an overactive bladder 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.
- 2013
  Flutiform, a combination drug for asthma treatment, was launched.
- 2015
  FPR2 Agonist Program was licensed to Bristol-Myers Squibb Company (U.S.A.).
- 2016
  Desalex, an antiallergic agent, was launched.
- 2018
  Acquired the exclusive distribution rights in Japan for NASONEX®, a therapeutic agent for allergic rhinitis using a metered-dose manual pump spray unit, from MSD K.K.
  Beova, an overactive bladder drug, was launched.

Corporate Vision for 2023

Medium-Term Business Plan FY2010–FY2015 **Stage 1**
Medium-Term Business Plan FY2016–FY2019 **Stage 2**
Medium-Term Business Plan FY2020–FY2023 **Stage 3**

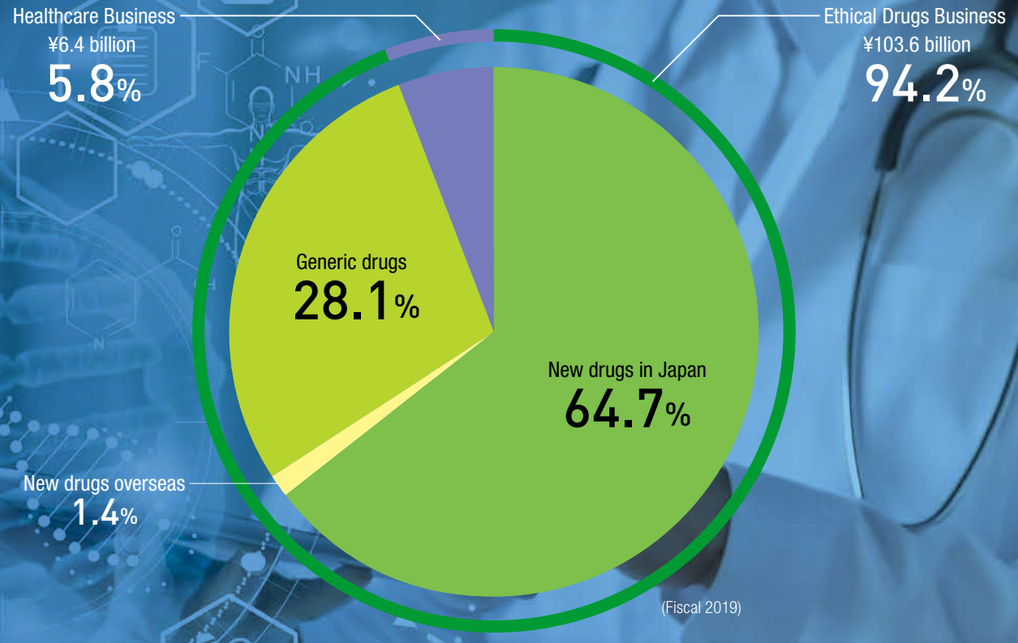
Infectious disease initiatives

KYORIN Pharmaceutical Co., Inc. has long pursued basic research in infectious diseases. One infectious disease treatment it researched was a new quinolone agent, which led to the production of the oral antibacterial agent Norfloxacin (Baccidal). This preparation was licensed to Merck & Co. (U.S.A.) in 1980 as the world's first oral new quinolone synthetic antibacterial agent, and was sold in around 140 countries. This was followed by the development of Fleroxacin (Megalocin) and Gatifloxacin (Gatiflo), and the current sale of Lascufloxacin (Lasvic Tablets). In addition to therapeutic drugs, we have expanded into prevention and diagnosis and the field of infection counter-measures through products such as the multipurpose disinfectant cleaner Rubysta, the disinfectant brand Milton, and the proprietary microchannel-based genetic measurement device GeneSOC®. For details ▸P.24

- 1980
  Norfloxacin (NFLX), an antibacterial agent, was licensed to Merck & Co. (U.S.A.).
- 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
  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.).
- 1998
  Milton, an effervescent disinfectant business, was acquired from P&G.
- 2000
  Gatifloxacin eyedrops was licensed to Allergan (U.S.A.).
- 2002
  Gatiflo (GFLX), a broad-spectrum oral antibacterial agent, was launched.
- 2012
  RUBYSTA, a multipurpose disinfectant cleaner, was launched.
- 2017
  KYORIN Pharmaceutical Co., Ltd. acquired all of the outstanding shares of jTAS Inc., and carried out an absorption-type merger of jTAS (entry to diagnosis business).
- 2019
  GeneSoC®, a microchannel-based genetic measurement device, was launched.
- 2020
  Lasvic Tablets, an oral quinolone antibacterial agent, was launched.

The Kyorin Group's Business

The Kyorin Group's main business is the development of ethical drugs under the guidance of holding company KYORIN Holdings Inc. 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. It also handles environmental hygiene-related products and over-the-counter drugs.



Main Products in Ethical Drugs

Respiratory and Otolaryngology

Flutiform

Combination drug for asthma treatment
General name: Fluticasone/Formoterol
Released: 2013

ICS/LABA: ¥123 billion
Market share in FY2019: 13% *

Lasvic

Oral new quinolone synthetic antibacterial agent
General name: Lascufloxacin
Released: 2020

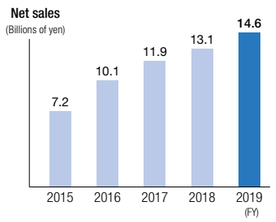
Antibacterial agent (oral): ¥96 billion *

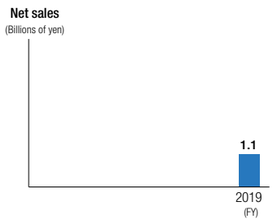
Otolaryngology

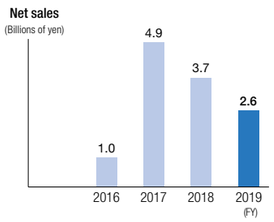
Desalex

Antiallergic agent
General name: Desloratadine
Released: 2016
Co-promotion with Kaken Pharmaceutical Co., Ltd., in field of dermatology

Antihistamine: ¥156 billion
Market share in FY2019: 2% *







Urology

Uritos

Therapeutic agent for overactive bladder
General name: Imidafenacin
Released: 2007

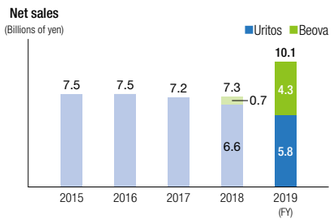
Co-development and co-marketing with Ono Pharmaceutical Co., Ltd. (sold by Ono Pharmaceutical under the name Staybla)

Beova

Therapeutic agent for overactive bladder
General name: Vibegron
Released: 2018

Co-development and co-marketing with Kissei Pharmaceutical Co., Ltd.

OAB:¥96 billion
Market share in FY2019: 7% (Uritos)
5% (Beova) *

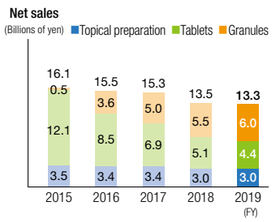


Inflammatory Bowel Disease

Pentasa

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

IBD: ¥42 billion
Market share in FY2019: 35% *



Generic Drugs

One of the Group's strengths is its handling of both new drugs and authorized generics, which gives it a high-quality, stable product supply.

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The Kyorin Group's Vision and Value Creation Process

Under the corporate philosophy "KYORIN continues to fulfill its mission of cherishing life, and benefiting society by contributing to better health," the Kyorin Group has established a long-term vision, HOPE100 (FY2010–FY2023). The Group aims to be recognized both within and outside as a company that supports sound and healthy lifestyles. In the new medium-term business plan that forms the final stage of this vision, HOPE100–Stage 3–, its goal is to become a globally recognized company by creating innovative new drugs. To that end, it will provide a wide variety of assistance to people's health through multidisciplinary development across the new drugs business, the generic drugs business, and the infectious disease-related business (prevention, diagnosis, and treatment of infectious diseases). In addition to responding to diverse medical needs, the Group works to find solutions to social issues from an ESG (environment, social, and governance) perspective. The Group's value creation process is to share the results of these efforts with all its stakeholders. By continuing this value creation process, it strives to realize a sustainable society and to grow the Company to raise corporate value.

Group-Related Social Issues

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

The Kyorin Group's Business Activities

New drugs business

Innovative new drug discovery and ethical drug development ▶P.18, 20

- The main focus areas of KYORIN Pharmaceutical Co., Ltd.'s proprietary drug discovery efforts are fibrosis and kinase research. It applies to these areas the low molecular weight drug discovery technology of the WATARASE Research Center, and the broad and quantitative analysis technology for kinase/protease of ActivX Biosciences' research facilities. In addition to using open innovation for proprietary discovery, the Group engages in original new drug discovery by activating existing platforms and utilizing new technologies.
- By identifying value in medical areas and implementing strategic development plans, we pursue efficient clinical development operations.

A strong presence in specific fields ▶P.22

- Information is supplied under a franchise customer (FC) strategy that centers on marketing activities by medical representatives (MRs) targeted toward doctors and medical institutions in specific fields. The Group has built a strong presence by forging bonds of trust with doctors in FC fields (respiratory, otolaryngology, and urology).

Generic drugs business

A competitive marketing system and the creation of new supplementary products ▶P.28

- KYORIN Rimedio Co., Ltd. develops products that can be used with peace of mind through its Takaoka Pharmaceutical Technology Innovation Center, which has strong generic-drug development capabilities.
- As a new drug-related generics company, it supplies products through a marketing structure that traverses the entire Group.

Infectious disease-related business

Promotion of diagnostic business using GeneSoC® ▶P.24

- The Group pursues the development of reagents for research (for respiratory infections and sexually transmitted diseases) and the development of the GeneSoC® mini, an automatic pretreatment system device, aiming to realize point-of-care testing (POCT: testing carried out by healthcare professionals at the patient's bedside).

Subcontracted drug manufacturing business

Creating a more cost-effective production system of three plants ▶P.26

- The Group is creating an optimized overall production system by combining the characteristics of the Noshiro Plant, with its low-cost, high-volume capabilities, the Shiga Plant, which is compliant with global GMP, and the Inami Plant, which handles small-lot manufacturing of numerous types of products, focusing on generic drugs.

Reliability Assurance

The Kyorin Group

New Medium-Term Business Plan "HOPE100–Stage 3–" ▶P.11

Statement

Realization of a growth trend through the pursuit of originality

Vision

To become a globally recognized company by creating innovative new drugs

1. Strategy

①Shift to business based on the proposal of solutions and accelerate the growth of new drugs groups
②Enhance pipeline to support medium-term growth
③Strengthen drug discovery capability to realize the creation of innovative new drugs
④Improve cost competitiveness
⑤Expand overseas revenue

2. Organization

To become the leading company for career fulfillment

3. Performance

- Achievement of sustainable results
- Shareholder returns

Kyorin's strengths

- ▶Ability to discover novel drug compounds (original drug discovery capabilities)
- ▶Drug discovery competitiveness through alliances
- ▶Development potential (possession of know-how, personal connections, networks) for specific fields
- ▶A strong presence in specific fields
- ▶Precise responses that use area management and a team structure
- ▶A manufacturing structure compatible with diverse needs
- ▶Secure manufacturing capacity for sterilized formulations (for injections, etc.)
- ▶Stable supply of high-quality generic drugs (combining development, manufacturing, and sales functions)
- ▶A new drug-related generics company that handles AG

Environmental, Social, and Governance (ESG) Activities

Targeting sustainable societal development and medium- to long-term increases in corporate value

• ESG Highlights ▶P.30 • Corporate Governance ▶P.32 • CSR Activities through Business ▶P.38 • In harmony with the environment ▶P.43 • Co-existing in harmony with society ▶P.44

Value Provided to Stakeholders

- Creation of new innovative products
- Responding to unmet medical needs
- Enhancing the quality of life of patients and their families
- Contributing to infectious disease countermeasures through prevention, diagnosis, and treatment
- Living together with local communities
- Constructive dialogue with shareholders and sustained return of profits

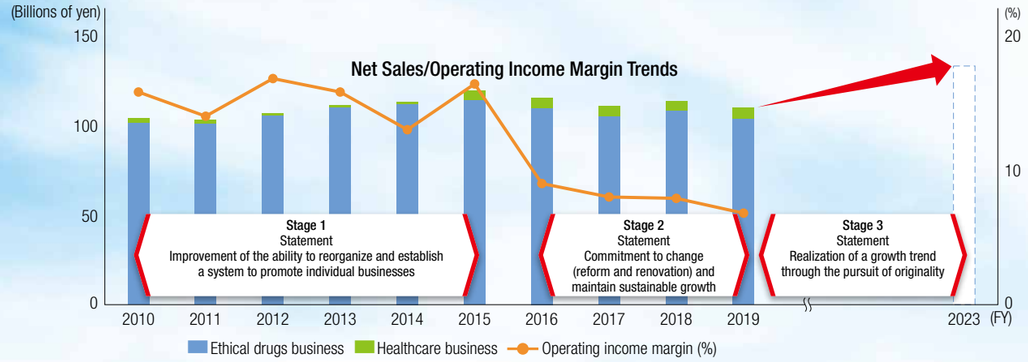
Corporate Vision for 2023

Long-Term Vision

HOPE 100

Transformation of the Medium-Term Business Plan and Overview of HOPE100–Stage 3– New Medium-Term Business Plan

The Group is pursuing a long-term vision, HOPE100, that is split into three stages, each with a corresponding medium-term business plan. Fiscal 2020 sees the beginning of the final stage of the vision through a new medium-term business plan, HOPE100–Stage 3–. While making progress on being recognized both within and outside as a company that supports sound and healthy lifestyles, the Group will strive to create sustainable growth and raise corporate value.



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

Strategy

Priority strategies

1. **Enhancing drug discovery capabilities: Initiatives for first-in-class new drug discovery**
2. **Increasing the ratio of new drugs group: Significantly increase the ratio of new drugs group by promoting the group to the greatest extent possible**
3. **Promoting generic drugs business by making the most of its characteristics**
4. **Enhancing cost reductions: Change of cost structure by ensuring optimization within the Group**

Results

- **Selecting drug discovery programs and focusing on**
  - Fibrosis/Kinase
- **Open Innovation**
  - Established the Department of Drug Discovery for Lung Diseases with Kyoto University
  - Started joint research with Institute of Microbial Chemistry
  - Started collaboration with Hebrew University as Strategic partnership
- **Ratio of the new drugs group: 34.9%**
- **Growth of Flutiform**
- **Launch three new drugs**
  - Desalex (November 2016)
  - Beova (November 2018)
  - Lasvic Tablets (January 2020)
- **Established the Takaoka Pharmaceutical Technology Innovation Center** (whose operations began in July 2017)
- **Proactively address authorized generics (AG)**
  - Released Kipres AG (September 2016)
  - Released Nasonex AG (August 2019)
  - Obtained manufacturing and marketing approval of Uritos AG (August 2019)
- **Consolidation of the Group's production functions**
  - Established KYORIN Pharmaceutical Group Facilities Co., Ltd. (Commenced operation on April 1, 2018)
  - Leveling the rate of plant operation and efficient use of assets

Development strategies

- **Overseas expansion**
  - **Market research and data collection in Asia**
- **Enhancing healthcare business**
  - **Strengthening the environmental hygiene business**
  - **Entry to diagnosis business: Released microchannel-based genetic measurement device GeneSoC® (November 2019)**

Organization

Establishment and operation of human resources management system aiming to be the leading company for career fulfillment

Overview of HOPE100–Stage 3– New Medium-Term Business Plan

The statement of the new medium-term business plan HOPE100–Stage 3– is "Realization of a growth trend through the pursuit of originality." We aim to achieve performance targets through various business strategies and organizational strategies.

Vision in Stage 3

Aim to become a globally recognized company through the creation of innovative new drugs. To this end, expand the new drugs business, GE business, infection-related business (prevention, diagnosis, and treatment of infections) in an integrated manner to widely support people's health.

Strategy

Priority strategies / **Priority items**

1. **Shift to business based on the proposal of solutions and accelerate the growth of new drugs groups**
   - Shift to business based on the proposal of solutions to problems by combining ethical drugs business and infection-related business and make Kyorin's unique contribution to healthcare workers.
   - Accelerate the growth of new drugs groups as much as possible (Flutiform, Desalex, Beova, Lasvic, etc.).
   - Streamline the healthcare business into business focused on infection-related fields.
2. **Enhance pipeline to support medium-term growth**
   - Actively invest in enhancements to the pipeline that will contribute to business performance in the medium term, with diseases surrounding the three specialities (respiratory medicine, otolaryngology, and urology) of franchise customers, infections, and rare and intractable diseases the domains for in-licensing.
3. **Strengthen drug discovery capability to realize the creation of innovative new drugs**
   - Continue adding new layers to existing priority research domains and technologies and taking on new research domains and technologies.
   - Pursue R&D based on clarification of healthcare value of new drug candidates.
   - Achieve proof of concept ourselves, as a general rule, and aim for early global out-licensing.
   - Increase diversity by actively acquiring drug discovery seeds.
4. **Improve cost competitiveness**
   - Increase cost competitiveness of the GE business by improving the efficiency of the GE sales structure.
   - Strengthen the ability to create new generics.
   - Establish a manufacturing structure to achieve stable supply and low cost while also enabling expansion of subcontracted manufacturing.
5. **Expand overseas revenue**
   - Expand overseas revenue through the promotion of global out-licensing.
   - Steadily take steps toward direct entry into the Asian market.

Organization

Aim to be the leading company for career fulfillment

- Train and attract human resources to support our development as a next-generation company, aiming to be the leading company for career fulfillment.

Performance

Numerical targets (consolidated basis)

Growth potential: Net sales—CAGR of at least 5%

Profitability: Operating income before deduction of R&D expenses (operating income + R&D expenses)—At least 20% of net sales

Capital policy and shareholder returns

Maintaining a sound financial base while raising capital efficiency through investments for growth and returns to shareholders

Maintaining stable dividends taking into account the dividend on equity (DOE) ratio

Pursuing Kyorin's originality and achieving a growth trend based on the new HOPE100–Stage 3– medium-term business plan

Yutaka Ogihara
Representative Director, President and Chief Executive Officer

Q Please tell us about Kyorin's business results for fiscal 2019.

A Revenue and profit declined on lower domestic sales of new drugs.

Under a basic policy of drastically overhauling the NHI drug pricing system, the government has been promoting the use of generic drugs and implementing other measures to contain the costs of drugs. Because of that and the drug price revisions carried out in October in connection with the consumption tax increase (an industrywide 2.4% average), the Japanese pharmaceutical industry continued to face a difficult market environment during fiscal 2019.

For the Kyorin Group, fiscal 2019 was the final year of the HOPE100–Stage 2– medium-term business plan. With unwavering determination in the pursuit of transformation, under the management policy for the plan's final year of "mobilizing the Group's collective strengths to bring about transformation," we moved forward toward achieving our targets and setting a trajectory for continuous growth. At our core ethical drugs business, we prioritized creating original, globally competitive new drugs, continuous drug discovery, and opening markets with new drugs. We also made a Groupwide effort to accelerate the growth of peripheral businesses and achieve low-cost operations, as we strove to achieve our targets and gain greater recognition from stakeholders.

In terms of domestic sales of new drugs, sales of our main products Flutiform and Beova grew, and there was also a contribution to sales from the release of Lasvic Tablets, but lower sales of long-listed products including Nasonex, Kipres, and Mucodyne, and a delay in the restart of supplies of Desalex after a temporary stop, resulted in sales declining ¥6.5 billion from those of the previous year. Overseas sales of new drugs rose ¥0.7 billion over those of the previous year, with increased revenue related to Gatifloxacin and upfront payment from the conclusion of a licensing agreement with the South Korean company JEIL Pharmaceutical Co., Ltd. for Vibegron (Beova). Sales of generic drugs grew ¥1.7 billion over those of the previous year on a contribution from the release of Nasonex AG (authorized generic), and the healthcare business recorded ¥0.6 billion sales growth on increased sales of Rubysta and Milton brand products from increased demand for disinfectants and cleaning agents associated with the spread of the novel coronavirus.

As a result, consolidated net sales for fiscal 2019 declined 3.2% from those of the previous year, to ¥109,983 million.

In terms of profit, despite a decline in the cost of sales ratio, the decline in sales of new drugs resulted in lower gross profit, and with an increase in research and development expenses, operating income declined 16.4% from that of the previous year, to ¥7,503 million.

Q What are your reflections on the HOPE100–Stage 2– medium-term business plan?

A Although we did not achieve the numerical targets, we have set a course for the next stage of growth.

To realize our corporate philosophy that "Kyorin continues to fulfill its mission of cherishing life and benefiting society by contributing to better health," in 2010, the Kyorin Group formulated the HOPE100 long-term vision with a view toward 2023, the 100th anniversary of the founding of our core subsidiary, KYORIN Pharmaceutical Co., Ltd. The period through 2023 was divided into three stages (Stage 1: fiscal 2010–2015; Stage 2: fiscal 2016–2019; and Stage 3: fiscal 2020–2023), and medium-term business plans have been formulated for each stage with the aim of evolving into a company that is recognized internally and externally as a healthy "Company that supports sound and healthy lifestyles."

During Stage 1, which was guided by the statement "To bolster the forward momentum of its businesses by reorganizing them and building a framework for promoting each business," we achieved a degree of success in expanding the development pipeline at the ethical drugs business, maximizing the promotion of major products to the greatest extent possible by deepening our franchise customer strategy, and taking steps to build and promote a new pharmaceutical business model.

Under Stage 2, we aimed to deal with the patent expiry of our main product Kipres and secure a path for medium- to long-term growth under the statement "Promoting sustainable growth through innovative changes (changes and innovations) to realize our long-term vision."

We focused on strengthening our drug discovery capabilities, increasing the ratio of the new drugs group in our product mix, promoting the generic drugs business by making the most of its characteristics, and strengthening our ability to achieve low costs. We strove to strengthen our drug discovery capabilities by creating proprietary new drugs in collaboration with the WATARASE Research Center in Japan and ActivX Biosciences in the United States, and through open innovation with domestic and overseas pharmaceutical companies, academic institutions, and venture capital start-ups. We also strove to revitalize existing drug discovery platforms and utilize new technologies (nucleic acids, peptides, gene therapy, etc.). Along with creating a structure for drug discovery, we pursued selection and concentration in drug discovery themes as we worked to develop multi-layered programs in fibrosis research and kinase research. We also expanded our pipeline through the in-licensed interstitial lung disease treatment KRP-R120 (ATYR1923) from aTyr Pharma, Inc. of the United States. With the aim of increasing the ratio of the new drugs group to more than 50%, we released three new products—Desalex, Beova, and Lasvic Tablets. In terms of promoting the generic drugs business by making the most of its characteristics, we commenced operations at the Takaoka Pharmaceutical Technology Innovation Center in July 2017, and are using this facility to strengthen our drug development capabilities and increase the number of attractive products developed in-house. In September 2016, we released Kipres AG as the Group's first authorized generic product. Our successes in this area also include the subsequent release of Nasonex AG, and we obtained approval to manufacture and sell Uritos AG. To strengthen our ability to achieve low costs, we consolidated the Group's manufacturing functions at the new manufacturing subsidiary, KYORIN Pharmaceutical Group Facilities Co., Ltd., which commenced operations on April 1, 2018. This has led to steady progress in cost reductions by equalizing plant capacity utilization and using assets more efficiently. We continue to aim to create a competitive Group manufacturing structure that provides a stable supply of high-quality products at low cost. Under our development strategies, we are strengthening our businesses related to environmental hygiene and are entering the new business of diagnostics, where we are developing extracorporeal diagnostic agents targeting pathogenic bacteria and viruses for infectious diseases, and released the GeneSoC® device for use in research.

With regard to numerical targets, with dramatic changes in the external environment and special factors including the temporary suspension of supplies of Desalex and delays in the market launch of Lasvic Tablets, we were unable to achieve our targets of average annual growth of at least 3% in consolidated net sales and a consolidated operating income margin of at least 15%. Nevertheless, we have assembled a lineup of new drugs that we expect to become major products and view fiscal 2020, the first year under the new HOPE100–Stage 3– medium-term business plan, as the beginning of a period of business growth. We have therefore set even higher numerical targets that we will strive to achieve.

Q Please give us an overview of the HOPE100–Stage 3– (fiscal 2020–2023) medium-term business plan, and tell us what you hope to achieve.

A We will pursue originality to achieve a growth trend despite the increasingly challenging external environment.

We have begun operating under the HOPE 100–Stage 3– medium-term business plan, but with measures to contain costs for drugs being tightened further, a growing degree of difficulty in new drug discovery, and changes in activities of providing information, we expect the current external environment to become increasingly challenging. At the same time, as I previously mentioned, internally we have a lineup of new drugs to drive growth, including Flutiform, Desalex, Beova, and Lasvic, and with our diagnostics business beginning to bud as well, I believe we have entered a period of business growth. Against this backdrop, during this stage we will pursue originality (using our unique competitiveness) without being bound by conventional methods and ways of thinking, to achieve a growth trend under the statement "Realization of a growth trend through the pursuit of originality." With the aim of being a company that is globally recognized for its innovative new drug discovery, we will expand the new drugs business, the generics business, and the infection-related business (prevention, diagnosis, and treatment of infections) in an integrated manner to become a company that widely supports people's health, focusing on the following Business Strategy and Organization Strategy.

Business Strategy

Shift to business based on the proposal of solutions and accelerate the growth of the new drugs group

We will transform into a provider of solutions that integrate the ethical drugs business and the infection-related business to solve problems and create a marketing structure that cuts across the Group, to make a uniquely Kyorin Group contribution to healthcare workers. In the area of prevention, diagnosis, and treatment of infectious diseases, for example, I hope to provide doctors, pharmacists, nurses, infection control teams (ICTs), and antimicrobial stewardship teams (ASTs) with comprehensive solutions in the field of infectious disease based on products including the preventive Milton and Rubysta, the GeneSoC® diagnostic device, and Lasvic for disease treatment.

We will strive to accelerate the growth of the new drugs group by placing a maximum focus on products including Flutiform, Desalex, Beova, and Lasvic so that they are prescribed as much as possible.

Enhance pipeline to support medium-term growth

The Kyorin Group to date has focused on franchise customers (FC) for in-licensing in three areas (respiratory, otolaryngology, and urology), but we will also address the fields of infectious disease and rare and intractable diseases, proactively investing to expand our pipeline to contribute to business results over the medium term.

Strengthen drug discovery capability to realize the creation of innovative new drugs

To create innovative new drugs, we will continue to pursue the challenges of adding layers of research in our priority research domains of fibrosis research and kinase research, and add new fields of research and technology. We will also promote research emphasizing the clarification of the healthcare value of new drug candidates and realize early global out-licensing based on a general rule of achieving proof of concept (POC) ourselves, while also actively acquiring drug discovery seeds as we work to strengthen our drug discovery capabilities.

Improve cost competitiveness

We will increase the cost competitiveness of the generic drugs business by improving the efficiency of the business's sales structure, while also strengthening the ability of the Takaoka Pharmaceutical Technology Innovation Center to create new generic drug candidates. In addition, by optimizing our manufacturing structure and improving operational efficiency, we aim to achieve stable supplies and enhance our cost competitiveness, and create a structure to facilitate expanded subcontracted manufacturing.

Expand overseas revenue

We aim to expand our overseas revenue by promoting global out-licensing through enhanced drug discovery capabilities. We will also steadily move forward in our thinking to directly enter the Asian market.

Organization Strategy

Aim to be the leading company for career fulfillment

Under our long-term vision, the Kyorin Group values its employees, executing a business strategy that energizes people and organizations and achieving concrete results as our most important issues. We are working to train and attract human resources to support our development as a next-generation company, following the basic policy of our human resources management system with the aim of being the leading company for career fulfillment.

Performance Targets

I believe that the achievement of continuous growth requires that we set targets in terms of both growth and profitability. For growth, we have set a target of an average compound annual growth rate of at least 5% in consolidated net sales, and for profitability, we are targeting consolidated operating income before the deduction of R&D expenses (operating income + R&D expenses) of at least 20% of net sales.

Our fundamental capital policy is to maintain a sound financial base while improving capital efficiency through investments for growth and returns to shareholders. With regard to returns to shareholders, we will maintain a stable dividend while taking the dividend on equity (DOE) ratio into account.

Q **What are your management policies and initiatives for fiscal 2020?**

A **We will pivot to a solid growth trend under the management policy "Accept the challenge of pursuing originality."**

With the new drugs group assembled, I believe fiscal 2020 will be the "make-or-break" year for escaping from our downward trend. For the main points of our business strategy, we will shift to a business based on proposing solutions and accelerate the growth of the new drugs group, enhance our pipeline, expand drug discovery projects, and improve our cost competitiveness. Group employees will take up repeated challenges in the pursuit of originality as we work to ensure that the transformation to a growth trend is solid.

Q **Regarding a current topic, please tell us about your initiatives related to the novel coronavirus.**

A **We are contributing to the diagnosis of infectious diseases with the GeneSoC® microchannel-based genetic measurement device.**

Jointly developed with the National Institute of Advanced Industrial Science and Technology and based on superfast quantitative PCR technology, we released the GeneSoC® microchannel-based genetic measurement device as a research instrument in November 2019. Designed for practicality as an instrument for the rapid detection of infectious diseases that can be used for point-of-care testing (POCT, testing performed by medical practitioners at the bedside of patients), the device has received a great deal of attention for the speed at which it can detect the novel coronavirus. Development is also currently under way for its use as a medical device, and it is making a unique contribution in the field of diagnosing infectious diseases including the novel coronavirus and resolving issues concerning the correct use of drugs and ways to address the growing international problem of antimicrobial resistance (AMR).

Q **Would you please provide a message to stakeholders.**

A **As we approach our 100th anniversary, we want to look ahead to the next 100 years and increase corporate value by developing uniquely Kyorin businesses.**

The Kyorin Group's corporate message—"Your Health is Kyorin's Mission"—expresses our strong desire to contribute to people's health, an ideal that has been carried on continuously throughout our almost 100-year history. Since our founding, our business has been based on the precept of contributing to people's health, an idea consistent with the concepts underlying the international targets for a sustainable world set forth in the Sustainable Development Goals, which have recently been receiving a great deal of attention. To date, the Group has pursued research in infectious disease, immunity, and inflammation, while at the same time developing highly specialized businesses that seek to establish a presence in specific fields, focusing on respiratory, otolaryngology, and urology. Going forward, we will develop businesses in areas where we are able to deploy our strengths, as we strive to enhance our corporate value by continuously pursuing the challenge of evolving into "a company that supports sound and healthy lifestyles" and supports people's health.

I ask for the continued support of all stakeholders.

New Drugs Business

Drug Discovery

With the medical needs for people's health today becoming increasingly diverse and complex, the degree of difficulty in creating innovative new drugs is higher than ever. In this environment, although the scientific and technological development efforts of drug manufacturers are resulting in many new drugs, numerous unmet medical needs still exist. Through our corporate activities, the Kyorin Group is using innovation to develop and provide safe products and services that benefit society, enabling the Company to continue to grow and contribute to resolving social issues. Under the new HOPE100–Stage 3– medium-term business plan, we are focusing on strengthening our drug discovery capabilities to the greatest extent possible, aiming to become a company that is globally recognized as a company of innovative new drugs.

Strengths	Opportunities	Risks
• Working with the WATARASE Research Center and its disease model analytical technologies and low molecular weight drug discovery technologies, and ActivX Biosciences (ActivX) in the United States, which has broad and quantitative kinase analysis technologies, we are able to identify targets and create novel compounds. (Unique drug discovery capabilities) • We are working with academic institutions and venture capital start-ups in research areas including fibrosis, infectious diseases, and inflammation. (Competitiveness through alliances)	• Using the low molecular weight drug discovery technologies we have developed over the years, we are not only acquiring multiple pharmacophores for newly identified discovery targets and pursuing optimal research with different basic structures, we are also pursuing simultaneous development with new modalities (nucleic acids, etc.), thereby diversifying the seeds to increase our likelihood of success.	• Increased use of artificial intelligence in drug discovery could make low molecular weight drug discovery more efficient (through major cost reductions and shorter development periods), which could weaken our advantageous position in drug discovery.

New HOPE100–Stage 3– Medium-Term Business Plan

Business strategy ▶ Strengthen drug discovery capability to create innovative new drugs

Continue to add new layers to existing priority research domains and technologies and take on new research domains and technologies	Pursue R&D based on clarification of healthcare value of new drug candidates	Increase diversity by actively acquiring drug discovery seeds

Review of previous medium-term business plan

We strove to strengthen our drug discovery capabilities with a reorganized drug discovery structure, which involved consolidating exploratory research and development research at the WATARASE Research Center and strengthening cooperation with ActivX. In kinase research and fibrosis research, our priority research areas, we were able to carry out multilayered drug discovery activities by strengthening our themes for initial-stage exploration both quantitatively and qualitatively, and evaluate compounds with different basic structures while simultaneously strengthening our backup structure.

Initiatives under the new medium-term business plan

Continue to add new layers to existing priority research domains and technologies and take on new research domains and technologies

KYORIN Pharmaceutical's WATARASE Research Center has technologies for analyzing disease models and low molecular weight drug discovery technologies, while ActivX has the KiNativ (broad and quantitative kinase analysis technology) platform. We have quantitatively and qualitatively reinforced our themes for initial-stage research and exploration in our priority research areas of fibrosis research and kinase research to make maximum use of the potential of these technologies and identify novel drug discovery targets. In terms of fibrosis research, we are working with academic institutions in proactive exploration of candidate compounds that have pharmacological activity for identified discovery targets using iPS cells and human tissue. In addition to our existing drug discovery platform based on low molecular weight, we are using new modality technologies (nucleic acids, etc.) to pursue the challenge of innovative new drug discovery.

Pursuing open innovation

To supplement and build on KYORIN Pharmaceutical's proprietary drug discovery, we are proactively investigating external early-exploratory-stage drug discovery themes and candidate compounds, and using our evaluation technology platforms in areas including auditory function, bladder function, and infectious diseases to create a structure that can carry out speedy evaluations. This includes open innovation with academic institutions, venture capital start-ups, and domestic and overseas pharmaceutical companies, enabling us to approach drug discovery targets from various perspectives. We established the Department of Drug Discovery for Lung Diseases as a joint research program at the Graduate School of Medicine Kyoto University in fiscal 2017, 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. KYORIN Pharmaceutical also concluded a strategic partnership with the technology transfer company of the Hebrew University of Jerusalem for drug discovery in the respiratory field in fiscal 2018, and began joint research with the Microbial Chemistry Research Foundation's Institute of Microbial Chemistry to search for antibacterial drugs effective against multidrug resistant bacteria in fiscal 2018.

We are also acquiring early-stage drug discovery seeds from outside the Group to build new platforms for drug discovery, which will increase and expand our drug discovery seeds, diversify disease areas and modalities, and disperse risks.

Initiatives for innovative new drug discovery

KYORIN Pharmaceutical will take the following three approaches in its drug discovery activities:

• Search for novel targets

We are strengthening our early-exploration-stage research to search quickly for novel drug discovery targets and create innovative new drugs 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 identification and 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.

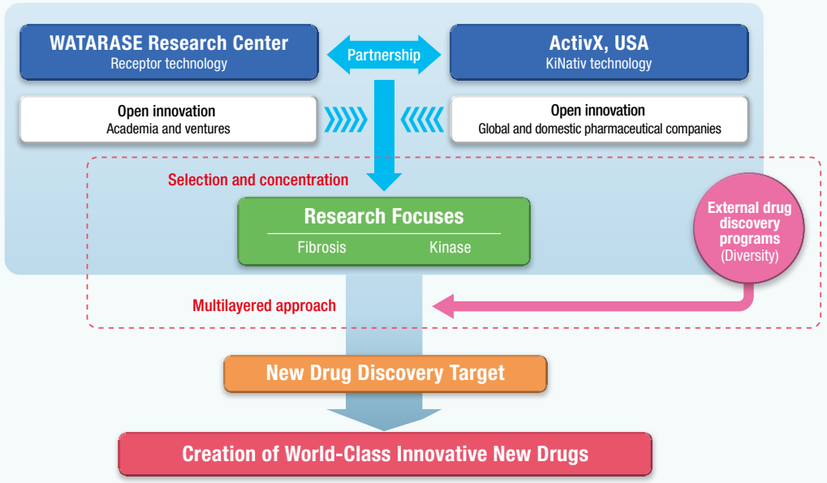
• Expand modalities

In addition to our existing low molecular weight drug discovery, we are using new technologies to explore compounds including medium molecular weight compounds and nucleic acid medicines, and building on our work on fusion protein formulations begun in fiscal 2019 to pursue possibilities in new modalities and create new drugs with global potential that help address medical needs that cannot be met with low molecular weight drugs.

• Restructure drug discovery research centers

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

System for Continuous Creation of Innovative New Drugs



New Drugs Business

Development

The Kyorin Group views the expansion of our pipeline to support medium-term growth as an important management issue. In addition to expanding our development pipeline in specific fields (respiratory, otolaryngology, and urology) as well as the fields of infectious diseases and rare and intractable diseases, we aim to globally roll out at an early stage compounds that we have created in-house.

Strengths

- Expertise, personal connections, and networks for product development in the fields of respiratory, otolaryngology, and urology (development capabilities in designated disease fields)

Opportunities

- An organizational structure that can carry out clinical trials effectively and promote the development of new drugs

Risks

- Significantly higher development costs from stricter standards for clinical trials and new drug approvals
- Increasingly severe effect on business viability from reform of the drug pricing system

New HOPE100–Stage 3– Medium-Term Business Plan

Business strategy ► Enhance pipeline to support medium-term growth

Proactively invest in pipeline expansion to contribute to medium-term earnings through in-licensing for disease field including and peripheral to the three specialties of franchise customer fields (respiratory, otolaryngology, and urology), and infectious disease and rare and intractable diseases

In principle, achieve proof of concept (POC)* ourselves and aim for early global out-licensing

* Proof of concept: Confirmation of the effectiveness and safety to humans of candidate substances for new drugs in the research and development stage

Review of previous medium-term business plan

Clinical trials were carried out for products in development including the oral quinolone antibacterial agent KRP-AM1977X (product name: Lasvic Tablets) and the overactive bladder drug KRP-114V (product name: Beova), and despite some delays, both products were successfully released. We will use the valuable experience gained developing these products in our development activities going forward.

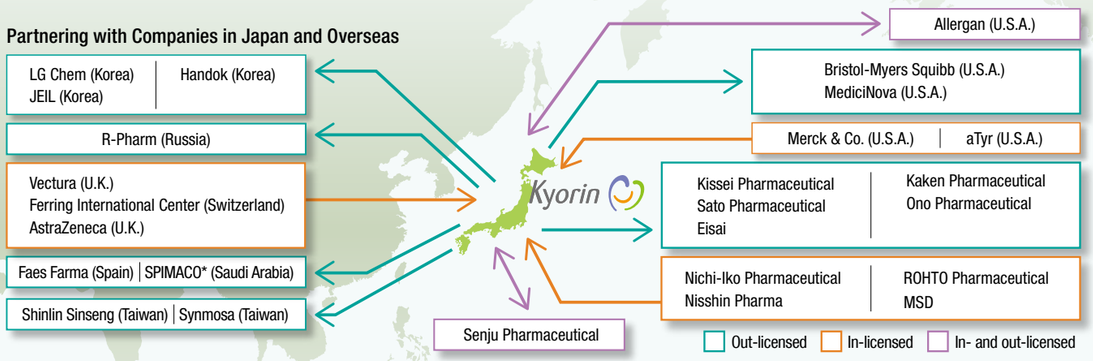
Promotion of proactive partnering activities

As per its management strategy, KYORIN Pharmaceutical Co., Ltd. expanded its product lineup through the in-licensing of the allergy treatment Desalex from an affiliate of MSD and the overactive bladder treatment Beova from Merck & Co. of the United States.

In January 2020, we concluded a licensing agreement with aTyr Pharma, Inc. of the United States for KRP-R120 (ATYR1923), a treatment for interstitial lung diseases. Having acquired the exclusive rights for development and sales in Japan, we will carry out development for interstitial lung diseases (including pulmonary sarcoidosis) in Japan.

Going forward, we will proactively work to expand the product pipeline to support the Group's medium-term growth through worldwide partnering activities with the aim of establishing a strong presence in the Group's priority fields of respiratory, otolaryngology, and urology.

Partnering with Companies in Japan and Overseas



* SPIMACO: Saudi Pharmaceutical Industries & Medical Appliances Corporation

Products under development (As of May 12, 2020)

Ph Ⅲ–approval

Compound/Code	Therapy area/Action	Origin	Features	Stage (Ph Ⅰ / Ph Ⅱ / Ph Ⅲ / NDA)
KRP-AM1977Y (Injection)	New quinolone synthetic antibacterial agent	In-house	New quinolone injection developed to target lower respiratory tract infections 1. Highly distributed in lungs shows strong antibacterial activity against pathogenic bacteria for respiratory tract infections 2. Effective against both aerobic bacteria and anaerobic bacteria, and able to administer once a day 3. Effectiveness against aspiration pneumonia, pulmonary suppuration, and lung abscesses confirmed	Oct 2019
KRP-116D	Interstitial cystitis	—	Dimethyl sulfoxide (DMSO), an unapproved and off-label drug with high medical needs	Mar 2020
KRP-108P	Bronchial asthma	Vectura (U.K.)	Additional indication of pediatric use for Flutiform combination drug for asthma treatment	Jul 2019

MK-7264 drug for chronic coughing: Concluded a memorandum of understanding for marketing collaboration (May 2019); Merck Overseas Phase Ⅲ

POC project (Ph Ⅰ–Ph Ⅱ)

Compound/Code	Therapy area/Action	Origin	Features	Stage (Ph Ⅰ / Ph Ⅱ / Ph Ⅲ / NDA)
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

Development of KRP-N118 discontinued on the basis of difficulty realizing preconfigured product profiles (February 2020)

Status of in-licensed products

Licensing agreement concluded for KRP-R120 (ATYR1923) (January 2020)

- aTyr is in Phase Ⅰb / Ⅱa in the United States
- Fusion protein drug having the action to suppress, by binding to neuropilin-2 (NRP2) receptor, the excessive activation of immune cells, while being a potential first-in-class therapy to treat inflammatory diseases including pulmonary sarcoidosis

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 (December 2015)	Preclinical
KRP-203	Under consideration for licensing activities to be implemented	Graft-versus-host disease (GvHD)		Sphingosine-1-Phosphate Receptor Agonist	Development rights returned after Novartis ceased development as part of its development strategy	Ph Ⅰ

Increasing overseas earnings Overseas out-licensing

Promoting global out-licensing to increase overseas earnings

In November 2019, KYORIN Pharmaceutical Co., Ltd. concluded a licensing agreement with JEIL Pharmaceutical Co., Ltd. of South Korea for the overactive bladder therapeutic agent Vibegron (sales name in Japan: Beova), giving JEIL Pharmaceutical the development, manufacturing, and commercialization rights for the drug in South Korea. Going forward, we will continue to work proactively for the out-licensing of Vibegron in the ASEAN region and other countries.

KYORIN Pharmaceutical Co., Ltd. is also currently engaged in activities for the out-licensing of its original oral new quinolone synthetic antibacterial agent, Lascufloxacin (sales name in Japan: Lasvic).

Initiatives toward direct entry into Asia

In tandem with our licensing activities, we conducted market surveys and collected information on Southeast Asia, aiming to lay the foundation for a direct entry into overseas markets in the future, focusing on Asia.

We have also been selling our multipurpose disinfectant cleaner Rubysta since 2017 through PT. Meiji Indonesian Pharmaceutical Industries (PT. Meiji Indonesia), a subsidiary of Meiji Seika Pharma Co., Ltd., and continue to promote the product to local medical institutions as an environmental surface disinfectant.

In Vietnam, we concluded a licensing agreement for generic drug manufacturing technologies with BinhDinh Pharmaceutical and Medical Equipment JSC in 2017, and in Mongolia, we concluded an agreement giving generic drug sales rights in that country to Monospharm Trade Co., Ltd. in 2019.

Going forward, we will continue to consider directly entering overseas markets on the basis of locally collected information and take steady steps in that direction.

New Drugs Business

Marketing

Japan's pharmaceutical industry is undergoing structural market changes, caused by moves to curtail drug costs through promotion of the use of generics, a review of the price maintenance premium system, and price revisions for long-listed drugs. The Kyorin Group formulated the new HOPE100–Stage 3– medium-term business plan in the face of this challenging market environment. Fiscal 2020, the first year under the plan, is being positioned as the beginning of a period of growth, and we will work to accelerate promotion of the new drugs group as much as possible. As a new marketing style, in fields related to infectious disease, we will move beyond medical treatment alone and develop activities that provide total solutions including prevention and diagnosis. In addition, to keep up with the needs of the times, we will provide information by proactively adding digital formats and artificial intelligence to our core format of face-to-face interaction.

Strengths	Opportunities	Risks
• Strong presence in designated fields (respiratory, otolaryngology, and urology) (franchise customer (FC) strategy) • Product portfolio in FC fields for continuous growth • Tailored responses to medical institutions through area management and team structure • An infection-related business with products that contribute to prevention (Milton, Rubysta), diagnosis (GeneSoC®), and treatment (Lasvic) (solution-based approach)	• With Flutiform, Desalex, Beova, and Lasvic, a lineup for the new drugs group is in place to drive growth, presenting a significant opportunity for sales growth • With the GeneSoC® microchannel-based genetic measuring device, which enables quick, accurate, and simple identification of pathogenic microorganisms, and the development of diagnostic agents, the capability to provide solutions in addition to prevention and treatment in the infection-related business	• Along with progress in control of medical representative visits and systems for them by appointment only, methods for providing information to physicians are shifting from traditional face-to-face interaction to internet-based methods • With the drastic overhaul of the drug pricing system, sales of long-listed products will decline. Ability to respond to structural changes being sought in the domestic market for ethical drugs

New HOPE100–Stage 3– Medium-Term Business Plan

Business strategy ▶ Shift to business based on the proposal of solutions and accelerate growth of the new drugs group

Make a uniquely Kyorin contribution to medical practitioners by shifting to a solution-based approach that integrates the ethical drugs business and the infection-related business	Accelerate the growth of the new drugs group as much as possible (Flutiform, Desalex, Beova, Lasvic, etc.)	Consolidate healthcare businesses to focus on infection-related businesses

Review of previous medium-term business plan

To overcome the effect of the patent expiry of our main product Kipres and respond to changes in the market environment, during fiscal 2019, the final year under Stage 2, we worked to strengthen the new drugs business with a target of the business accounting for at least 50% of net sales. As a result of a temporary stop of supplies of Desalex and delays in the market launch of Lasvic® Tablets, the percentage of the new drugs group's sales fell short of this target, at 34.9%. Nevertheless, we were able to bring new products including Desalex, Beova, and Lasvic to market during Stage 2 and have new drugs in place to drive growth as we head into Stage 3.

Shift in marketing style to solution-based approach

We are starting solution-based activities that integrate the infection-related business to make a uniquely Kyorin contribution to medical practitioners. Specifically, we aim to make a unique contribution that highlights Kyorin's originality by providing doctors, pharmacists, and nurses, especially those who are part of infection control teams (ICTs) and antimicrobial stewardship teams (ASTs), with complete information including that for Milton and Rubysta for prevention, GeneSoC® for diagnosis, and Lasvic® Tablets and KRP-AM1977Y (scheduled for release during fiscal 2020) for treatment. For details, please refer to "Topics: The Kyorin Group's Initiatives to Combat Infectious Disease" on page 24.

Achieving a growth trend in the new drugs group

We believe the new drugs group, which includes Flutiform, the combination drug for asthma treatment, Desalex, the treatment of allergic diseases, Beova, the treatment of overactive bladder, and Lasvic, an oral quinolone antibacterial agent, will be the growth drivers for Stage 3, which starts with fiscal 2020.

Fiscal 2019 sales of Flutiform grew to ¥14.6 billion. After a temporary stop of supplies, sales of Desalex resumed in November 2019 and totaled ¥2.6 billion. With the limit on the prescription period for Beova lifted in December 2019, sales totaled ¥4.3 billion, with the pace of prescriptions surpassing our initial estimate. Sales of Lasvic Tablets, which commenced in January 2020, have been solid, totaling ¥1.1 billion.

We are forecasting a sales increase of more than ¥10 billion for these four products in fiscal 2020 compared with fiscal 2019. We will place a maximum focus on these products as Stage 3 growth drivers, aiming for the new drugs group to account for more than 50% of our net sales target in the plan's final year.

Establishing a presence in the franchise customer fields

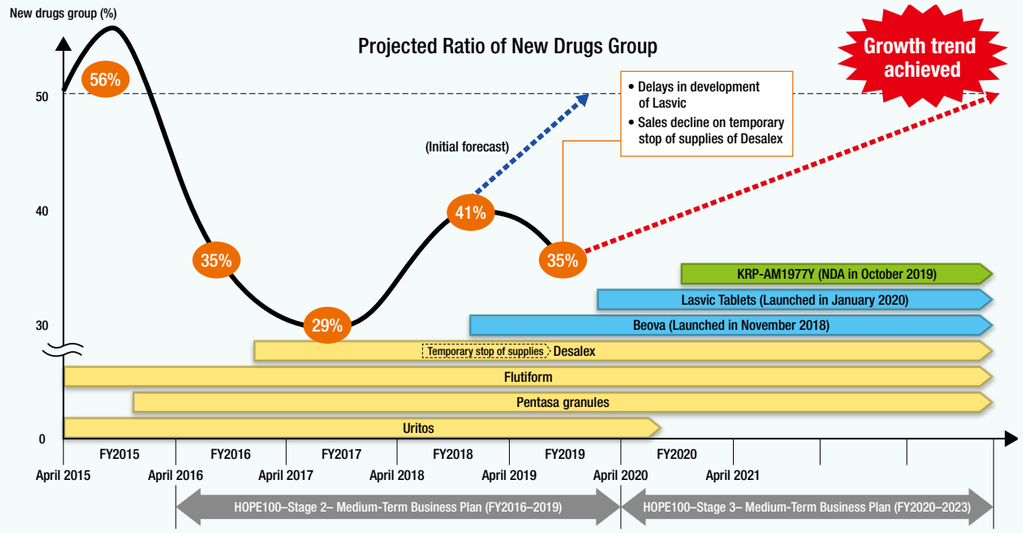
KYORIN Pharmaceutical Co., Ltd. aims to establish a presence in designated fields focusing on respiratory, otolaryngology, and urology (a franchise customer strategy). We are placing importance on relationships of trust with medical practitioners and carrying out activities to provide, gather, and transmit information regarding the proper use of pharmaceutical products.

KYORIN Pharmaceutical Co., Ltd. has also introduced a marketing team structure whereby multiple medical representatives are responsible for a designated area. With this structure, entire teams cultivate an area, for swift and systematic responses to increasingly diverse medical needs. Going forward, we will build on this initiative to foster a culture in which teams help each other achieve their targets.

Providing information using digital channels and artificial intelligence

With the Guidelines for Prescription Drug Marketing Information Provision having taken effect from April 2019 and the spread of novel coronavirus infections, traditional methods of providing information are changing drastically, and transformations are being sought in the content of information and the ways it is provided. In response to this major shift, KYORIN Pharmaceutical Co., Ltd. is looking beyond its traditional focus on face-to-face interaction with physicians and providing information using digital channels in various ways. In our proactive use of digital channels as media for providing, gathering, and transmitting information, in addition to advances in the media we possess in-house, we are optimizing the providing of information via third-party platforms. We are also aggregating our marketing data to enhance the quality of the information we provide to physicians.

In addition, we are working to enhance the marketing skills (the ability to grasp needs) of medical representatives, using artificial intelligence to logically analyze their sales presentations.

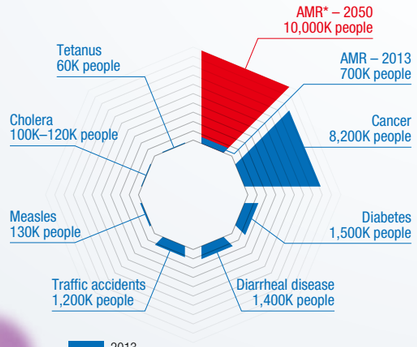


The Kyorin Group's Initiatives to Combat Infectious Disease

Under the new HOPE100–Stage 3– medium-term business plan, the Kyorin Group aims to build an infection-related business model around prevention, diagnosis, and treatment. We will build a marketing structure that cuts across the Group and address the international issue of antimicrobial resistance by proactively promoting the appropriate use of treatments through a uniquely Kyorin approach that contributes to medical practitioners.

Drug-resistant bacteria

that threaten people's lives around the world



The improper use of antibacterial drugs is leading to a global increase in drug-resistant bacteria, while at the same time the development of new antibacterial drugs is declining, creating a major problem for international society. Estimates are that if this situation continues, the annual global number of deaths from infectious disease caused by drug-resistant bacteria could grow to roughly 10 million people by 2050, from roughly 700,000 in 2013. Measures to counter antimicrobial resistance are therefore being pursued globally.

(Adapted from *Antimicrobial Resistance: Tackling a crisis for the health and wealth of nations;* The Review on Antimicrobial Resistance, Chaired by Jim O'Neill; December 2014)

GeneSoC®

enables quick, accurate, and simple identification of pathogenic microorganisms, prevents the spread of infectious disease, and achieves appropriate use of antimicrobial drugs

Proactive screening for pathogenic microorganisms is needed to address problems like the novel coronavirus pandemic and antimicrobial resistance. We also believe it is important to establish an in-house system that can effectively prescribe and discontinue medicines, including accurate decision making of the necessity of antimicrobial drug use based on examination results.

The microchannel-based genetic measurement device GeneSoC® is a real-time PCR system that enables quick, accurate, and simple identification of pathogenic microorganisms. SARS-CoV-2 GeneSoC ER Kyorin is currently being sold as a novel coronavirus detection reagent used with GeneSoC®. Going forward, we will develop reagents for research and the "GeneSoC® mini" dedicated automated preprocessing device, and work to commercialize the system for use in extracorporeal diagnosis at an early date, to contribute to the appropriate selection of medications through point-of-care testing (POCT), while also working on further improvements to enable use in hygiene management including the food field and other fields.

Working together as a team to make GeneSoC® widely useful for diagnosis and detection

The diagnostics business is one of the core businesses in the Kyorin Group's new infection-related business, and at the In Vitro Diagnostics Business Division, we are working as one to build a foundation for that business. Going forward, we will further improve the system and develop specialized reagents with the aim of making GeneSoC® a widely used tool for diagnosis and detection.

Kazufumi Kanazaki
In Vitro Diagnostics Business Division,
KYORIN Pharmaceutical Co., Ltd.

Striving to play a part with a sense of mission in treating infectious disease

KYORIN Pharmaceutical, the company that created Baccidal, is a pioneer in new quinolone agents. With a sense of pride and responsibility, we believe that with Lasvic, we have a mission to promote the appropriate use of antimicrobial drugs. We want to treat infectious diseases in this age of antimicrobial resistance and put smiles on patients with Lasvic, the embodiment of our mission.

Asako Tabuchi
Infectious Disease Group, Product Planning Division,
KYORIN Pharmaceutical Co., Ltd.

Lasvic Tablets

contributing to the treatment of respiratory and otolaryngological infectious disease

The oral antibacterial drug Lasvic Tablets was developed as a quinolone antibacterial agent that has sufficient antibacterial properties against pathogenic bacteria targeted in treatment while suppressing full-body exposure, and is also unlikely to develop resistant bacteria. Going forward, the Kyorin Group will strive to educate and promote the appropriate use of antimicrobial drugs by sharing information with physicians, pharmacists, clinical technicians, other members of infection control teams (ICTs), and antimicrobial stewardship teams (ASTs), while also cooperating with surveillance of drug-resistant bacteria based on antimicrobial resistance action plans and academic surveillance programs, and through cooperation with and support of infectious disease-related academic conferences.

Contributing to the prevention of infectious disease in medical institutions by providing appropriate information

We believe that we can contribute to the prevention of infectious disease with Rubysta, for hygiene management in medical treatment environments, and the Milton brand, as an appropriate method for immersion disinfection of tools and equipment.

We will continue to provide information to medical practitioners to contribute to the prevention of infectious disease at medical institutions.

Shinya Matsubara
Marketing Promotion Group, Sales & Marketing Management Division,
KYORIN Pharmaceutical Co., Ltd.

Rubysta and Milton

contributing to controlling infections in medical institutions

Many types of microbes are present in medical institution environments, and in recent years we have learned that microbes are transmitted through environments. Because much of this transmission takes place via fingers, it is important to keep environment surfaces clean and to disinfect fingers.

Kyorin is contributing to the control of infections with its lineup of the multipurpose disinfectant cleaner Rubysta and the disinfectant Milton, as infection countermeasures in medical institutions.

Subcontracted Drug Manufacturing Business

Manufacturing

Drug price revisions implemented under the government's basic policy of comprehensively reforming the NHI's drug pricing system have had a major effect on the Kyorin Group's manufacturing structure. With sales of long-listed drugs declining and the market for generics growing, the domestic pharmaceutical market is undergoing drastic structural changes that we expect to impede profitability. The Group has therefore consolidated its three internal manufacturing functions for overall optimization, creating a manufacturing structure that will be able to pursue low-cost operations with a greater sense of speed. Under the new HOPE100–Stage 3– medium-term business plan, we will build on initiatives implemented to date, creating a competitive Group manufacturing structure that will provide a stable supply of low-cost, high-quality products and also be able to increase subcontracted manufacturing for non-Group customers.

Strengths	Opportunities	Risks
• Ability to meet diverse needs with mass-production technologies through labor saving and automation, the implementation of good manufacturing practices (GMPs) that meet global standards, and the flexibility to produce many types of products • Manufacturing capabilities for sterilized formulations for injections, eyedrops, and nose drops	• Growing need for subcontracted manufacturing for non-Japanese companies entering the Japanese market • Ability to address demand of growing use of generic drug products	• Depressed earnings from frequent NHI drug price revisions • Increased cost of meeting expectations for higher levels of quality • Delays and interruptions in receiving raw materials from vendors due to natural disasters and other problems, inability to provide stable supply because of bottlenecks in logistics functions

New HOPE100–Stage 3– Medium-Term Business Plan

Business strategy ▶ Enhance cost competitiveness

Establishing a manufacturing structure to achieve stable supply and low cost while also enabling expansion of subcontracted manufacturing

Review of previous medium-term business plan

Created a new manufacturing structure through overall optimization

Under Stage 2, we consolidated the Group's manufacturing functions being carried out by three plants into a new manufacturing subsidiary, KYORIN Pharmaceutical Group Facilities Co., Ltd., under a priority strategy of enhancing cost reductions. This subsidiary commenced operations in April 2018, using the three plants' respective specializations: low-cost, high-volume manufacturing of new drugs; manufacturing numerous types of generic drugs; and subcontracted drug manufacturing at global standards. In addition, we implemented an overall optimization of the manufacturing structure to make effective and efficient use of each plant's equipment, technologies, and human resources. We also carried out proactive, systematic capital investment to achieve labor savings and greater efficiency and to increase our ability to respond to customers' needs.

Initiatives under new medium-term business plan

Striving for greater cost competitiveness

Under the new medium-term business plan, businesses involved in pharmaceutical manufacturing will share human resources and information across plants, while also creating and operating a human resources management system to cultivate and implement technologies and a mindset for improvement. They will also work to pursue a higher level of Good Manufacturing Practices (GMP), increase manufacturing capabilities (both capacity and efficiency), including the construction of a new manufacturing center, and create a stable supply structure that uses outside parties. Through these initiatives, we will establish a stable manufacturing structure that is highly competitive and able to provide a stable supply of quality products at a low cost. We will then focus on increasing subcontracted manufacturing for non-Group customers and establishing a solid manufacturing base.

Supply chain management

With the aim of establishing solid earnings strength in the face of environmental changes, the Kyorin Group is working to build a structure for more efficient manufacturing that offers stable supplies, with flexibility to address changes in demand, by comprehensively addressing the Group's entire supply chain. We are pursuing supply chain management that manages (makes visible) the entire process—from domestic and overseas procurement of raw materials to manufacturing (production management and drug manufacturing), warehousing, and supply (shipping)—on an individual product basis. By quickly addressing issues like 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.

Features of KYORIN Pharmaceutical Group Facilities' Plants

Noshiro Plant

Low-cost, high-volume manufacturing through automation

The Noshiro Plant uses automated transport of pharmaceutical ingredients and intermediate products, as well as robotic arms for labor savings. Automation makes it possible to manufacture large volumes at a low cost with high productivity. In addition to new drugs, the facility is currently using these strengths to manufacture generic drugs in large volumes, focusing on tablets and capsules. The plant's advanced manufacturing activities have also been approved in GMP inspections carried out by overseas regulatory authorities and global companies headquartered overseas.

(Noshiro, Akita)

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 addition to manufacturing the Group's main products, the plant is unique for its high portion of manufacturing subcontracted from outside the Group, including for pharmaceutical products to be sold in Japan by overseas manufacturers. The plant is able to keep pace with the needs of the times, using the latest equipment for manufacturing that incorporates global GMP, with an awareness of issues including the prevention of cross contamination. Using its abundant experience and expertise gained from subcontracted manufacturing for global companies headquartered overseas, the facility is bolstering its manufacturing equipment and working aggressively to increase its manufacturing subcontracted from outside the Group.

(Koka, Shiga)

Inami Plant

Manufacturing numerous types of products with focus on generic drugs

With a focus on generic drugs, the Inami Plant manufactures products in a variety of forms, including solid formulations taken internally, sterilized formulations for injections, eyedrops, and nose drops. Taking advantage of flexibility that enables it to manufacture many types of products, the facility handles various products that newly appear on the drug price list twice a year, manufacturing more than 200 products including those subcontracted from outside the Group. Through frequent visits from drug manufacturers ordering subcontracting, the facility has gained a wealth of expertise in providing a stable supply of high-quality products. In addition to investing in equipment for new pharmaceutical production, the facility is proactively pursuing improvement activities to raise productivity and working to reduce costs.

(Inami, Nanto, Toyama)

Generic Drugs Business

Generics

The Kyorin Group's generic drugs business is primarily carried out by KYORIN Rimedio Co., Ltd. Even in the era when generic drugs account for 80% of drugs used, we are addressing changes in our operating environment by using the combined advantages of our development, manufacturing, and sales functions, while also proactively working to handle authorized generics as a manufacturer of new and generic drugs, and making our marketing structure more efficient to enhance cost competitiveness.

Strengths	Opportunities	Risks
• Ability to carry out integrated development, manufacturing, and sales functions • Capacity to handle authorized generics as a new drug-related generics company	• Implementation of measures to promote increased use of generic drugs • Promotion of the community-based integrated care system	• Implementation of new measures to curtail medical expenses • Effect on earnings from annual NHI drug price revisions

New HOPE100–Stage 3– Medium-Term Business Plan

Business strategy ▶ Enhance cost competitiveness

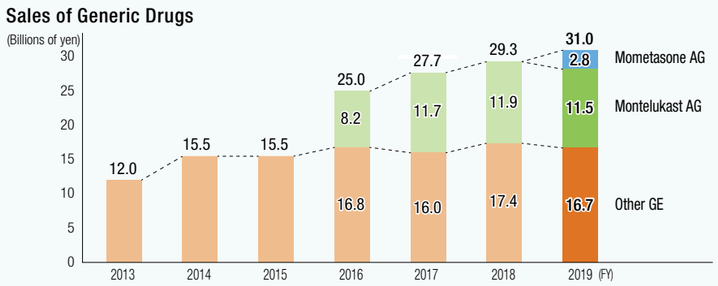
Make the generics' marketing structure more efficient to enhance the generic business's cost competitiveness

Strengthen ability to create new generics

Review of previous medium-term business plan

Under a business strategy of promoting the generic drugs business by making the most of its characteristics, the Takaoka Pharmaceutical Technology Innovation Center was established in January 2017. In addition to strengthening our pharmaceutical development capabilities and increasing the number of attractive products developed in-house, the facility has achieved positive results in its proactive handling of authorized generics, which has led to the releases of Kipres AG, Nasonex AG, and Uritos AG.

Sales of Generic Drugs



Initiatives under new medium-term business plan

Address authorized generics

The Kyorin Group has achieved a certain degree of recognition for its steady market penetration using its ability to handle, within the Group, both original drugs and authorized generics that meet the diverse needs of medical practitioners and patients. We released Montelukast Tablets "KM," our authorized generic version of Kipres, in September 2016, followed by Mometasone Nasal 50μg "KYORIN," our authorized generic version of Nasonex, in August 2019, and currently both have gained more than a 50% share of their respective generic markets. We also received approval for the manufacture and sales of Imidafenacin Tablets "KYORIN," OD tablets 0.1 mg, our authorized generic version of Uritos, in August 2019, and began sales in June 2020.

Strengthen ability to create new generics

To provide generic drug products that can be used safely, KYORIN Rimedio has been carrying out pharmaceutical manufacturing and packaging from the perspectives of medical practitioners and patients, ensuring that products are easy to use in medical institutions and meet the needs of patients taking drugs. The Takaoka Pharmaceutical Technology Innovation Center, which commenced operations in July 2017, is further working to increase the products it develops to improve the quality and speed of pharmaceutical development, with the aim of making KYORIN Rimedio a generic drug company that provides attractive, distinctive generic drug products. As of June 2020, the company had launched eight new ingredients and 15 new products.

Make generics' marketing structure more efficient to enhance the business's cost competitiveness

KYORIN Rimedio has been strengthening its sales through a balanced approach using multiple sales channels, and going forward, it will build on that strength while also working to make its generics' marketing structure more efficient, enhancing its sales capabilities and cost competitiveness through selection and concentration.

Strengthen overseas business

To date, KYORIN Rimedio has been exporting finished products, primarily eyedrops, to Taiwan, Hong Kong, and South Korea. Going forward, in line with economic development and rising incomes across Asia, we anticipate a trend of requests for a higher level of medical care leading to increased demand for Japanese high-quality drugs. KYORIN Rimedio is working to address this demand as quickly as possible by strengthening its businesses of providing technologies and products to countries including Vietnam, Taiwan, Hong Kong, and Mongolia.

Sleep-improving drugs for the Hong Kong market

Over-the-counter drugs

We are addressing diversifying health needs by offering over-the-counter drugs that can be used safely.

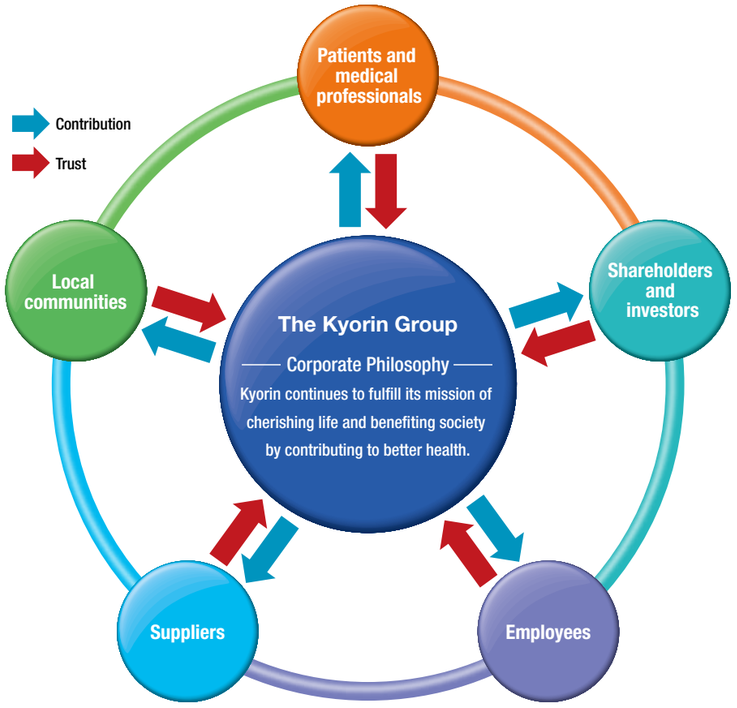
Over-the-counter drugs addressing diversifying health needs

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 products' effectiveness and safety gained at the ethical drugs business. We will continue to work to provide products that address diversifying health needs.

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

ESG Highlights

By adhering to its corporate philosophy, the Kyorin Group targets the sustainable development of society and medium- to long-term increases in corporate value.



Corporate Charter

1. Contribute to sustainable economic growth and to the resolution of social issues
2. Fair business practices
3. Fair information disclosure and constructive dialogue with stakeholders
4. Relationships of trust with consumers and customers
5. Work-style reforms and improvement of work environments
6. Initiatives to tackle environmental issues
7. Co-exist with society and contribute to society's development
8. Comprehensive crisis management
9. Respect for human rights
10. Stringent implementation by Company officers of their responsibilities and the charter

Build relationships of trust with stakeholders

SDGs (Sustainable Development Goals)

The SDGs are a series of international goals targeted for achievement by 2030 adopted at the 2015 United Nations Summit. The Kyorin Group has incorporated these goals into its business practices and efforts to co-exist with society, and works to contribute to the realization of a sustainable society.

Under its corporate philosophy, the Kyorin Group works toward the sustainable development of society and medium- to long-term increases in corporate value through activities based on the "sustainable development goals (SDGs)" from an ESG perspective. To achieve these goals, we consider it important to build and maintain relationships of trust with our stakeholders, and to take our Corporate Charter to heart in our business activities. As a "company that supports sound and healthy lifestyles," we aim to develop and supply reliable products and services that are useful to society, while at the same time continuously striving as a good corporate citizen to contribute to the development of a vibrant society and economy.

ESG Initiatives

Governance

Corporate Governance ▸P.32

To realize sustained increases in corporate value, the Kyorin Group has recognized the improvement of corporate governance as a key business issue, and implements initiatives to expedite decision making, to strengthen oversight functions to guarantee appropriate management, and to ensure transparent business activities rooted in corporate ethics.

Fair and honest business activities ▸P.36

The Group strives to prevent all forms of corruption by maintaining high ethical standards, conducting business lawfully and fairly, and by complying with codes of conduct. It also maintains appropriate relationships with medical institutions and patient groups, and endeavors to build relationships of trust with suppliers and consumers.

Social

CSR activities through business ▸P.38

The Group positions contributing to society through the business of ethical drugs at the core of its CSR activities. As well as devoting itself to the sale, stable supply, and quality management (the Reliability Assurance System) of products arising from its research and development, the Group aims to provide relevant information and promote the appropriate use of pharmaceutical products to contribute to human health.

Respect for human rights and human resources development ▸P.40

The Group respects the human rights of all people and acts in a highly ethical manner. To create in employees a sense of pride in their work, we aim to be a company that is trusted and "the leading company for career fulfillment" by working hand in hand with our fellow employees.

Co-existing in harmony with society ▸P.44

We work to contribute to the development of a vibrant society and local economy by acting as a good corporate citizen and by donating to and supporting employee-led social activities.

Environment

In harmony with the environment ▸P.43, 49

The Group works to protect the sustainable environment by preventing environmental pollution, reducing the environmental burden, and promoting measures to use resources more efficiently.

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 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 by 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 Groupwide 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 governance while securing 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. Following 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 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 Onota, Koichiro Hagihara, Masahide Sugibayashi
Outside Directors: Noriyuki Shikanai, Ken Shigematsu, Hiromi Watanabe

Board of Corporate Auditors

Following the Companies Act of Japan, Kyorin is a company with a board of corporate auditors, which comprises two statutory corporate auditors and three outside corporate auditors. The Board of Corporate Auditors has established a system to ensure that the exercise of authority for audits, etc., is carried out from an independent and objective standpoint through the timely and appropriate functioning 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 Onota, 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 19, 2020, the Company had three 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 the 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 a board of 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 2019) (Average attendance rate of outside directors) (Average attendance rate of outside corporate auditors)	12 times (100%) (88.8%)
Number of the Board of Corporate Auditors' meetings (held during fiscal 2019) (Average attendance rate of outside corporate auditors)	13 times (92.3%)
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 that maintains 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, he 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

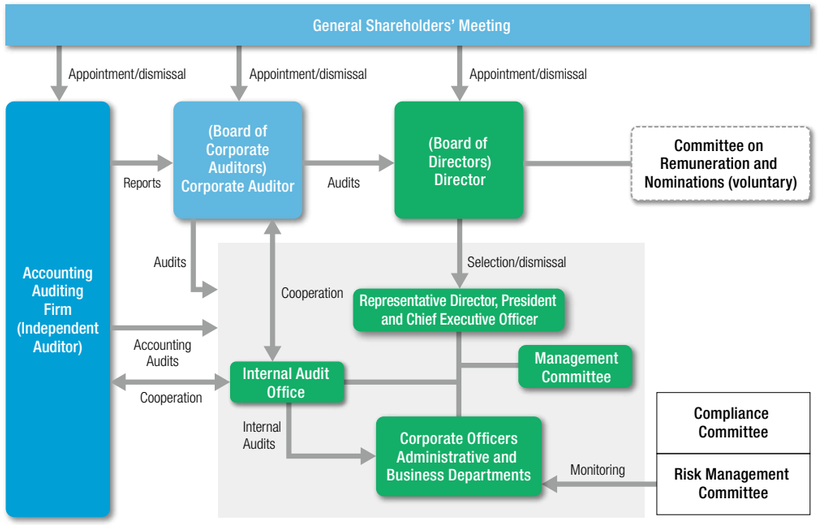
corporate law as a lawyer and has considerable knowledge concerning finance and accounting.

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.

Outside corporate auditor Naohiro Kamei has considerable knowledge of finance and accounting from his work experience in the financial industry.

Kyorin selects outside directors and outside corporate auditors after reviewing the individuals' backgrounds and relationships 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, Takao Yamaguchi, and Naohiro Kamei 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 19, 2020)



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 roles 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	Stock Options	
Directors (Excluding outside directors)	250	238	11	9
Corporate auditors (Excluding outside corporate auditors)	33	33	—	2
Outside directors or corporate auditors	49	49	—	7

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. Following 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 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 by inspecting Group companies.

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

Under our adopted system, if executives or regular employees discover 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 assignment is carefully checked by directors and corporate auditors to ensure independence.

A Message from an Outside Director

I am very honored to have the opportunity to be involved as an outside director in the management of KYORIN Holdings, Inc., as it strives to develop and expand the healthcare business in a diversified manner. I hope to use my experience as a doctor with a clinical, research, and teaching background.

Hiromi Watanabe
Outside Director

Last year the Group formulated a new medium-term business plan, HOPE100–Stage 3–. During the formulation of the plan, I was able to give advice from the perspective of both an occasional patient and a practicing doctor, using my experience in clinical and research fields and the varied insights I have accumulated from working in medical educational posts. In order to achieve the goals of the plan, it is essential that all of us apply our abilities to the fullest. From the standpoint of promoting the increased participation of women in the workplace, one goal for greater diversity, I will be utilizing my own experience to actively contribute even more proposals.

In light of the COVID-19 global pandemic occurring in the midst of advances the Group is making in infectious disease-related areas (prevention, diagnosis, and treatment), my hope is that the Kyorin Group will fulfill its "corporate social responsibility (CSR)" as a company focused on ethical drugs and also make a major contribution to society through sustainable development.

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

Compliance/Risk Management

The Kyorin Group abides by all laws, regulations, 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 toward the ongoing enhancement of corporate value. Each Group company establishes a Compliance Committee and a Risk Management Committee, which adopt various measures to raise awareness, and promotes compliance and risk management in each Group company to prevent corruption.

Compliance

Basic policy

An enterprise is required to promote the realization of a sustainable society through the creation of added value and employment that are useful to society and through autonomous and responsible actions based on fair and free competition. Following our corporate philosophy, the Kyorin Group conducts its activities in Japan and overseas based on a high standard of corporate ethics, in compliance with both the letter and the spirit of relevant laws, 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, which meets monthly, and other measures.

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 are reflected in the work performed by directors, corporate auditors and officers, and employees.
2. June and November are designated "compliance enhancement months," with the Corporate Charter and Compliance Guidelines read out at morning meetings and other activities held to ensure a thorough understanding and familiarity with compliance Groupwide.

Internal whistleblowing system

The Kyorin Group has established a "Corporate Ethics Hotline" to accept inquiries, consultations, and reports regarding corporate ethics and responses to laws and regulations, etc. The Group also accepts whistleblower reports of suspected injustice or non-compliance via internal e-mail, letter, telephone, and facsimile. We strictly maintain the confidentiality of whistleblowers, respect their privacy, and ensure that they are not disadvantaged. (Number of reports: nine in fiscal 2019)

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 if 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

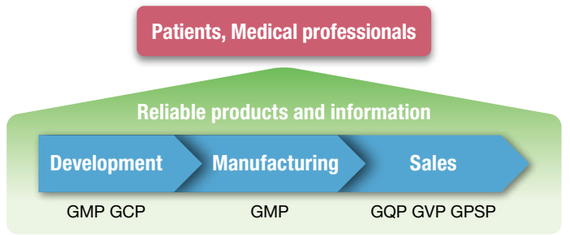
The mission of a pharmaceutical company is to play an important role in "patient-focused medical care" as a valuable entity that contributes to the health and well-being of people around the world by continuously developing and providing a stable supply of outstanding medicines. To fulfill this mission, 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 funding to medical institutions, patient groups, and others on our website.

Kyorin's Reliability Assurance System

Reliability assurance system

Our 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, we continuously need to provide products and information that are trusted by broad sectors of society, and we consider this our highest priority. KYORIN Pharmaceutical takes a unified approach to all operations—from (research and) development to sales—and places a maximum emphasis on compliance with relevant laws and regulations, and on ensuring reliability. The Quality Assurance & Reliability Headquarters 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 safely.



GMP: Good Manufacturing Practice
GCP: Good Clinical Practice
GQP: Good Quality Practice
GVP: Good Vigilance Practice
GPSP: Good Post-Marketing Study Practice

Quality assurance

Quality assurance is carried out 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.

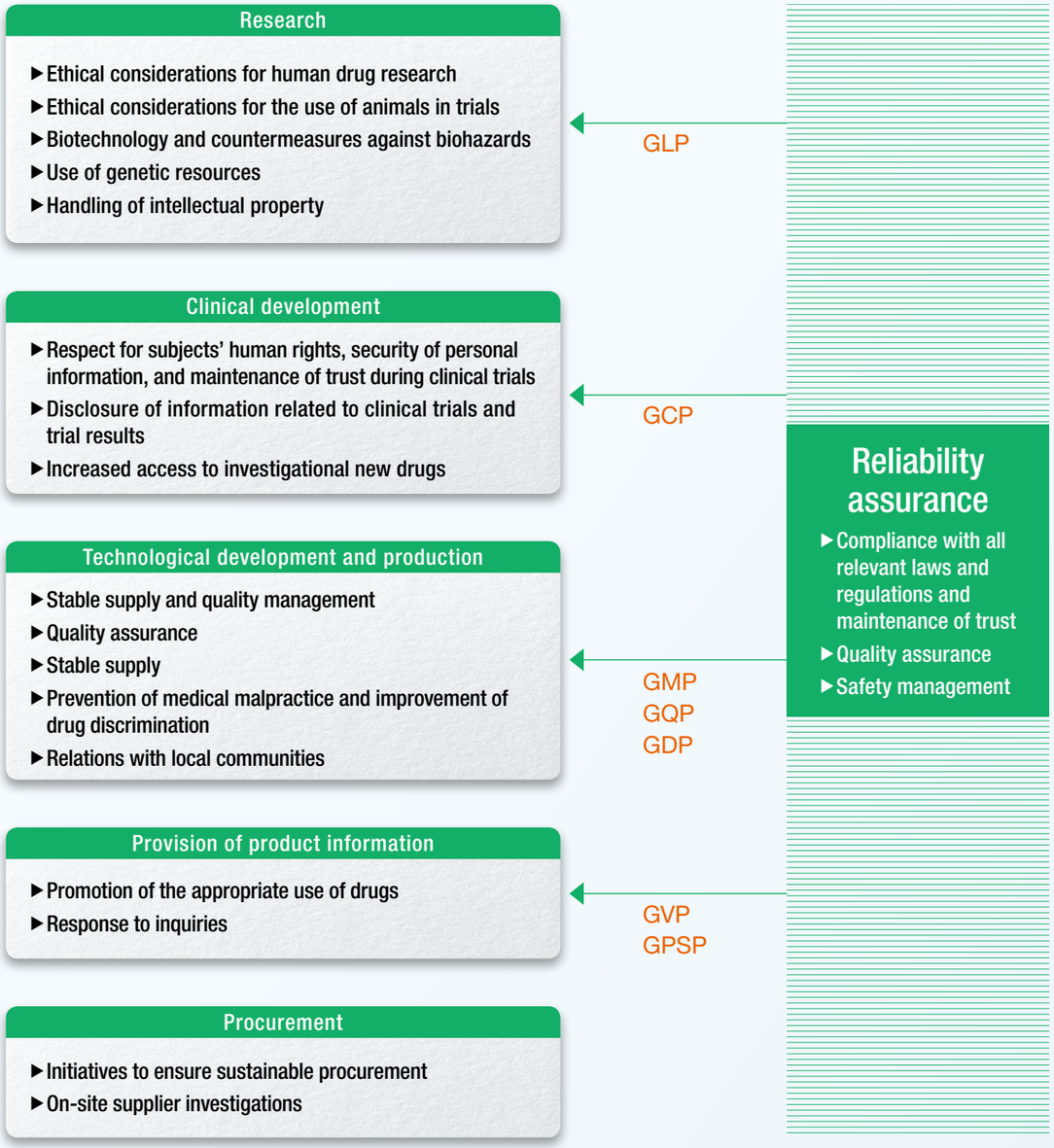
Safety management

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 "with safety and security," we are gaining the trust of broad sectors of society.

CSR Activities through Business

Following our corporate philosophy, the Kyorin Group endeavors to develop and supply useful and safe products and services to society with a view toward creating sustainable economic growth and solving social issues. Throughout this process (the value chain that stretches from research and development through the disclosure of product information), KYORIN Pharmaceutical Co., Ltd., the core subsidiary of the Kyorin Group, is committed to respecting human rights and abiding by all relevant laws and regulations including the Act on Pharmaceuticals and Medical Devices.



GLP: Good Laboratory Practice, pharmaceutical safety-related standards for non-clinical trials; GCP: Good Clinical Practice, standards for pharmaceutical clinical trials; GMP: Good Manufacturing Practice, standards for production management and product quality management of pharmaceuticals and other items; GQP: Good Quality Practice, standards for product quality management of pharmaceuticals and other items; GDP: Good Distribution Practice, standards for proper distribution of pharmaceuticals; GVP: Good Vigilance Practice, standards for post-production marketing safety management of pharmaceuticals and other items; GPSP: Good Post-Marketing Study Practice, standards for post-production marketing survey and study practices of pharmaceuticals

Main initiatives (KYORIN Pharmaceutical Co., Ltd.)

Research

Ethical considerations for human drug research

The company conducts research on humans and research that obtains or applies materials derived from humans with their full consent and in line with the Declaration of Helsinki,* and the relevant laws, regulations, and guidelines of each country. It also conducts ethical education and training for researchers into bioethics and genome research and clinical research, and endeavors to respect the human rights and protect the personal information of research participants. It has created a human tissue research ethics investigation committee, which includes outside experts, to inspect the ethicality and scientific validity of research plans impartially and fairly.

*The Declaration of Helsinki is a set of ethical principles regarding human experimentation that governs doctors and other professionals involved in medical research.

Ethical considerations for the use of animals in trials

To conduct appropriate animal trials from a scientific perspective while taking into consideration the protection and welfare of animals, the company promotes strict adherence to the 3R principles—refinement (reduction of animal distress), replacement (substitution of animal experiments with alternatives), and reduction (decrease in the number of laboratory animals used)—and has established rules based on various policies to protect animals.

Clinical development

Respect for subjects' human rights, security of personal information, and maintenance of trust during clinical trials

The company conducts clinical trials in line with the Declaration of Helsinki* and relevant laws and regulations governing clinical trials of pharmaceuticals, including good clinical practice (GCP), while fully taking into consideration the human rights and personal information of trial subjects. Its clinical trial plans are approved after inspection for ethicality and scientific validity by internal and external committees. Moreover, it must give sufficient explanation of items such as the objectives of trials and the methods used, the expected merits and demerits, and compensation in case of damage to the health of subjects, and confirmation is needed that subjects understand the details and have given their consent to participate. In addition, checks are made to ensure that employees involved in trials have been properly educated and trained, that trial institutions respect GCP, and that trials are conducted appropriately.

Disclosure of information related to clinical trials and trial results

The company strives to use clinical trial databases to publicly disclose and improve the transparency of the clinical trial plans that it leads. Going forward, the company will promote the creation of appropriate data access environments for those involved in utilizing clinical trial data, including researchers, and promote the disclosure of information that is useful in scientific progress and innovation.

Technological development and production

Stable supply

The pharmaceutical supply chain includes a wide variety of diverse items, including raw materials, intermediates, and pharmaceutical ingredients, and is supported by a large number of suppliers in Japan and overseas. To maintain a stable supply, it is essential to strengthen ties with individual suppliers and ensure close alliances and information sharing. The company has created a stable supply structure based on demand forecasts for each region of the world and the unified management of inventory information and supply plans, making it possible to globally manage every stage of the process from ingredients manufacturing to supply of finished products. Moreover, as one of its risk-hedging policies, it strives to identify multiple alternative suppliers to supplement existing suppliers and different types of transportation routes.

Provision of product information

Promotion of the appropriate use of drugs

Mistakes in the use of drugs can damage a patient's health, while side effects can also occur even when drugs are used correctly. The company's medical representatives (MR) work to accurately and swiftly provide information such as relevant documentation on appropriate product usage to allow medical professionals to use drugs more effectively and safely. In addition, we collect, analyze, and review information on efficacy and safety gleaned from the use of our drugs, and transmit the results to medical professionals.

Response to inquiries

To promote the safe and effective use of drugs, the company believes it has a responsibility to respond to inquiries from patients and medical professionals by providing highly reliable drug information that is both fair and impartial. With this understanding, it has established the Drug Information Center to handle various questions. The center responded to around 4,000 inquiries in fiscal 2019.

Procurement

On-site supplier investigations

When selecting a new supplier, we begin transactions only after confirming through an on-site investigation that the supplier has measures in place for legal and regulatory compliance, labor safety, and environmental protection. For existing suppliers, we make regular visits to preserve and improve product quality and maintain a stable supply. In addition, we conduct risk assessments of work environments (including ones to prevent employee exposure to chemical substances) and take measures to reduce waste and lessen the environmental burden from wastewater and exhaust emissions.

Initiatives to Respect Human Rights, Implement Work-Style Reforms, and Develop Human Resources

Basic stance The Kyorin Group believes it is important for employees to respect the human rights of all people and to act with high ethical standards. To that end, we endeavor to create work environments that respect the diversity, character, and individuality of each and every employee, where they can work in health and safety. At the same time, we aim to be a company that offers strong career fulfillment and encourages all employees to enhance their ethical values and personal growth. Our corporate actions are rooted in this basic stance.

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.

Promoting organization: becoming "the leading company for career fulfillment"

The Group positions valuing employees and empowering people/organizations as the most important challenge under the HOPE100 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 promote the creation and appropriate operation of the human resources management system (hiring, assigning, training, evaluation, transfers, compensation, social welfare, etc.) at each Group company under the basic concepts of our human resources management system.

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 share a common understanding that they are partners for mutual benefit. As employees contribute to the Company's development, the Company will contribute to rich and rewarding lives for employees.

Employees

By carrying out their duties, contribute to achieving 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

Employees are considered assets (drivers of growth) of the Company, which values them and supports their growth.

- Each employee is assigned duties that conform to 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.

Initiatives for Health Management

The Kyorin Group has enacted the "Kyorin Group Health Declaration," a statement recognizing that our employees are the foundation of our corporate philosophy and long-term vision, and that their physical and mental health is paramount.

The Kyorin Group Health Declaration—Your Health is Kyorin's Mission.—

As a company that supports sound and healthy lifestyles, the Kyorin Group views the health of its employees as a vital management issue, and is committed as an organization to promoting the health management of each and every employee.

1. To ensure that our employees and their families can live active lives, we pursue the maintenance of their sound physical and mental health by working hand in hand with a health insurance association.
2. We proactively support our employees' efforts to maintain and improve their health and to further their health awareness.
3. We implement measures to maintain and improve our employees' health and create safe and comfortable work environments as we aim to build business operations that allow us to fulfill our social mission of contributing to better health.

The general view is that "Health Management®"* is a strategic practice that sees the health management of employees from a business perspective. The Kyorin Group also implements a variety of initiatives to invigorate its organization, including improving the activity and productivity of employees, with an eye toward raising earnings and corporate value from a medium- to long-term perspective. Specific examples include giving health guidance to employees based on regular health examinations and stress checks, controlling long working hours, offering health improvement activities (a combination of walking and social contribution efforts), expanding health management structures, and totally banning smoking in all work spaces.

* "Health Management®" is a registered trademark of the nonprofit organization Kenkokeiei.

Mental health

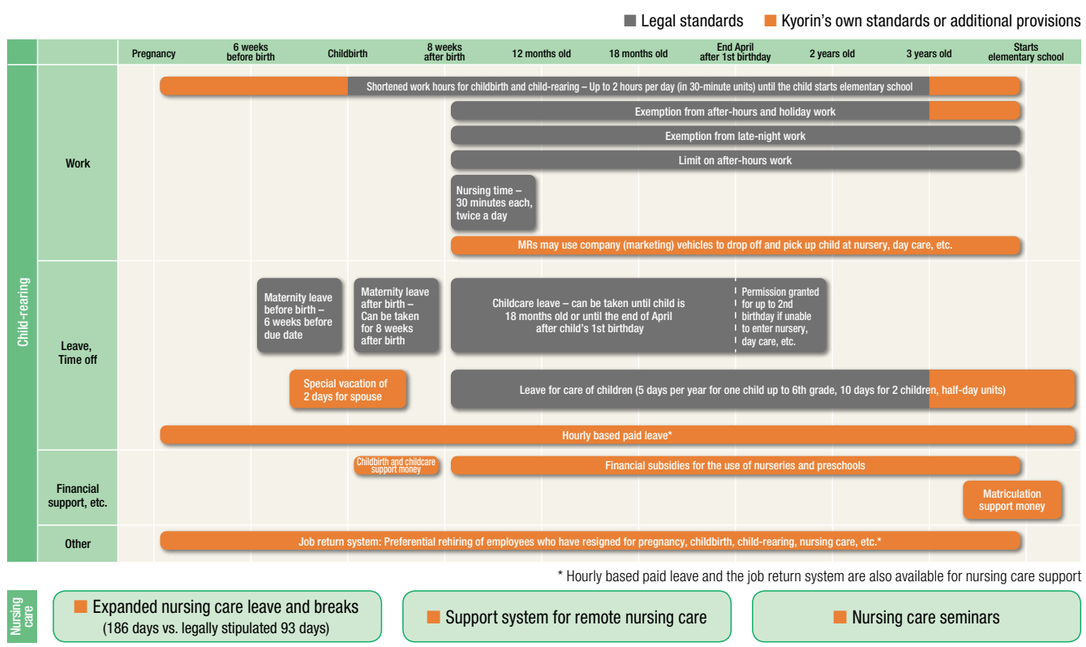
The Kyorin Group provides mental-health education to managers and employees. Our manager training focuses on prevention and early detection of mental illness, by encouraging managers to pay attention to their subordinates and promoting understanding of the specific symptoms of mental disorders. We also encourage employees to gain knowledge about maintaining mental health via our intranet and other means, and have created a system for employees and their families to feel free to ask for help. When a mental health issue arises, the employee's department, industrial psychiatrists, public health nurses, and Human Resources Department work together to help the employee recover, return to work, and prevent relapse.

Industrial safety and hygiene

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.

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

Promoting the use of paid leave

KYORIN Pharmaceutical Co., Ltd. proactively encourages the taking of paid leave, going over and above our legal obligations for paid leave under the Related Acts to Promote Work Style Reform (which requires companies to allow employees entitled to at least 10 days of annual paid leave to take five days). We also promote the taking of three additional days of leave for employees to maintain a good work-life balance to maximize their capabilities.

Job return system

KYORIN Pharmaceutical Co., Ltd. has created a job return system that provides opportunities for employees who still have a strong desire to work and are seen as vital by their colleagues to come back to their jobs. This system covers employees who have left the Group due to various major life events such as marriage, the job transfer of a partner, pregnancy, childbirth, child-rearing, nursing care, volunteer activities, and overseas study.

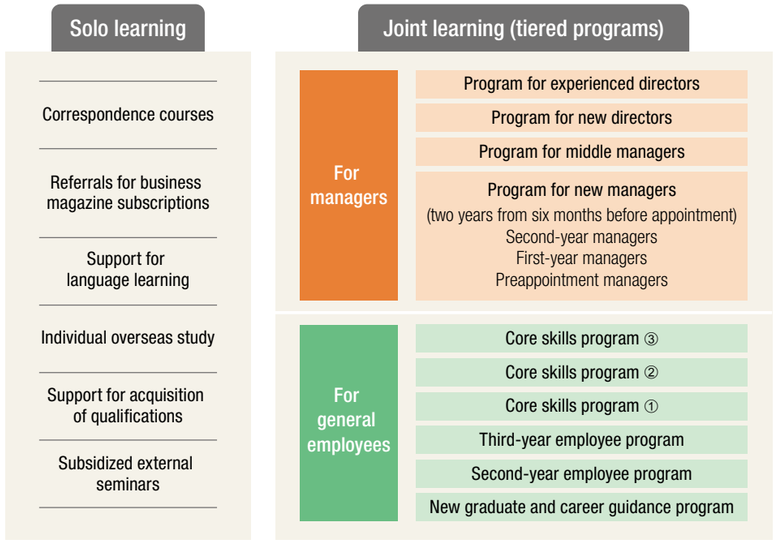
Initiatives on disability hiring

As part of its social responsibilities, KYORIN Pharmaceutical Co., Ltd. strives to provide suitable work environments for employees with disabilities to enable them to give full play to their abilities and live independent lives like able-bodied people. We also endeavor to create work spaces that are easy for employees with disabilities to operate in, such as using apps for employees with impaired hearing.

Human resources development

KYORIN Pharmaceutical Co., Ltd. supports the growth of its employees by creating structured and systematic educational programs that provide opportunities for both solo learning (autonomous improvement of one's personality and abilities) and joint learning (mutual growth and support). The structure and mechanisms for solo learning include correspondence courses, referrals for business magazine subscriptions, support for language learning, individual overseas study, support for the acquisition of qualifications, and subsidized external seminars. In joint learning, we offer 10 different types of tiered programs ranging from new employee training to training for management. Functional training is provided by each department to give employees the knowledge and skills required in their roles.

Overall structure of solo learning/joint learning



In harmony with the environment

Reducing the environmental burden through solar power generation

In a move to lessen its environmental burden, KYORIN Pharmaceutical Co., Ltd. operates facilities for generating solar power, one form of renewable energy, on its premises. The company currently has two sites in operation in the town of Nogi in Tochigi Prefecture, one installed in fiscal 2013 and the other in fiscal 2017.

Biodiversity

KYORIN Pharmaceutical Group Facilities Co., Ltd.'s Noshiro Plant participates in a citizens' volunteer activity to protect the Kaze-no-Matsubara pine forest near the plant, to provide local residents with a place to relax. In fiscal 2019, 24 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 wetlands and confirmed the location of nests as a way to enhance the environment for wild animals in the Center's grounds.

In Harmony with the Environment

Basic stance

One principle of the Kyorin Group's Charter of Corporate Conduct details its understanding that "the tackling of environmental issues is a mission for all humankind and an imperative component of the very existence of corporations to which it remains voluntarily committed," and that as a company dedicated to life, it will always use its EHS activity to conduct business operations with due regard for their impact on the global environment and local communities.

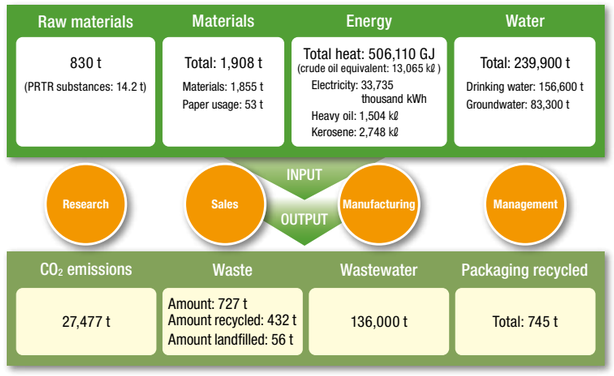
In all business operations, the Group promotes the effective use of our limited resources through energy and resource saving, waste reduction, and less use of substances that place a burden on the environment. It has established objectives and targets for these initiatives, reviews them as needed, and remains voluntarily and proactively committed to environmental protection and pollution prevention.

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 all its plants.

In our efforts to combat global warming by reducing CO_2 emissions, we set a target of cutting emissions by at least 4% from the level of fiscal 2015 (30,444 tons) by fiscal 2019 (29,163 tons or below). In fiscal 2019, as our CO_2 emissions were 27,477 tons, we achieved our objective. We are now working toward a new target of reducing CO_2 emissions from the level of fiscal 2019 by a further average 1.5% annually by fiscal 2023.

KYORIN Group material flow (fiscal 2019)



Introducing hybrid cars to reduce CO_2 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 2020, all 963 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, 615 (approximately 64%) are hybrid vehicles, which were introduced in 2004. In addition, these vehicles adhere to the Ministry of the Environment's "Eco-Driving" guidelines regarding their impact on the environment and traffic safety.

Environmentally friendly R&D Center

In May 2017, the ReHP* technology installed at KYORIN Pharmaceutical's WATARASE Research Center was awarded an honorable mention in the Kanto chapter of the Japanese Association of Building Mechanical and Electrical Engineers' carbon neutral prize category for construction equipment that contributes to achieving a low-carbon society. In addition, the energy conservation activities related to this system were awarded the Grand Prize in the Kanto Region Energy Saving Committee's 2019 Chairman's Awards. During fiscal 2019, this system reduced electric power consumption by 66,500 kWh and CO_2 emissions by roughly 31 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.

Living in Harmony with Society

Basic stance

The Kyorin Group's Charter of Corporate Conduct calls for it to "actively co-exist with society as a good corporate citizen and to contribute to society's development." The Kyorin Group is engaged in a variety of social contributions to achieve its goal of living in harmony with society.

As a manufacturer of new drugs, we aim to contribute to society by developing and supplying useful pharmaceuticals (products and services including clearly superior drugs), while at the same time using our business activities to aid in the resolution and improvement of medical and welfare issues, issues faced by senior citizens, and environmental issues.

We also engage in educational activities to support the health of young people. A healthy next generation will be able to power the creation and sustainable development of the highly livable and vibrant local communities that form the basis of our business activities. We pursue social contribution activities that are in keeping with our mission of being a company that supports sound and healthy lifestyles in a wide variety of ways.

Health education activities

Classroom visits

Since fiscal 2017, the Kyorin Group has planned and organized visits to schools by employees to teach and demonstrate the correct ways of using medicine and washing hands to elementary and junior high school students, to nurture the next generation. During fiscal 2019, head office and Group company employees visited 18 elementary and junior high schools in the communities of our workplaces around Japan. This is one of our social contribution activities that embody 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. In fiscal 2019, these programs were held at the head offices of KYORIN Pharmaceutical Co., Ltd., the WATARASE Research Center, and the three plants of KYORIN Pharmaceutical Group Facilities Co., Ltd.

Health information website for children　URL: http://www.karada-kyorin.com (Japanese only)

The Kyorin Group has supported the "Kyorin Group Presents the Great Adventure for the Body's Secrets" program since 2016, with 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, "Teach Me about the Body's Secrets!" which shows videos of impure things in the body to deepen the understanding of diseases and how the body works to children from nursery school through early elementary school.

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

Contributing to local communities

Health Challenge Program

The Kyorin Group launched the Health Challenge Program 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, competing in terms of points based on the number of steps taken, and health equipment is donated to a social welfare center near the workplaces of the two top teams. In fiscal 2019, 261 teams and 19 workplaces participated, enabling the donation of health equipment such as automated blood pressure meters, cordless bicycles, and elliptical trainers to facilities in Chiyoda Ward in Tokyo and the town of Nogi in Tochigi Prefecture, where the two top teams are located.

Sponsoring sporting events

The Kyorin Group supported the Shimotsuke Soccer Workshop in Nogi for the 20th time in fiscal 2019 with the aim of providing local children 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 playing soccer energetically each year. Donations are also solicited at the workshop and used to hold events to support the local community.

Local cleanup activities

As a responsible member of the local community, the Group actively participates in cleanups of local districts, including the areas around its business facilities.

- Group companies (head offices, branches, plants, research centers): cleanup activities around business facilities
- KYORIN Pharmaceutical Group Facilities Co., Ltd. Noshiro Plant: participated in COK20 (cleanup of area formerly named Kaneyu), Noshiro cleanup, and beach cleanup
- KYORIN Pharmaceutical Group Facilities Co., Ltd. Shiga Plant: participated in Lake Biwa cleanup

Donations to areas affected by natural disasters

As useful support for those affected by disasters, the Group provided relief goods as detailed below:

- Support for those affected by Typhoon Hagibis in 2019: environmental hygiene supplies (Milton, Rubysta, etc.), daily necessities (drinking water, towels), etc.
- Support for those affected by heavy rains in western Japan in 2018: environmental hygiene supplies (Milton, Rubysta, etc.), daily necessities (drinking water, towels), etc.

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.

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. The same lessons were offered at each Group company's head office and at the WATARASE Research Center.

Activities with patients and medical professionals (KYORIN Pharmaceutical Co., Ltd.)

Providing information via "Doctor Salon"

We sponsor "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, with back issues available via a website, and the audio of "Doctor Salon" is distributed as a podcast. "Doctor Salon" is extremely popular with physicians, especially primary-care doctors.

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 patients 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, we helped establish and provide assistance to the Department of Drug Discovery Medicine at 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

Millions of yen

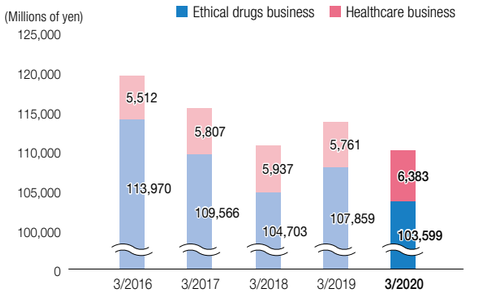
	3/2011	3/2012	3/2013	3/2014	3/2015	3/2016	3/2017	3/2018*3	3/2019	3/2020
Net sales	¥ 104,069	¥ 103,232	¥ 107,031	¥ 111,400	¥ 113,121	¥ 119,483	¥ 115,373	¥ 110,640	¥ 113,620	**¥ 109,983**
Ethical drugs business*1	101,271	100,654	105,162	109,678	111,771	113,970	109,566	104,703	107,859	**103,599**
Healthcare business*2	2,797	2,577	1,869	1,721	1,349	5,512	5,807	5,937	5,761	**6,383**
Operating income	16,443	14,464	17,948	17,607	14,737	19,636	10,413	8,822	8,972	**7,503**
Profit attributable to shareholders of KYORIN Holdings, Inc.	10,927	9,231	12,422	12,025	12,064	13,639	7,305	6,574	6,869	**6,149**
Net cash provided by operating activities	6,805	8,913	11,544	19,293	6,391	11,137	16,386	10,456	340	**7,739**
Net cash provided by (used in) investing activities	(1,806)	(4,926)	(7,187)	(2,477)	(1,364)	650	(13,142)	(6,038)	14,939	**(2,943)**
Net cash provided by (used in) financing activities	201	(7,412)	(5,132)	(3,704)	(5,233)	(2,245)	(5,721)	(3,735)	(27,315)	**(5,117)**
Free cash flow	4,999	3,987	4,357	16,816	5,027	11,787	3,244	4,418	15,279	**4,796**
R&D expenses	12,495	13,964	11,059	11,359	13,514	13,019	13,569	14,243	10,790	**10,987**
Capital expenditures	1,668	1,952	6,576	6,500	2,655	7,218	3,051	2,885	2,306	**3,590**
Depreciation and amortization	2,458	2,363	2,738	3,153	3,053	3,730	3,619	3,644	2,940	**3,221**
Total assets	147,234	145,673	154,968	169,378	183,383	197,825	192,668	196,736	173,034	**171,160**
Total net assets	111,706	118,201	129,099	137,821	148,600	157,049	157,837	163,297	123,395	**122,710**
Per Share Information										yen
Net assets	¥ 1,494.83	¥ 1,581.94	¥ 1,727.86	¥ 1,844.61	¥ 2,009.45	¥ 2,131.67	¥ 2,146.83	¥ 2,214.13	¥ 2,154.05	**¥ 2,142.07**
Basic profit	146.21	123.54	166.25	160.95	161.63	184.28	99.45	89.28	104.68	**107.35**
Cash dividends	45.00	45.00	50.00	52.00	52.00	58.00	58.00	58.00	75.00	**75.00**
Key Performance Indicators										
Operating income margin (%)	15.8	14.0	16.8	15.8	13.0	16.4	9.0	8.0	7.9	**6.8**
Profit attributable to shareholders of KYORIN Holdings, Inc. / Net sales ratio (%)	10.5	8.9	11.6	10.8	10.7	11.4	6.3	5.9	6.0	**5.6**
R&D expenses / Net sales ratio (%)	12.0	13.5	10.3	10.2	11.9	10.9	11.8	12.9	9.5	**10.0**
Total shareholders' equity ratio (%)	75.9	81.1	83.3	81.4	81.0	79.4	81.9	83.0	71.3	**71.7**
ROE (%)	10.1	8.0	10.0	9.0	8.4	8.9	4.6	4.1	4.8	**5.0**
Consolidated payout ratio (%)	30.8	36.4	30.1	32.3	32.2	31.8	59.3	65.9	72.6	**70.9**
PER (times)	9.68	12.68	13.82	12.25	17.78	11.63	23.64	22.39	20.64	**20.48**
Non-Financial Information										
Number of employees	2,294	2,297	2,444	2,452	2,445	2,420	2,382	2,348	2,297	**2,271**

*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.

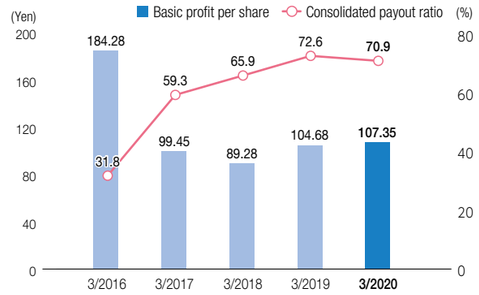
Performance Highlights

Financial Information

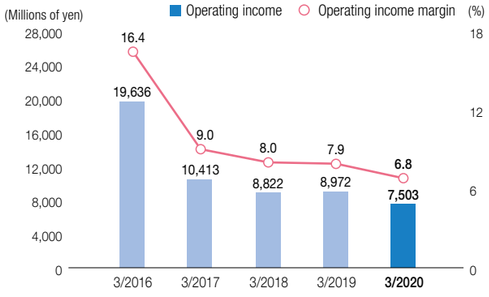
Net sales



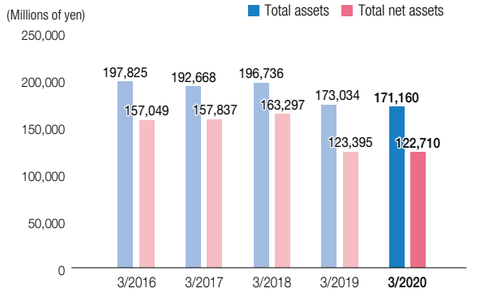
Basic profit per share/Consolidated payout ratio



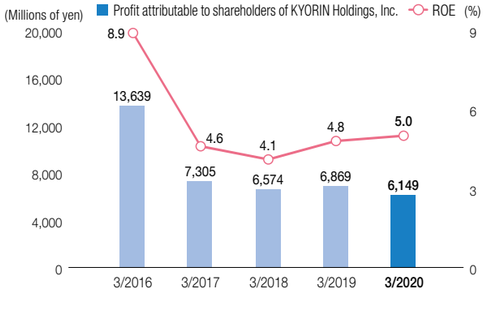
Operating income/Operating income margin



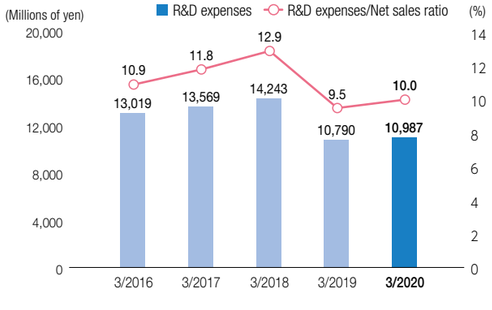
Total assets/Total net assets



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



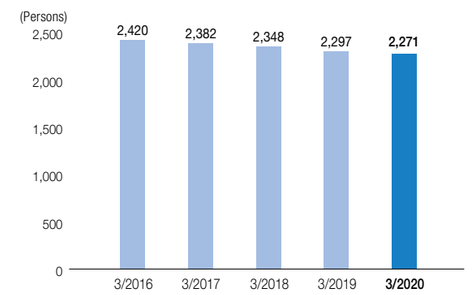
R&D expenses/R&D expenses/Net sales ratio



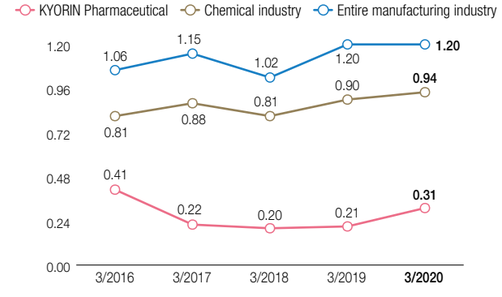
Non-Financial Information

Human Resources

Number of employees



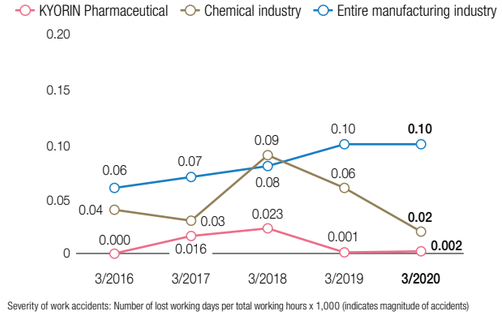
Rate of work accidents



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

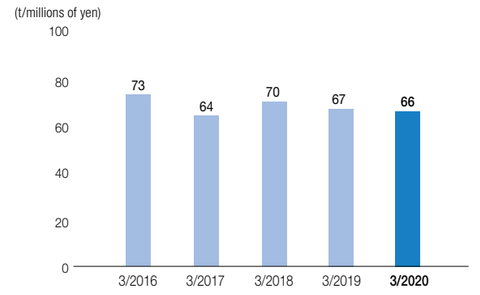


Severity of work accidents: Number of lost working days per total working hours x 1,000 (indicates magnitude of accidents)

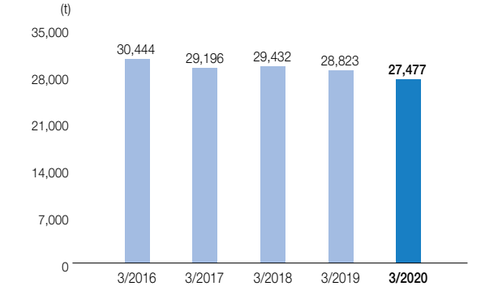
Calculation method: Number of lost working days (excluding accidents while commuting) / Total working hours x 1,000

Environment

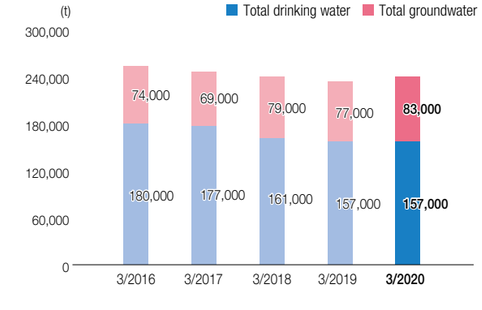
Waste volume



CO_2 emissions from factories and research laboratories



Volume of water used



Directors, Corporate Auditors, and Corporate Officers (As of June 19, 2020)

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 Rimedio 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)

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 Daijo 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

Hiroshi Hashizume

Yasuyuki Shimokawa

Major Activities of Outside Directors and Outside Corporate Auditors (Year ended March 31, 2020)

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 12 out of 12 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 12 out of 12 Board of Directors' meetings
	Hiromi Watanabe	Utilizing her wide-ranging insight in a medical setting as a physician, she makes appropriate comments.	Attended 9 out of 9 Board of Directors' meetings*
Outside Corporate Auditors	Masaji Obata	He makes comments as necessary based mainly on his specialist understanding as an attorney.	Attended 12 out of 12 Board of Directors' meetings and 13 out of 13 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 10 out of 12 Board of Directors' meetings and 11 out of 13 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 10 out of 12 Board of Directors' meetings and 12 out of 13 Board of Corporate Auditors' meetings

*Achievements since assumption of office in June 2019

Financial Analysis

Industry Trends in Japan

During fiscal 2019, the market environment for Japan's ethical drugs industry remained difficult, resulting in low single-digit market growth. This stemmed from the government's policy of comprehensively reforming the NHI drug pricing system, the introduction of measures to contain costs for drugs including the promotion of generic drugs and drug price revisions in October (an industrywide average 2.4%) associated with the raising of Japan's consumption tax.

Given this situation, the Kyorin Group pursued transformation under the HOPE100–Stage 2– medium-term business plan (fiscal 2016–2019) with unwavering determination, under a management policy for the plan's final year of "mobilizing the Group's collective strengths to bring about transformation," as we moved forward in the achievement of our targets and in setting a course for continuous growth. At our core ethical drugs business, we focused on the management issues of creating original, globally competitive new drugs, discovering drugs continuously, and creating markets through new drugs. We also made a Companywide effort to accelerate the growth of peripheral businesses and achieve low-cost operations, as we strove to achieve our targets and gain greater support and recognition from stakeholders.

Consolidated Operating Results

As for consolidated net sales for fiscal 2019, although growth in major products and newly released products contributed to growth in domestic sales of new drugs, a decrease in prescription of long-listed drugs and a delay in the restart of supplies of a major product resulted in an overall decline from the previous year in domestic sales of new drugs. On the other hand, overseas sales of new drugs and generic drug sales rose, but sales at the ethical drugs business declined overall. Sales at the healthcare business rose, but on a consolidated basis, net sales declined ¥3,637 million from the previous year, or 3.2%, to ¥109,983 million.

In terms of profit, despite a decline in the cost of sales ratio, lower sales of new drugs resulted in a ¥377 million decrease in gross profit. With a ¥1,092 million increase in SG&A expenses (including a ¥196 million increase in R&D expenses), operating income declined ¥1,469 million, or 16.4%, to ¥7,503 million. Profit attributable to shareholders of KYORIN Holdings, Inc. declined 10.5%, to ¥6,149 million.

Assets, Liabilities, and Net Assets

Current assets as of March 31, 2020, increased by ¥2,154 million from the previous fiscal year-end, with increases in merchandise and finished goods and work in process and decreases in notes and accounts receivable and other current assets. Fixed assets decreased ¥4,028 million, with an increase in machinery and vehicle, net and decreases in investment securities and deferred tax assets. As a result, total assets decreased ¥1,873 million from the end of the previous fiscal year, to ¥171,160 million.

Total liabilities decreased by ¥1,189 million from the previous fiscal year-end, to ¥48,449 million, reflecting increases in accrued income taxes, other current liabilities, long-term debt, and liability for retirement benefits, and decreases in notes and accounts payable, short-term bank loans, and deferred tax liabilities.

Net assets decreased ¥684 million from the end of the previous fiscal year, to ¥122,710 million, including an increase in retained earnings and decreases in the unrealized holding gain on other securities and retirement benefits liability adjustments.

As a result, the shareholders' equity ratio as of the fiscal year-end was 71.7%, a 0.4 percentage-point increase from the end of the previous fiscal year.

Cash Flows

Operating activities during fiscal 2019 generated net cash in the amount of ¥7,739 million, with major items including ¥8,255 million in profit before income taxes, depreciation and amortization of ¥3,221 million, a ¥5,185 million decrease in notes and accounts receivable, a ¥7,863 million increase in inventories, a ¥1,664 million decrease in notes and accounts payable, and ¥1,513 million in income taxes paid.

Investing activities used net cash in the amount of ¥2,943 million, primarily reflecting ¥2,624 million of outlays for the purchase of property, plant and equipment.

Financing activities used net cash in the amount of ¥5,117 million, with major items including ¥10,000 million for repayments of short-term bank loans, ¥10,180 million in proceeds from long-term debt, and ¥4,346 million paid as cash dividends.

As a result, cash and cash equivalents at the end of fiscal 2019 totaled ¥30,509 million, marking a ¥404 million decrease from the previous fiscal year-end.

Outlook for Fiscal 2020

The operating environment for the Group's core ethical drugs business is expected to be even more challenging in fiscal 2020, as various policies are implemented to curtail medical expenses and drug costs. Against this backdrop, the Kyorin Group has formulated the new HOPE100–Stage 3– medium-term business plan (fiscal 2020–2023) for the achievement of the HOPE100 long-term vision. Under the plan's statement of "Realization of a growth trend through the pursuit of originality," we will move ahead boldly with our business strategy and organizational strategy to achieve our targets and gain greater support and recognition from stakeholders. Our management policy for the first year under the plan, ending in March 2021, is to "Take up the challenge of pursuing originality," which we will do by proactively accelerating the growth of the new drugs group, expanding the development pipeline, building on drug creation projects, and enhancing our cost competitiveness, as we move forward in setting a growth trend.

In terms of net sales for fiscal 2020, although we anticipate an effect from the drug price revisions implemented in April 2020 (the 2% range for KYORIN Pharmaceutical Co., Ltd.), we also expect a contribution to sales from new products released in fiscal 2019 and growth from the removal of the limit on the prescription period for a major product, and are forecasting a large increase in domestic sales of new drugs. With regard to generic drugs, we plan to release an authorized generic drug and expect sales to grow, and are forecasting significant sales growth for the ethical drugs business.

We are also forecasting profit growth underpinned by a large increase in net sales.

Although we foresee a negligible impact on business results from the spread of infection of the novel coronavirus, many elements of uncertainty remain. We will therefore closely follow developments going forward, and should a revision to our forecasts be deemed necessary, we will promptly release that information.

Business Risks

The Group promotes its operations within the framework of pharmaceutical administration, in compliance with legal regulations regarding pharmaceutical development, production, and distribution in Japan, such as the Pharmaceutical and Medical Device Act, as well as various regulatory frameworks of other countries. However, we are aware of the existence of risks that could materially affect our business performance and financial condition, due to various factors including substantial changes in relevant laws, healthcare system reforms, drastic changes in the market environment, and large-scale natural disasters.

Among such risks, those that could materially affect the decisions of investors are described below. 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.

The forward-looking statements contained therein represent the Group's judgment as of March 31, 2020.

1. Risks Associated with R&D

Ethical drug development requires substantial R&D investment over lengthy periods, and the success rate for bringing a drug development candidate to market as a pharmaceutical product is low. KYORIN Pharmaceutical Co., Ltd., the Company's subsidiary, has clarified its priority research areas and has been making efforts to expand its pipeline, by engaging in proprietary drug discovery through cooperation with the WATARASE Research Center and ActivX Biosciences, Inc., in addition to R&D based on open innovation with pharmaceutical companies, academic institutions, and venture start-ups in Japan and overseas. However, should development be delayed or terminated due to the emergence of unforeseeable side effects, a failure to achieve intended clinical results, or other reasons, our business performance and financial condition could be materially affected.

2. Risks Associated with Stable Supply

The supply of certain products and raw materials to the Group depends on having specific business partners. The Group has secured a certain amount of products and raw materials to ensure a stable supply of its products, and has been striving to secure multiple suppliers of its essential raw materials. However, should manufacturing activities or procurement be delayed or terminated due to unforeseeable circumstances, the stable supply of our products could be adversely affected. Furthermore, while our pharmaceutical products are manufactured within various regulatory frameworks, should quality-related or other problems occur, and recalling our products become necessary, our business performance and financial condition could be materially affected.

3. Risks Associated with Healthcare System Reforms

Japan's healthcare system, including NHI drug prices, is being revised. In terms of sales, the Group is working to increase the ratio of new pharmaceuticals by maximizing their availability, while in terms of production, it is engaged in initiatives including reforms of the cost structure through a consolidation of its production functions and Groupwide optimization. However, should greater-than-expected NHI drug price revisions be made or changes to the NHI system occur, our business performance and financial condition could be materially affected.

4. Risks Associated with Competition from Other Drugs

In the new drugs business, the Group has been concentrating its management resources in the specific fields of respiratory, otolaryngology, and urology, and working to enhance its presence there by giving priority to activities that provide information to doctors specializing in these fields. In addition, in the generic drugs business, the Group has been engaged in business development that makes the most of its characteristics by proactively pursuing the market launch of authorized generics. However, should competition from peer products in these fields intensify and the entry of generic drugs after the patent expiration of the original drugs increase, our business performance and financial condition could be materially affected.

5. Risks Associated with Intellectual Property Rights

The Group strictly manages its intellectual property rights and continuously pays close attention to any infringements by third parties. However, should a third party exploit the Group's technologies and infringe on our intellectual property rights in our market or in a related market, or should the Group's business activities infringe on the patents of another company or otherwise violate its intellectual property rights, the Group could become involved in legal disputes and have to terminate some business operations, and our business performance and financial condition could be materially affected.

6. Risks Associated with Lawsuits

The Group, on the advice of experts, manages the litigation risks that occur in its business activities both in Japan and overseas, including those associated with intellectual property rights such as patents, violations of the Product Liability Act, environmental protection issues, and labor disputes. However, should such lawsuits be brought against the Group, our business performance and financial condition could be materially affected.

7. Risks Associated with Alliances

The Group promotes strategic alliances to make efficient use of external capital. Through tie-up agreements with other pharmaceutical companies inside and outside Japan, the subsidiary allocates sales rights for some of its products and collaborates in sales, R&D, and other activities. In addition, the Group strives to maintain and develop ongoing alliance relationships, enhancing these relationships in light of the sales strategies and R&D trends of the tie-up partners. However, should these alliance relationships be ended, our business performance and financial condition could be materially affected.

8. Risks Associated with IT Security and Information Management

Given that numerous IT systems are utilized in business operations, the Group strives to establish IT security measures and a framework for information management by implementing security software and periodic data back-ups, and establishing various information management rules and thoroughly communicating them to our employees. However, should unforeseeable business disruptions or leakages of information occur due to factors such as system faults or computer viruses, and society's trust in the Group become seriously damaged, our business performance and financial condition could be materially affected.

9. Risks Associated with Volatility in the Financial Markets

The Group's business performance and financial condition could be materially affected during import and export transactions due to fluctuations in exchange rates. In addition, should fluctuations occur in the amounts of pension assets, retirement benefit obligations, the valuation of shares held, etc., due to fluctuations in exchange rates, in interest rate levels, or on the stock market, our business performance and financial condition could be materially affected.

10. Risks Associated with Side Effects

Clinical trials in the development phase of ethical drugs are conducted on only a limited number of subjects. Therefore, should unforeseeable side effects occur after the launch of a drug, its usage could be restricted or, in some cases, its sale could be discontinued, and our business performance and financial condition could be materially affected.

11. Risks Associated with Large-Scale Disasters

The Group prepares various manuals and conducts drills to prepare for large-scale and other disasters. However, should natural disasters beyond our expectations such as earthquakes or typhoons, accidents such as fires, or pandemics such as influenza occur, these events could result in the closure of plants and the suspension of operations at KYORIN Pharmaceutical Group Facilities Co., Ltd., the Company's production subsidiary, the Group's suppliers, or other locations. While the Group has secured a certain amount of inventory to ensure a stable supply, should such plant closings or suspensions extend for a lengthy period, our business performance and financial condition could be materially affected.

12. Risks Associated with Environmental Issues

The Group strives to not only comply with relevant laws and regulations but also to achieve even higher voluntary standards in terms of the environment, health, and safety. It also promotes Groupwide EHS activities that integrate the environmental management system and the industrial safety and hygiene management system. However, should a violation of relevant laws or regulations occur due to unexpected accidents or other events in business operations, our business performance and financial condition could be materially affected.

Consolidated Balance Sheet

KYORIN Holdings, Inc. and Consolidated Subsidiaries
As of March 31

Assets	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 3) 2020
Current assets:			
Cash and cash in banks (Notes 4 and 10)	**¥ 31,925**	¥ 32,007	**$ 293,347**
Notes and accounts receivable (Note 10)	**47,449**	52,635	**435,992**
Short-term investments (Notes 5 and 10)	**993**	501	**9,124**
Inventories:			
Merchandise and finished goods	**17,913**	12,924	**164,596**
Work in process	**6,190**	3,198	**56,878**
Raw materials and supplies	**9,179**	9,297	**84,343**
Other	**3,446**	4,384	**31,664**
Less allowance for doubtful accounts	**(40)**	(45)	**(368)**
Total current assets	**117,058**	114,904	**1,075,604**
Property, plant and equipment:			
Land	**2,104**	2,093	**19,333**
Buildings and structures	**32,391**	31,877	**297,629**
Machinery and vehicle	**23,511**	21,846	**216,034**
Leased assets	**926**	635	**8,509**
Construction in progress	**915**	644	**8,408**
Other	**9,120**	8,731	**83,800**
Less accumulated depreciation and impairment loss	**(46,248)**	(44,035)	**(424,956)**
Property, plant and equipment, net	**22,721**	21,792	**208,775**
Investments and other assets:			
Investment securities (Notes 5 and 10)	**25,868**	29,799	**237,692**
Long-term loans	**3**	4	**28**
Asset for retirement benefits (Note 11)	**—**	88	**—**
Deferred tax assets (Note 12)	**714**	1,529	**6,561**
Other	**4,838**	4,961	**44,455**
Less allowance for doubtful accounts	**(44)**	(44)	**(404)**
Total investments and other assets	**31,380**	36,338	**288,340**
Total assets	**¥171,160**	¥173,034	**$1,572,728**

Liabilities and net assets	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 3) 2020
Current liabilities:			
Notes and accounts payable (Note 10)	**¥ 9,776**	¥ 11,441	**$ 89,828**
Short-term bank loans (Notes 6 and 10)	**10,400**	20,932	**95,562**
Lease obligations (Note 6)	**141**	80	**1,296**
Accrued income taxes (Note 12)	**1,414**	815	**12,993**
Accrued bonuses to employees	**2,334**	2,241	**21,446**
Reserve for sales returns	**25**	48	**230**
Other	**7,235**	5,919	**66,480**
Total current liabilities	**31,328**	41,480	**287,862**
Long-term liabilities:			
Long-term debt (Notes 6 and 10)	**12,514**	2,634	**114,987**
Lease obligations (Note 6)	**538**	376	**4,943**
Deferred tax liabilities (Note 12)	**201**	2,064	**1,847**
Provision for stock-based payments	**36**	11	**331**
Liability for retirement benefits (Note 11)	**3,140**	2,485	**28,852**
Other	**690**	587	**6,340**
Total long-term liabilities	**17,121**	8,159	**157,319**
Net assets:			
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized – 297,000,000 shares in 2020 and 2019			
Issued – 64,607,936 shares in 2020 and 2019	**700**	700	**6,432**
Capital surplus	**4,752**	4,752	**43,664**
Retained earnings	**130,788**	128,999	**1,201,764**
Treasury stock, at cost (Note 16):			
7,321,870 shares in 2020			
7,322,490 shares in 2019	**(17,706)**	(17,707)	**(162,694)**
Total shareholders' equity	**118,534**	116,744	**1,089,167**
Accumulated other comprehensive income:			
Unrealized holding gain on other securities	**6,922**	8,925	**63,604**
Translation adjustments	**36**	56	**331**
Retirement benefits liability adjustments	**(2,782)**	(2,331)	**(25,563)**
Total accumulated other comprehensive income	**4,176**	6,651	**38,372**
Total net assets	**122,710**	123,395	**1,127,538**
Total liabilities and net assets	**¥171,160**	¥173,034	**$1,572,728**

See notes to consolidated financial statements.

Consolidated Statement of Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Net sales	**¥109,983**	¥113,620	**$1,010,595**
Cost of sales	**52,950**	56,210	**486,539**
Gross profit	**57,032**	57,409	**524,047**
Selling, general and administrative expenses (Note 8)	**49,528**	48,436	**455,095**
Operating income	**7,503**	8,972	**68,942**
Other income (expenses):			
Interest and dividend income	**428**	415	**3,933**
Interest expense	**(75)**	(64)	**(689)**
Equity in gains of affiliates	**19**	36	**175**
Foreign exchange gain	**106**	54	**974**
Losses on sales and retirement of property, plant and equipment, net (Note 9)	**(24)**	(107)	**(221)**
Gain on sales of investment securities, net (Note 5)	**104**	28	**956**
Loss on devaluation of investment securities	**—**	(0)	**—**
Commission for purchase of treasury stock	**—**	(245)	**—**
Subsidy income	**108**	138	**992**
Other, net	**85**	131	**781**
Other income, net	**752**	386	**6,910**
Profit before income taxes	**8,255**	9,359	**75,852**
Income taxes (Note 12):			
Current	**2,085**	2,004	**19,158**
Deferred	**20**	485	**184**
Total income taxes	**2,106**	2,490	**19,351**
Profit	**6,149**	6,869	**56,501**
Profit attributable to shareholders of KYORIN Holdings, Inc.	**¥ 6,149**	¥ 6,869	**$ 56,501**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Profit	**¥6,149**	¥6,869	**$56,501**
Other comprehensive loss (Note 13):			
Unrealized holding loss on other securities	**(1,982)**	(1,169)	**(18,212)**
Translation adjustments	**(19)**	(27)	**(175)**
Retirement benefits liability adjustments	**(451)**	46	**(4,144)**
Share of other comprehensive income of affiliates accounted for using equity method	**(21)**	(6)	**(193)**
Total other comprehensive income	**(2,474)**	(1,157)	**(22,733)**
Comprehensive loss	**¥3,674**	¥5,711	**$33,759**
Total comprehensive income attributable to:			
Shareholders of KYORIN Holdings, Inc.	**¥3,674**	¥5,711	**$33,759**
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, 2020

Millions of yen

		Shareholders' equity					Accumulated other comprehensive income				
	Number of shares issued (Common stock)	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	Total net assets
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 April 1, 2019	64,607,936	700	4,752	128,999	(17,707)	116,744	8,925	56	(2,331)	6,651	123,395
Cash dividends	**—**	**—**	**—**	**(4,361)**	**—**	**(4,361)**	**—**	**—**	**—**	**—**	**(4,361)**
Profit attributable to shareholders of KYORIN Holdings, Inc.	**—**	**—**	**—**	**6,149**	**—**	**6,149**	**—**	**—**	**—**	**—**	**6,149**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Disposals of treasury stock	**—**	**—**	**—**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**1**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes	**—**	**—**	**—**	**—**	**—**	**—**	**(2,003)**	**(19)**	**(451)**	**(2,474)**	**(2,474)**
Net changes during the year	**—**	**—**	**—**	**1,788**	**1**	**1,789**	**(2,003)**	**(19)**	**(451)**	**(2,474)**	**(684)**
Balance as of March 31, 2020	**64,607,936**	**¥700**	**¥4,752**	**¥130,788**	**¥(17,706)**	**¥118,534**	**¥ 6,922**	**¥36**	**¥(2,782)**	**¥4,176**	**¥122,710**

Thousands of U.S. dollars (Note 3)

		Shareholders' equity					Accumulated other comprehensive income				
	Number of shares issued (Common stock)	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	Total net assets
Balance as of April 1, 2019	64,607,936	$6,432	$43,664	$1,185,326	$(162,703)	$1,072,719	$82,009	$515	$(21,419)	$61,114	$1,133,833
Cash dividends	**—**	**—**	**—**	**(40,072)**	**—**	**(40,072)**	**—**	**—**	**—**	**—**	**(40,072)**
Profit attributable to shareholders of KYORIN Holdings, Inc.	**—**	**—**	**—**	**56,501**	**—**	**56,501**	**—**	**—**	**—**	**—**	**56,501**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**(0)**	**—**	**—**	**—**	**—**	**(0)**
Disposals of treasury stock	**—**	**—**	**—**	**—**	**9**	**9**	**—**	**—**	**—**	**—**	**9**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other changes	**—**	**—**	**—**	**—**	**—**	**—**	**(18,405)**	**(175)**	**(4,144)**	**(22,733)**	**(22,733)**
Net changes during the year	**—**	**—**	**—**	**16,429**	**9**	**16,438**	**(18,405)**	**(175)**	**(4,144)**	**(22,733)**	**(6,285)**
Balance as of March 31, 2020	**64,607,936**	**$6,432**	**$43,664**	**$1,201,764**	**$(162,694)**	**$1,089,167**	**$63,604**	**$331**	**$(25,563)**	**$38,372**	**$1,127,538**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	**2020**
Operating activities			
Profit before income taxes	**¥ 8,255**	¥ 9,359	**$ 75,852**
Depreciation and amortization	**3,221**	2,940	**29,597**
Decrease in allowance for doubtful accounts	**(5)**	(1)	**(46)**
Increase (decrease) in accrued bonuses to employees	**94**	(139)	**864**
Decrease in asset for retirement benefits	**199**	599	**1,829**
Decrease in liability for retirement benefits	**(106)**	(139)	**(974)**
Equity in gains of affiliates	**(19)**	(36)	**(175)**
Decrease in provision for loss on guarantees	**—**	(428)	**—**
Interest and dividend income	**(428)**	(415)	**(3,933)**
Interest expense	**75**	64	**689**
Purchase of treasury stock	**—**	245	**—**
Losses on sales and retirement of property, plant and equipment, net	**24**	107	**221**
Gain on sales of investment securities, net	**(104)**	(28)	**(956)**
Loss on devaluation of investment securities	**—**	0	**—**
Decrease (increase) in notes and accounts receivable	**5,185**	(4,773)	**47,643**
Increase in inventories	**(7,863)**	(2,112)	**(72,250)**
(Decrease) increase in notes and accounts payable	**(1,664)**	1,175	**(15,290)**
(Decrease) increase in consumption taxes payable	**(101)**	349	**(928)**
Other, net	**2,129**	(3,309)	**19,563**
Subtotal	**8,892**	3,459	**81,705**
Interest and dividend received	**436**	422	**4,006**
Interest paid	**(75)**	(64)	**(689)**
Income taxes paid	**(1,513)**	(3,476)	**(13,902)**
Net cash provided by operating activities	**7,739**	340	**71,111**
Investing activities			
Payments for time deposits	**(954)**	(622)	**(8,766)**
Proceeds from withdrawal of time deposits	**622**	659	**5,715**
Purchase of property, plant and equipment	**(2,624)**	(2,170)	**(24,111)**
Proceeds from sales of property, plant and equipment	**26**	23	**239**
Purchase of intangible assets	**(593)**	(2,199)	**(5,449)**
Purchase of investment securities	**(100)**	(620)	**(919)**
Proceeds from sales and redemption of investment securities	**804**	19,997	**7,388**
Other, net	**(123)**	(129)	**(1,130)**
Net cash (used in) provided by investing activities	**(2,943)**	14,939	**(27,042)**
Financing activities			
(Decrease) increase in short-term bank loans, net	**(10,000)**	19,975	**(91,886)**
Repayments of lease obligations	**(118)**	(104)	**(1,084)**
Proceeds from long-term debt	**10,180**	303	**93,540**
Repayments of long-term debt	**(832)**	(1,582)	**(7,645)**
Net increase in treasury stock	**(0)**	(40,839)	**(0)**
Cash dividends	**(4,346)**	(5,068)	**(39,934)**
Net cash used in financing activities	**(5,117)**	(27,315)	**(47,018)**
Effects of exchange rate changes on cash and cash equivalents	**(22)**	(22)	**(202)**
Decrease in cash and cash equivalents	**(343)**	(12,057)	**(3,152)**
Cash and cash equivalents at beginning of year	**30,914**	42,971	**284,058**
Decrease in cash and cash equivalents due to the exclusion of consolidation	**(61)**	—	**(561)**
Cash and cash equivalents at end of year (Note 4)	**¥30,509**	¥30,914	**$280,336**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

KYORIN Holdings, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2020

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of KYORIN Holdings, Inc. (the "Company") and consolidated subsidiaries are 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 2019 consolidated financial statements to conform to the 2020 presentation. These reclassifications have no effect on consolidated profit and net assets. Amounts of less than one million yen and thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

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 financial statements on an equity basis. As of March 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 1 (7 and 1 in 2019). During the year ended March 31, 2020, the Company deconsolidated Kyorin USA, Inc. which resolved to dissolve and has insignificant effect on the consolidated financial statements of the Company. 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 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 net assets are translated into yen at the exchange rates in effect at the balance sheet date. The components of net assets are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments, which are presented as a component of net assets in the accompanying consolidated balance sheet.

(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 three to five years.

(g) Leases

Leased assets are 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 expensed 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 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.

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, issued on July 4, 2019)
"Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, revised on July 4, 2019)
"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, revised on July 4, 2019)
"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on July 4, 2019)
"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, revised on March 31, 2020)

(1) Overview

The ASBJ promoted an initiative to enhance comparability of the requirements between the Japanese accounting standards and international accounting standards, primarily in the areas of guidance on the fair values of financial instruments and their disclosures, and issued "Accounting Standard for Fair Value Measurement," etc., considering the circumstance where the IASB and the FASB have prescribed almost the similar detailed guidance (IFRS 13 "Fair Value Measurement" issued by IASB and Accounting Standard Codification Topic 820 "Fair Value Measurement" issued by FASB).

The ASBJ's fundamental policies adopted for developing the "Accounting Standard for Fair Value Measurement," etc. are, in principle, to implement all the requirements of IFRS 13 from the viewpoint of enhancing the comparability of the financial statements of domestic and overseas companies by prescribing unified measurement methods, and also to prescribe exceptional treatments for individual matters so that comparability would not be impaired while the accounting practices that have conventionally been adopted in Japan are taken into account.

(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 Fair Value Measurement," etc. on the consolidated financial statements is currently unknown.

(m) Additional Information

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" (ASBJ Practical Issues Task Force ("PITF") No. 30, March 26, 2015).

(1) Outline of transactions

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

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

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

(2) Company shares remaining in trust

Treasury shares remaining in the Trust are presented as treasury stock in net assets with carrying value in the Trust (excluding ancillary expenses). As of March 31, 2020 and 2019, the carrying amounts of the treasury shares were ¥1,645 million ($15,115 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, 2020 and 2019, the carrying amounts of the treasury shares were ¥224 million ($2,058 thousand) and ¥226 million, respectively, and the total numbers of treasury shares were 99 thousand shares and 100 thousand shares, respectively.

Accounting treatments in relation to the implementation of the consolidated taxation system

The Company and its domestic consolidated subsidiaries will apply the consolidated taxation system from the beginning of the year ending March 31, 2021.

As a result, treatments from the beginning of the year ended March 31, 2020 are based on the application of a consolidated taxation system in accordance with "Practical Solution for Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (PITF No.5, January 16, 2015) and "Practical Solution for Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (PITF No.7, January 16, 2015).

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥108.83 = U.S.$1.00, the approximate rate of exchange on March 31, 2020. 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, 2020 and 2019 for the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Cash and cash in banks	**¥31,925**	¥32,007	**$293,347**
Time deposits with a maturity over three months	**(1,416)**	(1,093)	**(13,011)**
Cash and cash equivalents	**¥30,509**	¥30,914	**$280,336**

5. Short-Term Investments and Investment Securities

Information regarding marketable securities classified as other securities as of March 31, 2020 and 2019 is as follows:

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2020			**2020**		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 8,652**	**¥18,755**	**¥10,102**	**$ 79,500**	**$172,333**	**$92,824**
Debt securities:						
Government bonds	**900**	**900**	**0**	**8,270**	**8,270**	**0**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other bonds	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**9,552**	**19,655**	**10,103**	**87,770**	**180,603**	**92,833**
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**2,034**	**1,858**	**(175)**	**18,690**	**17,072**	**(1,608)**
Debt securities:						
Government bonds	**3,100**	**3,098**	**(1)**	**28,485**	**28,466**	**(9)**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other bonds	**1,000**	**993**	**(6)**	**9,189**	**9,124**	**(55)**
Subtotal	**6,134**	**5,950**	**(184)**	**56,363**	**54,672**	**(1,691)**
Total	**¥15,686**	**¥25,605**	**¥ 9,919**	**$144,133**	**$235,275**	**$91,142**

	Millions of yen		
	2019		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥10,673	¥23,460	¥12,787
Debt securities:			
Government bonds	1,500	1,501	1
Corporate bonds	200	200	0
Other bonds	—	—	—
Subtotal	12,373	25,162	12,789
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	13	11	(1)
Debt securities:			
Government bonds	2,900	2,898	(1)
Corporate bonds	—	—	—
Other bonds	1,000	989	(10)
Subtotal	3,913	3,900	(13)
Total	¥16,286	¥29,062	¥12,775

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 ¥640 million ($5,881 thousand) and ¥612 million as of March 31, 2020 and 2019, respectively.

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Proceeds from sales	**¥200**	¥19,597	**$1,838**
Gains on sales	**0**	52	**0**
Losses on sales	**—**	24	**—**

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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Short-term bank loans	**¥10,100**	¥20,100	**$92,805**
Current portion of long-term debt	**300**	832	**2,757**
Current portion of lease obligations	**141**	80	**1,296**
Total	**¥10,541**	¥21,012	**$96,857**

The average interest rates applicable to short-term bank loans outstanding as of March 31, 2020 and 2019 are 0.3% and 0.3%, respectively.

Long-term debt and lease obligations as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Long-term debt, due through 2027 at average interest rate of 0.2% and 0.3% in 2020 and 2019, respectively	**¥12,814**	¥3,466	**$117,743**
Lease obligations due through 2030 in 2020 and 2019	**679**	456	**6,239**
Current portion of long-term debt and lease obligations due within one year	**(441)**	(913)	**(4,052)**
Total	**¥13,052**	¥3,010	**$119,930**

Long-term debt from Japan Science and Technology Agency (National Research and Development Agency), amounting to ¥1,277 million ($11,734 thousand) and ¥1,096 million as of March 31, 2020 and 2019, respectively, bears no interest.

The annual maturities of long-term debt (excluding 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
2021	¥ 441	$ 4,052
2022	334	3,069
2023	317	2,913
2024	302	2,775
2025	10,257	94,248

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.

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, 2020 and 2019 were ¥10,987 million ($100,956 thousand) and ¥10,790 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Gain:			
Buildings and structures	**¥ —**	¥ 2	**$ —**
Machinery and vehicles	**19**	3	**175**
Land	**—**	7	**—**
Other	**0**	0	**0**
	¥ 19	¥ 14	**$ 175**
Loss:			
Buildings and structures	**¥ (7)**	¥ (29)	**$ (64)**
Machinery and vehicles	**(2)**	(3)	**(18)**
Other	**(34)**	(87)	**(312)**
	(43)	(121)	**(395)**
Total	**¥(24)**	¥(107)	**$(221)**

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.

Bank loans and debts are mainly used for the operating fund, fund for capital investments and the funding support for development expenses from Japan Science and Technology Agency (National Research and Development Agency).

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

(c) Supplemental Information on Fair Value of Financial Instruments

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

Carrying values, fair values, and their differences of financial instruments as of March 31, 2020 and 2019 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2020			**2020**		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash and cash in banks	**¥ 31,925**	**¥ 31,925**	**¥ —**	**$293,347**	**$293,347**	**$ —**
Notes and accounts receivable	**47,449**	**47,449**	**—**	**435,992**	**435,992**	**—**
Short-term investments and investment securities	**25,605**	**25,605**	**—**	**235,275**	**235,275**	**—**
Total assets	**¥104,980**	**¥104,980**	**¥ —**	**$964,624**	**$964,624**	**$ —**
Notes and accounts payable	**¥ 9,776**	**¥ 9,776**	**¥ —**	**$ 89,828**	**$ 89,828**	**$ —**
Short-term bank loans	**¥ 10,400**	**¥ 10,400**	**¥ —**	**$ 95,562**	**$ 95,562**	**$ —**
Long-term debt	**¥ 12,514**	**¥ 12,512**	**¥ (2)**	**$114,987**	**$114,968**	**$ (18)**
Total liabilities	**¥ 32,691**	**¥ 32,689**	**¥ (2)**	**$300,386**	**$300,368**	**$ (18)**

	Millions of yen		
	2019		
	Carrying value	Fair value	Difference
Cash and cash in banks	¥ 32,007	¥ 32,007	¥ —
Notes and accounts receivable	52,635	52,635	—
Short-term investments and investment securities	29,062	29,062	—
Total assets	¥113,705	¥113,705	¥ —
Notes and accounts payable	¥ 11,441	¥ 11,441	¥ —
Short-term bank loans	¥ 20,932	¥ 20,932	¥ —
Long-term debt	¥ —	¥ —	¥ —
Total liabilities	¥ 32,374	¥ 32,374	¥ —

Unlisted securities and others of ¥1,255 million ($11,532 thousand) and ¥1,238 million whose fair values are extremely difficult to determine as of March 31, 2020 and 2019, 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.

Long-term debt

The fair value of long-term debt is determined by discounting the amount of the total principal and interest at the interest rate assumed when new, similar loans are made.

The redemption schedule for monetary receivables and securities with maturities subsequent to March 31, 2020 is as follows:

	Millions of yen			
	2020			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash in banks	**¥31,925**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable	**47,449**	**—**	**—**	**—**
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	**—**	**4,000**	**—**	**—**
Other	**1,000**	**—**	**—**	**—**
Total	**¥80,374**	**¥4,000**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2020			
	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	**$293,347**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable	**435,992**	**—**	**—**	**—**
Short-term investments and investment securities:				
Other securities with maturities:				
Government bonds	**—**	**36,755**	**—**	**—**
Other	**9,189**	**—**	**—**	**—**
Total	**$738,528**	**$36,755**	**$ —**	**$ —**

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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation at the beginning of the year	**¥35,500**	¥35,767	**$326,197**
Service cost	**1,196**	1,245	**10,990**
Interest cost	**177**	178	**1,626**
Actuarial loss	**1,031**	62	**9,473**
Retirement benefits paid	**(1,694)**	(1,696)	**(15,566)**
Decrease due to transfer	**—**	(56)	**—**
Retirement benefit obligation at the end of the year	**¥36,211**	¥35,500	**$332,730**

(2) The changes in plan assets for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at the beginning of the year	**¥33,315**	¥33,955	**$306,120**
Expected return on plan assets	**666**	679	**6,120**
Actuarial loss	**(22)**	(633)	**(202)**
Contributions paid by the employer	**985**	1,011	**9,051**
Retirement benefits paid	**(1,694)**	(1,696)	**(15,566)**
Plan assets at the end of the year	**¥33,249**	¥33,315	**$305,513**

(3) The changes in liability (asset) for retirement benefits for consolidated subsidiaries applying the simplified method for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability (asset) for retirement benefits at the beginning of the year	**¥212**	¥191	**$1,948**
Retirement benefits costs	**113**	47	**1,038**
Retirement benefits paid	**(51)**	(14)	**(469)**
Contributions to the plans	**(95)**	(12)	**(873)**
Liability (asset) for retirement benefits at the end of the year	**¥178**	¥212	**$1,636**

(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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded defined benefit obligation	**¥36,611**	¥35,622	**$336,405**
Plan assets	**(33,586)**	(33,525)	**(308,610)**
	3,024	2,096	**27,786**
Unfunded retirement benefit obligation	**115**	300	**1,057**
Net liability (asset) for retirement benefits	**¥ 3,140**	¥ 2,397	**$ 28,852**
Liability for retirement benefits	**¥ 3,140**	¥ 2,485	**$ 28,852**
Asset for retirement benefits	**—**	(88)	**—**
Net liability (asset) for retirement benefits	**¥ 3,140**	¥ 2,397	**$ 28,852**

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

(5) The components of retirement benefits costs for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service costs	**¥1,196**	¥1,245	**$10,990**
Interest costs	**177**	178	**1,626**
Expected return on plan assets	**(666)**	(679)	**(6,120)**
Amortization of actuarial loss	**430**	809	**3,951**
Amortization of prior service costs	**(27)**	(46)	**(248)**
Retirement benefits costs based on the simplified method	**113**	47	**1,038**
Retirement benefits costs	**¥1,224**	¥1,555	**$11,247**

(6) Prior service costs and actuarial gain or loss included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Prior service costs	**¥ 27**	¥ 46	**$ 248**
Actuarial gain or loss	**622**	(113)	**5,715**
Total	**¥650**	¥ (66)	**$5,973**

(7) Unrecognized prior service costs and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unrecognized prior service costs	**¥ (61)**	¥ (89)	**$ (561)**
Unrecognized actuarial loss	**4,072**	3,449	**37,416**
Balance at the end of the year	**¥4,011**	¥3,360	**$36,856**

(8) Plan assets

The breakdown of plan assets is as follows:

	2020	2019
Domestic equity securities	**3.4%**	4.8%
Foreign debt securities	**51.4**	19.6
Foreign equity securities	**4.9**	11.1
General account	**16.7**	16.8
Short-term assets	**4.4**	25.5
Other	**19.2**	22.2
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

	2020	2019
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 ¥295 million ($2,711 thousand) and ¥290 million to the defined contribution plans for the years ended March 31, 2020 and 2019, respectively.

12. Income Taxes

Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Deferred tax assets:			
Liability for retirement benefits	**¥1,274**	¥1,108	**$11,706**
Accrued bonuses to employees	**697**	668	**6,404**
Allowance for doubtful accounts	**27**	28	**248**
Accrued enterprise tax	**53**	23	**487**
Loss on retirement of inventories	**164**	145	**1,507**
Loss on devaluation of investment securities	**149**	140	**1,369**
Loss on retirement of property, plant and equipment	**38**	38	**349**
Amortization of deferred assets	**514**	661	**4,723**
Loss on closure of plant	**602**	602	**5,532**
Other	**1,608**	1,677	**14,775**
Subtotal	**5,130**	5,094	**47,138**
Valuation allowance	**(62)**	(57)	**(570)**
Total deferred tax assets	**5,068**	5,037	**46,568**
Deferred tax liabilities:			
Reserve for reduction entry of property, plant and equipment	**(1,091)**	(1,162)	**(10,025)**
Unrealized holding gain on other securities	**(3,037)**	(3,912)	**(27,906)**
Prepaid pension cost	**(313)**	(374)	**(2,876)**
Other	**(112)**	(123)	**(1,029)**
Total deferred tax liabilities	**(4,554)**	(5,572)	**(41,845)**
Net deferred tax assets (liabilities)	**¥ 513**	¥ (535)	**$ 4,714**

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, 2020 and 2019 are as follows:

	2020	2019
Statutory tax rate	**30.6%**	30.6%
Entertainment expenses and others that are not tax deductible permanently	**1.2**	1.1
Inhabitants' per capita taxes	**1.2**	1.1
Tax credits for research and development expenses	**(6.0)**	(4.3)
Valuation allowance	**0.1**	(1.5)
Internal profit elimination	**(0.4)**	(0.2)
Dividends income that is not taxable permanently	**(0.8)**	(0.3)
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	**0.1**	(0.4)
Other	**(0.5)**	(0.7)
Effective tax rate	**25.5%**	26.6%

13. Comprehensive Income

Reclassification adjustments and income tax effects on other comprehensive income (loss) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Unrealized holding loss on other securities:			
Loss arising during the year	**¥(2,856)**	¥(1,657)	**$(26,243)**
Reclassification adjustments	**(0)**	(27)	**(0)**
Before income tax effects	**(2,856)**	(1,685)	**(26,243)**
Income tax effects	**874**	516	**8,031**
Unrealized holding loss on other securities	**(1,982)**	(1,169)	**(18,212)**
Translation adjustments:			
Adjustments arising during the year	**(19)**	(27)	**(175)**
Retirement benefits liability adjustments:			
Loss arising during the year	**(1,053)**	(696)	**(9,676)**
Reclassification adjustments	**403**	762	**3,703**
Before income tax effects	**(650)**	66	**(5,973)**
Income tax effects	**(199)**	20	**(1,829)**
Retirement benefits liability adjustments	**(451)**	46	**(4,144)**
Share of other comprehensive income of affiliates accounted for using equity method:			
Loss arising during the year	**(21)**	(6)	**(193)**
Total other comprehensive loss	**¥(2,474)**	¥(1,157)	**$(22,733)**

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 consolidated subsidiaries 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, Assets and Other Items by Reportable Segment

Millions of yen

	2020				
	Reportable segment				
	Ethical Pharmaceutical Business	Consumer Healthcare Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	**¥103,599**	**¥ 6,383**	**¥109,983**	**¥ —**	**¥109,983**
Inter-segment sales or transfers	**3**	**—**	**3**	**(3)**	**—**
Total	**¥103,603**	**¥ 6,383**	**¥109,986**	**¥ (3)**	**¥109,983**
Segment profit	**¥ 6,619**	**¥ 736**	**¥ 7,355**	**¥ 147**	**¥ 7,503**
Segment assets	**¥182,072**	**¥10,158**	**¥192,230**	**¥(21,070)**	**¥171,160**
Other items:					
Depreciation and amortization	**¥ 2,941**	**¥ 66**	**¥ 3,007**	**¥ 214**	**¥ 3,221**
Investments in affiliates accounted for using equity method	**615**	**—**	**615**	**—**	**615**
Increase in property, plant and equipment and intangible assets	**2,295**	**39**	**2,334**	**374**	**2,709**

Thousands of U.S. dollars

	2020				
	Reportable segment				
	Ethical Pharmaceutical Business	Consumer Healthcare Business	Total	Adjustments	Consolidated
Net sales:					
Sales to third parties	**$ 951,934**	**$58,651**	**$1,010,595**	**$ —**	**$1,010,595**
Inter-segment sales or transfers	**28**	**—**	**28**	**(28)**	**—**
Total	**$ 951,971**	**$58,651**	**$1,010,622**	**$ (28)**	**$1,010,595**
Segment profit	**$ 60,820**	**$ 6,763**	**$ 67,582**	**$ 1,351**	**$ 68,942**
Segment assets	**$1,672,995**	**$93,338**	**$1,766,333**	**$(193,605)**	**$1,572,728**
Other items:					
Depreciation and amortization	**$ 27,024**	**$ 606**	**$ 27,630**	**$ 1,966**	**$ 29,597**
Investments in affiliates accounted for using equity method	**5,651**	**—**	**5,651**	**—**	**5,651**
Increase in property, plant and equipment and intangible assets	**21,088**	**358**	**21,446**	**3,437**	**24,892**

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

1. "Adjustments" for "Segment profit" of ¥147 million ($1,351 thousand) and ¥457 million for the years ended March 31, 2020 and 2019, respectively, were mainly eliminations of inter-segment transactions.
2. "Adjustments" for "Segment assets" of ¥(21,070) million ($(193,605) thousand) and ¥(20,745) million as of March 31, 2020 and 2019, respectively, were the Company's assets and offset of inter-segment receivables and payables.
3. "Adjustments" for "Depreciation and amortization" of ¥214 million ($1,966 thousand) and ¥249 million for the years ended March 31, 2020 and 2019, 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 ¥374 million ($3,437 thousand) and ¥55 million for the years ended March 31, 2020 and 2019, 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 statement of income.

(Related Information)

(a) Information by Product and Service

Information by product and service is omitted since the classification by product and service was the same as the reportable segment for the years ended March 31, 2020 and 2019.

(b) Information by Geographical Area

(1) Sales

Information about sales by geographical area is omitted for the years ended March 31, 2020 and 2019, since domestic sales were more than 90% of net sales on the consolidated statement of income.

(2) Property, plant and equipment

Information about property, plant and equipment by geographical area is omitted for the years ended March 31, 2020 and 2019, since property, plant and equipment in Japan constituted more than 90% of property, plant and equipment on the consolidated balance sheet.

(c) Information by Major Customer for the Years Ended March 31, 2020 and 2019

Millions of yen

	2020	
Name of customer	Sales amount	Related segments
Alfresa Holdings Corporation	**¥20,242**	Ethical Pharmaceutical Business, Consumer Healthcare Business
SUZUKEN CO., LTD.	**17,372**	Ethical Pharmaceutical Business, Consumer Healthcare Business
MEDIPAL HOLDINGS CORPORATION	**16,889**	Ethical Pharmaceutical Business, Consumer Healthcare Business
Toho Pharmaceutical Co., Ltd.	**13,098**	Ethical Pharmaceutical Business, Consumer Healthcare Business

Thousands of U.S. dollars

	2020	
Name of customer	Sales amount	Related segments
Alfresa Holdings Corporation	**$185,997**	Ethical Pharmaceutical Business, Consumer Healthcare Business
SUZUKEN CO., LTD.	**159,625**	Ethical Pharmaceutical Business, Consumer Healthcare Business
MEDIPAL HOLDINGS CORPORATION	**155,187**	Ethical Pharmaceutical Business, Consumer Healthcare Business
Toho Pharmaceutical Co., Ltd.	**120,353**	Ethical Pharmaceutical Business, Consumer Healthcare Business

Millions of yen

	2019	
Name of customer	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

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

There was no unamortized balance of goodwill as of March 31, 2020 and 2019.

15. Amounts per Share

Amounts per share for the years ended March 31, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	**2020**
Basic profit	**¥ 107.35**	¥ 104.68	**$ 0.99**
Cash dividends	**75.00**	75.00	**0.69**
Net assets	**2,142.07**	2,154.05	**19.68**

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, 2020 and 2019.

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 854,090 and 875,683 for the years ended March 31, 2020 and 2019, 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 853,877 and 854,700 as of March 31, 2020 and 2019, respectively.

16. Related Party Information

There were no applicable matters for the year ended March 31, 2020.

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	—

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%.

Independent Auditor's Report

Independent Auditor's Report

The Board of Directors
KYORIN Holdings, Inc.

Opinion

We have audited the accompanying consolidated financial statements of KYORIN Holdings, Inc. and consolidated subsidiaries(the Group), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 22, 2020

Ryuzo Shiraha
Designated Engagement Partner
Certified Public Accountant

Atsushi Kasuga
Designated Engagement Partner
Certified Public Accountant

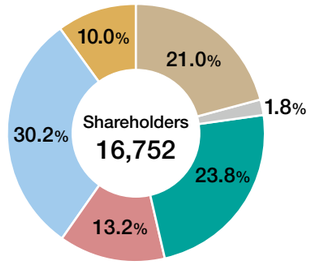
Corporate Overview/Stock Information (As of March 31, 2020)

Head Office	KYORIN Holdings, Inc. 6, Kanda Surugadai 4-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3525-4700 URL: https://www.kyorin-gr.co.jp/en/
Establishment	1958
Common Stock	¥700 million
Outstanding Shares	64,607,936
Shareholders	16,752
Listing	Tokyo Stock Exchange, First Section
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-0028 Phone: +81-3-3278-8111

Major Shareholders

	Percentage of shares held
Mykam Co., Ltd.	8.32%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6.00%
Japan Trustee Services Bank, Ltd. (Trust Account)	5.81%
Banrina Co., Ltd.	3.35%
Archans Co., Ltd.	3.35%
Kyorin Group Stock Ownership Association	3.24%
Yutaka Ogihara	3.21%
Mariko Ogihara	3.02%
KAKEN PHARMACEUTICAL CO., LTD.	2.75%
Akira Ogihara	2.74%

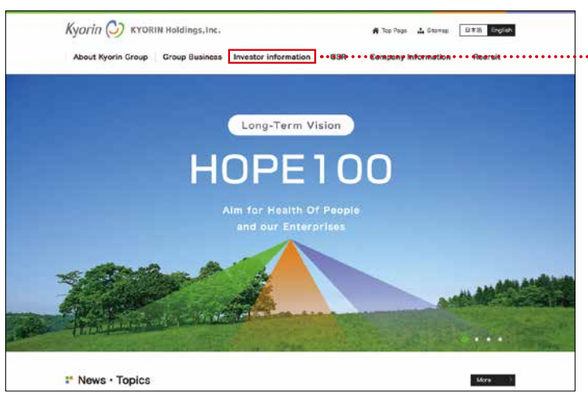
Major Shareholders



Financial institutions	21.0%
Financial instruments firms	1.8%
Other corporations	23.8%
Foreign corporations	13.2%
Individuals and other	30.2%
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/

KYORIN Pharmaceutical Co., Ltd. Subsidiaries

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.