



ANNUAL REPORT 2012

Year ended March 31, 2012 KYORIN Holdings, Inc.



Consolidated Financial Highlights

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

					Millions of yen
	FY2007	FY2008	FY2009	FY2010	FY2011
Results of Operations					
Net sales	81,070	90,889	99,764	104,069	103,232
Operating income	6,251	8,952	13,261	16,443	14,464
Operating income/Net sales ratio (%)	7.7	9.8	13.3	15.8	14.0
Net income	2,189	2,037	8,848	10,927	9,231
Net income/Net sales ratio (%)	2.7	2.2	8.9	10.5	8.9
Net cash provided by operating activities	4,444	4,575	12,027	6,805	8,913
Net cash used in investing activities	(6,144)	(4,229)	412	(1,806)	(4,926)
Free cash flow	(1,700)	346	12,439	4,999	3,987
R&D expenses	10,826	10,531	11,807	12,495	13,964
R&D expenses/Net sales ratio (%)	13.4	11.6	11.8	12.0	13.5
Capital expenditure	1,952	1,612	1,291	1,668	1,952
Depreciation and amortization	4,536	3,799	2,810	2,458	2,363
ROE (%)	2.2	2.1	8.8	10.1	8.0
ROA (%)	1.8	1.6	6.8	7.7	6.3
Financial Position at Year-end					
Total assets	122,398	124,552	137,190	147,234	145,673
Total net assets	97,184	96,501	104,911	111,706	118,201
Total shareholders' equity ratio (%)	79.4	77.5	76.5	75.9	81.1
Yen					
Amounts per Share					
Net assets	1,298.89	1,290.67	1,403.60	1,494.83	1,581.94
Basic net income	29.26	27.24	118.37	146.21	123.54
Cash dividends	22.50	13.00	50.00	45.00	45.00
Cash dividends payout ratio (%)	76.9	47.7	42.2	30.8	36.4

Net sales

Consolidated net sales decreased 0.8% year on year to ¥103,232 million. Our pharmaceutical business in Japan was up slightly year on year, reflecting orders brought forward out of consideration of possible inventory shortages due to the Great East Japan Earthquake in March 2011. However, the generic drug, ethical drug sales overseas, over-the-counter drugs and others, and consumer healthcare (skincare) businesses were down year on year.

Operating income

Operating income amounted to ¥14,464 million, down 12.0% year on year. The main factor behind this decrease was a drop in gross profit of ¥208 million, mainly due to lower sales, and despite our efforts to reduce the cost of sales. Also selling, general and administrative (SG&A) expenses were up by ¥1,770 million, primarily because R&D expenses increased on progress in the development of new drugs.

Net income

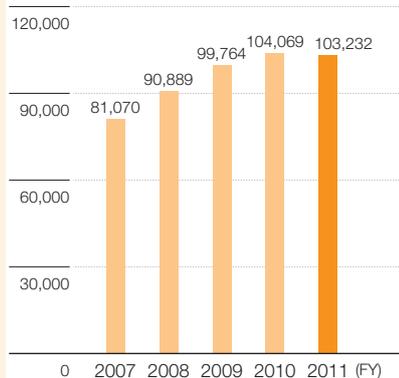
Net income decreased 15.5% year on year to ¥9,231 million mainly due to the recording of higher deferred income taxes resulting from the reversal of deferred tax assets in line with the corporate income tax rate reduction announced in December 2011.

ROE

ROE was 8.0%, declining 2.1 percentage points year on year due to lower profits.

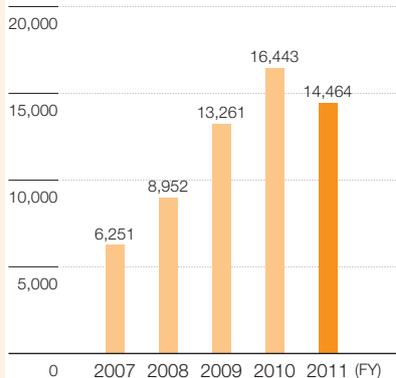
Net sales

(Millions of yen)



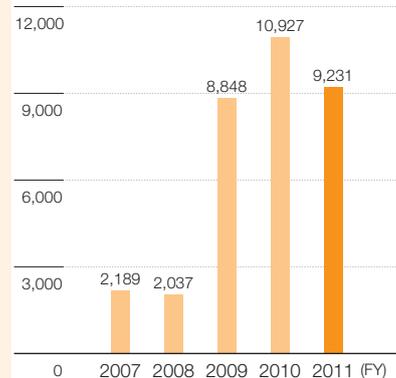
Operating income

(Millions of yen)



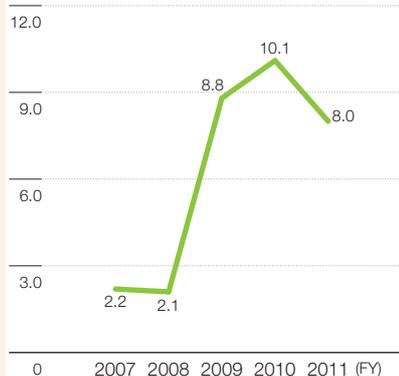
Net income

(Millions of yen)



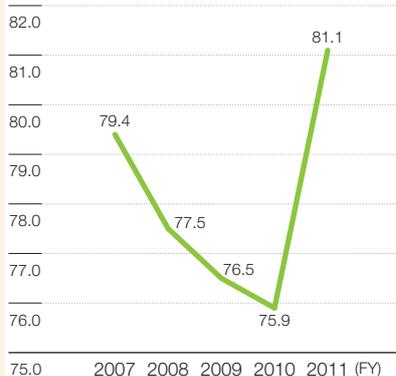
ROE

(%)



Total shareholders' equity ratio

(%)



Net income per share/ Dividend payout ratio

(Yen)



■ Net income per share (Left scale)
■ Dividend payout ratio (Right scale)

Profile

Since the founding of its core subsidiary, KYORIN Pharmaceutical, the Kyorin Group has taken its mission of contributing to better health seriously. Today, Kyorin is working to discover, produce, and sell pharmaceuticals through its pharmaceutical business and to develop a consumer healthcare business based on skincare. By promoting the faster development of superior new drugs and diversifying its businesses to respond to expanding healthcare needs, the Kyorin Group aims to realize its role as an organization supporting healthy living and to further enhance its corporate value.

Our Milestones

1923

1923

- Toyo Shinyaku Sha, the predecessor of KYORIN Pharmaceutical Co., Ltd., was founded.



1931

- Kyorin Chemical Laboratory was established.

1940

- The company was renamed KYORIN Pharmaceutical Co., Ltd., and Kyorin Yakuin Co., Ltd. was organized as an independent marketing division.

1946

- The Okaya Plant was started; and the Tokyo, Osaka, and Nagoya branches were opened.

1957

- The medical journal bulletin *Doctor Salon* was started.

1961

- Behyd, a diuretic and anti-hypertensive agent, was launched.

1962

- Kyorin Chemical Laboratory (later Technical Center of Development) was established.

1965

- KYORIN AP-2, an analgesic, was launched.
- Deamelin-S, an oral hypoglycemic agent, was launched.
- The Head Office was completed.



1967

- The Nogi Plant was started (now closed).

1971

- Cholexamin, a lipid metabolism and peripheral circulation improving agent, was launched.

1974

- Hespander, a plasma substitute and extracorporeal circulation flow improver, was launched.

1976

- Hydroxyethylstarch (HES) was licensed out to Pfrimmer (Germany, present Baxter Deutschland).

1977

- Central Research Laboratories (present Discovery Research Laboratories) was established.



1977

1980

1980

- Norfloxacin (NFLX), an antibacterial agent, was licensed to Merck & Co., Inc. (USA).

1981

- Mucodyne, a mucoregulant, was launched.

1982

- NFLX was licensed to Astra (Sweden, present AstraZeneca) and Boots (UK, present Abbott).

1983

- NFLX was licensed to American Home Products (USA, present Wyeth).

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).
- Aplace, an agent for gastritis and gastric ulcers, was launched.

1989

- Ketas, for bronchial asthma and cerebrovascular disorders, was launched.

- Baccidal Eyedrops, a broad-spectrum ophthalmic antibacterial agent, was launched.

1991

- Baccidal Tablets for Children was launched.

1992

- KYORIN Pharmaceutical Co., Ltd. and Kyorin Yakuin Co., Ltd. were merged, and the new KYORIN Pharmaceutical Co., Ltd. was founded.

1993

- Megalocin (FLRX), a long-acting new quinolone agent, was launched.

1995

- The Noshiro Plant was started.
- The Research Center (now Development Research Laboratories) was founded by integrating the Research Center of Organic Syntheses, Technical Center of Development, Technical Center of Product Formulation and Technical Center of Safety Assessment.



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Our Philosophy

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



1999

1996

- A joint venture, Nisshin KYORIN Pharmaceutical Co., Ltd., was established with Kyorin's capital participation.
- Gatifloxacin was licensed to Bristol-Myers Squibb (USA).

1998

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



1999

- The company's stock was issued on the Tokyo Stock Exchange, Second Section.

2000

2000

- The company's stock was issued on the Tokyo Stock Exchange, First Section.
- Gatifloxacin-eyedrops was licensed to Allergan (USA).

2001

- Kipres, the leukotriene receptor antagonist and bronchial asthma treatment medicine, was launched.
- A subsidiary company, Kyorin USA, Inc. (USA), was established.

2002

- A subsidiary company, Kyorin Europe GmbH (Germany), was established.
- Gatiflo (GFLX), a broad-spectrum, oral antibacterial agent, was launched.

2004

- ActivX Biosciences, Inc. became a wholly owned subsidiary.

2005

- The stocks of Toyo Pharmar Co., Ltd. (present KYORIN Rimedio Co., Ltd.) were acquired, making it into a subsidiary company.
- Dr. Program Co., Ltd. became a wholly owned subsidiary.

2006

- The Kyorin Group shifts to a holding company structure through a share exchange with KYORIN Co., Ltd. (currently KYORIN Holdings, Inc.). (KYORIN Pharmaceutical Co., Ltd. is delisted, and KYORIN Co., Ltd. is listed on the First Section of the Tokyo Stock Exchange market.)
- The new Noshiro Plant began operating.



2007

- A business transfer agreement was made with the Fresenius Kabi AG Group in Germany concerning Hespander and Salinhes, plasma substitutes and hemodilution agents.
- Uritos Tablets 0.1 mg, an overactive bladder drug, was launched.
- Kipres Oral Granules 4 mg, a bronchial asthma treatment drug, was launched.

2008

- Kipres Tablets 5 mg, a bronchial asthma and allergic rhinitis treatment drug, was launched.

2012

- Domestic licensing agreement for FLUTIFORM signed with SkyePharma PLC (U.K.).
- KYORIN Pharmaceutical merged with Nissin Kyorin Pharmaceutical.
- Ulcerative colitis and Crohn's disease therapeutic agent Pentasa Tablets 500 mg was launched.

2009

- Marketing rights in China were granted to Senju Pharmaceutical for Gatifloxacin Ophthalmic Solution.
- A license agreement for Neramexane, a tinnitus drug, was made with Merz Pharmaceuticals (Germany) for the Japan region.

2010

- KYORIN Co., Ltd. changed its name to KYORIN Holdings, Inc.
- Mucodyne DS50%, a mucoregulant, was launched.

2011

- A license agreement for Acridinium Bromide, a COPD drug, was made with Almirall (Spain) for the Japan region.
- Uritos Orally Disintegrating (OD) Tablets 0.1 mg, an overactive bladder drug, was launched.

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.

To Our Stakeholders



Based on its corporate philosophy “to cherish life and benefit society by contributing to better health,” the Kyorin Group is determined to contribute to disease treatment through the provision of superior drugs. To this end, the Group is building a portfolio of businesses that can respond to diversifying health needs, from health maintenance and advancement to disease prevention, as we work to enhance our identity as a Group and our corporate value.

Masahiro Yamashita

Representative Director,
President and Chief Executive Officer

HOPE 100 Long-term Vision: Realization and Completion of the HOPE 100 Stage 1 Medium-term Business Plan

HOPE 100 is a long-term vision that embodies the corporate philosophy of the Kyorin Group. As a business strategy, the focus of HOPE 100 is on becoming a company that can respond to diversifying healthcare needs, centered on the pharmaceutical business, while working to diversify management risk and achieving sound, sustainable growth. As an organizational strategy, HOPE 100 places great value in the idea that “a business is only as good as its people,” and we seek to become a place in which employees can bring passion to their work: in short, a leading company for pursuing fulfilling careers.

As the first step in achieving the Kyorin Group’s long-term vision, the HOPE 100 Stage 1 medium-term business plan promotes the multi-core (MC) strategy*¹ comprising our pharmaceutical business and consumer healthcare business. In the pharmaceutical business, we promote a concept that we call the Pharma Complex (PC) Model*², an approach encompassing multi-faceted development in the “New Drugs Group,” the “Original Drugs Group,” and the “Generic Drugs Group” to respond flexibly to changes in the operating environment. In the consumer healthcare business, we are compensating for risks in our pharmaceutical business

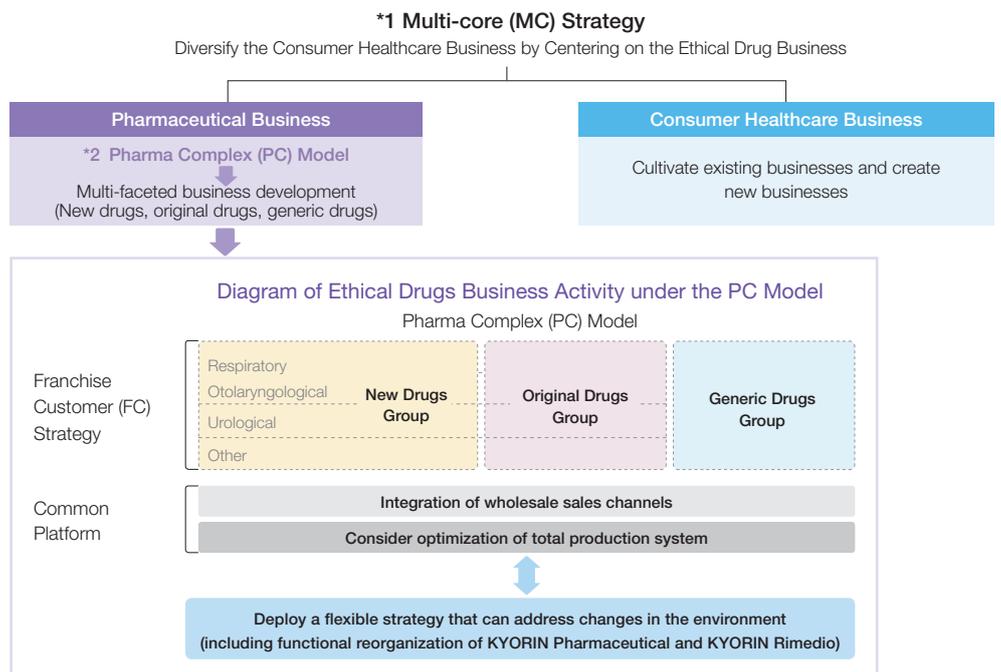
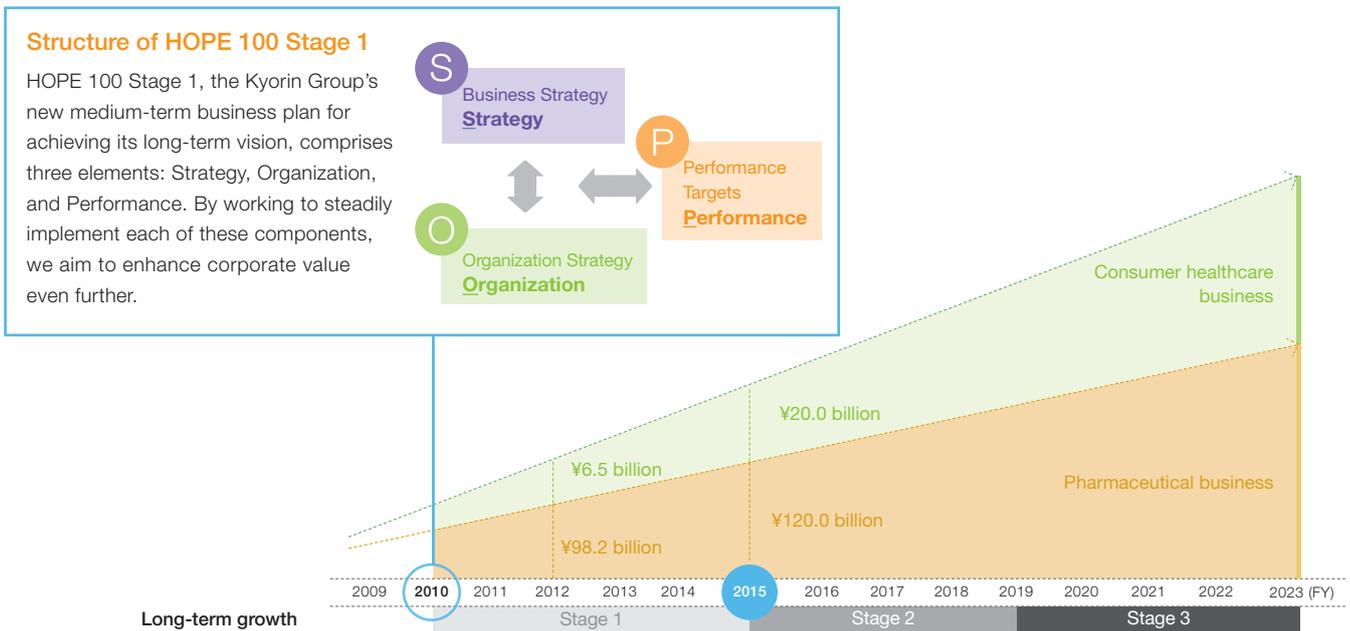
and promoting Group growth by cultivating our existing skincare business and the Milton brand, while striving to create new operations.

In fiscal 2011, ended March 31, 2012, revenue and earnings fell in the aftermath of the Great East Japan Earthquake. Fiscal 2012 marks the third year of HOPE 100 Stage 1, and Kyorin Group employees are united in their determination to push ahead with greater pride and passion than ever to further develop our business, and to achieve both record sales and profits.

July 2012



Masahiro Yamashita
Representative Director, President and Chief Executive Officer



Q1-1

The past fiscal year was one of turmoil for Japan in the aftermath of the Great East Japan Earthquake. What was the year like for the Kyorin Group?

Answer: 01-1

Our performance was very sluggish owing to the impact of the disaster. That said, our underlying business growth trend of seven straight years of revenue increase was unchanged.

We faced a tough business climate in fiscal 2011 because of the earthquake, although the Group suffered no personal injuries or fatalities, with only minimal physical damage. Combined domestic sales for new, original, and generic drugs increased only slightly. Performance was partially affected by increases in channel inventory as of the end of March 2011, when people front-loaded orders out of concerns that there would be stock shortages in the post-quake turmoil. Overall sales of the pharmaceutical business, including from overseas operations, were down from a year earlier. Consumer healthcare business sales also dropped, reflecting reduced consumer spending in a lackluster economy. As a result, consolidated sales decreased ¥836 million, or 0.8% year on year, to ¥103,232 million.

Operating income declined ¥1,978 million, or 12.0% year on year, to ¥14,464 million. One key negative factor was that SG&A expenses, including R&D expenses, were significantly higher than a year earlier, although this was because R&D spending rose with progress in the development pipeline. Another factor was lower gross profit due to a drop in sales.

Although both sales and earnings were lower, there was no change in the underlying growth trend that had seen the Group boost sales for seven consecutive years. During the period under review, we also saw good prospects for the years ahead, including better-than-expected progress in the R&D pipeline and emerging growth in the environmental hygiene business within our consumer healthcare business.



Q1-2

How would you evaluate the last fiscal year from a business strategy perspective?

Answer: 01-2

It was a year that saw enhancement of the development pipeline in new drugs, and new growth buds in consumer healthcare, which took the initiative in creating new businesses.

We saw promising progress in the development pipeline of the pharmaceutical business. For example, we completed Phase III clinical trials at the end of last fiscal year for KRP-108, a bronchial asthma treatment. For KRP-AB1102, a chronic obstructive pulmonary disease (COPD) treatment, we started Phase II trials in February 2012. Similarly, we completed Phase III trials for a suppository version of Pentasa, an ulcerative colitis treatment. The Kyorin Group is pushing ahead with a franchise customer (FC) strategy focusing on the respiratory, otolaryngology, and urology fields. We believe that our pipeline progress in the year under review enhanced our presence, especially in the respiratory field.

In the consumer healthcare business, we expanded and cultivated new businesses in addition to the existing Milton brand business. In the environmental hygiene business, we focused on building a base for the future. Among other steps, we examined the potential for offering a product that cleans and sterilizes surfaces to manage hygiene, notably in medical institutions and nursing homes. We also prepared to introduce product lines registered as disinfectants with the U.S. Environmental Protection Agency. In December 2011, we introduced Kyocurmin, a high-bioavailability curcumin compound supplement. In the skincare business, we will further reinforce our initiatives and advance new sales strategies to get back on the path for growth.

Q2

How are you positioning fiscal 2012?

Answer: 02

The business environment is increasingly challenging, but we will pursue sustainable growth by capitalizing on diverse health needs.

Fiscal 2012 will be pivotal for leaping ahead. We expect the business environment in the domestic pharmaceutical industry to remain adverse, as the government will probably continue implementing various measures to reduce drug costs. In April 2012, the government revised medical service fees and lowered prices on the National Health Insurance drug price list by about 6% for the industry as a whole (around 6% at KYORIN Pharmaceutical). At the same time, people have diversifying health needs. We consider it important to develop businesses to accommodate such needs.

Fiscal 2012 is vital for establishing a path for the Group to focus on the targets of its medium-term business plan. We will resolve priority issues while closely monitoring changes in the business environment.

Q3-1

Tell us about issues you face with HOPE 100 Stage 1, your medium-term business plan, and your specific initiatives in fiscal 2012, the plan's third year.

Answer: 03-1

In fiscal 2012, we seek to steadily mark results and progress with our plan in heading toward fiscal 2015, the last year of HOPE 100 Stage 1.

In new drugs, the top priority is undoubtedly to reinforce and enhance our development pipeline.

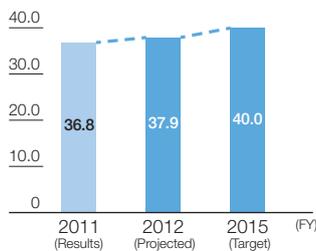
We are moving full speed to prepare for the approval and launch of KRP-108, a bronchial asthma treatment that we aim to make a key offering during HOPE 100 Stage 2 (fiscal 2016 through 2019). We will accelerate clinical development projects with a view to concentrating launches of new drug candidates during Stage 2. For Stage 3 (fiscal 2020 through 2023), it will be critical that we build a new drug discovery framework so we can meet the challenge of launching world-class pharmaceuticals.

A key issue is to maximize the adoption of our core products. We will clarify the scopes for growth with these products, reinforce trust with medical professionals in certain treatment fields (respiratory medicine, otolaryngology, and urology), and deploy initiatives matching specific product situations. For example, we are positioning Kipres as a base treatment for asthma as well as both chronic and seasonal allergic rhinitis, while encouraging its wider and further prescription. For Uritos, an overactive bladder drug, we will endeavor to expand our market share.

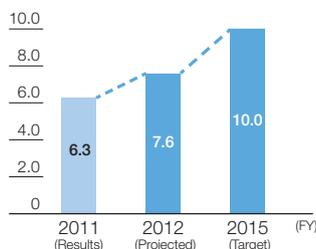
In original drugs, we are using life-cycle management to enhance product value. With the mucoregulant Mucodyne, we will work to increase prescriptions for the new DS50% formulation introduced in 2010 for children through to adults. With our Pentasa ulcerative colitis and Crohn's disease treatment, we anticipate expanding prescriptions for ulcerative colitis with a new once-daily dosage that should be approved in fiscal 2012, alleviating some of our exposure to intense competition. We expect a new suppository formula that we are developing to match treatment needs and contribute to medical treatment.

In generic drugs, we aim to enhance our market presence through various measures. One initiative is an alliance strategy for joint development and expansion of licensed production as part of efforts to plan and implement a distinctive and competitive generic pharmaceutical business plan. Other measures include reinforcing our lineups in specific fields and engaging in collaborations within the Group.

Sales of Kipres
(Billions of yen)

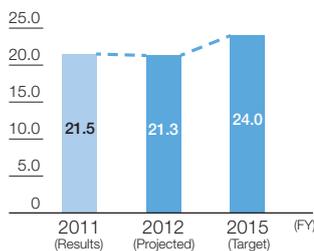


Sales of Uritos
(Billions of yen)

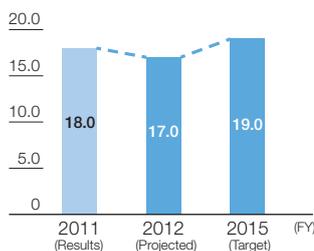


» Answer:03-1

Sales of Mucodyne (Billions of yen)



Sales of Pentasa (Billions of yen)



In the consumer healthcare business, we will strive to penetrate the market with RUBYSTA, a multipurpose disinfectant, building foundations for our environmental hygiene business.

One priority for the Group has been to establish a production system to stably supply high-quality products at low cost. To resolve this issue, we concluded an agreement regarding the transfer and acquisition of the Shiga Plant of MSD K.K. on May 28, 2012. The plant ownership will be transferred to wholly owned KYORIN Pharmaceutical Facilities Co., Ltd. (established June 15, 2012) on October 1, 2012. This move will promote the total optimization of our production system and enhance manufacturing efficiency through low-cost operations.

Q3-2

What is your performance forecast for fiscal 2012?

Answer: 03-2

We aim to again post record consolidated sales and operating income.

The business environment is the toughest we have seen, and we expect competition to intensify. Still, fiscal 2012 will be important for the Group's next leap forward. In this climate, consolidated net sales are expected to increase 1.4% year on year to ¥104.7 billion. This improvement will be driven largely by growth in sales of key products in our lineup of new drugs such as Kipres, a treatment for bronchial asthma and allergic rhinitis, and Uritos, a therapeutic agent for overactive bladder, along with increased sales of generic drugs.

We aim to reach record operating income through cost-cutting efforts and increased sales. We expect SG&A expenses to decrease with lower R&D spending from reviews in the R&D pipeline.

We therefore look for operating income to increase 23.8% year on year in fiscal 2012, to ¥17.9 billion. Net income should improve 27.8%, to ¥11.8 billion. The end result should be record sales and earnings for the year.

Projected Sales of Mainstay Products

(Billions of yen)

	FY2010 (Actual)	FY2011 (Actual)	FY2012 (Projected)	YoY Change	YoY (%)
Kipres	34.5	36.8	37.9	1.1	3.1
Mucodyne	21.3	21.5	21.3	(0.2)	(0.4)
Pentasa	19.4	18.0	17.0	(1.0)	(5.1)
Uritos	5.5	6.3	7.6	1.3	20.4

Q4

What is your stance regarding shareholder returns?

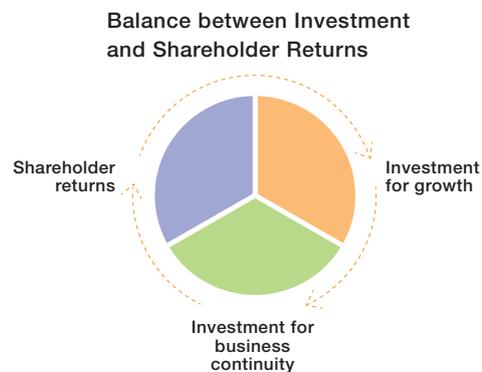
Answer: 04

We will properly balance investments to pursue growth, ensure business sustainability, and generate shareholder returns.

The Kyorin Group will work to strengthen its management base through balanced implementation of investments for growth, investments for business continuity, and shareholder returns. Investments for growth include proactive investments to license in new products to expand the R&D pipeline in the Group's core pharmaceuticals business, coupled with strategic investments in the consumer healthcare business. As for shareholder returns, we target a consolidated payout ratio of 30% when deciding dividends.

The dividend per share for fiscal 2011 was ¥45, unchanged from the previous year, representing a consolidated payout ratio of 36.4%. In fiscal 2012, we aim to increase the dividend per share by ¥5, to ¥50 (including a ¥10 interim dividend), for a consolidated payout ratio of 31.7%.

Performance Target



FY2015 (Target)	(Billions of yen)
Consolidated net sales	140.0
Pharmaceutical business	120.0
Consumer healthcare business*	20.0
Consolidated operating income	20.0

* Skincare, over-the-counter drugs and others

Q5

What message do you have for stakeholders?

Answer: 05

To ensure sustainable growth for the Kyorin Group, while we need to deliver short-term results we must also address basic sustainable growth issues over the longer term, and lay out milestones for verifying that we have done so along the way. I intend to make fiscal 2012 a year in which we ensure an exit path for HOPE 100 Stage 1, using this halfway point to focus on the improvements and reforms that we must enact now by viewing the present in terms of where we want to go in the future.

All eyes today are on achieving sound, sustainable growth as we strive to make our HOPE 100 long-term vision for the Kyorin Group a reality. As we actively disclose information, we hope that stakeholders will recognize the progress we have made as a corporate group in terms of business performance and in bringing HOPE 100 to fruition. I look forward to the continued understanding and support of all our stakeholders.

Feature

The Source of Value Creation

The Kyorin Group aims to achieve sustainable growth as a solid and sound enterprise. Based on our belief that “a business is only as good as its people,” Kyorin is working to energize its workforce and its organization through the practice of employee-centric management to achieve solid growth. By allowing each of our employees to grow, and by pushing ahead to greater heights as an organization, we will make our long-term HOPE 100 vision a reality.



Aspiring to New Heights as a Unified Group

The Kyorin Group’s business consists of two segments, the pharmaceuticals business and the consumer healthcare (skin care) business. Anchored by the diversified business portfolio built in our pharmaceuticals business, we are working to evolve into a company that supports healthy lifestyles, as set forth in our long-term vision, and through our healthcare business, we hope to contribute to individual health.

KYORIN Pharmaceutical Co., Ltd.

<http://www.kyorin-pharm.co.jp/en/>

KYORIN Pharmaceutical aspires to be a drug manufacturer that is trusted by patients and medical professionals, and is recognized for its significant presence in society. To this end, the company is striving to enhance its presence in specific fields, including respiratory medicine, otolaryngology, and urology, while aiming to discover novel, global new drugs.

KYORIN Rimedio Co., Ltd.

<http://www.kyorin-rmd.co.jp/>

As the generic drug business subsidiary of the Kyorin Group, KYORIN Rimedio aims to become a highly reliable generic drug manufacturer. To contribute to the health of patients and play a critical social role in reducing healthcare costs and helping to maintain social security infrastructure, KYORIN Rimedio will continue to ensure a stable supply of high quality products and information, and to deliver distinctive generic drug products to the market as a characteristic generic drug company.

Kyorin Group

Dr. Program Co., Ltd.

<http://www.drprogram.co.jp/>

Dr. Program manufactures products based on nanocapsule technology—a pharmaceutical formulation concept that we have cultivated through research into new beauty-enhancing ingredients and development of technologies for penetration of ingredients. Going forward, the company will continue to listen closely to its customers, working to create completely new value in the market and contributing to the beauty and good health of women everywhere.

KYORIN Medical Supply Co., Ltd.

<http://www.kyorin-ms.co.jp/>

KYORIN Medical Supply is involved in a wide range of communications-related business activities centered on planning and production of pharmaceutical advertising. It is also actively engaged in the environmental hygiene business, projected to become a core Kyorin Group business in the future, contributing to society as a characteristic company supporting healthy living.



The Core Driver of Further Growth

In promoting HOPE 100 Stage 1, the Group is maintaining its core pharmaceutical business while diversifying through the consumer healthcare business. The goal of our pharmaceutical business, on which the Group was founded, is to contribute to the health of the world's people through the R&D, manufacture and sale of superior products.

				
 P.12		 P.14		 P.16
<p>Discovering novel, global original new drugs is the mission of R&D at the Kyorin Group. To accomplish this, it is important that we explore more efficient drug discovery research efforts, focusing on respiratory medicine, urology, and infectious diseases.</p> <p>We are working to accelerate and improve the quality of drug discovery research by utilizing small-scale advantages such as information-sharing enabled through open communication.</p>		<p>Quality assurance systems in the manufacturing process are critical to producing a stable supply of high-quality products at low cost. To this end, all of the Kyorin Group's plants are working to enhance good manufacturing practice (GMP) levels, while a quality assurance system under direct supervision of the head office ensures a stable supply of high-quality products.</p>		<p>To enhance our presence in specific fields, it is vital that we create an organization that has a precise grasp of the needs of doctors and healthcare institutions in those areas, and can quickly respond to them. KYORIN Pharmaceutical is pushing ahead with a franchise customer (FC) strategy that places priority on activities in specific fields.</p>
				

Research and Development

The discovery of new drugs that can be licensed out worldwide can enhance the Kyorin Group's profile and presence as a new drug manufacturer, and lead to sustainable growth. Recognizing this, the Group is pursuing more efficient and effective drug discovery activities focused on respiratory medicine, urology, and infectious diseases.

Creating Value through Collaboration



Masakatsu Komuro

Head of Research & Development Headquarters,
KYORIN Pharmaceutical Co., Ltd.

Executive Director,
KYORIN Holdings, Inc.

Senior Executive Director,
KYORIN Pharmaceutical Co., Ltd.

Focus on Timelines in the Discovery, Development, and Life Cycle Management (LCM)

The Kyorin Group promotes research and development with an emphasis on timelines. We have established a timeline for each role in the process, beginning with HOPE 100 Stage 1, which emphasizes maximizing product value through LCM. Stages 1 and 2 focus on bringing products to market through development, with the goal of building a significant presence in specific fields by Stage 3. In Stage 3 and beyond, the emphasis is on the creation of new drugs that can contribute to the health of the world's people. By clearly positioning the functions of each department with these goals and strengthening internal collaboration, we promote efficient research and development, with the aim of being trusted by both medical professionals and patients.



Small-scale Advantages and Core Technologies as Our Strengths

The Kyorin Group's strength in research and development lies in the advantages of our smaller scale. In particular, excellent cross-departmental collaboration and the ability to nurture staff with diverse research capabilities are the source of our competitiveness in new drug discovery. In core technologies, our strengths also come from our drug discovery technologies, based on foundational research in inflammation, immunology, and infectious disease, which we exploit to efficiently synthesize new compounds.

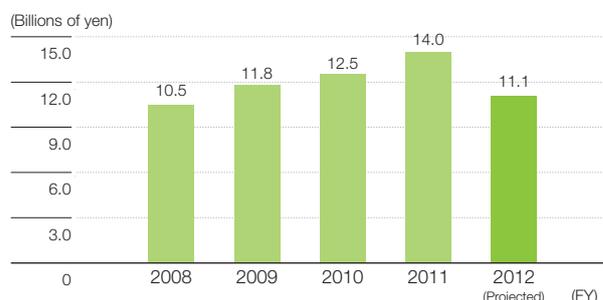
At the same time, we are systematically nurturing human resources, an important key to taking full advantage of these strengths. While the skills required in discovery research, development research, and clinical development differ, our strength is in having personnel capable of handling everything from drug discovery to clinical development, and this is what enables us to bring multi-faceted knowledge to our research activities.

Drug Discovery, Development, and LCM with Medical Professionals and Patients in Mind

The direction of our drug discovery efforts is focused on creation of innovative new drugs in Stage 3, with a focus on the development of low molecular weight (LMW) drugs under the key concept of creating drugs that will change existing therapeutic systems. While some have spoken of the limits to LMW drug discovery, we currently see some potential for LMW drugs in modulating protein-to-protein interactions. LMW drugs are also highly economical, and can be used in multi-targeted drug discovery. Our joint research partners around the globe have high regard for the Kyorin's optimized LMW drug research. By leveraging the Group's particular attributes, we will continue to meet the challenge of discovering new and innovative LMW drugs going forward.

In the development process, our goal is to bring a "developer-producer's" awareness to creating products. This is a phrase created

R&D Expenses



in-house that refers to formulating development policies with a strong awareness of our vision for a product after launch. We focus not only on accelerating development speed, but work under the belief that development's mission is to create products that meticulously meet the needs of the patients who will actually use them.

In the LCM activity, we work to build evidence by implementing high-quality research, maximizing product value by incorporating that evidence into guidelines for medical care and therapeutic policies. By doing so, we hope to improve product and brand strength in ways that will ultimately contribute to society. The desire to earn the trust and gratitude of medical professionals and patients will continue to propel our efforts in the LCM.



Employee Message

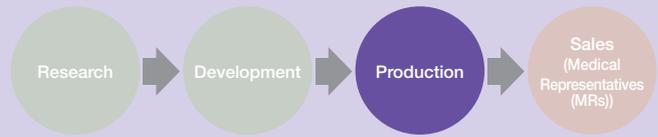
Promoting Pinpoint Research with an Awareness of Marketability, Profitability, and Feasibility

The aim guiding our research and development activities is to have patients consistently use the drugs we bring to market. When setting research and development themes, we give ample consideration to marketability, profitability and feasibility, pursuing drug design that emphasizes effectiveness, safety and convenience. We are working to create new drugs acceptable worldwide, in an open environment in which anyone can proactively establish new research themes and otherwise take action.

Production

By introducing leading-edge production equipment, as well as flow bin production systems that automate the transfer of raw materials and intermediates, the KYORIN Pharmaceutical works to improve production efficiency and reliability, promoting the creation of highly productive, worker-friendly plants. In addition, all of our plants have acquired both ISO 14001 and OHSAS 18001 certification, and under the slogan "Protecting this wonderful planet through our actions," our goal is for all plants to run on the concepts of enhanced good manufacturing practice (GMP) and flexible production infrastructure, and to become worker-friendly, highly efficient, highly reliable facilities.

Creating Value through Collaboration



Mitsutomo Miyashita

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

Executive Director,
KYORIN Holdings, Inc.

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

Establishing a Globally Trusted Production Division

In addition to maintaining and continually improving our production infrastructure to provide a stable supply of high-quality products at low cost, Kyorin Group aims to create a production division that is trusted not only where our plants are located, but everywhere in the world our products are made available. To achieve this, we must maintain a positive, energetic workplace, and act as a Group to exploit our full creativity. Day to day, our efforts focus on the pursuit of quality assurance, supply stability, and cost reductions.



Reliability Born of a Stable Supply of Products and a World-class Level of Quality Management

Our mission is to manufacture pharmaceuticals and deliver them to patients and medical professionals. We believe that a stable supply of products is critical to achieving this. Given the impact of last year's power shortages resulting from the Great East Japan Earthquake, we moved to convert our Noshiro Plant (in Noshiro, Akita Prefecture) entirely to in-house power generation. This has given us the infrastructure to ensure a stable supply of products.

Further, to deliver products that can be safely used around the world, KYORIN Pharmaceutical is working to enhance its good manufacturing practice (GMP), a quality assurance standard, at all of its production plants. At the same time, through a quality assurance structure under direct supervision of the head office, we are able to provide a stable supply of high-quality products.



In-house power generation facilities at the Noshiro Plant

Quality Assurance, Stable Supplies, and Cost Reductions Achieved by Enhancing Capabilities in the Field

The production division is working strategically on four key issues: overall optimization of the Group's production infrastructure, low-cost operations, roll-out of a new global production infrastructure, and human resource development.

In terms of overall optimization of the Group's production infrastructure, we are working to ensure efficient production at each of the Group's plants, in line with the business plan. Where low-cost operations are concerned, we are aiming to simultaneously lower costs and improve quality through better visualization of operations. And in our roll-out of a new global production infrastructure, we are striving to meet farsighted global standards while working to

strengthen our production infrastructure. With the coming addition of KYORIN Pharmaceutical Facilities Co., Ltd., we hope, even more than before, to continue providing a stable supply of high-quality products, while improving manufacturing technology, streamlining costs, and expanding globally. Finally, in terms of human resource development, we continue to promote the creation of workplaces in which all employees are motivated to improve, and can make full use of their creative energies.

Kyorin Group will continue working to strengthen both the physical and intangible aspects of its production infrastructure in order to further enhance Group value.



Employee Message

Aiming to Become Japan's Top-level Production Plant through QDC* and Environmental Responsiveness

At the Noshiro Plant, the Kyorin Group's central production facility, in addition to flow bin production systems that automate the transfer of raw materials and intermediates, and other automated high-efficiency equipment, each employee engages in their work with an awareness of the importance of making dramatic improvements in productivity. Going forward, we will continue to pursue quality assurance, supply stability, and cost reductions as an energetic, highly creative production facility.

*Quality, Delivery, Cost

Sales (Medical Representatives (MRs))

MRs are responsible for providing, collecting, and conveying information that encourages the proper use of pharmaceuticals, and serve as drug treatment partners to medical professionals and patients. The Kyorin Group is expanding the activities of its MRs based on its franchise customer (FC) strategy, which prioritizes action in the fields of respiratory medicine, otolaryngology, and urology.

Creating Value through Collaboration



Masahide Sugibayashi

Head of Sales & Marketing Headquarters,
KYORIN Pharmaceutical Co., Ltd.

Corporate Officer,
KYORIN Pharmaceutical Co., Ltd.

Enhancing Our Presence in Specific Fields

The Kyorin Group is working to build solid trust relationships with its customers by emphasizing action in specific fields, while also working to improve individual employee skills and enhance our organizational capabilities. By working toward an ideal of the Kyorin MR trusted by doctors, and by taking advantage of our unique team structure, in which specific geographic areas are covered by multiple MRs, our MRs contribute to record revenue and operating income through their detailed efforts.



Aiming for Optimal Results in Response to Changing Business Conditions

Fiscal 2011 was a year in which the unprecedented experience of the Great East Japan Earthquake brought a renewed awareness of the importance of risk management. While an increase of inventory in distribution channels at the end of fiscal 2010 had an impact on revenue, blunting growth, excluding the effects of the disaster, we continued on a solid growth trend.

For the pharmaceutical industry, fiscal 2012 will represent a major shift in business conditions, with the enforcement of Guidelines for Transparency and the new Fair Competition Code for ethical drugs. The Kyorin Group is also seeking to establish new internal standards, and is vying to ensure that its MR activities are in strict compliance. At the same time, initiatives this fiscal year will focus on maximizing the spread of our principal products (Kipres, Mucodyne, Uritos, and Pentasa), as we aim for the end goal of HOPE 100 Stage 1. The embodiment of this focus will involve two primary aims—enhancing our presence in specific fields (respiratory medicine, otolaryngology, and urology), and building a sales and human resource development

structure that can make us the most highly motivated company in the industry. To enhance our presence in specific fields, we have introduced tablet computers for all of our MRs, providing them with a new way to provide and collect information from physician specialists. We will also create a system by which people in our research divisions can proactively participate in seminars and lectures set up for specialist physicians by the sales division, involving the entire company in efforts to improve our relationships with these specialists. Building the industry's most motivated sales and human resource development infrastructure will involve further evolving our unique team-based sales structure, as we work to create an atmosphere in which MRs can share the excitement of meeting team goals. In human resource development, we will provide a model for Kyorin MRs who are trusted by doctors, with managers providing regular on-the-job training to enhance MR skills. These initiatives will contribute to ensuring that in fiscal 2012, the Kyorin Group achieves both record revenue and record operating income.



Kipres



Uritos



Mucodyne



Pentasa

Mobility of MRs Achieved through Team Structure

To accurately grasp the needs of medical professionals and provide rapid responsiveness as an organization, KYORIN Pharmaceutical has introduced a team structure. The structure is unique in that each team works together toward meeting a common goal. Each MR has

his or her own role, and is highly goal-oriented, but working together and sharing knowledge and experiences encourages both individual and organizational growth, and makes it possible to respond quickly and flexibly.



Employee Message

Building a Competitive Sales Structure, with the Goal of a Comfortable Doctor-MR Relationship

As a pharmaceutical company whose role is to provide treatment through drugs, our goal is to nurture MRs who can provide useful information to doctors, and who can solve the problems those doctors face. To prioritize our sales activities in specific fields, based on our franchise customer (FC) strategy, we are notable for the level of relationships we maintain with doctors in those key fields. In addition, through the introduction of a team structure, and the sharing of individual experiences and capabilities, team members work toward their mutual improvement, engaging in their day-to-day activities with their eyes on a common goal. In building relationships of trust with doctors, it is important that MRs be able to provide appropriate information in response to physicians' needs. Going forward, we will continue to contribute to medical care, and to the health of individuals, through our ability to understand the kinds of drug treatments doctors provide, and to deliver a variety of solutions based on that understanding.

Alliances

Reinforcing Our Pipeline in Specific Fields through Alliances

KYORIN Pharmaceutical, a core company in the Kyorin Group, has set a goal of establishing a greater presence in specific fields, and is working to reinforce its R&D pipeline. In addition to the harsh environment owing to the number of competitors, the lack of promising novel new drugs in the world makes it extremely difficult to acquire in-licensing opportunities.

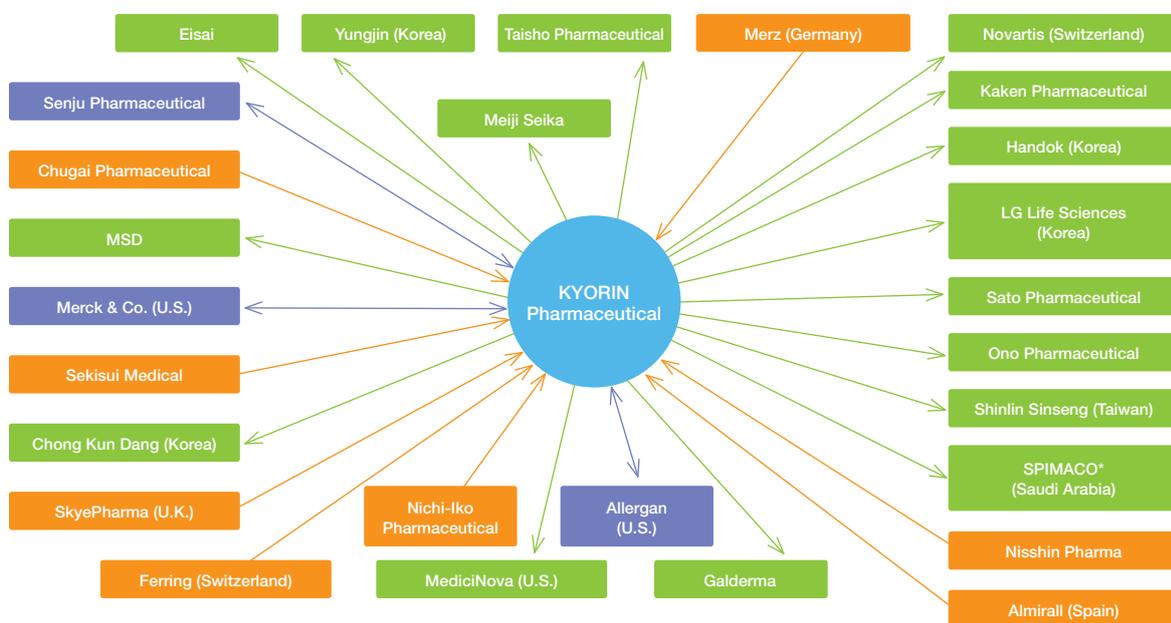
Under these conditions, in the four years since fiscal 2008, we have been able to license three new products in the franchise customer (FC) field (respiratory medicine, urology and otolaryngology), KRP-108, an inhalant for asthma, KRP-209, a treatment for tinnitus,

and KRP-AB1102, a treatment for chronic obstructive pulmonary disease (COPD). These results are due to the fact that all of the companies, which out licensed these products, found the prospect of working with the Kyorin Group attractive, and were confident that we would prove to be a reliable partner. We believe this is evidence that the FC strategy we are pursuing is gaining a firm hold in the pharmaceutical industry, both in Japan and the rest of the world.

Going forward, our employees will work together to build an even more attractive product pipeline, which is to be trusted by physicians and patients and to be recognized for the significant presence of Kyorin Group in society.

Promoting Alliances with Domestic and Overseas Pharmaceutical Companies

In addition to its own drug discovery efforts, through proactive collaboration with outside firms, the Kyorin Group is working to enrich and strengthen its R&D pipeline, its most critical issue as a pharmaceuticals manufacturer.



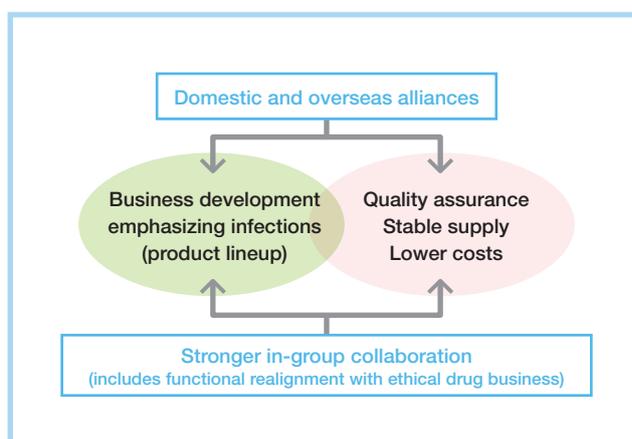
* SPIMACO: Saudi Pharmaceutical Industries & Medical Appliances Corporation

Promotion of Distinctive Generic Drug Business

We pursue quality assurance, stable supply, and lower costs in the generic drug business by promoting stronger collaboration within the Group and local and global alliances. Reducing our cost-of-sales ratio is a particularly important issue.

We also intend to begin working on initiatives to gain competitive advantage through our product lineup in specific areas. Specifically, we will focus on infectious diseases as one key area, and are currently seeking to enhance our product lineup in adequate kinds of antibacterial agents that are needed in Japan.

In addition to in-house development, we are actively expanding joint development and production work as a contract manufacturer in a bid to reinforce its distinctive and competitive generic drug business.



Products under Development (As of July 31, 2012)

Ph III~Application

Compound/Code	Therapy area/Action	Origin	Features	Comments		Stage				
						Pre-clinical	Ph I	Ph II	Ph III	NDA
Pentasa (tablet)	Ulcerative colitis	Ferring Pharmaceuticals (Switzerland)	New dosage regimen for ulcerative colitis in the remission phase (once a day)		Domestic					11/2011
Pentasa (suppository)	Ulcerative colitis	Ferring Pharmaceuticals (Switzerland)	Consideration of a new dosage form for the active phase of ulcerative colitis (once a day)	<ul style="list-style-type: none"> Development of a new dosage form Ph III completed (2/2012) 	Domestic					In preparation
KRP-108 (inhalant)	Anti-asthmatic	SkyePharma (U.K.)	A combination product with a steroid (ICS: fluticasone) and long-acting beta-agonist (LABA: formoterol), which offers better convenience and compliance to patients	<ul style="list-style-type: none"> License agreement with SkyePharma (4/2008) Phase III Completed (3/2012) 	Domestic					In preparation
					Overseas					+1

*1 United States: SkyePharma (3/2009), Europe: Mundipharma (3/2010) • (Approved 7/2012)

Proof of Concept (POC) Projects (Ph I~Ph II)

Compound/Code	Therapy area/Action	Origin	Features	Comments		Stage				
						Pre-clinical	Ph I	Ph II	Ph III	NDA
KRP-104	Anti-diabetes agent	In-house	A DPP IV inhibitor to reduce blood glucose through suppression of the degradation of insulin-releasing hormone. Diabetic therapy with fewer side effects is expected than existing treatments.	<ul style="list-style-type: none"> Overseas Ph Iib completed (3/2011) Domestic Ph Iib completed (3/2010) 	Domestic					
					Overseas					
KRP-209	Tinnitus	Merz (Germany)	KRP-209 (Neramexane) is expected to improve the patients' annoyance and difficulties in their life caused by tinnitus, mainly through its two pharmacological properties: 1) NMDA antagonistic activity and 2) Nicotinic acetylcholine antagonistic activity	<ul style="list-style-type: none"> License agreement with Merz (11/2009) 	Domestic		8/2011			
					Overseas			+3		
KRP-AB1102 (inhalant)	Chronic Obstructive Pulmonary Disease (COPD)	Almirall (Spain)	- New chemical entity: Acclidinium bromide - Long acting muscarinic agonist (LAMA) - Twice daily administration - Onset of action on the first day Genuair® 1) Designed with a feedback system, which through a 'colored control window' and an audible click helps confirm that the patient has inhaled correctly 2) Counter for remaining doses 3) Safety features such as an anti-double-dosing mechanism and an end-of-dose lock-out system to prevent use of an empty inhaler	License agreement with Almirall (2/2011)	Domestic		2/2012			
					Overseas				+4	
KRP-AB1102F (inhalant)	Chronic Obstructive Pulmonary Disease (COPD)	Almirall (Spain)	Combination of acclidinium bromide with the long acting beta agonist formoterol. This combination is aimed at providing higher efficacy than each component alone, as well as the improved convenience of having the two products in the same easy to use inhalation device. This is currently in phase III clinical development.		Domestic		5/2012			
					Overseas			+5		
KRP-203	Transplantation, autoimmune diseases, and IBD	In-house	An immunosuppressant with a novel mechanism called an S1P-agonist. It may have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunomodulators.	<ul style="list-style-type: none"> License agreement with Novartis (2/2006) New license agreement IBD (1/2010) 	Domestic		12/2010			
					Overseas			+2		
KRP-AM1977X (Oral agent)	New quinolone synthetic antibacterial agent	In-house	1. Superior ability to combat drug-resistant gram-positive bacteria (incl. MRSA) 2. Outstanding ADME (oral absorption, tissue migration) 3. High degree of safety expected since safety hurdles cleared prior to clinical trials		Domestic		8/2011			
KRP-AM1977Y (Injection)	New quinolone synthetic antibacterial agent	In-house			Domestic		7/2012			

*2 Ph II (POC) Novartis (12/2010)

*3 Merz

*4 Europe: Almirall (7/2011), United States: Forest Laboratories (6/2011)

*5 Europe: Almirall, United States: Forest Laboratories

Others

• Glaucoma treatment Alphagan 0.1% ophthalmic solution: Launched May 2012 from Senju Pharmaceutical.

• Development of KRP-110 stopped. Removed from list of pipeline products.

Licensing Development

Compound/Code	Licensee/ Collaborative research	Therapy area/Action	Origin	Comments		Stage				
						Pre-clinical	Ph I	Ph II	Ph III	NDA
KRP-203	Novartis (Switzerland)	Transplantation, autoimmune diseases, and IBD	In-house	<ul style="list-style-type: none"> An immunosuppressant with a novel mechanism called an S1P-agonist. It may have a better safety profile than previous ones as well as an excellent effect under concomitant use with other types of immunomodulators. License agreement with Novartis (2/2006) and new license agreement for inflammatory bowel disease (1/2010). 	Domestic		12/2010			
					Overseas			POC 12/2010		

Corporate Governance

Basic Management Policies

As a group, our corporate philosophy is “to cherish life and benefit society by contributing to better health.” To realize this philosophy we will pursue diverse expansion and development of our consumer healthcare business under our long-term vision HOPE 100 (aiming for the H Health Of People and our Enterprise), striving to be a group that supports sound and healthy lifestyles.

Basic Policy on Corporate Governance

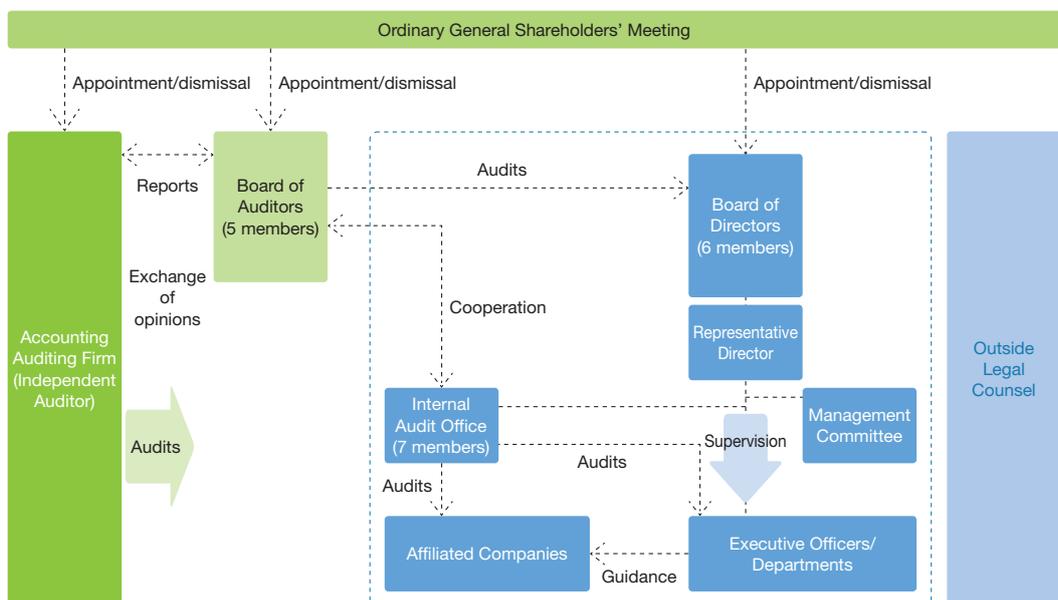
The most important management goal for KYORIN Holdings, Inc. is to continue raising shareholder value. To achieve this goal requires fostering a management environment that enables us to build trust with the general public. Therefore, having given better corporate governance a high priority, we seek to ensure prompt decision-making, strong monitoring of the appropriateness of management, and ethical and transparent corporate activities. To ensure transparency and fair disclosure, we release appropriate information without delay for the benefit of shareholders and investors. Within the Kyorin website, we have created a shareholder and investor information section on which we list business performance data, information presented at meetings, our securities report, news releases and other corporate information, enabling anybody to access information about Kyorin at any time. In the future, we intend to actively increase our disclosure of information, and expand and improve our communications with all stakeholders.

We are an audit- and committee-based company under Japanese law. The Board of Auditors endeavors to fully demonstrate its auditing and supervising functions and ensure the transparency of the deci-

sions being made by the Board of Directors. Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. Corporate auditors carry out a diverse range of activities in fulfilling their auditing function. In addition to participating in important meetings, including those of the Board of Directors and the Management Committee, corporate auditors implement comprehensive audits by checking documents and other materials relating to key decisions and inspecting departments, facilities, and Group companies.

In addition, in recognition of our corporate social responsibility (CSR), for every Kyorin Group company we appoint compliance and risk management promotion officers. We have established a Group-wide compliance and risk management system that is administered by the Compliance Committee and Risk Management Committee. We have established guidelines for each affiliated company based on the Kyorin Compliance Guidelines and set up a system for employees to report and seek advice about possible irregularities. As well as the above measures, we have created management guidelines for affiliated

Corporate Governance and Management Structure (As of June 22, 2012)



companies and built a system of support that respects their autonomy. Under this system, we receive regular business reports from these companies and hold meetings with their management before deciding important issues. The Internal Audit Office

conducts audits of affiliated companies based on internal audit guidelines. Based on the results of these audits, departments that oversee the operations of the affiliated companies issue instructions or warnings and provide appropriate guidance.

Management Organization and Internal Control System

1. Management Organization

To clarify the roles of our six directors, who are responsible for making business decisions and supervising business execution, and five executive officers, who are responsible for business execution, Kyorin has established an executive officer system. The Board of Directors usually meets once a month, deciding important operational matters in a timely manner after debating the issues as well as supervising each director's duties. To oversee business execution, we established a Management Committee, comprising the president and directors, which discusses key operational matters concerning the Group.

We also utilize a corporate auditor system with two statutory corporate auditors and three outside corporate auditors. By capitalizing on such auditing and supervisory functions, we have built a system that facilitates highly transparent decision-making.

2. Internal Control System and Risk Management System

Kyorin is building an internal control system in accordance with the following basic policy: In keeping with our corporate philosophy of "cherish life and benefit society by contributing to better health," we undertake our activities in Japan and overseas guided by a high standard of corporate ethics as we respect human rights and comply with the letter and spirit of all laws and codes of conduct.

- ① We established the Compliance Committee, which is chaired by a director in charge and includes the Director of the Internal Audit Office who serves as a member of the committee. Thoroughgoing guidance is provided to executives and regular employees via training programs, while the Corporate Ethics Hotline has been set up for consultations and reporting matters concerning internal violations. Moreover, we have set Company rules to ensure the accuracy of financial reporting, and developed systems for ensuring the validity and reliability of internal controls over financial reporting of the Group.
- ② We have built and are operating a structure for reducing and preventing risks. As part of this structure, we established the Risk Management Committee, chaired by a director in charge, with the General Affairs & Human Resources Department responsible for overseeing the committee. For risks concerning compliance, the environment and

accidents, we also formulated the Risk Management Guidelines and the Corporate Ethics and Compliance Guidelines as part of a quick-response structure. Additionally, to handle crisis management when dealing with any contingencies, we have set up the Contingency Measures Headquarters under the leadership of the president.

- ③ In accordance with the Documentation Management Guidelines and other internal regulations, we carry out the appropriate preparation, preservation, and management of information regarding directors' decisions, their execution of other duties and reports concerning directors.
- ④ To ensure that auditors effectively perform audits, the accounting auditing firm explains the details of the accounting audit to the corporate auditors and exchanges various information while cooperating with the Internal Audit Office in ensuring appropriate communication and effective auditing.
- ⑤ Along with establishing compliance committees and risk management committees at each Kyorin Group company, the Compliance Committee and Risk Management Committee oversee and promote compliance and risk management for the entire Group. In addition, we have built a structure for consultation and reporting that covers the whole Group.

We will create management guidelines for affiliated companies and build a system of support that respects their autonomy. Under this system, we will receive regular business reports from these companies and hold meetings with their management before deciding important issues.

The Internal Audit Office performs audits of affiliated companies based on internal audit guidelines. Depending on the results of these audits, departments that oversee the operations of the affiliated companies issue instructions or recommendations and provide appropriate guidance. Moreover, we have also built a structure that enables managers to prepare reliable internal control reports for financial reporting. Under this structure, the Internal Audit Office also evaluates and reports on internal controls related to financial reporting based on the newly established Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control over Financial Reporting.

- ⑥ Basic rationale on the elimination of anti-social forces and the establishment of related measures.

Giving consideration to our corporate philosophy, we formulated the Kyorin Group Corporate Charter to ensure a high standard of corporate ethics and thoroughgoing compliance. This charter clearly states that we will “stand firmly against any anti-social forces or groups that pose a threat to the order and safety of society.”

The Company will eliminate any relationships with and strongly confront anti-social forces or groups. As an internal structure for overall monitoring of our corporate ethics and our compliance structure, we established the Group Compliance Committee, with the director in charge of the committee also handling overall coordination. As the department in charge of compliance, the Group General Affairs & Human Resources Department is working to strengthen and promote a wider permeation of corporate ethics and compliance through education and other measures in collaboration with relevant departments.

We have also established standard measures to prepare for any possible undue demands from anti-social forces. To this end, we have built a structure that includes designating a “person responsible for prevention of undue claims” at our Head Office and all branch offices to respond to encounters with any anti-social forces or groups. We also maintain close communications with police departments with relevant jurisdictions, special crime prevention units, and legal advisers to ascertain the latest trends and gather other information on anti-social forces or groups as well as for guidance, consultation, and assistance. Also, we have prepared Responding to Telephone Calls and Visits to the Company during the Initial Phase of Claim-Related Problems as a manual, to ensure that employees make appropriate initial responses. In this manner, we have established a structure for properly responding to any demands from anti-social groups.

3. Audit Organization

① Internal Auditors

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

Another function of the office is to evaluate the

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

② Corporate Auditors

Corporate auditors conduct audits in line with an auditing policy and plan set by the Board of Auditors at the beginning of each fiscal year. In addition to participating in important meetings, including those of the Board of Directors and the Management Committee, corporate auditors implement comprehensive audits by checking documents and other materials relating to important decisions and inspecting departments, facilities, and Group companies.

Under our adopted system, if someone discovers that an executive officer or employee is acting in contravention of either laws and regulations, or the Company’s Articles of Incorporation, they immediately notify the corporate auditors. We are working to establish an environment conducive to more efficient audits by corporate auditors by coordinating closely with executives and regular employees and by fostering deeper understanding of audits. Furthermore, we assign auditing staff to assist the duties of the corporate auditors as necessary, and these human resources are carefully checked by directors and auditors to ensure that they are independent.

Moreover, the statutory corporate auditor, Seiyu Miyashita has experience as a director and head of accounting of KYORIN Pharmaceutical Co., Ltd, and has a considerable level of knowledge about finance and accounting.

③ Outside directors and outside corporate auditors

Kyorin has three outside auditors who are neutrally positioned and not compromised by relationships with management or specified parties having a special interest. These outside auditors all have a considerable level of knowledge of corporate legal matters, and matters of finance and accounting. We utilize their specialist understanding and wide-ranging knowledge and experience to strengthen and enhance our auditing functions. While we currently have no fixed criteria defining the independence of outside auditors, we do not consider auditors from major shareholding companies and key trading partners to be truly independent. To ensure that execution of duties by directors is legal, transparent, and fair, we believe that outside auditors who have a high level of neutrality that is not compromised by a relationship with management or parties having a special interest, and for whom there is no risk of forming a contradiction of interest with general shareholders, are the most independent.

Our outside corporate auditor, Masaji Obata is well versed in the Corporation Law as a lawyer, and has considerable knowledge concerning finance and accounting.

Moreover, KYORIN Holdings has not appointed an outside director. Compared to an outside director, who would be appointed for only one year, the corporate auditors, who do not execute business duties at KYORIN Holdings, have a more stable position of four years, and have independent compensation and authority. With respect to appointments, the corporate auditors have the auditors' right of agreement, the right to make proposals and to carry out comprehensive surveys. For these reasons, we believe that corporate auditors are more independent from management than outside directors. Moreover, our outside corporate auditors make an active contribution to Board of Directors and Board of Auditors meetings, offering comments and advice from a specialist perspective informed by wide ranging knowledge and experience. This helps to ensure that execution of duties by the directors is appropriately legal, transparent, and fair, and we believe it is the best way to strengthen oversight functions through links between directors and corporate auditors.

④ Independent Auditors

In accordance with the Corporation Law and the Financial Instruments and Exchange Law, we receive annual audits by Ernst & Young ShinNihon LLC. We benefit from its valuable advice as an accounting auditing firm, as well as from its services as an auditor of our financial accounts.

The following certified public accountants performed the audit of KYORIN Holdings, Inc.:

(Names of certified public accountants)

Shigeyuki Tsunamoto, designated limited liability partner and engagement partner;

Hidemitsu Kato, designated limited liability partner and engagement partner

A further 11 certified public accountants and 9 assistant accountants assisted with the audit.

The Board of Auditors provides a forum for close, regular exchange of information and opinions with the Internal Audit Office and the accounting auditing firm, thereby enhancing the auditing system.

4. Overview of Personnel, Capital and Trading Relationships between the Company and the Outside Directors and Outside Auditors

None to report.

5. Compensation of Directors and Corporate Auditors

In fiscal 2011, ended March 31, 2012, compensation paid to directors and corporate auditors was ¥201 million: ¥172 million to 7 directors (excluding outside

directors), and ¥29 million to 2 corporate auditors (excluding outside auditors).

There were no payments to directors corresponding to employee salaries.

Remuneration for outside auditors totaled ¥16 million for 3 auditors.

6. Number of Directors

The number of directors is limited to 15 as set out in the Company's Articles of Incorporation.

7. Conditions for Resolution on Appointments of Directors and Corporate Auditors

The Company's Articles of Incorporation stipulate that a resolution to appoint a director or corporate auditor must be by majority vote of attending shareholders holding at least one-third of the voting rights of shareholders who are eligible to exercise voting rights.

8. Ordinary General Shareholders' Meeting Matters that May Be Resolved by the Board of Directors

① Acquisition of treasury stock

Pursuant to the provisions of Article 165, paragraph 2 of the Corporation Law of Japan, the Company's Articles of Incorporation stipulate that the Company may acquire treasury stock by resolution of the Board of Directors. The aim is to allow management to swiftly exercise capital policies as deemed appropriate in response to changes in the operating environment, by allowing the Company to acquire treasury stock through market transactions, etc.

② Decision-making body for cash dividends from retained earnings

Pursuant to Article 459, paragraph 1 of the Corporation Law of Japan, and except where otherwise specified in a separate applicable legal or regulatory provision, the Company's Articles of Incorporation stipulate that cash dividends are to be decided by resolution of the Board of Directors, and not the ordinary general shareholders' meeting. The aim is to allow management to exercise capital policy as deemed appropriate.

9. Requirements for Special Resolution by the Ordinary General Shareholders' Meeting

Pursuant to Article 309, paragraph 2 of the Corporation Law of Japan, the Company's Articles of Incorporation stipulate that special resolutions by the ordinary general shareholders' meeting must be passed by at least a two-thirds majority vote of attending shareholders holding at least one-third of the voting rights of shareholders eligible to exercise voting rights. The aim is to lower the required quorum for a special resolution of the ordinary general shareholders' meeting to facilitate the smooth operation of the meeting.

Directors, Auditors, and Corporate Officers (As of June 22, 2012)



1 Representative Director, President and Chief Executive Officer
Masahiro Yamashita

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

3 Senior Managing Director
Minoru Hogawa
Management Planning
Finance & Accounting

4 Senior Executive Director
Tomiharu Matsumoto
General Affairs & Human Resources
Legal

5 Executive Director
Yutaka Ogihara
President's Office
Corporate Communication
Information System Management

6 Executive Director
Masakatsu Komuro
Intellectual Property



Senior Corporate Auditors
Seiyu Miyashita
Shigeru Abe

Outside Corporate Auditors
Masaji Obata
Junji Honda
Yasuyuki Hirota

Senior Corporate Officers
Takayoshi Ishizaki
Yoh Ito
Satoru Kanai
Shigeru Ogihara

Corporate Officer
Masanori Masui

Corporate Social Responsibility

The starting point of the Kyorin Group's corporate social responsibility (CSR) endeavors is its corporate philosophy, that is "to cherish life and benefit society by contributing to better health." For sustainable growth, Kyorin will prioritize building and maintaining trust-based relationships with medical professionals, customers, shareholders, investors, employees, business partners, and local communities. The Group will continue to work to realize that goal by providing trusted products and services, and by fulfilling its corporate social responsibility in the areas of environmental and industrial safety and hygiene through activities that contribute to health and society.

Corporate Social Responsibility

In recognition of the importance of its corporate social responsibility, the Kyorin Group is enhancing its corporate ethical standards and putting in place

a system of compliance in line with the approach set out below.

Compliance Measures

Basic policy

An enterprise should pursue profits through fair competition as an economic entity, and at the same time should be a force for the greater good of society.

Based on its corporate philosophy "to cherish life and benefit society by contributing to better health," the Kyorin Group will conduct its activities in every country based on a high standard of corporate ethics, respecting human rights and observing all laws, as well as standards of conduct and the spirit thereof.

Measures

To ensure the Group's activities are based on a high standard of corporate ethics, the Company has built a compliance framework. It has updated the KYORIN Holdings Corporate Charter and its Compliance Guidelines to their current form in August 2010, and holds a Compliance Committee meeting once a month.

1. The KYORIN Holdings Corporate Charter was developed to specify matters of corporate ethics and compliance in accordance with our corporate philosophy, and serves as the starting point for our corporate activities.
2. The Compliance Guidelines complement the KYORIN Holdings Corporate Charter by clarifying the standards to be followed for sound and proper business activities.

3. In March 2006, the Compliance Committee was established to provide overall supervision of corporate ethics and compliance systems. Each Kyorin company has a compliance promotion manager who is responsible for the understanding and instilling of corporate ethics and compliance.

Education and training

In-house training courses are conducted to promote understanding of and instill corporate ethics and compliance.

1. Compliance managers organize education and training courses on corporate ethics and compliance, which are conducted at each level of the organization on a Companywide basis, and run instructional activities for Company officers and employees.
2. Details relating to corporate ethics and compliance are incorporated into job function-specific training conducted by each division to promote understanding and instill a sense of ethics and awareness of compliance among employees.
3. Each November is designated as compliance enhancement month, during which time the Company works to tighten up on compliance at every level.

Ongoing Environmental Initiatives

The main subsidiary of the Kyorin Group, KYORIN Pharmaceutical, is implementing the following activities on an ongoing basis.

1. Preventing global warming

- Reduce the amount of fuel used by installing cogeneration systems and using smaller boilers
- Reduce power consumption by controlling air conditioning settings to 28°C in summer and 21°C in winter
- Use eco-cars and hybrid vehicles to improve fuel efficiency and reduce exhaust emissions

2. Reducing waste volume

- Reduce waste emissions and promote recycling towards achieving zero final landfill, and introduce a negative carbon printing system

3. Managing chemical substances

- Manage substances covered by the Pollutant Release and Transfer Register (PRTR) Law, and evaluate methods for reducing amounts used and the use of alternatives

4. Preventing atmospheric pollution

- Measure and control the amounts of soot and smoke, nitrogen oxides (NOx) and sulfur oxides (SOx) emitted by boilers and generators

5. Preventing water pollution

- Process wastewater, including by primary processing plants, and management of pH, biochemical oxygen demand (BOD), and suspended solids (SS) levels

6. Preventing deforestation

- Recycle paper, use recycled paper, and promote a paperless office environment

7. Preventing destruction of the ozone layer

- Swiftly replace equipment that uses specified chlorofluorocarbons

8. Preventing ground subsidence

- Check for ground subsidence and improve the utilization rate of piped water

9. Preventing contamination of soil and surface water

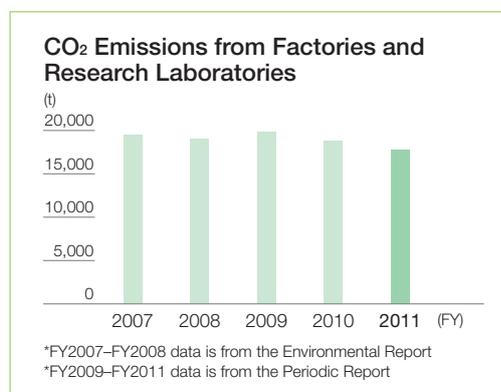
- Locate tanks above ground, install oil barriers, and implement emergency response training

10. Noise reduction

- Take steps to measure and manage noise levels

11. Preventing foul odors

- Install draft chambers and use scrubbers to remove odors



Measures Relating to Industrial Safety and Hygiene

In 2004, subsidiary KYORIN Pharmaceutical obtained occupational health and safety management system certification (OHSAS 18001) for all production and research divisions, and in 2005, consolidated its ISO 14001 and OHSAS 18001 measures. The Rimedio Center of KYORIN Rimedio obtained ISO 14001 certification in 2008 and OHSAS 18001 certification in 2009.

1. Rate and severity of work accidents

As a result of measures implemented to prevent work accidents, the frequency and severity of such accidents are much lower than the industry aver-

age. There have been no fatal accidents since the start of operations.

2. Vehicle accidents

Despite setting a target of a year-on-year reduction in the number of vehicular accidents per branch, in fiscal 2011 there were 211 accidents, 9 more than the previous year. To turn around this increasing trend in vehicle accidents, for fiscal 2012, the Kyorin Group is implementing various accident-prevention measures, incorporating both physical and systematic approaches.

Risk Management Measures

The passing of the Corporation Law in May 2006 made it necessary to set up an internal control system. Kyorin established a Risk Management Committee in order to prevent risks from material-

izing and deal with any risks that do materialize. Also, a risk management promotion officer has been appointed at each company to raise awareness relating to risk management.

Local Community Activities

Cherry blossom viewing party

The KYORIN Pharmaceutical Discovery Research Laboratories and Development Research Laboratories hold an annual party for viewing the blossoms on cherry trees that are more than 40 years old. As usual, this year's party had many participants. The occasion was also used as an opportunity to explain Kyorin's environmental and occupational safety activities.

Summer evening parties

Each year, the KYORIN Pharmaceutical Development Research Laboratories and various plants hold summer evening parties to which local residents are invited. These are popular events that provide an opportunity to further promote understanding of the Company's activities.



Local cleanup activities

For ten years, the Okaya Plant has been a "foster parent" responsible for beautifying a section of the shore of Lake Suwa as part of the Lake Suwa Adoption Program. The plant recently received an award in recognition of these activities. Employees also help to keep the lakeside park clean.

Employees of the Noshiro Plant participate in voluntary activities to maintain the Kaze-no-Matsubara, a pine forest and recreational area that acts as a barrier protecting the locality from winds.

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



Distribution of *Doctor Salon* booklets

Radio Nikkei broadcasts *Doctor Salon*, a program aimed at physicians. These broadcasts have been compiled into booklets, which KYORIN Pharmaceutical's medical representatives distribute during their monthly calls on doctors. A wide range of diseases is covered, providing timely coverage of current topics, making the booklets very popular with primary-care physicians.

Supporting sporting events

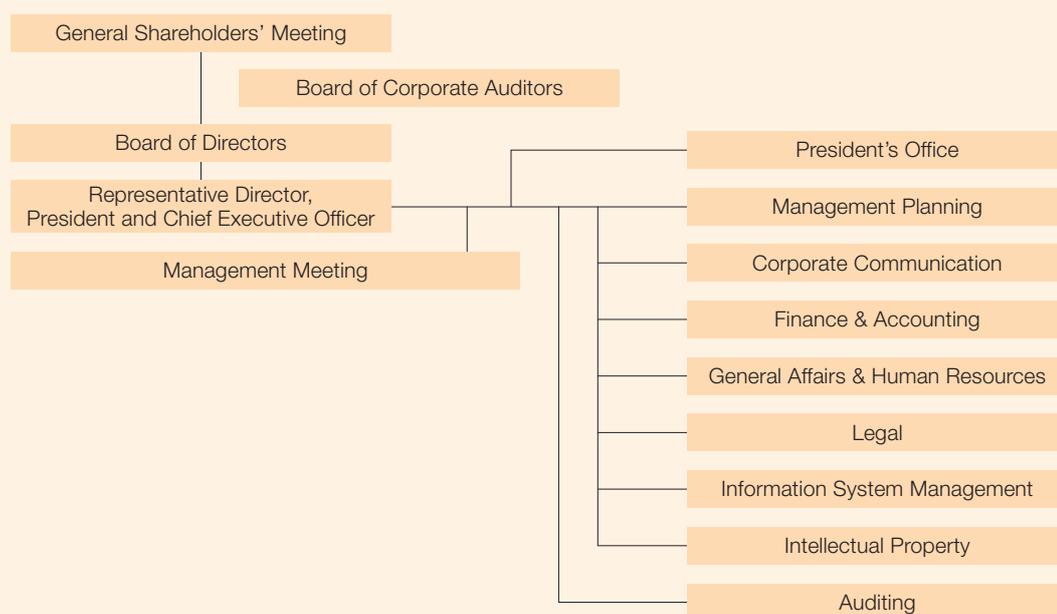
The Kyorin Group supports sporting events that help to promote health. Among these is the Shimotsuke Soccer Workshops for children, with former J-League players and other soccer athletes serving as instructors.

Employee Voluntary Community/Health Activities (Kyorin Smile Program)

The Kyorin Group launched its corporate branding program in March 2006. To help achieve a happy society, the aim of the corporate branding program is to change the awareness and actions of each and every employee by promoting the Kyorin Smile Program, a set of employee initiatives for making a contribution to society and people's health. The activities in this program include donating blood, local beautification schemes, and fund-raising.

In fiscal 2011, the Kyorin Group donated a total of ¥128,395 contributed by employees to UNICEF. The Group also collected 2.4 kilograms of used stamps, which were donated to the Japanese Organization for International Cooperation in Family Planning (JOICFP). The stamps will be used to help fund White Ribbon Campaign activities aimed at protecting the lives of mothers and babies throughout the world.

Organization Chart (As of June 22, 2012)



Major Subsidiaries and Affiliates (As of July 2012)

Consolidated Subsidiaries	KYORIN Pharmaceutical Co., Ltd. Capital: ¥4,317 million Percentage of ownership: 100% Head office: 5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo 101-8311 Operations: Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals
	KYORIN Medical Supply Co., Ltd. Capital: ¥488 million Percentage of ownership: 100% Head office: Kyorin Nishi-Shinjuku Building, 25-13, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo 160-0023 Operations: Sales promotion, planning and production of advertising, etc.
	KYORIN Rimedio Co., Ltd. Capital: ¥1,200 million Percentage of ownership: 100% Head office: 287-1, Shimocho Moroe-cho, Kanazawa-shi, Ishikawa 920-0017 Operations: Manufacture and sales of prescription medicines and quasi-drugs, diagnostics, and industrial chemicals
	Dr. Program Co., Ltd. Capital: ¥251 million Percentage of ownership: 100% Head office: 3rd Floor, 4-40, Minami-Aoyama 5-chome, Minato-ku, Tokyo 107-0062 Operations: Development and sales of skincare products
KYORIN Pharmaceutical Co., Ltd. Subsidiaries	Kyorin USA, Inc. Capital: US\$500,000 Percentage of ownership: 100% Head office: 500 Frank W. Burr Boulevard, Teaneck, New Jersey 07666, United States Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials
	Kyorin Europe GmbH Capital: €50,000 Percentage of ownership: 100% Head office: Kaiserstrasse 8, 60311 Frankfurt am Main, Germany Operations: Research and analysis of other companies' technologies and collection of information concerning clinical trials
	ActivX Biosciences, Inc. Capital: US\$1 Percentage of ownership: 100% Head office: 11025 N. Torrey Pines Rd., La Jolla, California 92037, United States Operations: Discovery and evaluation of candidate compounds
	Equity-method Affiliates
	Nippon Rika Co., Ltd. Capital: ¥411 million Percentage of ownership: 29.2% Head office: 2-2, Nihonbashi Honcho 4-chome, Chuo-ku, Tokyo 103-0023 Operations: Production and sales of pharmaceuticals, reagents, intermediates, and other products

Corporate Information (As of March 31, 2012)

KYORIN Holdings, Inc.	Head Office 5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo 101-8311 Phone: +81-3-3293-3451 URL: http://www.kyorin-gr.co.jp/en/																								
Establishment	1958																								
Common Stock	¥700 million																								
Outstanding Shares	74,947,628																								
Shareholders	3,261																								
Major Shareholders	<table><thead><tr><th></th><th>Percentage of total shares outstanding</th></tr></thead><tbody><tr><td>Apricot Co., Ltd.</td><td>6.67%</td></tr><tr><td>KM Godo Kaisha</td><td>4.82%</td></tr><tr><td>Yoshiko Ogihara</td><td>3.90%</td></tr><tr><td>Tsurukame Co., Ltd.</td><td>3.86%</td></tr><tr><td>Mykam Co., Ltd.</td><td>3.66%</td></tr><tr><td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td><td>3.36%</td></tr><tr><td>Japan Trustee Services Bank, Ltd. (Trust Account)</td><td>3.17%</td></tr><tr><td>Hiroko Ogihara</td><td>3.00%</td></tr><tr><td>Minoru Ogihara</td><td>2.97%</td></tr><tr><td>Banrina Co., Ltd.</td><td>2.60%</td></tr><tr><td>Archans Co., Ltd.</td><td>2.60%</td></tr></tbody></table>		Percentage of total shares outstanding	Apricot Co., Ltd.	6.67%	KM Godo Kaisha	4.82%	Yoshiko Ogihara	3.90%	Tsurukame Co., Ltd.	3.86%	Mykam Co., Ltd.	3.66%	The Master Trust Bank of Japan, Ltd. (Trust Account)	3.36%	Japan Trustee Services Bank, Ltd. (Trust Account)	3.17%	Hiroko Ogihara	3.00%	Minoru Ogihara	2.97%	Banrina Co., Ltd.	2.60%	Archans Co., Ltd.	2.60%
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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																								



KYORIN Holdings, Inc.

5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo
101-8311, Japan

Corporate Communication

TEL +81-3-3293-3414

E-mail <http://www.kyorin-gr.co.jp/en/contact/>

URL <http://www.kyorin-gr.co.jp/>



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