
Kyowa Pharmaceutical Industry Co., Ltd.

*Nonconsolidated Financial Statements for the
Year Ended March 31, 2019, and
Independent Auditor's Report*



Independent Auditor's Report

The Board of Directors
Kyowa Pharmaceutical Industry Co., Ltd.

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and the supplementary schedules of Kyowa Pharmaceutical Industry Co., Ltd. as at March 31, 2019 and for the year from April 1, 2018 to March 31, 2019 in accordance with Article 436-2-1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Kyowa Pharmaceutical Industry Co., Ltd. for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

KPMG AZSA LLC

April 25, 2019
Osaka, Japan

Financial Statements
for 67th Period

From April 1, 2018
To March 31, 2019

Kyowa Pharmaceutical Industry Co., Ltd.

Balance Sheet

As of March 31, 2019

(units: thousands of yen)

Assets		Liabilities	
Item	Amount	Item	Amount
Current Assets	[18,770,613]	Current Liabilities	[13,281,330]
Cash and Deposits	1,668,663	Trade Notes Payable	242,892
Trade Notes Receivable	1,128,021	Electronically Recorded Monetary Obligations	4,098,267
Electronically Recorded Monetary Claims	1,241,116	Trade Payables	1,586,364
Accounts Receivable	5,956,341	Notes Payable - Construction	395,259
Other Accounts Receivable	107,826	Short-term Debt	700,000
Inventories	8,456,715	Long-term Debt (due within a year)	4,011,788
Short-term Loans Receivable	160,000	Other Accounts Payable	901,498
Others	58,273	Other Accounts Payable - Construction	185,699
Allowance for doubtful receivables	△ 6,344	Accrued Expenses	303,211
		Income Tax Payable	138,695
		Provision for Bonuses	523,482
		Others	194,169
Fixed Assets	[32,982,898]	Long-term Liabilities	[17,880,281]
Tangible Fixed Assets	(14,794,508)	Long-term Debt	16,699,477
Buildings	10,678,224	Collected Deposits (Long-term)	601,977
Structures	311,942	Provision for Retirement Benefits	391,994
Machinery and Equipment	10,077,391	Provision for Directors' Retirement Benefits	84,186
Vehicles	6,710	Others	102,646
Furniture and Fixtures	2,265,374	Total Liabilities	31,161,612
Land	2,066,874	Shareholder's Equity	
Accumulated Depreciation	△ 10,612,008	Shareholder Capital	[20,591,900]
Intangible Fixed Assets	(13,000,502)	Capital Stock	(101,000)
Sales Rights	12,755,151	Common Stock	101,000
Software	245,350	Retained Earnings	(20,490,900)
Investments	(5,187,887)	Legal Reserve	25,000
Investments in subsidiary	5,021,095	Other Retained Earnings	20,465,900
Lease deposits	151,975	Voluntary Reserve	2,168,000
Long-term Prepaid Expenses	4,866	Reserve for Reduction Entry	1,518,508
Deferred Tax Assets	9,598	Retained Earnings - Unappropriated	16,779,391
Others	351	Total Equity	20,591,900
Total Assets	51,753,512	Total Liabilities and Equity	51,753,512

(Note: Amounts less than one thousand yen are rounded down.)

Income Statement

From April 1, 2018 to March 31, 2019

(units: thousands of yen)

Item	Amount	
Sales		28,203,863
Cost of Goods Sold		18,721,080
Gross Profit		9,482,782
Selling, General and Administrative Expenses		8,034,578
Operating Income		1,448,204
Other Income		
Interest Received	574	
Foreign Exchange Income	5,545	
Government Grants Received	1,078,000	
Others	26,836	1,110,957
Other Expenses		
Interest Paid	62,337	
Loss on Sale and Disposal of Fixed Assets	19,531	
Others	13,085	94,954
Ordinary Income		2,464,207
Extraordinary Loss		
Restructuring Expenses	473,758	473,758
Income Before Tax		1,990,448
Income Tax - Current	361,876	
Income Tax - Deferred	173,454	535,331
Net Income (after tax)		1,455,117

(Note: Amounts less than one thousand yen are rounded down.)

Statement of Changes in Equity

From April 1, 2018 to March 31, 2019

(units: thousands of yen)

	Stockholder Capital					Stockholder Capital Total	Total Equity
	Common Stock	Retained Earnings					
		Legal Reserve	Other retained earnings				
			Voluntary Reserves	Reserve for Reduction Entry	Unappropriated		
Opening Balance	101,000	25,000	2,168,000	1,067,042	15,775,740	19,136,782	19,136,782
Changes in Items During the Period							
Net Income					1,455,117	1,455,117	1,455,117
Reversal of Reserve for Reduction Entry				△ 113,789	113,789	-	-
Provision of Reserve for Reduction Entry				565,255	△ 565,255	-	-
Total Changes in Items During the Period	-	-	-	451,466	1,003,651	1,455,117	1,455,117
Closing Balance	101,000	25,000	2,168,000	1,518,508	16,779,391	20,591,900	20,591,900

(Note: Amounts less than one thousand yen are rounded down.)

Notes

1. Significant Accounting Policies

1-1. Assessment Criterion and Methods for Assets

(1) Inventories

Merchandise and materials are carried at cost, not in excess of the market value, with cost determined on a moving average cost basis.

Finished goods and work in process are carried at cost, not in excess of the market value, with cost determined on a periodic average cost basis.

(2) Valuable securities

Securities of subsidiaries and affiliated companies are determined by the moving average cost method.

1-2. Depreciation Method for Fixed Assets

(1) Tangible Fixed Assets

Tangible fixed assets are depreciated by the straight-line method.

(2) Intangible Fixed Assets

Intangible fixed assets are depreciated by the straight-line method.

Computer software for internal use is depreciated by the straight-line method over the useful life of 5 years.

(3) Lease Assets (finance leases exempt from passage of title)

Lease assets are depreciated by the straight-line method over the period of lease without any residual value.

1-3. Accounting Criterion for Allowances

(1) Allowance for doubtful receivables

The allowance for doubtful receivables is stated at amounts considered to be appropriate based on past credit loss experience for general receivables and on the evaluation of the potential losses on receivables which have bad debt concerns.

(2) Provision for Bonuses

The amount recognized and accrued at the end of the fiscal year based on the estimated payment amount is accounted for in order to prepare for bonus payment.

(3) Provision for Retirement Benefits

The provision is accounted for based on the estimated retirement benefit obligation at the end of the fiscal year in order to prepare for the payment of retirement benefits.

(4) Provision for Directors' Retirement Benefits

The full amount required in accordance with Kyowa's Retirement Benefit Policy is accounted for in order to prepare for payment of directors' retirement benefits.

1-4. Accounting Method for Consumption Tax

The excluding consumption tax method is used.

2. Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

-“Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)

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

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5; Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company are currently in the process of determining the effects of these new standards on the financial statements

3. Changes in presentation method

“Amendments to Ordinance on Company Accounting”(Ordinance of the Ministry of Justice No.5 March 26, 2018) was operated by the publication of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the current fiscal year. As a result, the Company changed the presentation, such that deferred tax assets are classified as part of ‘Investments And Other Assets’.

4. Notes for Balance Sheet

4-1. Inventories

Raw Materials	2,260,737 thousand yen
Work in Process	1,519,521
Finished Goods	3,734,545
Merchandise	<u>941,910</u>
Total	8,456,715

4-2. Guarantees

Our company has provided guarantees for the bank loans of a subsidiary.

Kyowa CritiCare Co., Ltd.	785,005 thousand yen
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4-3. Intercompany receivables and payables

Short-term loans receivable	160,000 thousand yen
Other receivables	22,279
Other payables	198,631

4-4. Trade notes

Trade notes of which maturity dates are yearend, are booked on the exchange date of the note. As yearend of this fiscal year was bank holiday, following amounts of matured notes etc. remained on balance.

(unit: thousand Yen)

Item	Amount
Trade Notes Receivable	9,762
Electronically Recorded Monetary Claims	43,441
Trade Notes Payable	(49,242)
Electronically Recorded Monetary Obligations	(834,876)
Notes payable - Construction	(65,198)

Liability items are shown with parentheses.

4-5. Collateralized assets and related liabilities

(1) Collateralized assets

Buildings	2,480,764 thousand yen
Land	1,341,975
Total	3,822,739

(2) Related liabilities

Sort-term loan	250,000 thousand yen
Long-term loan	7,248,000
Total	7,498,000

The capped amount for revolving mortgages for the assets is 2,100,000 thousand yen.

5. Notes for Income Statement

5-1. Intercompany transactions

Sales	90,017 thousand yen
Purchases	1,357,362
Other Operating Expenses	449,389
Other Expenses	1,150

6. Notes for Changes in Equity

Kind and number of issued stocks at this fiscal year end

Common stocks	196,000 share
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7. Income Taxes

Significant temporary differences for deferred tax assets include inventories, provision for bonuses and provision for retirement benefits.

Significant temporary differences for deferred tax liabilities include reserve for reduction entry.

8. Financial Instruments

8-1. Status of financial instruments

Our company invests in low-risk assets such as bank deposits, and funding is sourced through bank loans.

8-2. Fair value of financial instruments

The estimated fair value of financial instruments are as follows.

(units: thousands of yen)

	Balance Sheet	Fair Value	Difference
(1) Cash and Deposits	1,668,663	1,668,663	-
(2) Trade Notes Receivable	1,128,021	1,128,021	-
(3) Electronically Recorded Monetary Claims	1,241,116	1,241,116	-
(4) Accounts Receivable	5,956,341	5,956,341	-
(5) Trade Notes Payable	(242,892)	(242,892)	-
(6) Electronically Recorded Monetary Obligations	(4,098,267)	(4,098,267)	-
(7) Trade Payables	(1,586,364)	(1,586,364)	-
(8) Notes payable - Construction	(395,259)	(395,259)	-
(9) Short-term Debt	(700,000)	(700,000)	-
(10) Other Accounts Payable	(901,498)	(901,498)	-
(11) Long-term Debt (including due within a year)	(20,711,265)	(20,656,502)	54,763

Liability items are shown with parentheses.

(Note 1) Method of evaluating the fair value of financial instruments

(1) Cash and Deposits, (2) Trade Notes Receivable, (3) Electronically Recorded Monetary Claims and (4) Accounts Receivable

The carrying amounts approximate fair value because of the short maturities of these instruments.

(5) Trade Notes Payable, (6) Electronically Recorded Monetary Obligations, (7) Trade Payables, (8) Notes Payable – Construction, (9) Short-term Debt and (10) Other Accounts Payable

The carrying amounts approximate fair value because of the short maturities of these instruments.

(11) Long-term Debt

The fair value of long-term debt with fixed interest is based on the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar instruments of comparable maturity.

The fair value of long-term debt with floating interest is based on book value because interest rate in the market is reflected in short cycle and credit risk will not be changed significantly during the loan period.

(Note 2) Nonlisted equity securities (5,021,095 thousand yen on the balance sheet) and Collected Deposits (Long-term) (601,977 thousand yen on the balance sheet) are difficult to estimate for fair value and are excluded from the fair value note because there is no market price for the stock and it is difficult to estimate future cash flow.

9. Transactions with related parties

(units: thousands of yen)

Type	Company name	Voting ratio	Relation with related party	Type of transactions	Transaction amount	Account	Balance amount
Parent	Lupin Limited	Indirectly owned 99.8%	Guarantees received Interlocking Directors	Guarantees received (Note 1)	18,106,000	-	-
Subsidiary	Kyowa CritiCare Co., Ltd.	Direct possession 100%	Guarantees provided Interlocking Directors	Guarantees provided (Note 2)	785,005	-	-

(Notes)

1. Our company's bank loans are guaranteed by Lupin Limited.
2. Our company provides guarantees for the bank loans of Kyowa Criticare Co., Ltd.

10. Per share information

10-1. Net equity per share 105,060.71 yen

10-2. Net income per share 7,424.07 yen

Supplemental Schedules for 67th Period

From April 1, 2018
To March 31, 2019

Kyowa Pharmaceutical Industry Co., Ltd.

1. Tangible assets and intangible assets

(units: thousands of yen)

Category	Description	Net book value, March 31, 2018	Increase	Decrease	Depreciation	Net book value, March 31, 2019	Accumulated depreciation, March 31, 2019	Acquisition cost, March 31, 2019
Tangible assets	Buildings	7,430,490	262,776	8,489	463,158	7,221,620	3,456,604	10,678,224
	Structures	186,663	6,109	-	21,116	171,655	140,286	311,942
	Machinery and equipment	4,985,142	405,493	9,573	909,974	4,471,089	5,606,302	10,077,391
	Vehicles	1,625	-	-	500	1,125	5,584	6,710
	Furniture and fixtures	902,904	253,325	1,780	292,306	862,144	1,403,230	2,265,374
	Land	2,066,874	-	-	-	2,066,874	-	2,066,874
	Construction in progress	68,312	-	68,312	-	-	-	-
	Total	15,642,013	927,705	88,155	1,687,055	14,794,508	10,612,008	25,406,516
Intangible assets	Sales rights	14,413,381	777	-	1,659,007	12,755,151		
	Software	273,915	60,328	-	88,893	245,350		
	Total	14,687,297	61,105	-	1,747,900	13,000,502		

(Notes)

1. Major increases in buildings are the expansion of the research center (213,360 thousand yen) and the renovation of the Sanda Plant (40,650 thousand yen).
2. Major increases in machinery and equipment are acquisitions for the Tottori Plant (243,320 thousand yen) and renewals at the Sanda Plant (152,423 thousand yen).
3. Major increases of furniture and fixtures are renewals in Sanda Plant (105,968 thousand yen), acquisitions for the Tottori Plant (102,826 thousand yen) and renewals at the Research Center (41,657 thousand yen).
4. Major increases in software are the enhancement of the sales system (23,112 thousand yen) and the enhancement of the Sanda Plant system (19,985 thousand yen).

2. Detail of accruals

(units: thousands of yen)

Item	Beginning balance	Increase	Decrease	Ending balance
Allowance for doubtful receivables	24,951	-	18,607	6,344
Provision for bonuses	565,977	523,482	565,977	523,482
Provision for retirement benefits	408,396	58,791	75,193	391,994
Provision for directors' retirement benefits	72,972	11,213	-	84,186

3. Selling general and administrative expenses

From April 1, 2018 to March 31, 2019

(units: thousands of yen)

Item	Amount	
Salaries and wages	1,533,677	
Directors' remuneration	83,724	
Provision for bonuses	302,577	
Legal welfare expense	270,042	
Provision for retirement benefits	27,479	
Directors' retirement benefits	8,829	
Commutation allowances	25,606	
Welfare expense	16,508	
Repairs and maintenance	175,460	
Rent	70,336	
Taxes and dues	76,663	
Insurance	978	
Power and fuel	3,243	
Contract labor charges	107,640	
Selling and promotion expenses	509,065	
Service charges	94,334	
Freight and forwarding	483,273	
Bad debt expense	△ 954	
Lease rent and hire charges	143,133	
Postage and telephone expenses	82,916	
Travel expenses	331,733	
Management fees	246,518	
Legal and professional charges	147,280	
Data information fees	99,146	
Donations	537	
Entertainment expenses	24,598	
Research and Development expenses	1,229,352	
Depreciation	1,736,952	
Other expenses	203,920	
Total		8,034,578