

# **Kyowa Hakko Kirin Co., Ltd.**

## **Consolidated Financial Summary**

**First Quarter of the Fiscal Year to December 31, 2012**

**(January 1, 2012 – March 31, 2012)**

This document is an English translation of parts of the Japanese-language original. All financial information has been prepared in accordance with generally accepted accounting principles in Japan. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including fluctuations in exchange rates, changing economic conditions, legislative and regulatory developments, delays in new product launches, and pricing and product initiatives of competitors.

## Summary of Financial Statements for the First Quarter of the Year Ending December 31, 2012

**Kyowa Hakko Kirin Co., Ltd.**

**April 26, 2012**

Stock Code: 4151	Listed exchanges: Tokyo, 1 <sup>st</sup> section
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Scheduled date of submission of Financial Report: May 11, 2012

Scheduled start date of dividend payment: --

Appendix materials prepared to accompany the quarterly financial report: Yes

FY2012 Q1 earnings presentation meeting: Yes. (for institutional investors and analysts)

### 1. Results for the three months ended March 31, 2012

(%changes are compared to the same period of the previous fiscal year)

#### (1) Consolidated business performance

(Millions of yen, rounded down)

	Three months to March 31, 2012	Change (%)	Three months to March 31, 2011	Change (%)
Net sales	87,111	(24.2)	114,862	15.7
Operating income	18,039	(17.7)	21,909	90.1
Ordinary income	16,575	(25.5)	22,252	86.4
Net income	8,514	(42.4)	14,785	144.2
Net income per share (¥)	15.46		25.95	
Fully diluted net income per share (¥)	15.45		25.94	

Comprehensive income: Three months to March 31, 2012: ¥15,003 million (-2.7%);

Three months to March 31, 2011: ¥15,426 million (-%)

#### (2) Consolidated financial position

(Millions of yen, rounded down)

	As of March 31, 2012	As of December 31, 2011
Total assets	664,765	658,873
Net assets	542,010	540,023
Shareholders' equity ratio (%)	81.4%	81.8%

Note: Total shareholders' equity: March 31, 2012: ¥540,913 million; December 31, 2011: ¥538,869 million

### 2. Dividends

Dividends per share	Fiscal year ending December 31, 2012 (forecast)	Fiscal period ended December 31, 2011
Interim dividend per share (¥)	10.00	10.00
Year-end dividend per share (¥)	10.00	10.00
Total dividend per share (¥)	20.00	20.00

Note: Changes to the dividend forecast during the term: None

### 3. Consolidated results forecasts for the fiscal year ending December 31, 2012

(Millions of yen)

	January 1, 2012 to June 30, 2012	Change (%)	January 1, 2012 to December 31, 2012	Change (%)
Net sales	163,000	(12.5)	326,000	(5.2)
Operating income	22,500	(24.8)	48,000	3.0
Ordinary income	19,500	(35.5)	42,500	(9.1)
Net income	8,500	(52.0)	20,000	(21.9)
Net income per share	15.46		36.42	

Note: Changes to the consolidated results forecast during the term: None

## 4. Other

### 1) Changes to subsidiaries during the period: None

(Indicates transfers of specified subsidiaries resulting in changes in the scope of consolidation)

### 2) Use of special accounting procedures in the preparation of this report: Yes

(See Page 6, Section 2. Other information)

### 3) Changes to accounting policies and change or revisions to accounting estimates:

1. Changes following revisions to accounting standards: None

2. Other changes: None

3. Changes in accounting estimates: None

4. Restatements: None

### 4) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding (including treasury shares)	March 31, 2012	576,483,555 shares	December 31, 2011	576,483,555 shares
2. Number of treasury shares	March 31, 2012	29,020,484 shares	December 31, 2011	21,037,327 shares
3. Average number of shares during the period	Quarter ended March 31, 2012:	550,721,704 shares	Quarter ended March 31, 2011:	569,783,916 shares

### Notice regarding quarterly review procedures

The Financial Products Law review process for this quarterly financial report was not yet complete at the time the financial report was issued.

### Notice regarding the appropriate use of the financial forecasts

The above forecasts are based on the information available and assumptions made at the time of release of this document about a number of uncertain factors that may affect results in the future.

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## 1. Operating Results and Financial Statements

### (1) Summary of business performance

During the first quarter of the financial year (the three months from 1 January to 31 March 2012), the Japanese economy continued to be affected by concerns related to weak overseas economic fundamentals such as the European financial crisis and high oil prices, but domestic private consumption was firm and the economy sustained a gentle recovery.

The Pharmaceuticals business environment continues to be highly competitive due to policies promoting the use of generic drugs, the aggressive stance of US and European drug manufacturers and the major domestic pharmaceutical companies, and intensifying competition in new drug development. However, we actively promoted global development by expanding sales of our core products and planning for the rapid penetration of new drugs in the marketplace. The Bio-Chemicals business was affected by exchange rate fluctuations, but we sought to expand sales of high-value added products such as amino and nucleic acids for pharmaceutical, medical and healthcare uses. Among our healthcare products, we bolstered the mail order *Remake Series*, which features ingredients with high consumer appeal, including *ornithine*.

Net sales for the first quarter were ¥87.1 billion (down 24.2% compared to the first quarter of the previous fiscal year) due to the effects of the exclusion of the chemical business from consolidated results as of March 31, 2011, reducing sales by ¥33.5 billion and operating income by ¥2.1 billion. Operating income was ¥18.0 billion (down 17.7%) and ordinary income was ¥16.5 billion (down 25.5%). Net income was ¥8.5 billion (down 42.4%) in comparison to the same period of the previous fiscal year which was affected by profits recorded from the sale of shares in affiliated companies.

Fujifilm Kyowa Kirin Biologics, a joint venture company established on March 27, 2012 with FUJIFILM Corporation for the development, manufacture and sale of biosimilar products, was newly included in the accounts as an equity method affiliate.

Performance by segment

#### Pharmaceuticals

In the Pharmaceuticals business, consolidated net sales were ¥64.8 billion (up 2.3% compared to the same period of the previous year), while operating income was ¥16.6 billion (down 9.7%).

In the domestic pharmaceuticals business, sales of *NESP*<sup>®</sup>, a treatment for renal anemia, *REGPARA*<sup>®</sup>, a agent to treat secondary hyperparathyroidism associated with dialysis, *FENTOS*<sup>®</sup>, a transdermal analgesic for persistent cancer pain, and *ASACOL*<sup>®</sup>, for ulcerative colitis, all advanced, but revenues of *ALLELOCK*<sup>®</sup>, an anti-allergy agent, and *Patanol*<sup>®</sup> anti-allergy eye drops, both fell sharply compared with the same quarter of last fiscal year. This was due to a decline in airborne pollen counts and a normalization of shipment

patterns, which were temporarily boosted after last year's earthquake.

Revenues from pharmaceutical exports and licensing revenues increased due to firm exports and the booking of licensing revenue from Fujifilm Kyowa Kirin Biologics.

The ProStrakan Group plc (the parent company and its 10 subsidiaries) was consolidated as of June 30, 2011 and performed satisfactorily and broadly in line with our plans, contributing net sales of ¥3.5 billion with an operating loss (after amortization of goodwill) of ¥1.0 billion.

In new drug development in oncology, in Japan we received approval in March for *POTELIGEO*<sup>®</sup> for adult T-cell leukemia-lymphoma (ATL). Kyowa Medex also secured approval in March for *POTELIGEO*<sup>®</sup> TEST, an in vitro diagnostic reagent designed to identify patients most likely to respond to *POTELIGEO*<sup>®</sup>. In nephrology, in Japan we began phase II studies in February on RTA 402 for chronic kidney disease patients with type 2 diabetes mellitus. In the CNS area, in Japan we obtained approval in March for *Apokyn*<sup>®</sup> for the treatment of Parkinson's disease, and filed in March for approval of KW-6002, also for Parkinson's disease.

## **Bio-Chemicals**

In the Bio-Chemicals business, consolidated net sales were ¥20.5 billion (up 4.6% compared to the same period of the previous year), while operating income was ¥1.3 billion (up 2.4%). Sales of pharmaceutical and industrial use raw materials, mainly amino and nucleic acids and related compounds, rose compared to the same period last fiscal year despite the strong yen, due to strong demand from Asia for amino acids for infusions and pharmaceutical raw materials.

Sales of healthcare products also increased due to a strong performance by the mail order *Remake Series*, notably ornithine.

Sales at Daiichi Fine Chemical increased due to growth in bulk pharmaceuticals and intermediate products.

## **Other**

In the Other segment, consolidated net sales were ¥2.5 billion (down 3.5% compared to the same period of the previous year), while operating income was ¥0 billion (up 13.9%).

## **(2) Summary of Consolidated Financial Position**

Total assets as of March 31, 2012 were ¥664.7 billion, an increase of ¥5.8 billion compared to the end of the previous fiscal year. Current assets were ¥289.2 billion, an increase of ¥5.0 billion compared to the end of the previous fiscal year. Short-term loans to the parent company (for fund management purposes) decreased, but accounts and notes receivable, and inventories increased. Non-current assets increased ¥0.8 billion to

¥375.5 billion due to an increase in tangible non-current assets.

Liabilities were ¥122.7 billion, an increase of ¥3.9 billion compared to the end of last fiscal year. Accounts payable-other decreased, but notes and accounts payable-trade and provision for bonuses increased.

Net assets were ¥542.0 billion, an increase of ¥1.9 billion compared to the end of the previous fiscal year. Increases in foreign currency translation adjustment and recording net income for the quarter were outweighed decreases from the acquisition of own shares and payment of dividends.

As a result, the shareholders' equity ratio was 81.4% as of March 31, 2012, a decrease of 0.4% compared to the end of the previous fiscal year.

### **(3) Consolidated results forecasts**

No revisions have been made to the consolidated results forecasts that were announced on January 31, 2012.

## **2. Summary information (Other items)**

### **(1) Changes to subsidiaries during the period**

No applicable items.

### **(2) Use of special accounting procedures in the preparation of this report**

Calculations for tax expenses use an estimated effective tax rate for net income before taxes based on reasonable assumptions of an effective tax rate after the application of tax effect accounting for net income before income taxes for the consolidated fiscal year, including net income before income taxes of the three-month period under review.

### **(3) Changes to accounting policies and change or revisions to accounting estimates**

No applicable items.

## 3. Consolidated financial statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2012	As of December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and deposits	28,607	27,063
Notes and accounts receivable-trade	107,495	99,109
Merchandise and finished goods	40,050	36,840
Work in process	12,630	12,232
Raw materials and supplies	9,888	9,907
Deferred tax assets	8,959	8,629
Short-term loans receivable	74,048	82,958
Other	8,147	8,067
Allowance for doubtful accounts	(568)	(591)
Total current assets	289,259	284,217
Noncurrent assets:		
Property, plant and equipment		
Buildings and structures	129,676	129,190
Accumulated depreciation	(92,735)	(91,855)
Buildings and structures, net	36,940	37,334
Machinery, equipment and vehicles	140,410	139,796
Accumulated depreciation	(122,101)	(120,761)
Machinery, equipment and vehicles, net	18,309	19,034
Land	53,959	53,954
Construction in progress	8,311	6,221
Other	47,449	46,967
Accumulated depreciation	(41,034)	(40,569)
Other, net	6,414	6,398
Total property, plant and equipment	123,935	122,943
Intangible assets		
Goodwill	176,878	177,267
Sales rights	30,387	29,025
Other	4,057	4,324
Total intangible assets	211,322	210,616
Investments and other assets		
Investment securities	24,205	24,818
Deferred tax assets	6,544	6,680
Other	9,857	9,958
Allowance for doubtful accounts	(359)	(361)
Total investments and other assets	40,247	41,096
Total noncurrent assets	375,505	374,656
Total assets:	664,765	658,873



## Consolidated Balance Sheets (continued)

(Millions of yen)

	As of March 31, 2012	As of December 31, 2011
<b>LIABILITIES</b>		
Current liabilities:		
Notes and accounts payable-trade	30,360	27,341
Short-term loans payable	6,032	5,943
Accounts payable-other	23,001	31,009
Income taxes payable	8,704	7,821
Provision for sales rebates	752	667
Provision for points	192	167
Provision for bonuses	4,040	161
Other	6,900	5,254
Total current liabilities	79,985	78,366
Noncurrent liabilities:		
Long-term loans payable	104	98
Deferred tax liabilities	11,387	10,926
Provision for retirement benefits	20,167	20,654
Provision for directors' retirement benefits	97	94
Provision for environmental measures	737	737
Asset retirement obligations	656	654
Other	9,616	7,317
Total noncurrent liabilities	42,768	40,484
Total liabilities:	122,754	118,850
<b>NET ASSETS</b>		
Shareholders' equity:		
Capital stock	26,745	26,745
Capital surplus	512,329	512,348
Retained earnings	37,917	34,956
Treasury stock	(26,501)	(19,194)
Total shareholders' equity	550,490	554,856
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,952)	(3,144)
Foreign currency translation adjustment	(7,624)	(12,841)
Total other comprehensive income	(9,576)	(15,986)
Subscription rights to shares:	129	250
Minority interests:	968	902
Total net assets:	542,010	540,023
Total liabilities and net assets	664,765	658,873

## (2) Consolidated Statements of Income

(Millions of yen)

	January 1, 2012 to March 31, 2012	January 1, 2011 to March 31, 2011
Net sales	87,111	114,862
Cost of sales	32,094	58,217
Gross profit	55,016	56,644
Selling, general and administrative expenses		
Research and development expenses	11,022	10,814
Amortization of goodwill	3,076	2,443
Other	22,878	21,475
Total selling, general and administrative expenses	36,976	34,734
Operating income	18,039	21,909
Non-operating income		
Interest income	142	65
Dividends income	318	57
Foreign exchange gain	926	579
Equity in earnings of affiliates	--	166
Other	273	411
Total non-operating income	1,660	1,280
Non-operating expenses		
Interest expenses	32	43
Loss on revaluation of derivatives	292	431
Loss from equity method investments	2,465	--
Loss on disposal of noncurrent assets	115	165
Other	218	296
Total non-operating expenses	3,125	937
Ordinary income	16,575	22,252
Extraordinary income		
Gain on sale of shares in affiliate companies	--	8,265
Total extraordinary income	--	8,265
Extraordinary loss		
Loss from sale of investment securities	324	--
Loss on valuation of investment securities	--	1,546
Advisory expenses	--	973
Effect from application of asset retirement obligation standards	--	447
Allowance for reserve for points from previous years	--	128
Loss on disaster	--	118
Total extraordinary losses	324	3,214
Income before income taxes and minority interests	16,250	27,304
Total income taxes	7,719	12,496
Income before minority interests	8,531	14,808
Gain (loss) on minority interest	16	22
Net income	8,514	14,785

## Consolidated Statements of Income (Comprehensive)

(Millions of yen)

	January 1, 2012 to March 31, 2012	January 1, 2011 to March 31, 2011
Income before minority interests	8,531	14,808
Other comprehensive income		
Valuation difference on available-for-sale securities	1,193	(316)
Deferred gains or losses on hedges	--	(0)
Foreign currency translation adjustment	5,279	941
Share of other comprehensive income of associates accounted for using equity method	(0)	(6)
Total other comprehensive income	6,471	618
Comprehensive income	15,003	15,426
Breakdown		
Comprehensive income attributable to owners of the parent	14,924	15,384
Comprehensive income attributable to minority interests	78	41

### (3) Items related to going concern assumption

No applicable items

### (4) Segment information

#### 1. Sales and profits (loss) by segment

Fiscal 2012 Q1 segment information by business type (January 1, 2012 – March 31, 2012)

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Other	Total	Adjustments	Consolidated
Net sales						
Sales to external customers	64,822	20,178	2,109	87,111	--	87,111
Inter-segment sales and transfers	47	410	448	905	(905)	--
Total sales	64,870	20,589	2,557	88,016	(905)	87,111
Segment income	16,638	1,303	94	18,036	3	18,039

Notes: 1. The Other segment includes distribution and other business and does not include reported segments.

2. The ¥3 million for Adjustments of Segment Income is due to intersegment eliminations.

3. In Segment Income, operating income from the Consolidated Statements of Income, has been adjusted.

#### 2. Sales and profits (loss) by segment

Fiscal 2011 Q1 segment information by business type (January 1, 2011 – March 31, 2011)

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Chemicals	Other	Total	Adjustments	Consolidated
Net sales							
Sales to external customers	63,344	17,788	32,787	942	114,862	--	114,862
Inter-segment sales and transfers	49	1,898	762	1,709	4,419	(4,419)	--
Total sales	63,393	19,686	33,550	2,651	119,281	(4,419)	114,862
Segment income	18,419	1,272	2,135	82	21,909	0	21,909

Notes: 1. The Other segment includes distribution and other business and does not include reported segments.

2. The ¥0 for Adjustments of Segment Income is due to intersegment eliminations.

3. In Segment Income, operating income from the Consolidated Statements of Income, has been adjusted

4. Asset amounts for the Chemicals segment, which previously included Kyowa Hakko Chemical and its consolidated subsidiaries Miyako Kagaku Co., Ltd., and Kashiwagi Co., Ltd., are nil due to its elimination from the scope of consolidation as of the end of the current consolidated first quarter. This follows the transfer of all shares of Kyowa Hakko Chemical executed on March 31, 2011.

### (5) Note on significant change in shareholders' equity

Repurchase of company shares pursuant to the provisions of Article 165-2, the Companies Act.

At a board meeting held on August 25, 2011, the Kyowa Hakko Kirin Board of Directors of passed a resolution to repurchase treasury stock pursuant to Article 156 of the Companies Act and completed acquisition on February 23, 2012. As a result, treasury shares increased ¥7,307 million during the first quarter consolidated fiscal period and treasury shares were ¥26,501 million yen at the end of the first quarter consolidated fiscal period.