KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary
Fiscal 2014

(January 1, 2014 – December 31, 2014)

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 CONSOLIDATED FINANCIAL STATEMENTS (JGAAP)

Fiscal Year Ended December 31, 2014

(The twelve-month period from January 1, 2014 to December 31, 2014)

January 30, 2015

Stock Code:	4151	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of General Meeting of Shareholders: March 20, 2015 Scheduled start date of dividend payment: March 23, 2015
Scheduled date of submission of Financial Report: March 13, 2015
Appendix materials to accompany the annual financial report: Yes
FY2014 earnings presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded down)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2014

(1) Consolidated operating results	Fiscal year ended December 31, 2014	Change (%)	Fiscal year ended December 31, 2013	Change (%)
Net sales (millions of yen)	333,446	(2.1)	340,611	2.2
Operating income (millions of yen)	36,173	(30.1)	51,773	(2.1)
Ordinary income (millions of yen)	29,511	(40.4)	49,502	1.0
Net income (millions of yen)	15,898	(47.1)	30,078	24.3
Net income per share (¥)	29.05		54.95	
Fully diluted net income per share (¥)	29.02		54.91	
Return on equity (%)	2.7		5.2	
Ordinary income to total assets ratio (%)	4.1		7.1	
Operating income to sales ratio (%)	10.8		15.2	

Notes: Comprehensive income: Fiscal year ended December 31, 2014: ¥27,218 million [(47.5)%];
Fiscal year ended December 31, 2013: ¥51,826 million [49.3%]

Share of (profit) loss of entities accounted for using equity method: Fiscal year ended December 31, 2014: ¥(6,055) million;
Fiscal year ended December 31, 2013: ¥(4,163) million

(2) Consolidated financial position	As of December 31, 2014	As of December 31, 2013
Total assets (millions of yen)	719,135	719,257
Net assets (millions of yen)	605,368	595,415
Equity ratio (%)	84.1	82.6
Net assets per share (¥)	1,105.44	1,085.17

Note: Equity: As of December 31, 2014: ¥605,035 million; As of December 31, 2013: ¥593,957 million

(Millions of yen)

(3) Consolidated cash flows	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2013
Net cash provided by (used in) operating activities	19,377	56,884
Net cash provided by (used in) investing activities	16,805	(77,163)
Net cash provided by (used in) financing activities	(37,184)	(12,579)
Cash and cash equivalents at end of period	17,013	19,242

2. Dividends

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014	Fiscal year ending December 31, 2015 (Forecast)
Interim dividend per share (¥)	12.50	12.50	12.50
Year-end dividend per share (¥)	12.50	12.50	12.50
Total dividend per share (¥)	25.00	25.00	25.00
Total dividend amount (millions of yen)	13,684	13,683	
Dividend payout ratio (consolidated) (%)	45.5	86.1	74.0
Ratio of dividends to net assets (%)	2.4	2.3	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2015

(Millions of yen)

	Interim		Full year	
		Change (%)		Change (%)
Net Sales	172,000	6.2	354,000	6.2
Operating income	16,500	(10.4)	41,500	14.7
Ordinary income	—	—	34,000	15.2
Net income	—	—	18,500	16.4
Net income per share	—		¥33.80	

Note: Because ordinary income and net income forecasts are only included for full-year forecasts, interim forecasts are provided only for net sales and operating income.

4. Other

(1) Transfer of important subsidiaries during the period (transfers of specified subsidiaries resulting in changes in the scope of consolidation during the period under review): No

(2) Changes in accounting policies, accounting estimates, and restatement:
- i) Changes in accounting policies in accordance with changes in accounting standards: Yes
- ii) Changes in accounting policies other than 1. above: No
- iii) Changes in accounting estimates: No
- iv) Restatement: No

(3) Number of shares issued (ordinary shares)

1. Number of shares issued (including treasury shares)	December 31, 2014	576,483,555 shares	December 31, 2013	576,483,555 shares
2. Number of treasury shares	December 31, 2014	29,157,158 shares	December 31, 2013	29,143,513 shares
3. Average number of shares during the period	FY ended December 31, 2014	547,348,362 shares	FY ended December 31, 2013	547,391,705 shares

(Reference)
Non-Consolidated Results for the Fiscal Year Ended December 31, 2014

(1) Non-Consolidated Operating Results	Fiscal year ended December 31, 2014		Fiscal year ended December 31, 2013	
		Change (%)		Change (%)
Net sales (Millions of yen)	201,791	(4.3)	210,934	(3.3)
Operating income (Millions of yen)	35,050	(29.8)	49,903	(17.8)
Ordinary income (Millions of yen)	41,907	(24.9)	55,777	(11.7)
Net income (Millions of yen)	31,500	(20.5)	39,612	(6.6)
Net income per share (¥)	57.55		72.37	
Fully diluted net income per share (¥)	57.51		72.32	

(2) Non-Consolidated financial position	As of December 31, 2014	As of December 31, 2013
Total assets (millions of yen)	486,412	475,264
Net assets (millions of yen)	418,267	400,765
Equity ratio (%)	85.9%	84.3%
Net assets per share (¥)	¥763.59	¥731.65

Note: Equity: As of December 31, 2014: ¥417,934 million; As of December 31, 2013: ¥400,459 million

Notice regarding auditing procedures
Auditing procedures for the financial report based on the Financial Instruments and Exchange Law, had yet to be completed at the time of the disclosure of this financial report.

Notice regarding the appropriate use of the earnings forecasts:
The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by management. Actual results may differ materially from these projections for a wide variety of reasons. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 8, 1. Summary of Business Performance and Financial Position (1) Summary of business performance 2) Outlook for Fiscal 2015.

Contents

1. Summary of Business Performance and Financial Position

(1) Summary of business performance

1) Business performance in Fiscal 2014

(Billions of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2013	Change
Net sales	333.4	340.6	(7.1)
Operating income	36.1	51.7	(15.6)
Ordinary income	29.5	49.5	(19.9)
Net income	15.8	30.0	(14.1)

- Consolidated net sales for the current fiscal year were boosted by positive factors including steady sales of the core product NESP®, a long-acting erythropoiesis stimulating agent, the acquisition of Archimedes Pharma Limited ("Archimedes"), and further yen depreciation. Nevertheless, net sales and operating income decreased owing to the impact of drug price revisions implemented in April 2014, a decline in licensing revenue and an increase in R&D costs.
- The decline in ordinary income was mainly a result of the decrease in operating income and an increase in share of loss of entities accounted for using equity method, while the decline in net income was partly due to the recording of gain on sales of shares of subsidiaries and associates and other factors in the previous fiscal year.
- In the Pharmaceuticals business, the operating environment became much more challenging, with measures to promote the use of generic drugs in Japan causing the replacement of long term NHI products by generics to progress faster than expected. Amid a situation in which it became increasingly difficult to launch products on the market, in Japan we newly launched Dovobet®, a topical combination drug for psoriasis vulgaris in-licensed from Leo Pharma K.K., in September, and the sustained-duration Granulocyte Colony-Stimulating Factor (G-CSF) product G-Lasta® in November. Furthermore, in August ProStrakan acquired Archimedes, which has strengths in the pain, cancer and critical care fields. For our anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®), a global strategic product of Kyowa Hakko Kirin, we entered into development alliance agreements regarding immuno-oncology for solid tumors with AstraZeneca (U.K.), Pfizer (U.S.), and ONO PHARMACEUTICAL/Bristol-Myers Squibb (U.S.), for the purpose of maximizing the product's value.
- In the Bio-Chemicals business, our core amino acids, nucleic acids and related compounds with a focus on pharmaceutical and medical applications showed steady sales. In addition, sales of Ornithine in the healthcare mail-order sales business were steady. In the Bio-Chemicals business, which has a large ratio of overseas sales, operating income increased substantially, partly due to the impact of yen depreciation.

Performance by segment

Pharmaceuticals business

(Billions of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2013	Change
Net sales	253.0	261.0	(7.9)
Operating income	29.0	46.1	(17.0)

- Domestic sales of ethical pharmaceutical products declined year on year due to such factors as the

impact of drug price revisions implemented in April 2014.

- Sales of core product NESP®, a long-acting erythropoiesis stimulating agent, were steady. Sales of ALLELOCK®, an anti-allergy agent, and Patanol® anti-allergy eye drops declined year on year due to the effects of lower amounts of airborne pollen. Sales of ALLELOCK® were also impacted by the drug price revisions and the market penetration of generics. There were also declines in sales of other long term NHI products such as CONIEL®, a hypertension and angina pectoris drug, GRAN®, a G-CSF product, and Depakene®, an anti-epileptic drug.
- Sales of NOURIAST®, an antiparkinsonian agent, REGPARA®, a calcium receptor agonist, Abstral®, a treatment for cancer pain, Fentos®, a transdermal analgesic for persistent pain, ASACOL®, an ulcerative colitis treatment, Onglyza®, a treatment for type-two diabetes, and other products advanced steadily.
- Dovobet®, a topical combination drug for psoriasis vulgaris launched in collaboration with Leo Pharma K.K. in September, showed steady market penetration.
- We launched sustained-duration G-CSF product G-Lasta® in November.

- In the licensing-out of technologies and export of pharmaceutical products, exports were steady but sales declined year on year due to a decline in licensing revenue.
- Regarding ProStrakan, sales of Abstral®, a treatment for cancer pain, and other core products grew strongly. In addition, due to the acquisition of Archimedes on August 5, consolidated results for the current fiscal year include results from this company and its 12 subsidiaries for the period from August 5 to December 31. As a result, following consolidation of Archimedes, ProStrakan net sales were ¥31.3 billion (up 34.6% year on year) and operating loss (after amortization of goodwill, etc.) was ¥0.022 billion, compared with operating income of ¥0.2 billion in the previous fiscal year.

R&D activities in the Pharmaceuticals business:

- Using cutting-edge biotechnology centered on antibody technology, we have made nephrology, oncology, immunology/allergy and CNS the focus of research and development, and by investing resources efficiently, we aim to further speed up the creation of new medical value and drug creation.
- In particular, we have concluded multiple co-development agreements related to immuno-oncology for solid tumors to maximize product value for anti-CCR4 humanized monoclonal antibody KW-0761 (brand name in Japan POTELIGEO®), our global strategy product.
- In addition, late-stage development, conducted mainly overseas, made progress, and the associated R&D costs rose compared with the previous fiscal year.
- The development statuses of our main late-stage development products in the current fiscal year are as follows.

Nephrology

(Domestic)

- In February we received approval for additional indications of hypercalcemia in patients with parathyroid carcinoma, and hypercalcemia in patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or who experience recurrent primary hyperparathyroidism for REGPARA®, a calcium receptor agonist.
- In March we applied for approval of REGPARA® 12.5mg, a calcium receptor agonist.
- In August we initiated late-stage phase II clinical study of calcium receptor agonist KHK7580 for secondary hyperparathyroidism.
- In July we decided the future development direction for RTA 402 targeting CKD with type 2 diabetes, and have decided to initiate new phase II clinical study in the future.

(Overseas)

- In China, we received approval of Cinacalcet Hydrochloride (product name in Japan: REGPARA®) in June, a calcium receptor agonist.
- In China, we are currently conducting phase III clinical study for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent, for the treatment of renal anemia in

patients receiving dialysis.

Oncology

(Domestic)

- We received approval for sustained-duration G-CSF product G-Lasta® for febrile neutropenia in patients treated with cytoxic chemotherapy for malignancy in September, and launched the product in November.
- In March we received approval for additional indications for relapsed or refractory CCR4-positive peripheral T-cell lymphoma (PTCL) and cutaneous T-cell lymphoma (CTCL) for anti-CCR4 humanized monoclonal antibody POTELIGEO®. Furthermore, although we temporarily withdrew our application for approval for this product for additional indications and for dosage and administration for chemotherapy-naive CCR4-positive adult T-cell leukemia-lymphoma (ATL) in February, we re-filed the application in June and received approval in December.
- In March we applied for approval for additional indication of NESP®, a long-acting erythropoiesis stimulating agent, for anemia with myelodysplastic syndrome, and received approval in December.
- In February we initiated phase III clinical study evaluating ARQ 197 patients with c-Met diagnostic-high inoperable hepatocellular carcinoma treated with one prior sorafenib therapy.

(Overseas)

- Anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®) is currently undergoing phase III clinical study targeting cutaneous T-cell lymphoma in the U.S. and Europe, phase II clinical study targeting peripheral T-cell lymphoma in Europe, and phase II clinical study targeting adult T-cell leukemia-lymphoma in the U.S., Europe and etc. In April we added Japan as a site for ongoing phase III clinical study in the U.S. and Europe, targeting cutaneous T-cell Lymphoma.

Immunology and allergy

(Domestic)

- In April we initiated phase III clinical study of anti-IL-5 receptor humanized monoclonal antibody KHK4563 in Japan and South Korea, targeting asthma patients, as part of the global clinical study being conducted by our licensing partner, AstraZeneca.
- Anti-IL-17 receptor humanized antibody KHK4827 is currently undergoing phase III clinical study targeting psoriasis.

CNS

(Domestic)

- In January we obtained additional approval for a new formulation (granules) of anti-epileptic drug TOPINA®, and launched in May.

(Overseas)

- KW-6002 (product name in Japan: NOURIAST®) is currently undergoing phase III clinical study in the U.S., Europe and other areas targeting Parkinson's disease.

Other

(Domestic)

- In July we applied for approval for indication for thrombophilia due to congenital antithrombin (AT) III deficiency and disseminated intravascular coagulation accompanied by a decrease in AT III for recombinant human AT drug KW-3357.

(Overseas)

- In July we initiated phase II clinical study of the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 in pediatric patients with X-linked hypophosphatemic rickets in the U.S. and Europe.

Bio-Chemicals business

(Billions of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2013	Change
Net sales	83.9	82.9	1.0
Operating income	7.2	5.6	1.6

(Domestic business)

- Sales in the pharmaceutical and medical treatment fields increased compared to the previous fiscal year.
  - In the pharmaceutical and medical fields, active pharmaceutical ingredients (APIs) grew.
- Sales in the healthcare field were at the same level as the previous fiscal year.
  - In healthcare, we achieved strong growth in mail-order sales, primarily those of Ornithine. In November we launched a renewal of the supplement “Coenzyme Q10EX” containing a higher concentration of contents than its predecessor.
  - Food and beverage raw materials sales declined year on year, partly due to slow growth in sales of beverages resulting from unseasonable weather during the summertime.

(Overseas business)

- Sales from overseas businesses were higher than the previous fiscal year due in part to a weaker yen.
  - In the U.S., sales of some amino acids for supplements increased, and net sales increased from the previous fiscal year.
  - In Europe, although sales volume of infusion-use amino acids stayed at the same level as in the previous fiscal year, sales for other uses such as for pharmaceutical-use raw materials increased. Sales increased year on year, with further yen depreciation in foreign exchange also having an impact.
  - Looking at Asia, in China, there was a decrease in production of infusion-use amino acids as a result of customers responding to new drug regulations, while sales volume decreased due to a lull in demand, which had shown a dramatic increase in the previous fiscal year. Nevertheless, sales increased year on year due to the impact of yen depreciation in foreign exchange.

R&D activities in the Bio-Chemicals business:

- We are actively developing manufacturing methods for raw materials such as dipeptides and oligosaccharides using high technological capabilities and developing new markets while continuing to focus on developing a resource-saving and efficient fermentation production process for core products such as amino acids, nucleic acids and related compounds.
- Through the combination of fermentation technology and organic synthesis technology, we are developing new manufacturing methods for high value-added APIs and intermediate products.
- In the healthcare field, based on functionality and safety data obtained through joint research with Japanese and overseas universities and research institutes, we are working on the exploring of nutritional physiology functions and the development of application of fermentation product such as amino acids, and dosage forms that are palatable and easy to use.

2) Outlook for Fiscal 2015

(Billions of yen)

	FORECAST* FY ending December 31, 2015	Change compared to FY ended December 31, 2014	% Change compared to FY ended December 31, 2014
Net sales	354.0	20.5	6.2%
Operating income	41.5	5.3	14.7%
Ordinary income	34.0	4.4	15.2%
Net income	18.5	2.6	16.4%

These forecasts assume average exchange rates of ¥109/US$, ¥139/euro and ¥178/British pound.

- Consolidated financial earnings forecasts for fiscal 2015 (January 1, 2015 to December 31, 2015) are for net sales of ¥354.0 billion, an increase of 6.2% compared to the current fiscal year, operating income of ¥41.5 billion, up 14.7%, ordinary income of ¥34.0 billion, up 15.2%, and net income of ¥18.5 billion, an increase of 16.4%.
- In the Pharmaceuticals business, although we expect a decline in licensing revenue and an increase in research and development expenses, we forecast higher sales and profits compared to the current fiscal year, due to not only growth in domestic net sales mainly from new products such as sustained-duration G-CSF product G-Lasta®, Dovobet®, a topical combination drug for psoriasis vulgaris, NOURIAST®, an antiparkinsonian agent, and Onglyza®, a treatment for type-two diabetes, but also the full-year contribution from the consolidation of Archimedes overseas.
- In the Bio-Chemicals business, we are forecasting higher sales and profits compared to the current fiscal year due to an increase in sales volumes of core amino acids, nucleic acids and Ornithine, improved profits at Daiichi Fine Chemical Co., Ltd., and we also expect the yen to weaken.
- Ordinary income and net income are also forecast to increase compared to the current fiscal year.

*The above forecasts are based on information available and assumptions made at the time of release of this document about a number of uncertain factors that can affect results in the future. It is possible that actual results are materially different for a wide variety of reasons.

(2) Summary of consolidated financial position

1) Assets, liabilities, and net assets

- Total assets as of December 31, 2014 were ¥719.1 billion, a decrease of ¥0.1 billion compared to the end of the previous fiscal year. Current assets decreased by ¥46.1 billion to ¥283.1 billion due to a decrease in short-term loans receivable to the parent company despite an increase in inventories as well as notes and accounts receivable - trade. Non-current assets increased by ¥46.0 billion to ¥435.9 billion due to an increase in property, plant and equipment as well as an increase in intangible assets including goodwill, sales right and other factors resulting from the acquisition of Archimedes.
- Total liabilities as of December 31, 2014 were ¥113.7 billion, a decrease of ¥10.0 billion compared to the end of the previous fiscal year, as a result of a decrease in provision for retirement benefits (net defined benefit liability) due to cash contribution of ¥19.0 billion to retirement benefits trusts and others despite an increase in deferred tax liabilities.
- Net assets as of December 31, 2014 were ¥605.3 billion, an increase of ¥9.9 billion compared to the end of the previous fiscal year, due to the booking of net income for the period and an increase in foreign currency translation adjustment, which offset payment of dividends.
  As a result, the equity ratio as of the end of the current fiscal year was 84.1%, an increase of 1.5 percentage points compared to the end of the previous fiscal year.

(Reference) Accounting treatment for business combination of the acquisition of Archimedes
The fair value and finalized allocation of acquisition cost for assets, etc. of Archimedes and its 12

subsidiaries as of August 5, 2014, and the impact on the consolidated performance (amortization, etc.) for the fiscal year ended December 31, 2014 in connection with the acquisition of Archimedes were as follows:

(Millions of pounds)

	Fair value and finalized allocation of acquisition cost for assets, etc.	Amortization, etc. for FY ended December 31, 2014	Amortization method and period
Intangible assets (Sales right etc.)	131.7	5.3	Equally amortized over the amortization period individually determined (4.7–17.4 years)
Inventories (increase in assessed value)	3.6	3.6	Book value: 5.7 ⇨ Fair value: 9.4
Loans payable	(129.2)	–	
Other assets and liabilities (net)	(6.8)	–	
Goodwill	98.8	3.4	Equally amortized over 12 years
Total	98.1	12.3	

2) Cash flow summary

(Billions of yen)

	FY ended December 31, 2014	FY ended December 31, 2013	Change
Net cash provided by (used in) operating activities	19.3	56.8	(37.5)
Net cash provided by (used in) investing activities	16.8	(77.1)	93.9
Net cash provided by (used in) financing activities	(37.1)	(12.5)	(24.6)
Cash and cash equivalents at end of year	17.0	19.2	(2.2)

- Cash and cash equivalents as of December 31, 2014 were ¥17.0 billion, a decrease of ¥2.2 billion compared to the balance of ¥19.2 billion as of December 31, 2013.

The main contributing factors affecting cash flow during the current fiscal year were as follows:

- Net cash provided by operating activities was ¥19.3 billion, a decrease of 65.9% over the previous fiscal year. The main inflows included income before income taxes and minority interests of ¥27.2 billion, deprecation of ¥23.8 billion, and amortization of goodwill of ¥12.8 billion. The main outflows included securities contribution to employees' retirement benefits trust of ¥19.0 billion, income taxes paid of ¥16.8 billion, an increase in inventories of ¥12.0 billion, etc.
- Net cash provided by investing activities was ¥16.8 billion, compared with net cash used in investing activities of ¥77.1 billion in the previous fiscal year. Major outflows included ¥34.6 billion for the purchase of property, plant, and equipment, and intangible assets, ¥14.5 billion for purchase of shares of subsidiaries resulting from the acquisition of Archimedes, and others, while major inflows were a net decrease of ¥68.3 billion in short-term loans receivable, etc.
- Net cash used in financing activities was ¥37.1 billion, a 195.6% increase compared to the previous fiscal year. The main outflows were a net decrease of ¥23.4 billion in short-term loans payable resulting from the acquisition of Archimedes, etc., and ¥13.6 billion for cash dividends paid.

(Reference)
Key cash flow indicators

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
Equity ratio (%)	78.2%	81.8%	81.7%	82.6%	84.1%
Equity (market value basis) ratio (%)	68.5%	79.4%	68.4%	88.2%	86.5%
Interest bearing debt to cash flow ratio (years)	0.1	0.1	0.1	0.1	0.3
Interest coverage ratio (times)	313.4	305.4	484.2	234.2	64.4

Notes:
Equity ratio = Equity / Total assets
Equity (market value basis) ratio = Market capitalization / Total assets
Interest bearing debt to cash flow ratio = Interest-bearing debt / Operating cash flow
Interest coverage ratio = Operating cash flow / Interest payments
*1. All ratios are based on consolidated figures.
*2. Market capitalization is based on the number of shares issued and outstanding at the end of the period (excluding treasury shares).
*3. Operating cash flow is the figure for net cash provided by operating activities on the consolidated statements of cash flows.
*4. Of the liabilities on the consolidated balance sheet, interest-bearing debt includes short-term loans payable, commercial papers and long-term loans payable.
*5. For interest payments, the interest paid figure on the consolidated statements of cash flows is used.

3) Outlook for Fiscal 2015

- Cash flows from operating activities: Operating cash inflow is expected to increase from the current fiscal year with securities contribution to employees' retirement benefits trust due to an expected increase in income before income taxes and minority interests compared with the current fiscal year.
- Cash flows from investing activities: Cash inflow from investing activities is expected to turn outflow in the next fiscal year due to an expected decrease in proceeds from net decrease in short-term loans receivable despite an anticipated decrease in outflow from the purchase of property, plant, and equipment, the purchase of shares of subsidiaries, and others.
- Cash flows from financing activities: Cash outflow from financing activities is expected to be lower in the next fiscal year than in the current fiscal year, due to a decrease in outflow from a net decrease in short-term loans payable. As regards the sourcing of funds, repayment of borrowings and the purchase of treasury shares, we will remain flexible and act as appropriate for the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2015 are expected to be at the same level as at the end of fiscal 2014.

Note: The above financial position outlook is based on information available to management at the current time. The actual financial position may differ significantly from projections.

(3) Basic policy on profit distribution: Fiscal 2014 and Fiscal 2015 dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key priorities.
Our basic policy on profit distribution is to deliver stable and sustainable dividends, while maintaining fully adequate internal reserves for business expansion and other developments, and considering factors such as our consolidated results and the dividend payout ratio. We plan to improve our capital efficiency by acting flexibly and rapidly with regards to purchase of treasury shares. Kyowa Hakko Kirin intends to use internal reserve funds for investments required to drive new growth, such as those in research and development, facilities, and our development pipeline's enlarging that are expected to contribute to the improvement of our future corporate value.

In accordance with this basic policy, we plan to pay a year-end dividend for fiscal 2014 of ¥12.50 per share. As a result, the annual dividend is expected to be ¥25 per share, consisting of an interim

dividend of ¥12.50 per share and a year-end dividend of ¥12.50 per share.

In our 2013 to 2015 Medium-term Business Plan we aim for a stable dividend payment, targeting a consolidated dividend payout ratio of 40% on a basis of net income before amortization of goodwill*. For the fiscal year ending December 2015, we expect to pay an annual dividend of ¥25 per share, consisting of an interim dividend of ¥12.50 and a year-end dividend of ¥12.50.

**Net income before amortization of goodwill refers to net income before deduction of amortization of goodwill generated as a result of a reverse acquisition (Kyowa Hakko Kogyo Co., Ltd.'s share exchange with Kirin Pharma Company, Limited) in April 2008.*

(4) Business and other risks

With respect to business performance and financial position of Kyowa Hakko Kirin Group (the "Group"), the major risks that may significantly affect investors' assessments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the assessment of the Group as of December 31, 2014.

1) Risks associated with R&D investment

In ethical drug operations, the development of new drugs requires long periods of time and substantial R&D expenditure. In the long-term development of new drugs, there may be cases where the expected efficacy or stability is not confirmed. This may result in the abandonment of the continuous R&D. In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies to differentiate the Group from its competitors. However, as with R&D for ethical drug operations, there is no guarantee that all of these investments will produce results. Consequently, in cases where expected R&D results are not realized, the Group's future growth and profitability may decline and our business performance and financial position could also be adversely affected.

2) Risks related to intellectual property rights

The Group strictly manages its intellectual property rights and is vigilant against infringement by third parties. Nevertheless, in cases where the Group's intellectual property rights are infringed upon, sales of the Group's products or revenues from technology could decline earlier than forecast and the Group's business performance and financial position could be adversely affected. Furthermore, while the Group pays particular attention not to violate the intellectual property rights of others, in cases where the Group is subject to litigation filed by a third party alleging infringement of intellectual property rights, the Group may be required to cease such activities, and pay compensation and/or settlement, and our business activities, business performance and financial position could be adversely affected.

3) Risk of side effects

Pharmaceutical products undergo strict safety audits at the development stage and are approved following checks by the competent authorities in relevant countries, however following launch, on occasion previously unknown side effects based on the accumulated results of users may become apparent. In such cases where an unexpected side effect is discovered following launch, the Group's business performance and financial position could be adversely affected.

4) Risk of impact from pharmaceutical administration and regulations

The Pharmaceuticals business, the Group's core business, operates under various regulatory restraints by the pharmaceutical administration of the countries in which we operate. In Japan, Kyowa Hakko Kirin Group's business performance and financial position could be affected by factors including future trends in the reform of Japan's system of medical treatment aimed at promoting the use of generic drugs, in addition to drug price reductions under the domestic official drug price system.
Overseas, pressure to reduce medical fees is becoming higher, and in cases where a price reduction cannot be compensated for by an increase in sales volume, the Group's business performance and financial position could be adversely affected.

5) Legal regulation risk

In the course of carrying out its operations in Japan and overseas, the Group must strictly comply with various legal regulations in such countries.
The Group emphasizes compliance to try to ensure that it does not violate the laws and other regulations to which it is subject, and the Group is working to bolster internal control functions through such means as administrative oversight. However, there is no guarantee that the Group will be able to completely eliminate the possibility of committing a violation of these legal regulations and regulatory restraints. If, because we are unable to observe these legal regulations and regulatory restraints, new product development is delayed or stopped, or manufacturing or sales activities are restricted, the Group's credibility could be damaged. In such cases, the Group's business performance and financial position could be negatively impacted.
Furthermore, in the future, if laws and regulations that must be observed in Japan and overseas change, the Group's business performance and financial position could be adversely affected.

6) Risk of fluctuations to foreign exchange rate

The Group conducts foreign currency denominated transactions such as receiving income from overseas sales of products, licensing-out of technologies overseas, and acquiring raw materials overseas. Therefore any sharp change in exchange rates could adversely affect the Group's business performance and financial position. Fluctuations to the foreign exchange rate could also affect our ability to be price competitive on products sold in markets shared with overseas competitors.
In addition, the gains and losses, and assets and liabilities of overseas consolidated subsidiaries denominated in local currencies are translated into yen for the preparation of the consolidated financial statements. Therefore the exchange rate at the time of translation could have an effect on values following currency translation.

7) Disaster-related and accident-related risks

Earthquakes, fires, pandemics such as influenza, terrorism, large-scale electrical black outs and other events and accidents could result in suspension of business activities at our Group headquarters, factories, research facilities or offices. The Group handles substances that are subject to various legal regulations and guidelines, and as a result of natural disasters, etc., these substances could enter the external environment and cause damage to the surrounding area.
Although the Group maintains a disaster prevention system and has formulated and developed a business continuity plan, should an event or accident as described above occur it might result in not only significant damages but also negative impacts on the Group's position of trust in society. Additionally, the Group's business performance and financial position could be adversely affected.

8) Other risks

In addition to the above, there are other risks that could adversely affect the Group's business performance and financial position and they include fluctuations to the price of raw materials and fuel prices, fluctuations to share prices and interest rates, impairment of fixed assets, suspension of supply of products and raw materials and information leaks.

2. Group Status

Kyowa Hakko Kirin Group is composed of Kyowa Hakko Kirin Co., Ltd. (“Kyowa Hakko Kirin” or the “Company”), 59 subsidiaries, 2 associates and one parent company (Kirin Holdings Company, Limited) and operates businesses primarily in the Pharmaceuticals and Bio-Chemicals business divisions. The major operating activities and positions of the Company and the main Group companies in these businesses are outlined below.

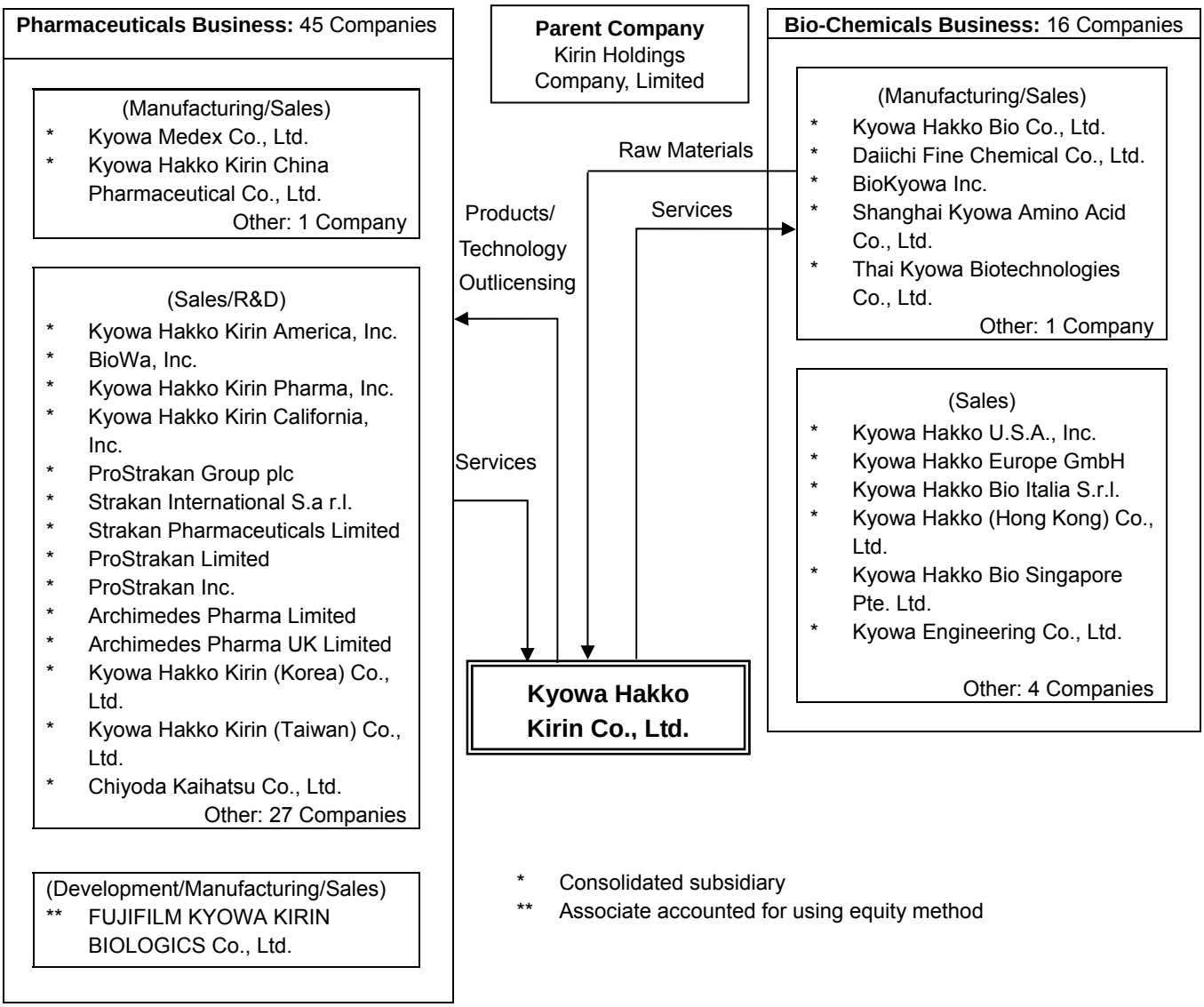
The two segments described below are the same as those described in [6. Segment Information, etc.]

Pharmaceuticals Business	Ethical pharmaceuticals are manufactured and sold predominantly by Kyowa Hakko Kirin, and Kyowa Medex Co., Ltd. manufactures and sells diagnostic reagents. FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. develops biosimilar pharmaceutical products with plans for future manufacturing and sale. Overseas, Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. manufactures and sells pharmaceuticals in China. Kyowa Hakko Kirin (Korea) Co., Ltd. and Kyowa Hakko Kirin (Taiwan) Co., Ltd. sell pharmaceuticals in their respective areas, Korea and Taiwan. Kyowa Hakko Kirin America, Inc. is a holding company for administration and management of the Pharmaceuticals business subsidiaries in the U.S. BioWa, Inc. undertakes out-licensing of antibody technology developed by Kyowa Hakko Kirin and plays a role in the strategic development of the antibody drug business. Kyowa Hakko Kirin Pharma, Inc. handles the development of new drug candidate compounds as subcontracted work. Kyowa Hakko Kirin California, Inc. generates new drug candidate compounds as subcontracted work. ProStrakan Group plc and its 24 subsidiaries are involved in the development and sales of ethical pharmaceuticals in Europe and the U.S. Chiyoda Kaihatsu Co., Ltd. is engaged in businesses including contracting, wholesale and retail, and insurance agency. It provides services to Kyowa Hakko Kirin and some of subsidiaries and associates.
Bio-Chemicals Business	Raw materials for pharmaceutical and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products are manufactured by Kyowa Hakko Bio Co., Ltd., Daiichi Fine Chemical Co., Ltd., BioKyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. These are sold directly by these four companies and also by overseas subsidiaries such as Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Hakko Bio Italia S.r.l., Kyowa Hakko (Hong Kong) Co., Ltd. and Kyowa Hakko Bio Singapore Pte. Ltd. In Thailand, Thai Kyowa Biotechnologies Co., Ltd. was established in November 2012 as a new amino acid production base, and construction of an amino acid production facility is under way with plans to begin production in the second half of 2015. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supply equipment to Kyowa Hakko Kirin, Kyowa Hakko Bio Co., Ltd. and some of subsidiaries and associates.

Note: Unless specifically stated otherwise, in this document, the “Group” refers to Kyowa Hakko Kirin and its 49 consolidated subsidiaries.

Overview of the Kyowa Hakko Kirin Group

If the structure outlined above is shown as a business flow diagram, it takes the following form:



* Consolidated subsidiary

** Associate accounted for using equity method

3. Management Policies

(1) Basic management policies

The Kyowa Hakko Kirin Group's management philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. Under this policy, through new drug development we are aiming to become a global specialty pharmaceutical group as a group of companies that contributes to the health and well-being of people around the world.

By faithfully fulfilling our corporate social responsibility through transparency, fairness, and compliance and in harmony with society, as a group involved in human life, we are striving to be a group that earns the trust of all stakeholders.

(2) Management targets

The Kyowa Hakko Kirin Group formulated the Group's three-year 2013 to 2015 Medium-term Business Plan with fiscal 2013 being the first year of the plan. Our revised guidance on targets for fiscal 2015, the final year of the plan, was previously for net sales of ¥355 billion and operating income of ¥55 billion. However, our targets for fiscal 2015 have been changed to net sales of ¥354 billion and operating income of ¥41.5 billion to reflect factors such as a failure to achieve anticipated licensing revenue and an increase in R&D costs associated with the progress of development products.

(3) Medium- and long-term business strategy and issues

Kyowa Hakko Kirin Group companies are working to achieve the following three key priorities set out in the Group Medium-term Business Plan for 2013 to 2015 under the theme of becoming a global specialty pharmaceutical group:

- Further strengthen competitiveness in Japan through our category strategy
- Expand our business base in the U.S., Europe and Asia and aim to become a global specialty pharmaceutical group
- Strengthen the revenue base of our Bio-Chemicals business

In the Pharmaceuticals business, the operating environment continues to be increasingly challenging, characterized by dramatic and rapid changes such as a decline in both domestic and international success rates of new drug generation, stricter screening, and progress with measures to reduce medical treatment costs. In the domestic market in particular, measures to promote the use of generic drugs are causing the replacement of long term NHI products by generics to progress faster than expected. Amid slowing growth in the domestic pharmaceutical market, the market share of generics is steadily increasing. Therefore, research and development-oriented pharmaceutical manufacturers must shift their revenue sources from a reliance on existing long term NHI products and the domestic market to new pharmaceuticals and the global market.

In this environment, Kyowa Hakko Kirin will further strengthen competitiveness in Japan by pushing ahead with the category strategy, and support global deployment and sustainable growth. In the four categories of nephrology, oncology, immunology/allergy and CNS, we will strengthen cooperation consistently on every function from R&D to manufacturing and sales. In addition to the steady launch of new drugs from our extensive pipeline, we are aiming to build an effective sales structure leveraging a high degree of expertise, maximize sales and win trust among medical practitioners.

Amid a situation in which it became increasingly difficult to launch products on the market, in Japan we launched Dovobet®, a topical combination drug for psoriasis vulgaris in-licensed from Leo Pharma K.K., in September 2014, and the sustained-duration G-CSF product G-Lasta® in November 2014. Furthermore, with the aim of maximizing the value of existing products, in January 2014 we launched

NESP® Injection 5μg Plastic Syringe, which is expected to enable more meticulous, individually targeted treatment for renal anemia, and in May 2014 we launched anti-epileptic drug TOPINA® Fine Granules, which is more appropriate for administration to epileptic patients who cannot swallow tablets easily, such as children and elderly people, and is expected to improve the medication adherence*1. Here at Kyowa Hakko Kirin, with a focus on our category strategy, we will continue to accurately grasp the unmet medical needs on the front line of medicine and work to develop new drugs and nurture other drugs.

On April 1, 2014, we consolidated and reorganized our research and development divisions establishing the R&D Division, which has unified responsibility for operations from research through to development. In this division, we have established R&D units for different categories, which will operate under a unified structure in drug discovery research, clinical development and nurturing drugs in their respective categories. We believe that this organizational reform will speed up research and development, enhance our success rate, and accelerate value maximization for our products through new drug creation and cultivation of other drugs in accordance with needs on the front line of medicine.

In antibody drugs, an area of strength for Kyowa Hakko Kirin, we are steadily maximizing value through progress and cooperation in clinical development in Japan and overseas. We will also retain our focus on strengthening drug creation by combining Kyowa Hakko Kirin's knowledge and technologies with those of external entities and implementing so-called open innovation, thus meeting unmet medical needs.

In overseas markets, we are working to expand our business base in the U.S., Europe and Asia with the goal of becoming a global specialty pharmaceutical group. In August 2014, through ProStrakan, we acquired Archimedes, which has strengths in the pain, cancer and critical care*2 fields, further strengthening our European business. Going forward, we will not only continue to aggressively pursue ProStrakan's business model of introducing late-stage development and marketed products, but will also establish a framework for sales in the U.S. in tandem with launches of globally developed products such as POTELIGEO®, Kyowa Hakko Kirin's first antibody drug.

In Asia, the reorganization of our business base to achieve future stable growth in China is the most important issue. In addition, at local subsidiaries in Korea, Taiwan, Singapore, Thailand and other growing economies, we are implementing business strategies that reflect the unique characteristics and prevailing environment in each country.

In our biosimilars business, which is a joint venture with FUJIFILM Corporation, while paying attention to changes in the market environment, we are energetically advancing development in accordance with our goal of developing pharmaceutical products that are not only reliable and high-quality but also highly cost-competitive in markets around the world.

In our diagnostics business, via Kyowa Medex Co., Ltd. we are providing advanced diagnostic products and instruments necessary for the treatment of various diseases, and are establishing a strong position in Japan while building a business base in China. We believe that the diagnostics business will increasingly grow in importance going forward in line with further development in the fields of individualized medicine and preventative medicine. With this in mind, we are aiming to maximize the value of this business by such means as developing companion diagnostic drugs through synergy with the Pharmaceuticals business.

In the Bio-Chemicals business, we are aiming for sustainable growth in the pharmaceuticals, medical

and healthcare fields as a biotech group that has both fermentation and synthesis technology. Accordingly, we will push ahead with efforts to create new value and strengthen our revenue base through innovative technical development.

We are aiming to further enhance cost competitiveness, create a business structure that is resistant to the impact of exchange rate movements, and strengthen production capacity to respond to increased global demand for amino acids. To achieve these goals, we are making steady progress on strengthening, reorganizing and improving the Group's overseas and domestic production facilities, such as Yamaguchi Production Center, Daiichi Fine Chemical Co., Ltd. and BioKyowa Inc. in the U.S. As part of these efforts, we are making steady progress in the construction of our new production facility in Thailand with the aim of starting commercial operations there in the second half of 2015.

In April 2015, a new system enabling the display of function claims on products such as health foods on scientific evidence will start. In our domestic healthcare business, we will work to respond to this new system by developing materials that are functional and safe. In addition, with the cooperation of other companies within the Kirin Group, we will devise display methods that are easily understandable for customers. Through effective advertising activities we are aiming to increase product recognition in mail order sales, represented by Ornithine, while supplying in-house materials that our customers can use with comfort and peace of mind.

For Kyowa Hakko Kirin to realize its goal of becoming a global specialty pharmaceutical company, it is essential to cultivate the organizations and climate to conscientiously fulfill Kyowa Hakko Kirin's corporate social responsibilities, such as compliance and quality assurance. In addition, we have responded to the problem of improper involvement by Kyowa Hakko Kirin employees in a clinical study led by a medical practitioner, which was made public in May 2014. Having received recommendations for the prevention of a recurrence from an external investigation committee composed of outside experts, we established a policy on clinical research and clarified the reconstruction of our system for examining monetary donations and clinical research, and internal company rules to regulate support for clinical research. We also carried out a variety of reviews on matters such as increasing the independence of our internal body to examine promotional activities and materials. We will continue working to promote transparency and to thoroughly implement compliance.

The Group is highly appraised for its technological capabilities as a research and development-oriented group. In the Pharmaceuticals business, we received the Pharmaceutical Society of Japan Award for Drug Research and Development for our research and development of the novel anti-cancer drug mogamulizumab for adult T-cell leukemia-lymphoma (humanized anti-CCR4 antibody using high ADCC POTELLIGENT technology). The work was selected as a successful example of original Japanese next-generation antibody technology, the use of such technology, and collaboration between industry and academia. Furthermore, in the Bio-Chemicals business, we received the Japan Bioscience, Biotechnology and Agrochemistry Society Award for Achievement in Technological Research for the development and industrialization of our dipeptide fermentation technology, which was selected as a noteworthy technical achievement in the field of agrochemistry.

The Group's management philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. In accordance with this philosophy, with the new drug business at its core, the Group is pursuing a unique pharmaceutical business model that combines our biosimilars, diagnostics and bio-chemical businesses, and we are moving forward in our efforts to become a global specialty pharmaceutical group.

*1. Medication adherence refers to patients voluntarily administering medication in accordance with dosage and administration guidance for medicine prescribed by a medical practitioner.

*2. Critical care is intensive care applied to patients whose lives are at risk for reasons such as serious disease.

4. Basic Rationale for Selection of Accounting Standards

The Group is considering applying IFRS from fiscal 2017 account closing to enhance the international comparability of its financial information in the capital markets.

5. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of December 31, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and deposits	20,657	20,190
Notes and accounts receivable - trade	108,867	98,602
Merchandise and finished goods	67,724	50,863
Work in process	12,608	13,465
Raw materials and supplies	10,951	11,371
Deferred tax assets	10,611	10,409
Short-term loans receivable	41,672	113,133
Other	10,464	11,780
Allowance for doubtful accounts	(366)	(497)
Total current assets	283,192	329,320
Non-current assets:		
Property, plant and equipment		
Buildings and structures	134,423	132,861
Accumulated depreciation	(89,937)	(90,637)
Buildings and structures, net	44,485	42,223
Machinery, equipment and vehicles	153,286	146,935
Accumulated depreciation	(131,092)	(125,860)
Machinery, equipment and vehicles, net	22,193	21,075
Land	54,271	54,620
Construction in progress	23,371	13,501
Other	50,284	47,795
Accumulated depreciation	(42,714)	(41,297)
Other, net	7,569	6,498
Total property, plant and equipment	151,891	137,919
Intangible assets		
Goodwill	173,241	163,713
Sales right	67,231	46,519
Other	1,078	1,841
Total intangible assets	241,551	212,073
Investments and other assets		
Investment securities	22,766	24,602
Net defined benefit asset	6,444	
Deferred tax assets	8,075	3,893
Other	5,389	11,638
Allowance for doubtful accounts	(175)	(191)
Total investments and other assets	42,500	39,942
Total non-current assets	435,943	389,936
Total assets:	719,135	719,257

(1) Consolidated balance sheets (continued)

(Millions of yen)

	As of December 31, 2014	As of December 31, 2013
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	22,729	22,589
Short-term loans payable	4,868	6,207
Accounts payable - other	39,257	36,519
Income taxes payable	7,718	10,483
Provision for sales rebates	1,753	1,217
Provision for point card certificates	294	254
Provision for bonuses	695	342
Other	7,864	7,462
Total current liabilities	85,182	85,076
Non-current liabilities:		
Deferred tax liabilities	16,235	11,807
Provision for retirement benefits	—	19,196
Net defined benefit liability	3,714	—
Provision for directors' retirement benefits	149	134
Allowance for loss on plants reorganization	3,304	3,390
Asset retirement obligations	268	374
Other	4,912	3,863
Total non-current liabilities	28,584	38,765
Total liabilities:	113,766	123,841
NET ASSETS		
Shareholders' equity:		
Capital stock	26,745	26,745
Capital surplus	512,326	512,328
Retained earnings	68,103	65,888
Treasury shares	(26,675)	(26,632)
Total shareholders' equity	580,499	578,329
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,753	1,414
Foreign currency translation adjustment	24,414	14,214
Remeasurements of defined benefit plans	(2,631)	—
Total accumulated other comprehensive income	24,536	15,628
Subscription rights to shares:	332	306
Minority interests:	—	1,150
Total net assets:	605,368	595,415
Total liabilities and net assets:	719,135	719,257

(2) Consolidated statements of income

(Millions of yen)

	January 1, 2014 to December 31, 2014	January 1, 2013 to December 31, 2013
Net sales	333,446	340,611
Cost of sales	127,542	127,850
Gross profit	205,904	212,761
Selling, general and administrative expenses		
Haulage expenses	2,067	1,843
Promotion expenses	13,897	14,577
Provision for point card certificates	169	205
Provision of allowance for doubtful accounts	(121)	50
Salaries	26,121	24,636
Bonuses	9,968	10,237
Retirement benefit expenses	4,053	4,440
Depreciation	9,673	7,535
Research and development expenses	47,667	43,633
Amortization of goodwill	12,826	11,577
Other	43,407	42,249
Total selling, general and administrative expenses	169,731	160,987
Operating income	36,173	51,773
Non-operating income		
Interest income	629	775
Dividend income	441	670
Foreign exchange gains	101	2,098
Other	1,133	896
Total non-operating income	2,305	4,440
Non-operating expenses		
Interest expenses	145	259
Loss on valuation of derivatives	680	55
Loss on disposal of non-current assets	810	943
Share of loss of entities accounted for using equity method	6,055	4,163
Other	1,274	1,288
Total non-operating expenses	8,966	6,711
Ordinary income	29,511	49,502

(2) Consolidated statements of income (continued)

(Millions of yen)

	January 1, 2014 to December 31, 2014	January 1, 2013 to December 31, 2013
Extraordinary income		
Insurance income	308	—
Gain on sales of shares of subsidiaries and associates	—	3,217
Gain on sales of non-current assets	—	1,066
Gain on sales of investment securities	—	687
Total extraordinary income	308	4,970
Extraordinary losses		
Impairment loss	1,342	207
Compensation expenses	400	—
Loss due to fire	309	—
Business structure improvement expenses	289	—
Loss on sales of shares of subsidiaries and associates	233	—
Provision for loss on plants reorganization	—	3,390
Special extra retirement payments	—	630
Loss on liquidation of subsidiaries and associates	—	190
Loss on valuation of shares of subsidiaries and associates	—	150
Loss on sales of investment securities	—	131
Total extraordinary losses	2,575	4,700
Income before income taxes and minority interests	27,245	49,773
Income taxes - current	13,568	17,490
Income taxes - deferred	(2,221)	2,112
Total income taxes	11,346	19,603
Income before minority interests	15,898	30,169
Minority interests in income	—	91
Net income	15,898	30,078

(3) Consolidated statements of income (Comprehensive)

(Millions of yen)

	January 1, 2014 to December 31, 2014	January 1, 2013 to December 31, 2013
Income before minority interests	15,898	30,169
Other comprehensive income		
Valuation difference on available-for-sale securities	1,338	3,678
Foreign currency translation adjustment	9,981	17,978
Total other comprehensive income	11,320	21,656
Comprehensive income	27,218	51,826
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	27,218	51,499
Comprehensive income attributable to minority interests	—	326

(4) Consolidated statements of changes in equity

January 1, 2013 to December 31, 2013

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	26,745	512,329	48,127	(26,538)	560,663
Changes of items during period					
Dividends of surplus			(12,316)		(12,316)
Net income			30,078		30,078
Purchase of treasury shares				(126)	(126)
Disposal of treasury shares		(1)		32	30
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(1)	17,761	(94)	17,665
Balance at end of current period	26,745	512,328	65,888	(26,632)	578,329

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(2,264)	(3,528)	—	(5,792)	203	823	555,898
Changes of items during period							
Dividends of surplus							(12,316)
Net income							30,078
Purchase of treasury shares							(126)
Disposal of treasury shares							30
Net changes of items other than shareholders' equity	3,678	17,743	—	21,421	103	326	21,851
Total changes of items during period	3,678	17,743	—	21,421	103	326	39,516
Balance at end of current period	1,414	14,214	—	15,628	306	1,150	595,415

(4) Consolidated statements of changes in equity (continued)

January 1, 2014 to December 31, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	26,745	512,328	65,888	(26,632)	578,329
Changes of items during period					
Dividends of surplus			(13,683)		(13,683)
Net income			15,898		15,898
Purchase of treasury shares				(116)	(116)
Disposal of treasury shares		(1)		73	72
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(1)	2,214	(42)	2,170
Balance at end of current period	26,745	512,326	68,103	(26,675)	580,499

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1,414	14,214	—	15,628	306	1,150	595,415
Changes of items during period							
Dividends of surplus							(13,683)
Net income							15,898
Purchase of treasury shares							(116)
Disposal of treasury shares							72
Net changes of items other than shareholders' equity	1,338	10,200	(2,631)	8,907	26	(1,150)	7,783
Total changes of items during period	1,338	10,200	(2,631)	8,907	26	(1,150)	9,953
Balance at end of current period	2,753	24,414	(2,631)	24,536	332	—	605,368

(5) Consolidated statements of cash flows

(Millions of yen)

	January 1, 2014 to December 31, 2014	January 1, 2013 to December 31, 2013
Cash flows from operating activities		
Income before income taxes and minority interests	27,245	49,773
Depreciation	23,885	21,592
Impairment loss	1,342	207
Amortization of goodwill	12,826	11,577
Increase (decrease) in provision for retirement benefits	—	(274)
Increase (decrease) in net defined benefit liability	(696)	—
Decrease (increase) in prepaid pension costs	—	(1,157)
Decrease (increase) in net defined benefit asset	(292)	—
Securities contribution to employees' retirement benefits trust	(19,000)	—
Interest and dividend income	(1,070)	(1,445)
Interest expenses	145	259
Share of (profit) loss of entities accounted for using equity method	6,055	4,163
Loss (gain) on sales and retirement of property, plant and equipment	224	(685)
Loss (gain) on sales of investment securities	(76)	(556)
Loss (gain) on sales of shares of subsidiaries and associates	233	(3,214)
Decrease (increase) in notes and accounts receivable - trade	(6,426)	5,955
Decrease (increase) in inventories	(12,018)	(8,708)
Increase (decrease) in notes and accounts payable - trade	(1,720)	(2,915)
Other, net	4,766	3,856
Subtotal	35,424	78,428
Interest and dividend income received	1,072	1,874
Interest expenses paid	(300)	(242)
Income taxes paid	(16,819)	(23,175)
Net cash provided by (used in) operating activities	19,377	56,884

(5) Consolidated statements of cash flows (continued)

(Millions of yen)

	January 1, 2014 to December 31, 2014	January 1, 2013 to December 31, 2013
Cash flows from investing activities		
Purchase of property, plant and equipment	(30,466)	(21,599)
Proceeds from sales of property, plant and equipment	186	1,748
Purchase of intangible assets	(4,186)	(13,126)
Purchase of investment securities	(4,556)	(3,801)
Proceeds from sales of investment securities	1,252	3,957
Proceeds from sales of shares of subsidiaries and associates	1,000	3,747
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(14,510)	—
Payments into time deposits	(1,166)	(4,251)
Proceeds from withdrawal of time deposits	1,300	2,922
Net decrease (increase) in short-term loans receivable	68,388	(43,000)
Other, net	(436)	(3,759)
Net cash provided by (used in) investing activities	16,805	(77,163)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(23,405)	12
Purchase of treasury shares	(116)	(126)
Cash dividends paid	(13,683)	(12,310)
Other, net	22	(155)
Net cash provided by (used in) financing activities	(37,184)	(12,579)
Effect of exchange rate change on cash and cash equivalents	(1,227)	1,765
Net increase (decrease) in cash and cash equivalents	(2,228)	(31,091)
Cash and cash equivalents at beginning of period	19,242	50,334
Cash and cash equivalents at end of period	17,013	19,242

6. Segment Information, etc.

Segment information

1. Outline of reportable segments

Reportable segments for the Kyowa Hakko Kirin Group are components of the Group about which separate financial information is available that is evaluated regularly by the Board of Directors in deciding the resource allocation and in assessing performance.

Our Group's foundation is operating companies and comprises businesses groups formed on the basis of similarities in the products and services handled by each company. A core company in each business group is in charge of formulating a comprehensive domestic and overseas strategy and for developing business operations. The Kyowa Hakko Kirin Group has two reportable segments, Pharmaceuticals and Bio-Chemicals.

The Pharmaceuticals business manufactures and sells ethical pharmaceuticals, diagnostic reagents and others. The Bio-Chemicals business manufactures and sells raw materials for pharmaceutical and industrial use, primarily amino acids, nucleic acids and related compounds, healthcare products and others.

2. Basis of measurement of sales, profit or loss, assets, liabilities and other items by segment

Profit for reportable segments is recorded on an operating income basis. Intersegment sales amounts are mainly based on prices in arm's length transactions.

3. Information on sales, profit or loss, assets, liabilities and other items by segment

Fiscal period: January 1, 2013 – December 31, 2013

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjusted amount[1]	Consolidated[2]
Net Sales:					
Sales to external customers	259,584	81,026	340,611	—	340,611
Inter-segment sales and transfers	1,423	1,892	3,315	(3,315)	—
Total	261,007	82,919	343,927	(3,315)	340,611
Segment profit	46,135	5,667	51,803	(29)	51,773
Segment assets	460,732	158,404	619,136	100,120	719,257
Other items					
Depreciation and amortization	14,966	6,627	21,593	(1)	21,592
Goodwill amortization	10,951	625	11,577	—	11,577
Investment in equity method companies	2,426	—	2,426	—	2,426
Increase in property, plant and equipment and intangible assets	22,921	12,261	35,183	—	35,183

Notes: 1. Adjusted amounts are as follows:
(1) Segment profit: Adjustment of negative ¥29 million for elimination of inter-segment transactions
(2) Segment assets: Adjustment of ¥100,120 million includes elimination of inter-segment transactions of negative ¥16,983 million and corporate assets unallocated to each segment of ¥117,103 million. Corporate assets are primarily surplus operating cash (cash and deposits, short-term loans receivable) and funds for long-term investments (investment securities).
2. Segment profit is adjusted for operating income as recorded in the consolidated financial statements.

Fiscal period: January 1, 2014 – December 31, 2014

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjusted amount[1]	Consolidated[2]
Net Sales					
Sales to external customers	251,882	81,564	333,446	—	333,446
Inter-segment sales and transfers	1,129	2,405	3,535	(3,535)	—
Total	253,011	83,970	336,982	(3,535)	333,446
Segment profit	29,061	7,277	36,338	(165)	36,173
Segment assets	524,281	168,943	693,224	25,910	719,135
Other items					
Depreciation and amortization	17,075	6,811	23,886	(1)	23,885
Goodwill amortization	11,893	933	12,826	—	12,826
Investment in equity method companies	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	17,012	12,476	29,489	(1)	29,487

Notes: 1. Adjusted amounts are as follows:
(1) Segment profit: Adjustment of negative ¥165 million for elimination of inter-segment transactions
(2) Segment assets: Adjustment of ¥25,910 million includes elimination of inter-segment transactions of negative ¥23,370 million and corporate assets unallocated to each segment of ¥49,281 million. Corporate assets are primarily surplus operating cash (cash and deposits, short-term loans receivable) and funds for long-term investments (investment securities).
2. Segment profit is adjusted for operating income as recorded in the consolidated financial statements.

Related information

Fiscal period: January 1, 2013 – December 31, 2013

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

(Millions of yen)

Japan	America	Europe	Asia	Other regions	Total
254,085	23,948	37,226	24,420	931	340,611

Note: Sales based on customer location and classified by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	America	Europe	Asia	Total
121,862	9,160	212	6,684	137,919

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	45,352	Pharmaceuticals

Fiscal period: January 1, 2014 – December 31, 2014

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

(Millions of yen)

Japan	America	Europe	Asia	Other regions	Total
239,241	21,695	45,701	25,886	921	333,446

Note: Sales based on customer location and classified by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	America	Europe	Asia	Total
126,926	10,851	662	13,452	151,891

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	42,663	Pharmaceuticals

Impairment loss in noncurrent assets by segment

Fiscal period: January 1, 2013– December 31, 2013

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Impairment loss	146	61	207	—	207

Fiscal period: January 1, 2014 – December 31, 2014

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Impairment loss	1,123	219	1,342	—	1,342

Amortization of goodwill and unamortized balance by business segment

Fiscal period: January 1, 2013 – December 31, 2013

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Amount amortized	10,951	625	11,577	—	11,577
Balance at end of period	154,798	8,915	163,713	—	163,713

Fiscal period: January 1, 2014 – December 31, 2014

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Amount amortized	11,893	933	12,826	—	12,826
Balance at end of period	163,560	9,681	173,241	—	173,241

Occurrence of negative goodwill by business segment

Fiscal period: January 1, 2013 – December 31, 2013

No applicable items

Fiscal period: January 1, 2014 – December 31, 2014

No applicable items