KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary

Fiscal 2015, First Quarter

(January 1, 2015 – March 31, 2015)

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) for Three Months Ended March 31, 2015

April 28, 2015

Company Name:	Kyowa Hakko Kirin Co., Ltd.	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of submission of Quarterly Securities Report: May 8, 2015
Scheduled start date of dividend payment: -
Appendix materials to accompany the annual financial report: Yes
Quarterly results presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded down)

1. Consolidated Financial Results for the Three Months Ended March 31, 2015

(% changes *indicate year-on-year changes.*)

(1) Consolidated operating results	Three months ended March 31, 2015	Change (%)	Three months ended March 31, 2014	Change (%)
Net sales (millions of yen)	89,598	4.1	86,079	(0.7)
Operating income (millions of yen)	9,340	(25.0)	12,447	(14.0)
Ordinary income (millions of yen)	8,079	(33.0)	12,063	(18.7)
Net income (millions of yen)	4,607	(27.2)	6,332	(39.6)
Net income per share (yen)	8.42		11.57	
Fully diluted net income per share (yen)	8.41		11.56	

Note: Comprehensive income: Three months ended March 31, 2015: ¥3,006 million [(21.6%)]; Three months ended March 31, 2014: ¥3,833 million [(77.2%)]

(2) Consolidated financial position	As of March 31, 2015	As of December 31, 2014
Total assets (millions of yen)	699,896	719,135
Net assets (millions of yen)	599,851	605,368
Equity ratio (%)	85.7	84.1

Note: Equity: As of March 31, 2015: ¥599,515 million; As of December 31, 2014: ¥605,035 million

2. Dividends

	Fiscal year ending December 31, 2015 (forecast)	Fiscal year ended December 31, 2014
First quarter dividend per share (yen)	—	—
Interim dividend per share (yen)	12.50	12.50
Third quarter dividend per share (yen)	—	—
Year-end dividend per share (yen)	12.50	12.50
Total dividend per share (yen)	25.00	25.00

Note: Revisions to the dividend forecast most recently announced: None

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

(% changes indicate year-on-year changes.)

	Six months ending June 30, 2015		Full year	
		Change (%)		Change (%)
Net sales (millions of yen)	172,000	6.2	354,000	6.2
Operating income (millions of yen)	16,500	(10.4)	41,500	14.7
Ordinary income (millions of yen)	—	—	34,000	15.2
Net income (millions of yen)	—	—	18,500	16.4
Net income per share (yen)	—		33.80	

Notes: 1. Changes to the earnings forecast most recently announced: None
2. Because ordinary income and net income forecasts are only included for full-year forecasts, forecasts for six months ending June 30, 2015 are provided only for net sales and operating income.

Notes:

1) Changes to significant subsidiaries during the period

(Changes of specified subsidiaries resulting in changes in the scope of consolidation during the period under review): No

2) Use of accounting procedures special to the preparation of quarterly consolidated financial statements: Yes

(Note) See page 6, “2. Summary information (Other Items).”

3) Changes in accounting policies, accounting estimates, and restatement:

1. Changes in accounting policies in accordance with changes in accounting standards: Yes
2. Changes in accounting policies other than 1. above: Yes
3. Changes in accounting estimates: Yes
4. Restatement: No

(Note) See page 6, “2. Summary information (Other Items).”

4) Number of shares issued (ordinary shares)

1. Number of shares issued (including treasury shares)

As of March 31, 2015	576,483,555 shares
As of December 31, 2014	576,483,555 shares

2. Number of treasury shares

As of March 31, 2015	29,153,304 shares
As of December 31, 2014	29,157,158 shares

3. Average number of shares during the period

Three months ended March 31, 2015	547,324,783 shares
Three months ended March 31, 2014	547,345,502 shares

Notice regarding quarterly review procedures

The Financial Instruments and Exchange Act review process for this quarterly financial report was not yet completed at the time this financial report was issued.

Notice regarding the appropriate use of the earnings forecasts and other special comments

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.

Contents

1.Operating Results and Financial Statements

(1) Summary of consolidated business performance

Net sales for the first three months of the fiscal year (January 1, 2015 to March 31, 2015) were ¥89.5 billion (up 4.1% compared to the first three months of the previous fiscal year), operating income was ¥9.3 billion (down 25.0%) and ordinary income was ¥8.0 billion (down 33.0%). Net income for the three-month period was ¥4.6 billion (down 27.2%).

- Net sales increased due mainly to the growth in sales of new products as well as the impact of Archimedes Pharma Limited ("Archimedes"), which was acquired in 2014. Meanwhile, operating income declined due mainly to the increase in research and development expenses for late-stage development products.
- Ordinary income and net income declined due mainly to the drop in operating income and an increase in share of loss of entities accounted for using equity method.

Performance by segment is as follows.

Pharmaceuticals business

1) Results

In the pharmaceuticals business, net sales were ¥68.0 billion (up 7.7%) and operating income was ¥7.7 billion (down 17.5%).

- Domestic sales increased year on year due to such factors as the increase in sales of new products despite the impact of drug price revisions implemented in April 2014.
  - · Sales of core product NESP®, a long-acting erythropoiesis stimulating agent for which approval for an additional indication for anemia with myelodysplastic syndrome was obtained in December 2014, were solid, increasing on a year-on-year basis.
  - · There was steady growth in sales of new products such as G-Lasta®, a sustained-duration G-CSF product, and Dovobet®, a topical combination drug for psoriasis vulgaris, both of which were launched in 2014, and in sales of Onglyza®, a treatment for type 2 diabetes, and NOURIAST®, an antiparkinsonian agent, both of which were launched in 2013.
  - · Sales of long term NHI products such as CONIEL®, a hypertension and angina pectoris drug, GRAN®, a G-CSF product, and ALLELOCK®, an anti-allergy agent, decreased due to the impacts of the market penetration of generics and drug price revisions implemented in April 2014.
  - · Sales of Patanol®, anti-allergy eye drops, increased year on year due to the effects of higher amounts of airborne pollen.
- Overseas sales increased year on year due mainly to the impact of Archimedes, which was consolidated in August 2014.
  - · In Europe and the U.S., sales of products such as Sancuso®, a treatment for chemotherapy-induced nausea and vomiting, and PecFent® and Abstral®, which are treatments for cancer pain, increased. Following consolidation of Archimedes, ProStrakan net sales were ¥9.8 billion (up 49.6%) and operating income (after amortization of goodwill, etc.) was ¥0.1 billion (up 3.6%).
  - · In Asia, sales grew year on year, partly reflecting steady sales particularly in South Korea and China as well as further yen depreciation.

2) Research and development

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. The development statuses of our main late-stage development products in the three months ended March 31, 2015 are as follows.

Nephrology

· In Japan, we received approval of REGPARA® 12.5 mg in February, a calcium receptor agonist.
· In Japan, in March we initiated phase II clinical study for RTA 402 targeting chronic kidney disease (CKD) with type 2 diabetes.
· In Japan we are currently conducting late-stage phase II clinical study of calcium receptor agonist KHK7580 for secondary hyperparathyroidism.
· In China, in February we applied for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in patients receiving dialysis.

Oncology

· In Japan, we are currently undertaking phase III clinical study evaluating c-Met inhibitor ARQ 197 patients with c-Met diagnostic-high inoperable hepatocellular carcinoma treated with one prior sorafenib therapy.
· 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., Europe, Japan, etc., 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, etc.

Immunology and allergy

· We are currently carrying out 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.
· In Japan, the fully human anti-IL-17 receptor antibody KHK4827 is currently undergoing phase III clinical study targeting psoriasis.

CNS

· In North America, Europe, and other areas, we are currently conducting phase III clinical study of KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson's disease.

Other

· In Japan, we have applied for approval of 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 (application filed in July 2014).
· We are currently conducting phase II clinical study of the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 with X-linked hypophosphatemia in the U.S. and Europe.

Bio-Chemicals business

In the Bio-Chemicals business, net sales were ¥22.1 billion (down 6.1%) and operating income was ¥1.4 billion (down 52.2%).

Domestic business

● Sales in the pharmaceutical and medical treatment fields decreased compared to the same period of the previous fiscal year.
· In the pharmaceutical and medical treatment fields, sales of active pharmaceutical ingredients (APIs) declined compared to the same period of the previous fiscal year.
● In the healthcare field, sales of food and beverage raw materials declined compared to the same period of the previous fiscal year, while mail-order sales, primarily those of Ornithine, increased year on year.

Overseas business

- Sales from overseas businesses decreased compared to the same period of the previous fiscal year, during which there were concentrated shipments of some products to China.
  - In the U.S., year-on-year sales increased due in part to growth in sales of amino acids for supplements.
  - In Europe, sales of infusion-use amino acids and others grew, and sales increased year on year.
  - Looking at Asia, sales decreased compared to the same period of the previous fiscal year, reflecting concentrated shipments of amino acids and nucleic acids and related compounds to China in the same period of the previous fiscal year.

(2) Summary of consolidated financial position

- Total assets as of March 31, 2015 were ¥699.8 billion, a decrease of ¥19.2 billion compared to the end of the previous fiscal year.
  - Current assets decreased by ¥12.8 billion to ¥270.3 billion due to decreases in short-term loans receivable to the parent company as fund management, cash and deposits and other items.
  - Non-current assets declined by ¥6.4 billion to ¥429.5 billion, as despite the increase in both property, plant and equipment, and investments and other assets, there were decreases in goodwill and sales right due to amortization, along with other items.
- Liabilities as of March 31, 2015 were ¥100.0 billion, a decrease of ¥13.7 billion compared to the end of the previous fiscal year, due to decreases in accounts payable - other and income taxes payable.
- Net assets as of March 31, 2015 were ¥599.8 billion, a decrease of ¥5.5 billion compared to the end of the previous fiscal year, due mainly to decreases in payment of dividends and foreign currency translation adjustment, despite the booking of net income for the period.

As a result, the equity ratio as of the end of the first quarter was 85.7%, an increase of 1.6 percentage points compared to the end of the previous fiscal year.

(3) Consolidated earnings forecasts

No revisions have been made to the consolidated earnings forecasts announced on January 30, 2015.

2. Summary Information (Other Items)

(1) Changes to significant subsidiaries during the period

No applicable items.

(2) Use of accounting procedures special to the preparation of quarterly consolidated financial statements

Tax expenses on income before income taxes and minority interests for the three months period under review are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting for the fiscal year including the three months period under review, and next by multiplying income before income taxes and minority interests for the three months period under review by the estimated effective tax rate.

(3) Changes in accounting policies, accounting estimates, and restatement

Changes in accounting policies

(Application of Accounting Standard for Retirement Benefits and Its Guidance)

For the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015), the Company has additionally applied the provisions set forth in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits from the first quarter under review, and reviewed the determination of retirement benefit obligations and current service cost. Accordingly, the Company changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis, and changed the method for determining the discount rate from one that uses a discount rate based on a period approximate to the expected average remaining working lives of employees to one that uses a single weighted average discount rate reflecting the estimated timing and amount of benefit payments according to the estimated timing of benefit payment.

Application of the Accounting Standard for Retirement Benefits and its Guidance is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. In accordance with such measures, the effect of the change in the determination of retirement benefit obligations and current service cost has been added to or deducted from retained earnings as of the beginning of the first quarter under review.

As a result, as of the beginning of the first quarter under review, net defined benefit asset decreased ¥1,433 million, net defined benefit liability decreased ¥1,607 million, and retained earnings increased ¥219 million. In addition, the effect of these changes on operating income, ordinary income and income before income taxes and minority interests for the three months ended March 31, 2015 is immaterial.

As the impact of this change on segment information is immaterial, it has been omitted.

(Application of “Accounting Standard for Business Combinations,” etc.)

Effective from the beginning of the fiscal year starting on or after April 1, 2014, it has become possible to apply the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. Accordingly, the Company has applied these accounting standards (except for the provisions of Paragraph 39 of the Accounting Standard for Consolidated Financial Statements) effective from the first quarter under review. As a result, the method of recording the amount of difference caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the quarterly consolidated financial statements for the quarterly period in which the business combination occurs.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (3) of the Accounting Standard for Business Combinations, Paragraph 44-5 (3) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (3) of the Accounting Standard for Business Divestitures. Accordingly, the cumulative amount of impact as of the beginning of the first quarter under review, in the case of retrospective application of the new accounting policies to all prior periods, has been added to or deducted from capital surplus and retained earnings.

As a result, as of the beginning of the first quarter under review, goodwill decreased by ¥1,910 million, capital surplus decreased by ¥3,201 million and foreign currency translation adjustment decreased by ¥276 million, while retained earnings increased by ¥1,567 million. In addition, operating income, ordinary income and income before income taxes and minority interests for the three months ended March 31, 2015, each increased by ¥137 million.

(Change in the depreciation method of property, plant and equipment)

The Company and its domestic consolidated subsidiaries previously used the declining balance method for depreciation of property, plant and equipment (although the straight-line method was used for buildings (excluding facilities attached to buildings) that were acquired on or after April 1, 1998). However, from the first quarter under review, the Company has adopted the straight-line method.

The depreciation method of the Group was reviewed in consideration of the satisfactory level of completion in the current fiscal year of capital investment for large-scale new manufacturing facilities in line with a reorganization of production facilities based on the “Basic Production Strategy” (formulated in 2009, Pharmaceuticals business) and the “Reorganization Plan of Yamaguchi Production Center” (formulated in 2010, Bio-Chemicals business).

In the Pharmaceuticals business, we anticipate that our production facilities will operate more stably in future. This is because we expect stable production in the long term resulting from greater efficiency through concentration of our production facilities in line with our reorganization of our production facilities, advancement in automation of production facilities and increased outsourcing of small-volume products, the existence of new pharmaceuticals launched to the market in recent years, and other factors. Furthermore, in the area of research and development, we are pressing ahead with the introduction of technology at the early development stage in addition to our in-house drug discovery research, and working to reduce risks of uncertainty in research and development. For these reasons, we also expect that our research and development facilities will operate stably.

In the Bio-Chemicals business, in line with advances in our work to have more plants capable of manufacturing multiple products and more automation, we expect that the operation of our

production facilities will progress stably in the future.
At the Group, based on a comprehensive consideration of the above, we have judged that carrying out cost allocation through the straight-line method during useful lives from the first quarter under review, will enable us to reflect the actual condition of the Group more appropriately.
As a result, in the three months ended March 31, 2015, operating income increased by ¥296 million, and ordinary income and income before income taxes and minority interests each increased by ¥298 million.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2015	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	16,591	20,657
Notes and accounts receivable - trade	106,226	108,867
Merchandise and finished goods	67,696	67,724
Work in process	12,072	12,608
Raw materials and supplies	11,803	10,951
Deferred tax assets	10,278	10,611
Short-term loans receivable	36,227	41,672
Other	9,734	10,464
Allowance for doubtful accounts	(275)	(366)
Total current assets	270,355	283,192
Non-current assets		
Property, plant and equipment		
Buildings and structures	136,399	134,423
Accumulated depreciation	(90,831)	(89,937)
Buildings and structures, net	45,567	44,485
Machinery, equipment and vehicles	158,516	153,286
Accumulated depreciation	(132,653)	(131,092)
Machinery, equipment and vehicles, net	25,863	22,193
Land	54,089	54,271
Construction in progress	21,148	23,371
Other	50,071	50,284
Accumulated depreciation	(42,187)	(42,714)
Other, net	7,884	7,569
Total property, plant and equipment	154,552	151,891
Intangible assets		
Goodwill	165,715	173,241
Sales right	62,353	67,231
Other	898	1,078
Total intangible assets	228,967	241,551
Investments and other assets		
Investment securities	27,679	22,766
Net defined benefit asset	5,800	6,444
Deferred tax assets	7,176	8,075
Other	5,536	5,389
Allowance for doubtful accounts	(171)	(175)
Total investments and other assets	46,021	42,500
Total non-current assets	429,541	435,943
Total assets	699,896	719,135

(1) Consolidated balance sheets (continued)

(Millions of yen)

	As of March 31, 2015	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,537	22,729
Short-term loans payable	4,966	4,868
Accounts payable - other	29,916	39,257
Income taxes payable	4,474	7,718
Provision for sales rebates	1,646	1,753
Provision for point card certificates	280	294
Provision for bonuses	3,614	695
Other	7,011	7,864
Total current liabilities	76,448	85,182
Non-current liabilities		
Deferred tax liabilities	14,561	16,235
Net defined benefit liability	2,042	3,714
Provision for directors’ retirement benefits	123	149
Allowance for loss on plants reorganization	3,304	3,304
Asset retirement obligations	254	268
Other	3,310	4,912
Total non-current liabilities	23,596	28,584
Total liabilities	100,044	113,766
Net assets		
Shareholders’ equity		
Capital stock	26,745	26,745
Capital surplus	509,124	512,326
Retained earnings	67,671	68,103
Treasury shares	(26,684)	(26,675)
Total shareholders’ equity	576,857	580,499
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,162	2,753
Foreign currency translation adjustment	20,117	24,414
Remeasurements of defined benefit plans	(2,621)	(2,631)
Total accumulated other comprehensive income	22,658	24,536
Subscription rights to shares	335	332
Total net assets	599,851	605,368
Total liabilities and net assets	699,896	719,135

(2) Consolidated statements of income

(Millions of yen)

	January 1, 2015 to March 31, 2015	January 1, 2014 to March 31, 2014
Net sales	89,598	86,079
Cost of sales	37,677	34,787
Gross profit	51,921	51,292
Selling, general and administrative expenses		
Research and development expenses	12,128	10,353
Amortization of goodwill	3,347	3,050
Other	27,104	25,442
Total selling, general and administrative expenses	42,580	38,845
Operating income	9,340	12,447
Non-operating income		
Interest income	113	198
Dividend income	31	91
Gain on valuation of derivatives	744	511
Other	271	204
Total non-operating income	1,160	1,006
Non-operating expenses		
Interest expenses	15	59
Foreign exchange losses	970	734
Loss on disposal of non-current assets	87	66
Share of loss of entities accounted for using equity method	1,124	437
Other	222	91
Total non-operating expenses	2,421	1,390
Ordinary income	8,079	12,063
Extraordinary income		
Compensation income	619	–
Insurance income	–	308
Total extraordinary income	619	308
Extraordinary losses		
Loss due to fire	209	–
Impairment loss	205	–
Total extraordinary losses	415	–
Income before income taxes and minority interests	8,284	12,371
Income taxes	3,676	6,038
Income before minority interests	4,607	6,332
Net income	4,607	6,332

Consolidated statements of comprehensive income

(Millions of yen)

	January 1, 2015 to March 31, 2015	January 1, 2014 to March 31, 2014
Income before minority interests	4,607	6,332
Other comprehensive income		
Valuation difference on available-for-sale securities	2,409	(207)
Foreign currency translation adjustment	(4,020)	(2,291)
Remeasurements of defined benefit plans, net of tax	10	–
Total other comprehensive income	(1,601)	(2,498)
Comprehensive income	3,006	3,833
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,006	3,833
Comprehensive income attributable to minority interests	–	–

(3) Notes to the consolidated financial statements

(Items related to going concern assumption)

No applicable items.

(Notes on significant change in shareholders' equity)

As described in "Changes in accounting policies," effective from the first quarter under review, the "Accounting Standard for Business Combinations" and the "Accounting Standard for Retirement Benefits," etc. are applied.

In line with this change, capital surplus decreased by ¥3,201 million and retained earnings increased by ¥1,786 million.

(Segment information)

I. Three months ended March 31, 2015 (January 1, 2015 – March 31, 2015)

1. Information on sales and profit or loss by reportable segment

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated
Net sales					
Sales to external customers	67,851	21,747	89,598	–	89,598
Inter-segment sales and transfers	210	394	604	(604)	–
Total sales	68,061	22,142	90,203	(604)	89,598
Segment profit	7,787	1,460	9,247	93	9,340

Notes: 1. The \93 million for adjustments of segment profit is due to elimination of inter-segment transactions.
2. Segment profit is adjusted for operating income as recorded in the Consolidated Statements of Income.

2. Impairment of non-current assets, goodwill, etc. by reportable segment

(Significant changes in amount of goodwill)

As described in "Changes in accounting policies," the Company applies the "Accounting Standard for Business Combinations," etc. effective from the first quarter under review.

In line with this change, in comparison with under the previous method, goodwill as of the beginning of the three months ended March 31, 2015 decreased by ¥519 million in the Pharmaceuticals segment and ¥1,391 million in the Bio-Chemicals segment.

3. Changes in reportable segment, etc.

(Application of "Accounting Standard for Business Combinations," etc.)

As described in "Changes in accounting policies," effective from the first quarter under review, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company has been changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred.

In line with this change, in comparison with under the previous method, segment profit in the three months ended March 31, 2015 increased by ¥51 million in the Pharmaceuticals segment and ¥85 million in the Bio-Chemicals segment.

(Change in the depreciation method of property, plant and equipment)
As described in “Changes in accounting policies,” the Company and its domestic consolidated subsidiaries previously used the declining balance method for depreciation of property, plant and equipment (although the straight-line method was used for buildings (excluding facilities attached to buildings) that were acquired on or after April 1, 1998). However, from the first quarter under review, the Company has adopted the straight-line method.
In line with this change, in comparison with under the previous method, segment profit in the three months ended March 31, 2015 increased by ¥209 million in the Pharmaceuticals segment and ¥87 million in the Bio-Chemicals segment.

II. Three months ended March 31, 2014 (January 1, 2014 – March 31, 2014)

Information on sales and profit or loss by reportable segment

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated
Net sales					
Sales to external customers	62,885	23,193	86,079	–	86,079
Inter-segment sales and transfers	296	395	692	(692)	–
Total sales	63,182	23,589	86,771	(692)	86,079
Segment profit	9,437	3,052	12,490	(43)	12,447

Notes: 1. The negative \43 million for adjustments of segment profit is due to elimination of inter-segment transactions.
2. Segment profit is adjusted for operating income as recorded in the Consolidated Statements of Income.