KYOWA KIRIN

Kyowa Hakko Kirin Co, Ltd.

Consolidated Financial Summary
Fiscal 2013

(January 1, 2013– December 31, 2013)

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

Fiscal Year Ended December 31, 2013

(The twelve-month period from January 1, 2013 to December 31, 2013)

January 31, 2014

Stock Code:	4151	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
		President:	Nobuo Hanai
Telephone:	+81 3 3282 0009	Inquiries:	Shigeru Morotomi
URL	http://www.kyowa-kirin.com/investors/index.html		Executive Officer, Corporate Communications Department

Scheduled date of General Meeting of Shareholders: March 20, 2014

Scheduled start date of dividend payment: March 24, 2014

Scheduled date of submission of Financial Report: March 14, 2014

Appendix materials to accompany the annual financial report: Yes

FY2013 earnings presentation meeting: Yes (for institutional investors and securities analysts)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2013 *(Millions of yen rounded down)*

(1) Consolidated operating results	Fiscal year ended December 31, 2013	Change (%)	Fiscal year ended December 31, 2012	Change (%)
Net sales	340,611	2.2	333,158	(3.1)
Operating income	51,773	(2.1)	52,905	13.5
Ordinary income	49,502	1.0	49,001	4.8
Net income	30,078	24.3	24,199	(5.5)
Net income per share (¥)	¥54.95		¥44.12	
Fully diluted net income per share (¥)	¥54.91		¥44.10	
Return on equity (%)	5.2%		4.4%	
Ordinary income to total assets ratio (%)	7.1%		7.3%	
Operating income to sales ratio (%)	15.2%		15.9%	

Notes: Comprehensive income: Fiscal year ended December 31, 2013: ¥51,826 million (49.3%); Fiscal year ended December 31, 2012: ¥34,709 million (85.7%)

Income (loss) from equity method investments: Fiscal year ended December 31, 2013: ¥(4,163) million; Fiscal year ended December 31, 2012: ¥(4,861) million

(*Millions of yen)*

(2) Consolidated financial position	As of December 31, 2013	As of December 31, 2012
Total assets (millions of yen)	719,257	679,342
Net assets (millions of yen)	595,415	555,898
Shareholders' equity ratio (%)	82.6%	81.7%
Net assets per share (¥)	¥1,085.17	¥1,013.61

Note: Total shareholders' equity: December 31, 2013: ¥593,957 million; December 31, 2012: ¥554,870 million.

(*Millions of yen)*

(3) Consolidated cash flows	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2012
Net cash provided by (used in) operating activities	56,884	59,134
Net cash provided by (used in) investing activities	(77,163)	(98,772)
Net cash provided by (used in) financing activities	(12,579)	(19,189)
Cash and cash equivalents at end of period	19,242	50,334

2. Dividends

	Fiscal year ended December 31, 2012	Fiscal year ended December 31, 2013	Fiscal year ending December 31, 2014 (Forecast)
Interim dividend per share (¥)	¥10.00	¥12.50	¥12.50
Year-end dividend per share (¥)	¥10.00	¥12.50	¥12.50
Total dividend per share (¥)	¥20.00	¥25.00	¥25.00
Total dividend amount (millions of yen)	¥10,948	¥13,684	
Dividend payout ratio (consolidated)	45.3%	45.5%	68.4%
Ratio of dividends to net assets	2.0%	2.4%	

3. Consolidated Results Forecasts for the Fiscal Year Ending December 31, 2014

(Millions of yen)

	Interim		Full year	
		Change %		Change %
Net Sales	163,000	(4.0)	337,000	(1.1)
Operating income	16,000	(41.1)	41,000	(20.8)
Ordinary income	--	--	35,000	(29.3)
Net income	--	--	20,000	(33.5)
Net income per share	--		¥36.54	

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 to accounting policies, accounting estimates, and restatement of revisions:
① Changes following revision to accounting standards: Yes
② Changes to accounting policies other than in 1: No
③ Changes to accounting estimates: Yes
④ Restatement of revisions: No

(3) Number of shares outstanding (ordinary shares)

1. Number of shares outstanding (including treasury shares)	December 31, 2013	576,483,555 shares	December 31, 2012	576,483,555 shares
2. Number of treasury shares	December 31, 2013	29,143,513 shares	December 31, 2012	29,062,630 shares
3. Average number of shares during the period	FY ended December 31, 2013	547,391,705 shares	FY ended December 31, 2012	548,449,701 shares

(Reference)
Non-Consolidated Results for the Fiscal Year Ended December 31, 2013

(1) Non-Consolidated Operating Results

(Millions of yen)

	Fiscal year ended December 31, 2013		Fiscal year ended December 31, 2012	
		Change (%)		Change (%)
Net sales	210,934	(3.3)	218,117	5.8
Operating income	49,903	(17.8)	60,722	24.9
Ordinary income	55,777	(11.7)	63,166	(13.1)
Net income	39,612	(6.6)	42,401	(36.2)
Net income per share (¥)	72.37		77.31	
Fully diluted net income per share (¥)	72.32		77.27	

(2) Non-Consolidated financial position

(*Millions of yen*)

	As of December 31, 2013	As of December 31, 2012
Total assets (millions of yen)	475,264	446,459
Net assets (millions of yen)	400,765	370,710
Shareholders' equity ratio (%)	84.3%	83.0%
Net assets per share (¥)	¥731.65	¥676.82

Note: Shareholders' equity: As of December 31, 2013: ¥400,459 million; As of December 31, 2012: ¥370,507 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 financial forecasts:
This document contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. For a variety of reasons, actual financial results may differ materially from the forecasts presented here. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please see page 7, 1. Operating Results and Financial Position 2) Outlook for Fiscal 2014.

Contents

1. Operating results and Financial Position

(1) Summary of business performance

(Billions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2012	Change
Net sales	340.6	333.1	7.4
Operating income	51.7	52.9	(1.1)
Ordinary income	49.5	49.0	0.5
Net income	30.0	24.1	5.8

- In the Pharmaceuticals business, the operating environment remained challenging, impacted by a decline in both domestic and international success rates of new drug generation, stricter screening, and progress with measures to reduce medical treatment costs.
  Against this background, Kyowa Hakko Kirin launched NOURIAST®, an antiparkinsonian agent which uses a globally unique new mechanism, Onglyza®, a treatment for type-two diabetes, and Abstral® a treatment for cancer pain, and pursued swift penetration of the market with these new products while expanding sales of core products. In overseas markets, ProStrakan Group plc and its 11 subsidiaries (ProStrakan), achieved an important milestone, recording an operating profit (after amortization of goodwill, etc.). We also continue to actively pursue clinical development in the Europe and the U.S.
- In the Bio-Chemicals business, sales increased from the previous fiscal year as a result of steps to strengthen mail-order sales of health food materials such as Ornithine, and due to expanded sales of amino acids, nucleic acids and related compounds with a focus on pharmaceutical and medical applications. Profits increased significantly due to in part to the effect of yen weakness, which was pronounced because overseas sales account for a comparatively large share of the overall business.
- Consolidated net sales for the fiscal year increased due to strong sales of pharmaceutical products in Japan and continued growth of U.K. subsidiary ProStrakan, as well as benefits from the weaker yen. Operating income declined, however, due to a decline in technology licensing income and other factors.
- We achieved a record high in both ordinary income and net income. Ordinary income increased due to the booking of forex related gains and a decline in losses at equity-accounted affiliates, and net income increased due to the recording of extraordinary gains on the sale of affiliates' stock and other factors.

Performance by segment

Note: As of the current fiscal year there has been a revision to the way segments are classified. Year-on-year comparisons shown below use adjusted figures for the first half of last year reflecting these revisions. (For details please *see page 26, 5. Segment Information.*

<u>Pharmaceuticals business</u>

(Billions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2012	Change
Net sales	261.0	259.3	1.6
Operating income	46.1	50.7	(4.6)

- Domestic sales of ethical pharmaceutical products were up compared to the previous fiscal year.
- ・ Sales of core product NESP®, a treatment for renal anemia, declined year on year due to lower

shipments following the launch of a unified dosage product in December 2012. Sales of Patanol® anti-allergy eye drops grew significantly due to the effects of higher amounts of airborne pollen. Sales of ALLELOCK®, an anti-allergy agent, and sales of CONIEL®, a hypertension and angina pectoris drug, declined from the previous fiscal year, due in part to the impact of generics.

- Sales of REGPARA®, a treatment for secondary hyperparathyroidism during dialysis therapy, ASACOL®, an ulcerative colitis treatment, Romiplate®, a treatment for chronic idiopathic thrombocytopenic purpura, and Fentos®, a transdermal analgesic for persistent cancer pain, all advanced steadily.
- In May, we launched NOURIAST®, the world's first antiparkinsonian agent of an adenosine A_{2A} receptor antagonist. We launched Onglyza®, a treatment for type-two diabetes, in July, and Abstral®, a treatment for cancer pain, in December.

- In the licensing-out of technologies and export of pharmaceutical products, exports were steady but a decline in licensing revenue for the development of biosimilars from FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd., and other factors, resulted in a decline in sales.
- ProStrakan net sales were ¥23.3 billion (up 43.4%), driven by strong growth of Abstral® a treatment for cancer pain, and other core products. Operating income (after amortization of goodwill, etc.) was ¥0.2 billion (compared to an operating loss of ¥2.5 billion in the previous fiscal year).

R&D activities in the Pharmaceuticals business:

Nephrology

(Domestic)

- Approvals for additional pediatric indications for NESP®, a treatment for renal anemia, and for the 5μg Plastic Syringe were received in September.
- In November we suspended phase II trials of RTA 402, targeting patients with chronic kidney disease (CKD) with type 2 diabetes. Although this trial has been suspended, we continue to assess new development programs for RTA 402 in CKD patients with type 2 diabetes.

(Overseas)

- In China, we are currently seeking approval of Cinacalcet Hydrochloride (product name in Japan: REGPARA®), a treatment for secondary hyperparathyroidism. (Application filed in October 2011.)
- In China we began phase III trials in April for KRN321 (product name in Japan: NESP®) for the treatment of renal anemia in patients receiving dialysis.

Oncology

(Domestic)

- We received approval in February for additional indications for intramuscular administration and dosage of Leunase®, an anti-cancer drug.
- In March we received approval for additional indication of Pheochronocytoma for anti-cancer drug Dacarbazine®.
- In June we filed an application for marketing approval for sustained-duration G-CSF product KRN125 for the treatment of chemotherapy induced febrile neutropenia.
- In June we applied 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 treatment for secondary hyperparathyroidism during dialysis therapy.
- In July we applied for approval for additional indications for untreated CCR4-positive adult T-cell leukemia-lymphoma (ATL), relapsed CCR4-positive peripheral T-cell lymphoma (PTCL) and cutaneous T-cell lymphoma (CTCL) and for dosage and administration for anti-CCR4 humanized antibody POTELIGEO®.
- Application for Abstral®, a treatment of cancer pain, was approved in September and sales began in December.
- In December, we received approval for additional indications for unresectable pancreatic cancer

and dosage and administration of injectable 5-FU.
- We are currently preparing to start phase III trials of ARQ 197 targeting hepatocellular carcinoma.

(Overseas)
- KW-0761 (product name in Japan: POTELIGEO®) is currently undergoing phase III trials targeting cutaneous T-cell lymphoma in the U.S. and Europe, phase II trials targeting peripheral T-cell lymphoma in Europe, and phase II trials targeting adult T-cell leukemia/ lymphoma in the U.S. and Europe.

Immunology and allergy

(Domestic)
- We began phase III trials in March on KHK4827 for psoriasis.
- In October, we completed a phase II trial of KHK4563, an anti-IL-5 receptor humanized antibody, in asthma patients. We are currently preparing for participation in a global phase III program, which began in October and is being conducted by our licensing partner, AstraZeneca.

CNS

(Domestic)
- In February we obtained approval for a time-window extension of thrombolytic agent ACTIVACIN® for administration within 4.5 hours after the onset of symptoms of ischemic cerebrovascular disease (up from 3 hours).
- We acquired approval for NOURIAST® for the treatment of Parkinson's disease in March, and launched the drug in May.
- In November we acquired additional approval of anti-epileptic drug TOPINA® for use in infants
- We are currently seeking approval for a new formulation (granules) for anti-epileptic drug TOPINA®. (Application filed December 2012.)

(Overseas)
- A global phase III trial for KW-6002 (product name in Japan: NOURIAST®) began in November targeting Parkinson's disease.

Other

(Domestic)
- In February we received approval for an additional indication of Pasetocin®, a synthesized penicillin drug (as part of triple therapy including proton pump inhibitors and either clarithromycin or metronidazole) for the eradication of Helicobacter pylori in Helicobacter pylori gastritis infection.
- We are currently analyzing results of phase III trials of recombinant antithrombin (AT) preparation KW-3357 for disseminated intravascular coagulation (DIC) accompanied by a decrease in AT.

(Overseas)
- Anti-FGF23 fully human antibody KRN23, is currently undergoing phase I/II trials in North America for X-linked hypophosphatemia (XLH).

Bio-Chemicals business

(Billions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2012	Change
Net sales	82.9	76.9	5.9
Operating income	5.6	2.1	3.5

Domestic business
- Sales in the pharmaceutical and medical treatment fields increased compared to the previous fiscal year.
- In the pharmaceutical and medical fields, pharmaceutical-use amino acids and other active

pharmaceutical ingredients (APIs) each performed steadily.
- *Tranexamic acid* sales declined from the previous year, during which there was a concentration of shipments.
- Sales in the healthcare field declined from the previous year.
- In healthcare, we achieved strong growth in mail-order sales, primarily those of Ornithine.
- As an ingredient in healthy *KIRIN Plus-i* brand products, Ornithine is used in beverages and other products and its increased recognition has contributed to mail-order sales.
- Food and beverage raw materials sales declined year on year.

Overseas business
- Sales from overseas businesses were higher than the previous year due in part to a weaker yen.
- In the U.S., sales of some amino acids for supplements declined due to intensifying competition, but overall net sales increased from the previous year.
- Sales in Europe increased compared to the previous year due to an increase in sales volumes of APIs.
- In Asia, although the tough competitive environment remained, sales increased due to an increase in sales of infusion-use amino acids in China.

R&D activities in the Bio-Chemicals business:
- We are actively developing manufacturing methods for raw materials such as oligosaccharides using high technological capabilities and developing new markets while continuing to focus on research to improve efficiency in the 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 actively making new product proposals and application developments that can contribute to health maintenance. We are also working on the development of dosage forms that are easy to use.

2) Outlook for Fiscal 2014

(Billions of yen)

	FORECAST* FY to December 31, 2014	Change compared to FY ended December 31, 2013	% Change compared to FY ended December 31, 2013
Net sales	337.0	(3.6)	(1.1%)
Operating income	41.0	(10.7)	(20.8%)
Ordinary income	35.0	(14.5)	(29.3%)
Net income	20.0	(10.0)	(33.5%)

These forecasts assume average exchange rates of ¥100/US$, ¥130/euro and ¥155/British pound.

- Consolidated financial results forecasts for fiscal 2014 (January 1, 2014 to December 31, 2014) are for net sales of ¥337.0 billion, a decrease of 1.1% compared to the previous fiscal year, operating income of ¥41.0 billion, down 20.8%, ordinary income of ¥35.0 billion, down 29.3%, and net income of ¥20.0 billion, a decrease of 33.5%.
- In the Pharmaceuticals business, we forecast an increase in sales volumes compared to the previous fiscal year due to growth in domestic sales volumes of core product NESP®, a treatment for renal anemia, and new products such as NOURIAST®, an antiparkinsonian agent, and Onglyza®, a treatment for type-two diabetes. In overseas markets we expect sales at ProStrakan to increase. However, we expect to be significantly affected by drug price revisions that are expected to be implemented in April 2014 and therefore consolidated net sales for fiscal 2014 are forecast to decline. In addition, as we expect to incur expenses for development of late-stage development

products, operating income is expected to decline.

- In the Bio-Chemicals business, we are forecasting higher sales and profits due to an increase in sales volumes of core amino acids, nucleic acids and Ornithine, and other factors, and in addition to making progress with the restructuring of Daiichi Fine Chemical Co., Ltd., we also expect the yen to weaken.
- Ordinary income is forecast to decline due to the expected decline in operating income as well as an increase in losses from equity-accounted affiliates and other factors. Net income is also expected to decline due to a decline in extraordinary gains.

*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, 2013 were ¥719.2 billion, an increase of ¥39.9 billion compared to the end of the previous fiscal period. Current assets increased by ¥25.3 billion to ¥329.3 billion due to an increase in short-term loans receivable to the parent company and other factors. Goodwill from amortization decreased, but an increase in tangible assets and sales rights resulted in an increase in non-current assets of ¥14.5 billion to ¥389.9 billion.
- Although income taxes payable decreased compared to the end of the previous fiscal period, liabilities increased ¥0.3 billion to ¥123.8 billion over the same period as a result of an increase in accounts payable.
- Net assets at the end of the fiscal year were ¥595.4 billion, an increase of ¥39.5 billion due to the booking of net income for the period, unrealized gains on other securities, and increases in the foreign exchange adjustment account, which offset acquisition of our own shares and payment of dividends.
  As a result, the shareholders' equity ratio as of the end of the fiscal period was 82.6%, an increase of 0.9 percentage points compared to the end of the previous fiscal period.

2) Cash flow summary

(Billions of yen)

	FY ended December 31, 2013	FY ended December 31, 2012	Change
Cash flows from operating activities	56.8	59.1	(2.2)
Cash used in investing activities	(77.1)	(98.7)	21.6
Cash used in financing activities	(12.5)	(19.1)	6.6
Cash and cash equivalents at end of year	19.2	50.3	(31.0)

- Cash and cash equivalents as of December 31, 2013 were ¥19.2 billion, a decrease of ¥31.0 billion compared to the balance of ¥50.3 billion as of December 31, 2012. Of the short-term loans receivable to the parent company, the amount of loans in excess of three months, and therefore not included in the scope of cash and cash equivalents, increased by ¥43.0 billion, which resulted in a significant decrease in cash and cash equivalents at the end of the fiscal period.

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

- Net cash provided by operating activities was ¥56.8 billion, a decrease of 3.8% over the previous fiscal year. The main inflows included net income before income taxes of ¥49.7 billion, deprecation expenses of ¥21.5 billion, and goodwill amortization of ¥11.5 billion. The main outflows included income tax payments, etc. of ¥23.1 billion.

- Net cash used in investing activities was ¥77.1 billion, a decrease of 21.9% over the previous fiscal year. Major outflows included a net increase of ¥43.0 billion in short term loans receivable, and ¥34.7 billion for the purchase of property, plant, and equipment and intangible assets, while major inflows were ¥3.9 billion from the proceeds from sales of investment securities.
- Net cash used in financing activities was ¥12.5 billion, a 34.4% decrease compared to the same period of the previous fiscal year. The main outflows were ¥12.3 billion for cash dividends paid.

(Reference)
Key shareholders' equity and cash flow indicators

	Fiscal 2009	**Fiscal 2010**	**Fiscal 2011**	**Fiscal 2012**	**Fiscal 2013**
Shareholders' equity ratio (%)	77.1%	78.2%	81.8%	81.7%	82.6%
Shareholders' equity (market price base) ratio (%)	80.7%	68.5%	79.4%	68.4%	88.2%
Cash flow / Interest bearing debt ratio (years)	0.5	0.1	0.1	0.1	0.1
Interest coverage ratio (times)	93.6	313.4	305.4	484.2	234.2

Notes:
Shareholders' equity ratio = Shareholders' equity / Total assets
Shareholders' equity (market price base) ratio = Market capitalization / Total assets
Cash flow/ Interest bearing debt ratio = Interest-bearing debt / Operating cash flow
Interest coverage ratio = Operating cash flow / Interest payments

*1. All ratios 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 stock).
*3. Operating cash flow is the figure for cash flows from operating activities in the consolidated statements of cash flows.
*4. Of the liabilities on the consolidated balance sheet, interest-bearing debt includes short-term loans payable and long-term loans payable.
*5. For interest payments, the interest paid figure in the consolidated statements of cash flows is used.
*6. The change to the consolidated fiscal year-end during fiscal 2009 resulted in a nine-month fiscal period, and therefore nine-month figures for cash flow and interest paid have been used in calculating the 2009 Cash flow / Interest bearing debt ratio (years) and Interest coverage ratio (times) figures.

3) Outlook for cash flows

- Cash flows from operating activities: Operating cash inflow is expected to decline from fiscal 2013 due to an expected decrease in net income before income taxes during the consolidated fiscal period.
- Cash flows from investing activities: Cash outflow from investing activities is expected to be lower in fiscal 2014 due to an expected net decrease in short term loans receivable, and despite anticipated outflows from the purchase of property, plant, and equipment and other factors.
- Cash flows from financing activities: Cash outflow from financing activities is expected to be higher in fiscal 2014 than in fiscal 2013, due to an anticipated increase in cash dividends paid. As regards the sourcing of funds, repayment of borrowings and the repurchase of the company's own 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 2014 are expected to be at a lower level than at the end of fiscal 2013.

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 2012 and Fiscal 2013 dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy, while maintaining fully adequate internal reserves for business expansion and other developments, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on net assets. We plan to improve our capital efficiency by acting flexibly and rapidly with regards to the repurchase of shares. Kyowa Hakko Kirin aims to retain sufficient reserves to make the investment in facilities, research and development and our development pipeline that are required to drive new growth.

In accordance with this basic policy, we expect to pay a year-end dividend for fiscal 2013 of ¥12.5 per share, up ¥2.5 per share from the previous fiscal year. As a result, the annual dividend is expected to increase by ¥5 to ¥25 per share, consisting of an interim dividend of ¥12.5 per share and a year-end dividend of ¥12.5 per share.

In our 2013 to 2015 Medium-term Business Plan we aim for a stable dividend return with a consolidated dividend payout ratio of 40% prior to amortization of goodwill*. For the fiscal year ending December 2014, we expect to pay an annual dividend of ¥25 per share, consisting of an interim dividend of ¥12.5 and a year-end dividend of ¥12.5.

**Goodwill prior to amortization is net income prior to deduction of goodwill amortization following a reverse acquisition (share swap with Kirin Pharma) in April 2008.*

(4) Business risks and other risks

With respect to Kyowa Hakko Kirin Group's business performance and financial position, 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, 2013.

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.
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 these investments will produce results. Moreover, as above, 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 may also be adversely affected.

2) Risks related to intellectual property assets

The Group strictly manages its intellectual property assets and closely monitors 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 based on allegations of 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 may be adversely affected.

3) Risk of side effects

Pharmaceutical products undergo strict safety audits at the development stage and following checks by the relevant national authorities are approved, 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, etc., could be adversely affected.

4) Risks related to pharmaceutical regulations

The Pharmaceuticals business, KHK Group's core business, operates under the pharmaceutical regulatory authorities 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 price reductions under the domestic public pharmaceutical price system.

Overseas, pressure from control on medical fees are high, and in cases where a price reduction cannot be compensated for by an increase in volumes, 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 legal regulations.

The Group emphasizes compliance to try to ensure that it does not violate the laws 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. If, because we are unable to observe these legal regulations, 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 changes to foreign exchange rate

The Group conducts foreign currency denominated transactions such as receiving income from overseas sales, licensing-out of technologies overseas, and acquiring raw materials overseas. Therefore any sudden 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 report. 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 others events could result in suspension of business activities at our Group head quarters, 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 KHK Group maintains a disaster prevention system and has prepared a business continuity plan, should an event or accident as described above occur it might result in significant damage and negatively impact 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 changes to the price of raw materials and fuel prices, changes 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., 47 subsidiaries, 3 affiliates and one parent company (Kirin Holdings Company, Limited) and operates primarily in the Pharmaceuticals and Bio-Chemicals business divisions. The major operating activities of the company and the main group companies are outlined below.

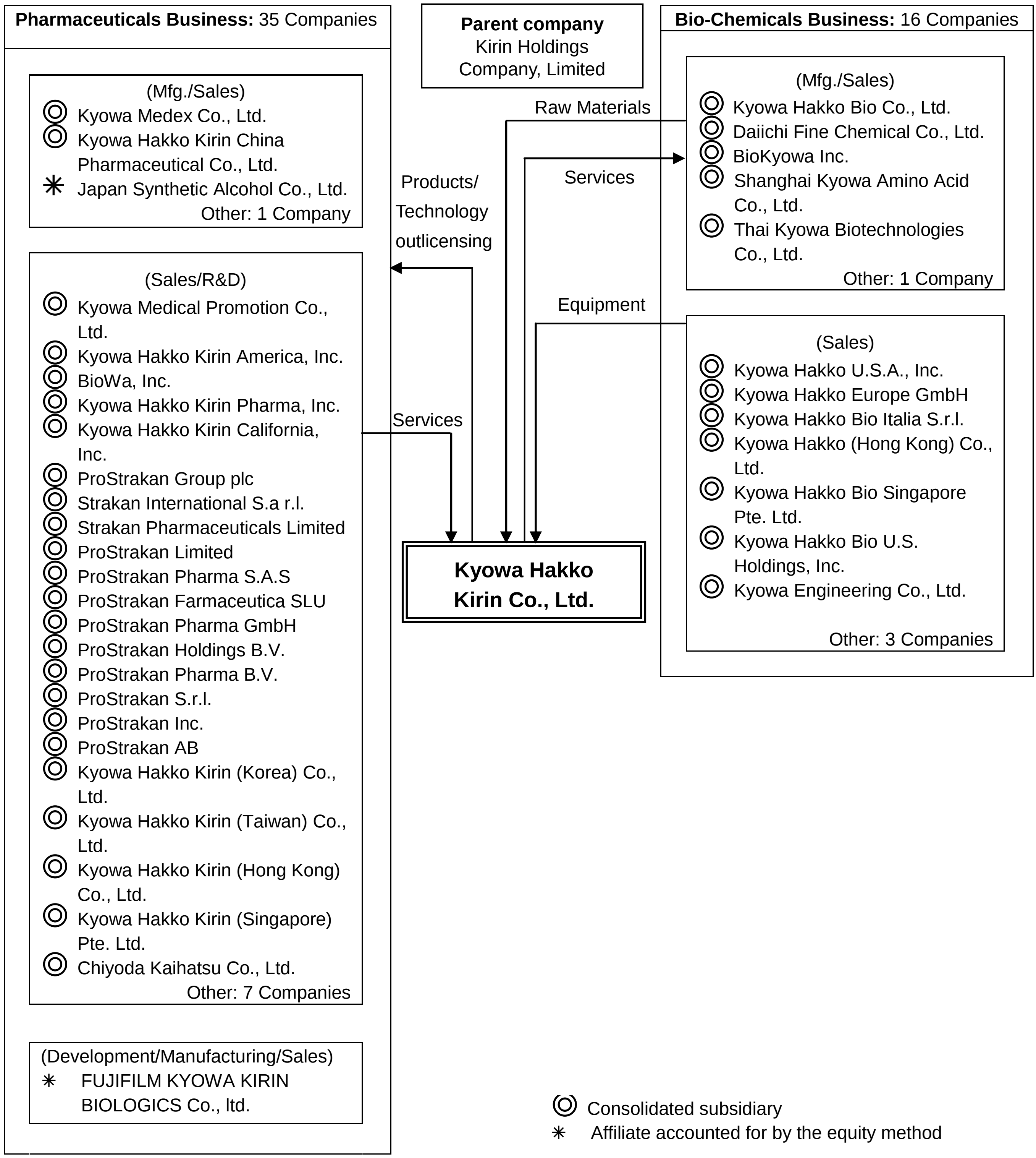
The two segments described below are the same as those described in [5. Segment Information]

Pharmaceuticals Business	Prescription pharmaceuticals are manufactured and sold predominantly by Kyowa Hakko Kirin, and Kyowa Medex Co., Ltd. manufactures and sells diagnostic reagents. Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities of Kyowa Hakko Kirin products. FUJIFILM KYOWA KIRIN BIOLOGICS CO., LTD. develops bio-similar pharmaceutical products with plans for manufacturing and sale. Overseas, Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. manufactures and sells pharmaceuticals in China. Kyowa Hakko Kirin America, Inc. is a holding company for administration and management of the Pharmaceuticals business subsidiaries in the US. BioWa, Inc. pursues out-licensing of antibody technology and is involved in the strategic development of Kyowa Hakko Kirin's therapeutic antibody business. Kyowa Hakko Kirin Pharma., Inc. handles the development of new drug candidates in the U.S. created by Kyowa Hakko Kirin. Kyowa Hakko Kirin California, Inc. generates new candidate compounds. ProStrakan plc and its 11 subsidiaries are involved in the development and sales of ethical pharmaceuticals in Europe and the US. Kyowa Hakko Kirin (Korea) Co., Ltd., Kyowa Hakko Kirin (Taiwan) Co., Ltd., Kyowa Hakko Kirin (Hong Kong) Co., Ltd., Kyowa Hakko Kirin (Singapore) Pte. Ltd., sell pharmaceuticals in their respective areas, Korea, Taiwan, Hong Kong and Singapore, and the surrounding region among countries in Asia. Chiyoda Kaihatsu Co., Ltd. is engaged in businesses including contracting, wholesale and retail, and insurance. It provides services to Kyowa Hakko Kirin and some affiliated companies. Japan Synthetic Alcohol Co., Ltd. is engaged in the manufacture and sale of industrial-use alcohol.
Bio-Chemicals Business	Kyowa Hakko Bio Co., Ltd., Daiichi Fine Chemical Co., Ltd., BioKyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture raw materials for pharmaceutical and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. 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 and construction of a new amino acid production facility is under way with plans to begin production in the second half of 2015. Kyowa Hakko Bio U.S. Holdings, Inc. is a holding company for administration and management of the Bio-Chemicals business subsidiaries in the U.S. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supply equipment to Kyowa Hakko Kirin, Kyowa Hakko Bio Co., Ltd. and certain related companies.

Notes:

1. From the current fiscal year, the classification of Kyowa Hakko Kirin Group affiliated companies has been reviewed and as a result affiliated companies previously included in the Other segment have been included in the Pharmaceuticals segment and the Other segment has been discontinued.
2. Unless specifically stated otherwise, in this document 'the Group' refers to Kyowa Hakko Kirin and its 36 consolidated subsidiaries.

Overview of the Kyowa Hakko Kirin Group



3. Management Policies

(1) Basic management policies

The Kyowa Hakko Kirin Group's corporate 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 company.

By fulfilling our corporate social responsibility through transparency, fairness, and compliance and in harmony with society, we are striving to be a company 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 guidance on targets for 2015, the final year of the plan, is for net sales of ¥355 billion and operating income of ¥55 billion. Guidance on targets is reviewed annually. Original guidance, announced on January 31, 2013, was for net sales of ¥358 billion and operating income of ¥60 billion but this has been revised to reflect an increase in R&D costs associated with the progress of development products in Japan and overseas and other factors.

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

Kyowa Hakko Kirin Group companies are pursuing global growth by providing new value based on our group Management Philosophy 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."

The theme of our Group Medium-term Business Plan for 2013 to 2015 is to become a global specialty pharmaceutical company by pursuing three key initiatives:

- 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 company
- Strengthen the revenue base of our Bio-chemicals business

In the Pharmaceuticals business, the operating environment remained challenging, impacted by a decline in both domestic and international success rates of new drug generation and stricter screening, progress with measures to reduce medical treatment costs, and increased market share of generic pharmaceuticals. Competition between companies has changed greatly and is now a test of comprehensive strengths such as information provision, network capability and ability to coordinate a range of functions. In particular, medical practitioners in the front line are demanding a higher level of expertise in the provision of information

Within this environment Kyowa Hakko Kirin is aiming for accelerated competitive advantage and sustainable growth and to further strengthen competitiveness in Japan through its category strategy. Focusing on the four categories of nephrology, cancer, immunology/allergy and CNS in which we already have a strong presence, we will take strides to become a truly major player and 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. With our category-based strategy at the core, we are also seeking to nurture drugs such as NOURIAST®, an antiparkinsonian agent, Onglyza®, a treatment for type-two diabetes, and Abstral® a treatment for cancer pain, which were launched in 2013, and aim to maximize product value.

In R&D, we are improving our capabilities in drug discovery to launch new drugs in response to unmet medical needs. We are also advancing antibody drugs through domestic and international clinical development, maximizing value by promoting alliances on antibody technology and trying new approaches to drug discovery such as with nucleic acid drugs. Moreover, in an effort to increase our probability of success in the clinical development stage we are leveraging our translational research* R&D center, which we established in Singapore, emphasizing open innovation taking advantage of external information and knowledge, and actively promoting research collaboration from the earliest stages of development.

In overseas business, we are pursuing global deployment in accordance with region- and country-specific strategy to expand our business base in Europe and Asia where we are focused on becoming a global specialty pharmaceutical company. We are leveraging ProStrakan which we acquired in 2011 and which is now an important constituent of the Group.

In the U.S., activities leading to the launch of POTELIGEO®, Kyowa Hakko Kirin's first antibody drug, were seen as an important step in becoming a global specialty pharmaceutical company. We are building a framework for the development of global in-house drugs, centered on Kyowa Hakko Kirin Pharma, Inc., with a view to achieving self-sustaining growth in the huge U.S. market. Subsequently, we will also establish a framework for sales.

Furthermore, we are actively pursuing ProStrakan's business model of introducing late-stage development and marketed products, enhancing our product range in major Western markets, and expanding our market presence.

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

In our Biosimilars business, using our strength in world-class biopharmaceuticals production technology we are aiming for timely launch of biosimilars being considered for global deployment at FUJIFILM Kyowa Kirin Biologics Co., Ltd. and are progressing a range of other development activities. FUJIFILM Kyowa Kirin Biologics Co., Ltd. was established as a joint venture with FUJIFILM Corporation and aims to provide highly reliable, high quality and cost competitive biosimilars using new production technologies. While challenging ourselves in the biosimilars market in which significant growth is expected globally, we are hoping to help solve the problem of rising healthcare costs and other healthcare economic issues.

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. Through development and launch of drugs for in vitro diagnostic use (clinical diagnostic reagents), analytic instruments and companion diagnostic drugs (in vitro diagnostic reagents used for personalized medicine) in cooperation with our R&D department, we are aiming for synergies with the pharmaceuticals business and improved added value.

In our Bio-Chemicals business we are aiming for sustained growth as a biotech group that has both fermentation and synthesis technology while strengthening our revenue base. Creation of a business structure that is resistant to the impact of exchange rate movements while strengthening production capacity to respond to increased global demand for amino acids are current issues that must be addressed. We will continue to enhance cost competitiveness through the reorganization and improvement of the Group's overseas and domestic production facilities, such as Yamaguchi Production Center, Daiichi Fine Chemical Co., Ltd. and BioKyowa Inc. Furthermore, we are aiming to finish construction of an amino acids plant at our new production facility in Thailand by the second half of 2015 in order to meet strong demand.

In domestic healthcare, in order to respond appropriately to the needs of our customers, Kyowa Wellness Co., Ltd., which was responsible for raw materials sales and mail order sales, was fully absorbed by Kyowa Hakko Bio Co., Ltd. from January 2013. 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.

With the new drug business at its core, the Kyowa Hakko Kirin Group is pursuing a unique pharmaceutical business model that combines biochemical, biosimilars and diagnostic products businesses, and we are moving forward in our efforts to become a global specialty pharmaceutical company.

*Translational research is research that helps to make findings from basic science useful for practical applications in healthcare.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of December 31, 2013	As of December 31, 2012
ASSETS		
Current assets:		
Cash and deposits	20,190	21,577
Notes and accounts receivable-trade	98,602	101,556
Merchandise and finished goods	50,863	40,334
Work in process	13,465	12,176
Raw materials and supplies	11,371	10,931
Deferred tax assets	10,409	10,369
Short-term loans receivable	113,133	98,194
Other	11,780	9,228
Allowance for doubtful accounts	(497)	(381)
Total current assets	329,320	303,988
Noncurrent assets:		
Property, plant and equipment		
Buildings and structures	132,861	134,875
Accumulated depreciation	(90,637)	(94,114)
Buildings and structures, net	42,223	40,760
Machinery, equipment and vehicles	146,935	143,595
Accumulated depreciation	(125,860)	(124,200)
Machinery, equipment and vehicles, net	21,075	19,395
Land	54,620	53,386
Construction in progress	13,501	7,360
Other	47,795	48,166
Accumulated depreciation	(41,297)	(42,196)
Other, net	6,498	5,969
Total property, plant and equipment	137,919	126,872
Intangible assets		
Goodwill	163,713	168,850
Marketing rights	46,519	36,214
Other	1,841	2,442
Total intangible assets	212,073	207,506
Investments and other assets		
Investment securities	24,602	23,654
Deferred tax assets	3,893	7,724
Other	11,638	9,871
Allowance for doubtful accounts	(191)	(276)
Total investments and other assets	39,942	40,974
Total noncurrent assets	389,936	375,353
Total assets:	719,257	679,342

(1) Consolidated balance sheets (continued)

(Millions of yen)

	As of December 31, 2013	As of December 31, 2012
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	22,589	26,303
Short-term loans payable	6,207	5,699
Accounts payable-other	36,519	29,009
Income taxes payable	10,483	15,777
Provision for sales rebates	1,217	771
Provision for point card certificates	254	187
Provision for bonuses	342	241
Other	7,462	7,784
Total current liabilities	85,076	85,774
Noncurrent liabilities:		
Deferred tax liabilities	11,807	11,262
Provision for retirement benefits	19,196	19,503
Provision for directors' retirement benefits	134	114
Provision for environmental measures	266	331
Allowance for loss on plants reorganization	3,390	--
Asset retirement obligations	374	383
Other	3,597	6,074
Total noncurrent liabilities	38,765	37,668
Total liabilities:	123,841	123,443
NET ASSETS		
Shareholders' equity:		
Capital stock	26,745	26,745
Capital surplus	512,328	512,329
Retained earnings	65,888	48,127
Treasury stock	(26,632)	(26,538)
Total shareholders' equity	578,329	560,663
Other accumulated comprehensive income adjustments		
Valuation difference on available-for-sale securities	1,414	(2,264)
Foreign currency translation adjustment	14,214	(3,528)
Total other accumulated other comprehensive income adjustments	15,628	(5,792)
Subscription rights to shares:	306	203
Minority interests:	1,150	823
Total net assets:	595,415	555,898
Total liabilities and net assets:	719,257	679,342

(2) Consolidated statements of income

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Net sales	340,611	333,158
Cost of sales	127,850	122,467
Gross profit	212,761	210,690
Selling, general and administrative expenses		
Haulage expenses	1,843	1,794
Sales promotion	14,577	13,400
Provision for point card certificates	205	145
Provisions for allowance for doubtful accounts	50	(9)
Salaries	24,636	23,368
Bonuses	10,237	9,939
Employee retirement benefit expense	4,440	4,375
Depreciation expense	7,535	5,663
Research and development expense	43,633	44,776
Amortization of goodwill	11,577	12,026
Other	42,249	42,305
Total selling, general and administrative expenses	160,987	157,785
Operating income	51,773	52,905
Non-operating income		
Interest income	775	604
Dividends income	670	993
Foreign exchange gains	2,098	1,224
Other	896	1,343
Total non-operating income	4,440	4,167
Non-operating expenses		
Interest expenses	259	205
Loss on valuation of derivatives	55	784
Loss on disposal of non-current assets	943	874
Equities in losses in affiliates	4,163	4,861
Other	1,288	1,344
Total non-operating expenses	6,711	8,070
Ordinary income	49,502	49,001

(2) Consolidated statements of income (cont.)

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Extraordinary income		
Gain on sales of subsidiaries and affiliates' stocks	3,217	--
Gain on sales of noncurrent assets	1,066	--
Gain on sales of investment securities	687	--
Total extraordinary income	4,970	--
Extraordinary loss		
Provision for loss on plants reorganization	3,390	--
Special extra retirement payments	630	--
Impairment loss	207	1,341
Loss on liquidation of subsidiaries and affiliates	190	--
Loss on valuation of shares in affiliate companies	150	--
Loss on sale of investment securities	131	344
Loss on liquidation of subsidiaries and affiliates	--	1,035
Loss on valuation of investment securities	--	1,007
Loss on business restructuring	--	247
Total extraordinary loss	4,700	3,976
Income before income taxes and minority interests	49,773	45,025
Income taxes	17,490	24,095
Income tax adjustment	2,112	(3,485)
Total income taxes	19,603	20,609
Income before minority interests	30,169	24,415
Minority interests in income	91	215
Net income	30,078	24,199

(3) Consolidated statements of income (Comprehensive)

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Income before minority interests	30,169	24,415
Other comprehensive income		
Valuation difference on available-for-sale securities	3,678	874
Foreign currency translation adjustment	17,978	9,413
Share of other comprehensive income of associates accounted for using equity method	--	6
Total other comprehensive income	21,656	10,294
Comprehensive income	51,826	34,709
(Attributable to)		
Comprehensive income attributable to owners of the parent	51,499	34,393
Comprehensive income attributable to minority interests	326	316

(4) Consolidated statements of changes in shareholders' equity

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Consolidated statements of changes in net assets		
Shareholders' equity		
Capital stock		
Balance at the beginning of period	26,745	26,745
Changes of items during the period		
Total changes of items during the period	--	--
Balance at the end of current period	26,745	26,745
Capital surplus		
Balance at the beginning of period	512,329	512,348
Changes of items during the period		
Disposal of treasury stock	(1)	(19)
Total changes of items during the period	(1)	(19)
Balance at the end of current period	512,328	512,329
Retained earnings		
Balance at the beginning of period	48,127	34,956
Changes of items during the period		
Dividends from surplus	(12,316)	(11,028)
Net income	30,078	24,199
Total changes of items during the period	17,761	13,170
Balance at the end of current period	65,888	48,127
Treasury stock		
Balance at the beginning of period	(26,538)	(19,194)
Changes of items during the period		
Purchase of treasury stock	(126)	(7,511)
Disposal of treasury stock	32	167
Total changes of items during the period	(94)	(7,344)
Balance at the end of current period	(26,632)	(26,538)
Total shareholders' equity		
Balance at the beginning of period	560,663	554,856
Changes of items during the period		
Dividends from surplus	(12,316)	(11,028)
Net income	30,078	24,199
Purchase of treasury stock	(126)	(7,511)
Disposal of treasury stock	30	147
Total changes of items during the period	17,665	5,807
Balance at the end of current period	578,329	560,663
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the beginning of period	(2,264)	(3,144)
Changes of items during the period		
Net changes of items other than shareholders' equity	3,678	880
Total changes of items during the period	3,678	880
Balance at the end of current period	1,414	(2,264)

(4) Consolidated statements of changes in shareholders’ equity (cont.)

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Foreign currency translation adjustment		
Balance at the beginning of period	(3,528)	(12,841)
Changes of items during the period		
Net changes of items other than shareholders' equity	17,743	9,313
Total changes of items during the period	17,743	9,313
Balance at the end of current period	14,214	(3,528)
Net cumulative total of other comprehensive income		
Balance at the beginning of period	(5,792)	(15,986)
Changes of items during the period		
Net changes of items other than shareholders' equity	21,421	10,194
Total changes of items during the period	21,421	10,194
Balance at the end of current period	15,628	(5,792)
Subscription rights to shares		
Balance at the beginning of period	203	250
Changes of items during the period		
Net changes of items other than shareholders' equity	103	(47)
Total changes of items during the period	103	(47)
Balance at the end of current period	306	203
Minority interests		
Balance at the beginning of period	823	902
Changes of items during the period		
Net changes of items other than shareholders' equity	326	(79)
Total changes of items during the period	326	(79)
Balance at the end of current period	1,150	823
Total net assets		
Balance at the beginning of period	555,898	540,023
Changes of items during the period		
Dividends from surplus	(12,316)	(11,028)
Net income	30,078	24,199
Purchase of treasury stock	(126)	(7,511)
Disposal of treasury stock	30	147
Net changes of items other than shareholders' equity	21,851	10,067
Total changes of items during the period	39,516	15,875
Balance at the end of current period	595,415	555,898

(5) Consolidated statements of cash flows

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Net cash provided by (used in) operating activities		
Income before income taxes	49,773	45,025
Depreciation and amortization	21,592	20,904
Impairment loss	207	1,341
Amortization of goodwill	11,577	12,026
Increase (decrease) in provision for retirement benefits	(274)	(1,173)
Decrease (increase) in prepaid pension costs	(1,157)	(450)
Interest and dividends income	(1,445)	(1,598)
Interest expenses	259	205
Equity in (earnings) losses of affiliates	4,163	4,861
Loss (gain) on sales and retirement of property, plant and equipment	(685)	248
Loss (gain) on sales of investment securities	(556)	321
Loss (gain) on valuation of investment securities	0	1,007
Loss (gain) on sales of stocks of subsidiaries and affiliates	(3,214)	(0)
Decrease (increase) in notes and accounts receivable-trade	5,955	(708)
Decrease (increase) in inventories	(8,708)	(2,647)
Increase (decrease) in notes and accounts payable-trade	(2,915)	(2,522)
Other, net	3,855	(3,486)
Subtotal	78,428	73,354
Interest and dividends income received	1,874	1,844
Interest expenses paid	(242)	(122)
Income taxes paid	(23,175)	(15,942)
Net cash provided by (used in) operating activities	56,884	59,134
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(21,599)	(17,587)
Proceeds from sales of property, plant and equipment	1,748	446
Purchase of intangible assets	(13,126)	(9,339)
Purchase of investment securities	(3,801)	(6,460)
Proceeds from sales and redemption of investment securities	3,957	2,466
Proceeds from sales of stocks of subsidiaries and affiliates	3,747	0
Purchase of investments in subsidiaries resulting in change in scope of consolidation	--	(111)
Payments into time deposits	(4,251)	(3,224)
Proceeds from withdrawal of time deposits	2,922	3,051
Net decrease (increase) in short-term loans receivable	(43,000)	(66,998)
Other, net	(3,759)	(1,015)
Net cash provided by (used in) investing activities	(77,163)	(98,772)

(5) Consolidated statements of cash flows (continued)

(Millions of yen)

	January 1, 2013 to December 31, 2013	January 1, 2012 to December 31, 2012
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans	12	(374)
Repayment of long-term loans payable	--	(100)
Purchase of treasury stock	(126)	(7,511)
Cash dividends paid	(12,310)	(11,029)
Cash dividends paid to minority shareholders	--	(44)
Other, net	(155)	(128)
Net cash provided by (used in) financing activities	**(12,579)**	**(19,189)**
Effect of exchange rate change on cash and cash equivalents	**1,765**	**1,606**
Net increase (decrease) in cash and cash	**(31,091)**	**(57,221)**
Cash and cash equivalents at beginning of the	**50,334**	**107,555**
Cash and cash equivalents at end of period	**19,242**	**50,334**

5. Segment Information
(1) Business segment information

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

1. Outline of reporting segments

Reporting segments for the Kyowa Hakko Kirin Group are based on financial information available for the constituent units of the Group and for the purpose of regular consideration by the Board of Directors in regard to decision-making on resource allocation and assessment of business results.

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 reporting 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. Profit for reported segments is recorded on an operating income basis. Intersegment sales amounts are mainly based on prices for sales transactions with third parties.

3. Information on sales and profits (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 income	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 fixed assets	22,921	12,261	35,183	--	35,183

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

Fiscal period: January 1, 2012 – December 31, 2012

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjusted amount[1]	Consolidated[2]
Net Sales:					
Sales to external customers	258,025	75,133	333,158	--	333,158
Inter-segment sales and transfers	1,339	1,833	3,172	(3,172)	--
Total	259,365	76,966	336,331	(3,172)	333,158
Segment income	50,749	2,127	52,876	28	52,905
Segment assets	441,397	141,864	583,261	96,080	679,342
Other items					
Depreciation and amortization	14,625	6,280	20,905	(1)	20,904
Goodwill amortization	11,400	625	12,026	--	12,026
Investment in equity method companies	2,805	--	2,805	--	2,805
Increase in property, plant and equipment and intangible fixed assets	18,357	9,454	27,812	(3)	27,808

Notes:

1. Adjusted amounts are as follows:

(1) Segment income: Adjustment of ¥28 million for elimination of intersegment transactions

(2) Segment assets: Adjustment of ¥96,080 million includes elimination of segment transactions of -¥10,054 million and company-wide assets unallocated to each segment of ¥106,135 million. Company-wide assets are primarily surplus operating cash (cash and deposits, short-term loans) and funds for long-term investments.

2. Segment income 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
1. Net sales	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

Omitted since over 90% of the value of property, plant and equipment as recorded on the consolidated balance sheet are in Japan.

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	45,352	Pharmaceuticals

Fiscal period: January 1, 2012 – December 31, 2012

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
1. Net sales	260,524	21,207	30,997	19,880	548	333,158

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

(2) Property, plant and equipment

Omitted since over 90% of the value of property, plant and equipment as recorded on the consolidated balance sheet are in Japan.

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	45,741	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, 2012 – December 31, 2012

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Impairment loss	1,316	25	1,341	--	1,341

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, 2012 – December 31, 2012

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Total	Adjustments	Consolidated
Amount amortized	11,400	625	12,026	--	12,026
Balance at end of period	159,309	9,541	168,850	--	168,850

Occurrence of negative goodwill by business segment

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

No applicable items

Fiscal period: January 1, 2012 – December 31, 2012

No applicable items