KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary
Fiscal 2015

(January 1, 2015 – December 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 Fiscal Year Ended December 31, 2015
(The twelve-month period from January 1, 2015 to December 31, 2015)

January 29, 2016

Company Name:	Kyowa Hakko Kirin Co., Ltd.	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of Ordinary General Meeting of Shareholders: March 24, 2016
Scheduled start date of dividend payment: March 25, 2016
Scheduled date of submission of Financial Report: March 16, 2016
Appendix materials to accompany the annual financial report: Yes
FY2015 earnings presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded down)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2015

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

(1) Consolidated operating results	Fiscal year ended December 31, 2015	Change (%)	Fiscal year ended December 31, 2014	Change (%)
Net sales (millions of yen)	364,316	9.3	333,446	(2.1)
Operating income (millions of yen)	43,765	21.0	36,173	(30.1)
Ordinary income (millions of yen)	39,203	32.8	29,511	(40.4)
Net income (millions of yen)	29,774	87.3	15,898	(47.1)
Basic earnings per share (yen)	54.40		29.05	
Fully diluted earnings per share (yen)	54.36		29.02	
Return on equity (%)	4.9		2.7	
Ordinary income to total assets ratio (%)	5.4		4.1	
Operating income to sales ratio (%)	12.0		10.8	

Notes: Comprehensive income: Fiscal year ended December 31, 2015: ¥24,953 million [(8.3)%]; Fiscal year ended December 31, 2014: ¥27,218 million [(47.5)%]

Share of (profit) loss of entities accounted for using equity method: Fiscal year ended December 31, 2015: ¥(3,738) million; Fiscal year ended December 31, 2014: ¥(6,055) million

(2) Consolidated financial position	As of December 31, 2015	As of December 31, 2014
Total assets (millions of yen)	720,764	719,135
Net assets (millions of yen)	614,858	605,368
Equity ratio (%)	85.2	84.1
Net assets per share (yen)	1,122.80	1,105.44

Note: Equity: As of December 31, 2015: ¥614,427 million; As of December 31, 2014: ¥605,035 million

(Millions of yen)

(3) Consolidated cash flows	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2014
Net cash provided by (used in) operating activities	66,526	19,377
Net cash provided by (used in) investing activities	(57,747)	16,805
Net cash provided by (used in) financing activities	(14,060)	(37,184)
Cash and cash equivalents at end of period	12,784	17,013

2. Dividends

	Fiscal year ending December 31, 2016 (Forecast)	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2014
Interim dividend per share (yen)	12.50	12.50	12.50
Year-end dividend per share (yen)	12.50	12.50	12.50
Total dividend per share (yen)	25.00	25.00	25.00
Total dividend amount (millions of yen)		13,681	13,683
Dividend payout ratio (consolidated) (%)	85.5	46.0	86.1
Ratio of dividends to net assets (%)		2.2	2.3

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2016

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

	Six months ending June 30, 2016		Full year	
		Change (%)		Change (%)
Net sales (millions of yen)	171,000	(4.4)	351,000	(3.7)
Operating income (millions of yen)	9,000	(59.9)	30,000	(31.5)
Ordinary income (millions of yen)	–	–	25,000	(36.2)
Profit attributable to owners of parent (millions of yen)	–	–	16,000	(46.3)
Basic earnings per share (yen)	–		29.24	

Note: Because ordinary income and profit attributable to owners of parent forecasts are only included for full-year forecasts, forecasts for six months ending June 30, 2016 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) 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

3) Number of shares issued (ordinary shares)

1. Number of shares issued (including treasury shares)
   - As of December 31, 2015 576,483,555 shares
   - As of December 31, 2014 576,483,555 shares
2. Number of treasury shares
   - As of December 31, 2015 29,256,749 shares
   - As of December 31, 2014 29,157,158 shares
3. Average number of shares during the period
   - FY ended December 31, 2015 547,285,401 shares
   - FY ended December 31, 2014 547,348,362 shares

(Reference)

Non-Consolidated Results for the Fiscal Year Ended December 31, 2015

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

(1) Non-consolidated operating results	Fiscal year ended December 31, 2015	Change (%)	Fiscal year ended December 31, 2014	Change (%)
Net sales (millions of yen)	217,949	8.0	201,791	(4.3)
Operating income (millions of yen)	39,931	13.9	35,050	(29.8)
Ordinary income (millions of yen)	48,633	16.0	41,907	(24.9)
Net income (millions of yen)	40,241	27.8	31,500	(20.5)
Basic earnings per share (yen)	73.53		57.55	
Fully diluted earnings per share (yen)	73.47		57.51	

(2) Non-consolidated financial position	As of December 31, 2015	As of December 31, 2014
Total assets (millions of yen)	520,482	486,412
Net assets (millions of yen)	447,423	418,267
Equity ratio (%)	85.9	85.9
Net assets per share (yen)	816.83	763.59

Note: Equity: As of December 31, 2015: ¥446,992 million; As of December 31, 2014: ¥417,934 million

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

Notice regarding the appropriate use of the earnings forecasts:
The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by management. Actual results may differ materially from these projections for a wide variety of reasons. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 9, 1. Summary of Business Performance and Financial Position (1) Summary of business performance 2) Outlook for Fiscal 2016.

Contents

1. Summary of Business Performance and Financial Position

(1) Summary of business performance

1) Business performance in Fiscal 2015

(Billions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2014	Change
Net sales	364.3	333.4	30.8
Operating income	43.7	36.1	7.5
Ordinary income	39.2	29.5	9.6
Net income	29.7	15.8	13.8

- Consolidated net sales and operating income for the current fiscal year 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 August 2014.
- Ordinary income and net income respectively increased due to the increase in operating income. Ordinary income was affected by a decrease in share of loss of entities accounted for using equity method, while net income was affected by an increase in extraordinary income such as gain on sales of investment securities.
- In the Pharmaceuticals business, we continue to face a severe domestic operating environment primarily with respect to long term NHI products due to rapid growth of the market for generics brought about by progress made with measures to reduce medical costs. However, under its area marketing strategy launched in April, Kyowa Hakko Kirin Co., Ltd. (“Kyowa Hakko Kirin” or the “Company”) has been working to tap medical needs of respective geographic regions with a focus on expanding sales of its new core products which include G-Lasta®, a sustained-duration Granulocyte Colony-Stimulating Factor (G-CSF) product, Onglyza®, a treatment for type 2 diabetes, NOURIAST®, an antiparkinsonian agent, and Dovobet®, a topical combination drug for psoriasis vulgaris. In July, we obtained manufacturing and marketing approval for ACOALAN®, an antithrombin (AT) drug made using recombinant DNA technology and sugar-chain control technology. (The Japan Blood Products Organization, our sales agent, began selling the product in September.)
  Overseas, we proceeded with preparations for becoming a global specialty pharmaceutical group beginning in fiscal 2016. To that end, we forged ahead with initiatives to strengthen our European business platform such as our August 2014 acquisition of Archimedes, and have also been making steady progress with respect to global development of KRN23, KW-0761 (product name in Japan: POTELIGEO®), and KW-6002 (product name in Japan: NOURIAST®).
  Furthermore, we promoted strategic partnering initiatives geared toward further improving and upgrading the value of our in-house pipeline. To that end, in July we entered into a development alliance agreement with Bristol-Myers Squibb regarding KW-0761 in relation to immuno-oncology for treating advanced solid tumors in the U.S.; in July, we entered into an option agreement with AstraZeneca involving exclusive rights for sales in Japan of Benralizumab (KHK4563) now under development for asthma and chronic obstructive pulmonary disease (COPD); and in December, we entered into an agreement with Sandoz K.K. regarding exclusive sales in Japan of Rituximab biosimilars.
- In the Bio-Chemicals business, we pursued activities geared toward increasing the added value of our products, amid a situation where materials used for health maintenance, stamina enhancement and beauty have been attracting attention due to rising health consciousness. While our practice up until now has been to sell ingredients such as Setria® (Glutathione), Cognizin® (Citicoline), Sustamine® (Alanyl-glutamine), by creating brand names and registering these names as trademarks, in fiscal 2015 we have established a framework for developing the marketing strategy

for these ingredients overseas, centered on the U.S., which is a major health food market.

In terms of financial results, domestic sales of amino acids for pharmaceuticals and other products such as active pharmaceutical ingredients (APIs) declined year on year, but sales in the healthcare field which includes Ornithine and other mail-order products increased year on year. Overseas, operating income increased overall year on year due to gains in sales of amino acids primarily in the U.S. and Europe, and also due to the impact of exchange rates.

Performance by segment

Pharmaceuticals business

(Billions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2014	Change
Net sales	279.2	253.0	26.2
Operating income	36.2	29.0	7.1

- Domestic sales increased compared to the previous fiscal year due to such factors as the growth in sales of new products.
  - · 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 and increased from the previous fiscal year.
  - · There was steady growth in sales of new products such as G-Lasta®, a sustained-duration G-CSF product, Dovobet®, a topical combination drug for psoriasis vulgaris, Onglyza®, a treatment for type 2 diabetes, and NOURIAST®, an antiparkinsonian agent.
  - · Sales of long term NHI products such as GRAN®, a G-CSF product, CONIEL®, a hypertension and angina pectoris drug, and ALLELOCK®, an anti-allergy agent, decreased due to the impacts of the market penetration of generics and reductions in drug price standards implemented in April 2014.
- Overseas sales increased compared to the previous fiscal 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. Net sales of ProStrakan were ¥41.9 billion (up 33.7% year on year) and operating income was ¥1.1 billion (operating loss of ¥22 million in the previous fiscal year). Also, in licensing revenue, we booked sales from an up-front option fee (US$45 million) related to an option agreement for Benralizumab (KHK4563) signed with AstraZeneca.
  - · In Asia, sales grew compared to the previous fiscal year, partly reflecting steady sales particularly in South Korea and China as well as further yen depreciation in foreign exchange.

R&D activities in the Pharmaceuticals business:

- Using cutting-edge biotechnology centered on antibody technology, we have made nephrology, oncology, immunology/allergy and CNS the focus of research and development, and by investing resources efficiently, we aim to further speed up the creation of new medical value and drug creation.
  - · The development statuses of our main late-stage development products in the current fiscal year are as follows.

Nephrology

- · In Japan, we obtained approval for REGPARA® 12.5 mg, a calcium receptor agonist, in February, and launched the product in June.
- · In Japan, in November we initiated phase III clinical study of calcium receptor agonist KHK7580 for

secondary hyperparathyroidism patients receiving hemodialysis.

· In Japan, in March we initiated phase II clinical study for RTA 402 targeting chronic kidney disease (CKD) with type 2 diabetes.
· 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 for 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., and phase II clinical study targeting adult T-cell leukemia-lymphoma in the U.S., Europe, etc. Phase II clinical study targeting peripheral T-cell lymphoma was conducted in Europe, but a decision was made to suspend development with respect to that particular indication in Europe.

Immunology and allergy

· In Japan, in July we applied for approval of indication for the fully human anti-IL-17 receptor antibody KHK4827 targeting psoriasis.
· 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 multi-regional clinical study being conducted by our licensing partner, AstraZeneca. Also, we initiated a phase III clinical study in Japan in July for patients with chronic obstructive pulmonary disease, as part of the multi-regional clinical study being conducted by AstraZeneca.

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 obtained approval in July for recombinant human antithrombin (AT) drug ACOALAN® for indications of thrombophilia due to congenital AT deficiency and disseminated intravascular coagulation accompanied by a decrease in AT. The Japan Blood Products Organization launched the drug in September after signing a domestic sales outsourcing agreement for ACOALAN® with the Company.
· In China, we initiated a phase III clinical study in September of thrombopoietin receptor agonist AMG531 (product name in Japan: ROMIPLATE®) on patients receiving treatment of chronic idiopathic (immune) thrombocytopenic purpura.
· In December, we initiated multi-regional phase III clinical study of the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 in adult patients with X-linked hypophosphatemia in North America, Europe, Japan, and South Korea. We are currently conducting phase II clinical study of KRN23 in pediatric X-linked hypophosphatemia in the U.S. and Europe.

Bio-Chemicals business

(Billions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2014	Change
Net sales	88.8	83.9	4.9
Operating income	8.1	7.2	0.8

- Domestic sales increased compared to the previous fiscal year.
  - · In the pharmaceutical and medical treatment fields, sales declined year on year partially due to a concentration of shipments of APIs for generics occurring in the previous fiscal year.
  - · In the healthcare field, sales increased year on year due to firm growth in mail-order sales of Ornithine and other products.
- Overseas sales increased compared to the previous fiscal year, partly reflecting further yen depreciation in foreign exchange.
  - · In the U.S., sales increased year on year, due in part to growth in sales of amino acids for supplements.
  - · In Europe, despite growth in sales of infusion-use amino acids, sales remained at the previous fiscal year level partially due to the effect of having transferred operations of raw materials for cosmetics ingredients business.
  - · In Asia, the effect of the weaker yen in foreign exchange caused sales to increase year on year, even though there was no longer a concentration of API shipments as there had been in the previous fiscal year.

R&D activities in the Bio-Chemicals business:

- We are continuing to focus on developing a resource-saving and efficient fermentation production process for core products such as amino acids, nucleic acids and related compounds.
- We have been increasing the added value of our products through efforts that involve exploring functions of nutritional physiology with respect to amino acids and other products of fermentation, and developing applications in that regard, on the basis of functionality and safety data obtained through joint research with Japanese and overseas universities and research institutes.
- We have been carrying out research pertaining to cell culture mediums with applications in regenerative medicine, drawing on Kyowa Hakko Kirin's knowledge regarding cell culture technology.

2) Outlook for Fiscal 2016

(Billions of yen)

	FORECAST* FY ending December 31, 2016	Change compared to FY ended December 31, 2015	% Change compared to FY ended December 31, 2015
Net sales	351.0	(13.3)	(3.7)%
Operating income	30.0	(13.7)	(31.5)%
Ordinary income	25.0	(14.2)	(36.2)%
Profit attributable to owners of parent	16.0	(13.7)	(46.3)%

These forecasts assume average exchange rates of ¥119/US$, ¥137/euro and ¥187/British pound.

- Consolidated financial earnings forecasts for fiscal 2016 (January 1, 2016 to December 31, 2016) are for net sales of ¥351.0 billion, a decrease of 3.7% compared to the current fiscal year, operating income of ¥30.0 billion, down 31.5%, ordinary income of ¥25.0 billion, down 36.2%, and profit attributable to owners of parent of ¥16.0 billion, a decrease of 46.3%.
- In the Pharmaceuticals business, we anticipate increases in sales of new products such as G-Lasta®, a sustained-duration G-CSF product, Onglyza®, a treatment for type 2 diabetes, and NOURIAST®, an antiparkinsonian agent. Nevertheless, we forecast an overall downturn in sales year on year due to the likelihood that reductions in drug price standards slated for April 2016 will have a substantial negative impact on our financial performance. We also forecast a decrease in operating income given the likelihood of higher research and development expenses, expenses incurred in preparing for U.S. and European product launches, and others.
- In the Bio-Chemicals business, despite our outlook for an increase in sales volumes of products that include core amino acids, nucleic acids and Ornithine, we forecast lower sales and profits due to factors such as a likely decrease in the volume of API sales.
- Ordinary income and profit attributable to owners of parent are also forecast to decrease compared to the current fiscal year, due to the decrease of operating income.

*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, 2015 were ¥720.7 billion, an increase of ¥1.6 billion compared to the end of the previous fiscal year. Current assets increased by ¥41.2 billion year on year to ¥324.4 billion as despite decreases in cash and deposits and inventories, there was an increase in short-term loans receivable from the parent company. Non-current assets decreased by ¥39.6 billion to ¥396.3 billion, affected by decreases in goodwill and sales right due to amortization, and a decrease in investment securities due to sales of shares.
- Liabilities as of December 31, 2015 were ¥105.9 billion, a decrease of ¥7.8 billion compared to the end of the previous fiscal year, due to decreases in notes and accounts payable - trade, deferred tax liabilities and other items, despite increases in income taxes payable and other items.
- Net assets as of December 31, 2015 were ¥614.8 billion, an increase of ¥9.4 billion compared to the end of the previous fiscal year, due to the booking of net income for the period and other items, which offset factors including payment of dividends and a decrease in foreign currency translation adjustment.

  As a result, the equity ratio as of the end of the current fiscal year was 85.2%, an increase of 1.1 percentage points compared to the end of the previous fiscal year.

2) Cash flow summary

(Billions of yen)

	FY ended December 31, 2015	FY ended December 31, 2014	Change
Net cash provided by (used in) operating activities	66.5	19.3	47.1
Net cash provided by (used in) investing activities	(57.7)	16.8	(74.5)
Net cash provided by (used in) financing activities	(14.0)	(37.1)	23.1
Cash and cash equivalents at end of year	12.7	17.0	(4.2)

- Cash and cash equivalents as of December 31, 2015 were ¥12.7 billion, a decrease of ¥4.2 billion compared to the balance of ¥17.0 billion as of December 31, 2014.

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

- Net cash provided by operating activities was ¥66.5 billion, an increase of 243.3% over the previous fiscal year. The main factors included income before income taxes and minority interests of ¥41.4 billion, depreciation of ¥23.1 billion and amortization of goodwill of ¥13.4 billion, despite income taxes paid of ¥14.3 billion.
- Net cash used in investing activities was ¥57.7 billion, compared to a net inflow of ¥16.8 billion in the previous fiscal year. Major outflows included a net increase of ¥54.4 billion in short-term loans receivable, purchase of property, plant and equipment, and intangible assets of ¥20.0 billion. Major inflows included proceeds from sales of investment securities of ¥17.9 billion.
- Net cash used in financing activities was ¥14.0 billion, a 62.2% decrease compared to the previous fiscal year. The main outflows included cash dividends paid of ¥13.6 billion.

(Reference)
Key cash flow indicators

	Fiscal 2011	**Fiscal 2012**	**Fiscal 2013**	**Fiscal 2014**	**Fiscal 2015**
Equity ratio (%)	81.8%	81.7%	82.6%	84.1%	85.2%
Equity (market value basis) ratio (%)	79.4%	68.4%	88.2%	86.5%	145.4%
Interest bearing debt to cash flow ratio (years)	0.1	0.1	0.1	0.3	0.1
Interest coverage ratio (times)	305.4	484.2	234.2	64.4	1,155.2

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

3) Outlook for Fiscal 2016

- Cash flows from operating activities: Operating cash inflow is expected to decrease from the current fiscal year due to an expected decrease in income before income taxes and minority interests compared with the current fiscal year.
- Cash flows from investing activities: Cash outflow from investing activities is expected to be lower in the next fiscal year than in the current fiscal year, due to an expected decrease in a net increase in short-term loans receivable from the parent company as fund management despite an anticipated increase in outflow from the purchase of property, plant and equipment and an anticipated decrease in proceeds from sales of investment securities.

- Cash flows from financing activities: Cash outflow from financing activities is expected to be at the same level as the current fiscal year in the next fiscal year. As regards the sourcing of funds and the purchase of treasury shares, we will remain flexible and act as appropriate for the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2016 are expected to be at the same level as at the end of fiscal 2015.

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 2015 and Fiscal 2016 dividends

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

In accordance with this basic policy, we plan to pay a year-end dividend for fiscal 2015 of ¥12.50 per share. As a result, the annual dividend is expected to be ¥25 per share, consisting of an interim dividend of ¥12.50 per share and a year-end dividend of ¥12.50 per share.

In our 2016 to 2020 Mid-term Business Plan, until 2018 we aim for a stable dividend payment, targeting a consolidated dividend payout ratio of 40% on a basis of net income before amortization of goodwill. For the fiscal year ending December 2016, we expect to pay an annual dividend of ¥25 per share, consisting of an interim dividend of ¥12.50 and a year-end dividend of ¥12.50.

(4) Business and other risks

With respect to business performance and financial position of Kyowa Hakko Kirin Group (the “Group”), the major risks that may significantly affect investors’ assessments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the assessment of the Group as of December 31, 2015.

1) Risks associated with R&D investment

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

2) Risks related to intellectual property rights

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

3) Risk of side effects

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

4) Risk of impact from pharmaceutical administration and regulations

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

5) Legal regulation risk

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

6) Risk of fluctuations to foreign exchange rate

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

statements. Therefore the exchange rate at the time of translation could have an effect on values following currency translation.

7) Disaster-related and accident-related risks

Earthquakes, fires, pandemics such as influenza, terrorism, large-scale electrical black outs and other events and accidents could result in suspension of business activities at our Group headquarters, factories, research facilities or offices. The Group handles substances that are subject to various legal regulations and guidelines, and as a result of natural disasters, etc., these substances could enter the external environment and cause damage to the surrounding area.

Although the Group maintains a disaster prevention system and has formulated and developed a business continuity plan, should an event or accident as described above occur it might result in not only significant damages but also negative impacts on the Group’s position of trust in society. Additionally, the Group’s business performance and financial position could be adversely affected.

8) Litigation risk

In such cases where the Group is subject to litigation filed due to a problem related to our business activities such as a pharmaceutical product’s side effects, product liability, labor problems, fair trade, etc., the Group’s business performance and financial position could be adversely affected.

9) Other risks

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

2. Group Status

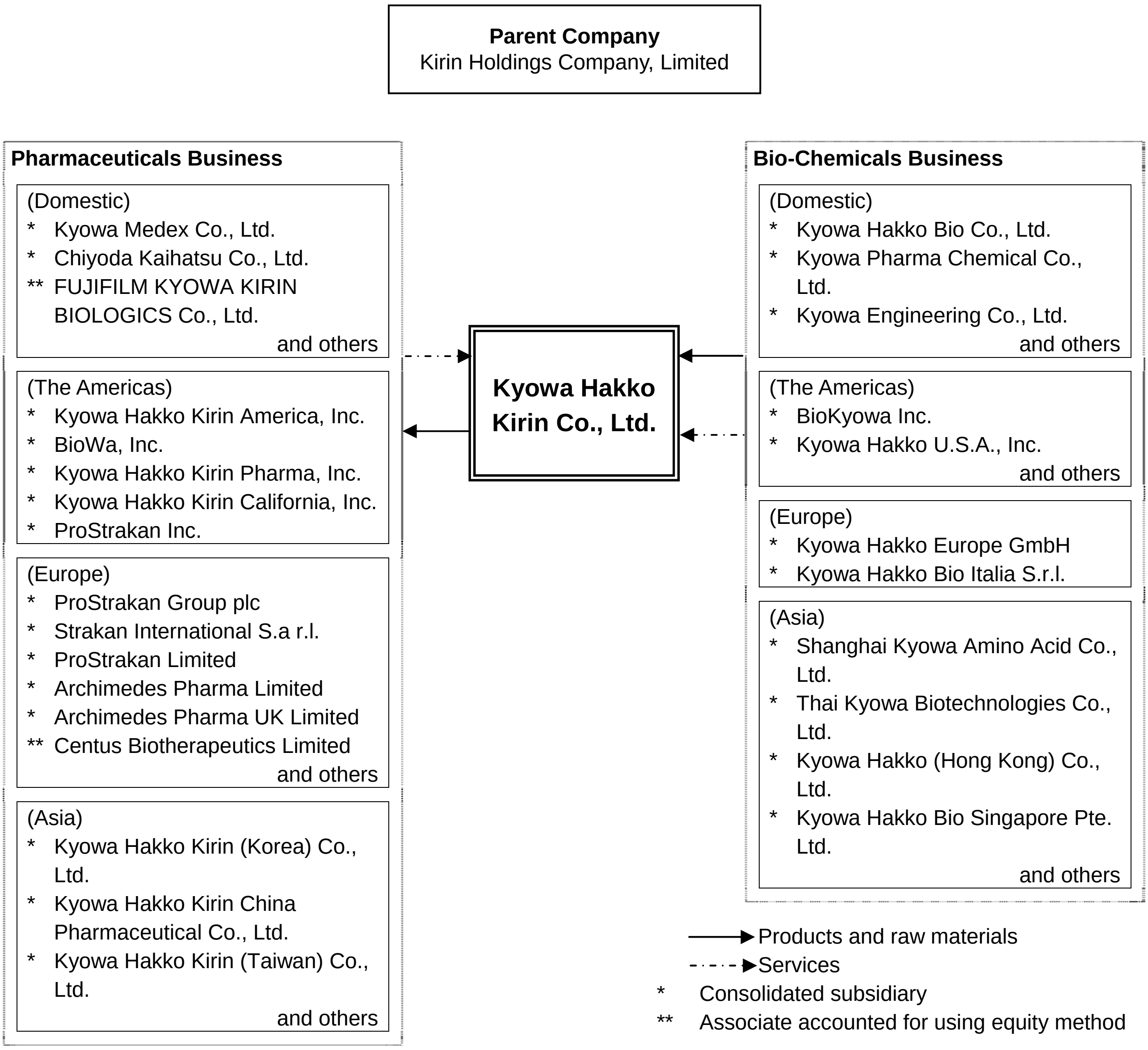
Kyowa Hakko Kirin Group is composed of the Company, 55 subsidiaries, 3 associates and one parent company (Kirin Holdings Company, Limited) and operates businesses primarily in the Pharmaceuticals and Bio-Chemicals business divisions. The major operating activities and positions of the Company and the main Group companies in these businesses are outlined below.
The two segments described below are the same as those described in [6. Segment Information, etc.]

Pharmaceuticals Business	(Domestic) Kyowa Hakko Kirin manufactures and sells ethical pharmaceuticals. Kyowa Medex Co., Ltd. manufactures and sells diagnostic reagents. Chiyoda Kaihatsu Co., Ltd. is engaged in businesses including contracting, wholesale and retail, and insurance agency. It provides services to Kyowa Hakko Kirin and some of subsidiaries and associates. FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. develops biosimilar pharmaceutical products with plans for future manufacturing and sale. (Overseas) Kyowa Hakko Kirin America, Inc. is a holding company for administration and management of the Pharmaceuticals business subsidiaries in the U.S. BioWa, Inc. undertakes out-licensing of antibody technology developed by Kyowa Hakko Kirin. Kyowa Hakko Kirin California, Inc. generates new drug candidate compounds as subcontracted work. Kyowa Hakko Kirin Pharma, Inc. handles the development of new drug candidate compounds as subcontracted work. In Europe and the Americas, ProStrakan Group plc and its 21 subsidiaries are involved in the development and sales of ethical pharmaceuticals. Centus Biotherapeutics Limited develops biosimilar pharmaceutical products. In Asia, Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. manufactures and sells pharmaceuticals in China. Kyowa Hakko Kirin (Korea) Co., Ltd. and Kyowa Hakko Kirin (Taiwan) Co., Ltd. sell pharmaceuticals in Korea and Taiwan.
Bio-Chemicals Business	(Domestic) Kyowa Hakko Bio Co., Ltd. manufactures and sells raw materials for pharmaceutical and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. Kyowa Pharma Chemical Co., Ltd. manufactures and sells active pharmaceutical ingredients (APIs) and intermediate products, and supplies a portion of raw materials to Kyowa Hakko Kirin. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supply equipment to Kyowa Hakko Kirin, Kyowa Hakko Bio Co., Ltd. and some of subsidiaries and associates. (Overseas) In the Americas, BioKyowa Inc. manufactures and sells raw materials for pharmaceutical and industrial use and healthcare products. Kyowa Hakko U.S.A., Inc. sells the aforementioned items. In Europe, Kyowa Hakko Europe GmbH and Kyowa Hakko Bio Italia S.r.l. sell raw materials for pharmaceutical and industrial use and healthcare products. In Asia, Shanghai Kyowa Amino Acid Co., Ltd. and Thai Kyowa Biotechnologies Co., Ltd. manufacture and sell raw materials for pharmaceutical and industrial use and healthcare products. Kyowa Hakko (Hong Kong) Co., Ltd. and Kyowa Hakko Bio Singapore Pte. Ltd. sell the aforementioned items.

Note: Unless specifically stated otherwise, in this report, the “Group” refers to Kyowa Hakko Kirin and its 46 consolidated subsidiaries.

Overview of the Kyowa Hakko Kirin Group

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



Note: Kyowa Pharma Chemical Co., Ltd. was formerly Daiichi Fine Chemical Co., Ltd. until October 1, 2015, when the trade name was changed to the current name.

3. Management Policies

(1) Basic management policies

The Kyowa Hakko Kirin Group's management philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. In accordance with this philosophy, with new drug development at its core, the Group is pursuing a unique pharmaceutical business model that combines our biosimilars, diagnostics and bio-chemical businesses as it advances forward in becoming a global specialty pharmaceutical group, as set out in the new Mid-term Business Plan.

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

(2) Management targets

The Kyowa Hakko Kirin Group formulated the Group's five-year 2016 to 2020 Mid-term Business Plan with fiscal 2016 being the first year of the plan. Under our management targets for fiscal 2020, the final year of the plan, we aim to achieve core operating income of at least ¥100.0 billion, an overseas sales ratio of 50% and ROE of at least 10%, and in fiscal 2016, the initial year of the plan, we aim to achieve core operating income of ¥39.0 billion.

Note:
Core operating income: Operating income + Amortization of goodwill + Share of profit/loss of entities accounted for using equity method
ROE: Net income before amortization of goodwill ÷ ((Equity at beginning of period + Equity at end of period) ÷ 2)

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

We expect that substantial changes with respect to the operating environment in the pharmaceuticals industry will pose even greater challenges, amid factors that are likely to include declining drug discovery success rates and increasingly stringent approval and review processes resulting in surging development costs, progress made with measures to reduce medical treatment costs, and increasingly diverse pharmaceutical needs. Meanwhile, amid slowing growth in the pharmaceutical market, particularly in Japan, the market share of generics has been steadily increasing. Due to this and other factors, research and development-oriented pharmaceutical manufacturers will have to pick up the pace in shifting their revenue sources from a reliance on existing long term NHI products and the domestic market to new pharmaceuticals and expansion into global markets.

In this environment, the Kyowa Hakko Kirin Group is taking steps to achieve our four strategic priorities of enhancing global competitive strengths, taking on challenges of innovation, making improvements resulting in unsurpassed operational processes, and ensuring people's health and well-being, all premised on the notion of becoming a global specialty pharmaceutical group, as set forth in our five-year Mid-term Business Plan released in January 2016.

Under the first pillar of our strategy set forth in the Mid-term Business Plan, that of enhancing global competitive strengths, we are working toward contributing to the health and well-being of people around the world by successfully launching in the U.S. and European markets our three global strategic products (KRN23, KW-0761 (product name in Japan: POTELIGEO®) and KW-6002 (product name in Japan: NOURIAST®)). We are aiming for early-stage launch of KRN23 and KW-0761 in particular, to which end we will forge ahead with the application process for the U.S. and Europe in 2016, and at the same time we will also continue to aggressively pursue ProStrakan's business model which involves introducing late-stage development and marketed products. Moreover, we intend to bring our U.S. and European sales locations all under the KYOWA KIRIN company name, which will thereby enable us to establish a framework for sales in the U.S. and Europe in conjunction with the market launch of our three global strategic products, while also making it possible to achieve worldwide penetration of the KYOWA KIRIN corporate brand. In Asia, the reorganization of our business base to achieve future stable growth in China is the most important issue. In addition, at local subsidiaries in Korea, Taiwan, Singapore, Thailand and other growing economies, we are implementing business strategies that reflect the unique characteristics and prevailing environment in each country.

Under the second pillar of our strategy, that of taking on challenges of innovation, we endeavor to create new value by linking our extensive knowledge of diseases and markets that we have developed in the four categories of nephrology, oncology, immunology/allergy and CNS, with cutting-edge technologies. We also aim to bring about further evolution of Kyowa Hakko Kirin's strengths involving antibody technology and small molecule drug discovery, while also establishing new technology platforms for discovery of nucleic acid medicines and other drugs, and also applying our expertise and know-how as a pharmaceutical manufacturer to the task of addressing opportunities in the realm of regenerative medicine in fields not being served by other firms. We are continuing our focus on fortifying our drug discovery strengths through open innovation that entails combining Kyowa Hakko Kirin's knowledge and technologies with those of external entities. Also, we are moving forward with efforts to upgrade our pipeline in the field of immuno-oncology, with efforts that include strategic partnering.

Under the third pillar of our strategy, that of making improvements resulting in unsurpassed operational processes, we are working to heighten our profitability by further strengthening cooperation in a consistent manner across every function from R&D to manufacturing and sales. At the same time, we are developing more reliable operational processes by building a global governance framework and engendering awareness of compliance. Particularly on the domestic front, we are pushing forward with efforts to implement our area marketing strategy in anticipation of the government's community medical care initiative, and are also moving ahead in having our medical science liaisons (MSLs) develop and provide appropriate scientific and academic information.

In 2016, the initial fiscal year of the Mid-term Business Plan, we aim to maximize the value of our products that are already on the market with initiatives including targeting growth of sustained-duration G-CSF product G-Lasta®. We expect tough-going in terms of business results due to factors that include the likelihood of lower net sales and earnings brought about by reductions in drug price standards, high levels of investment in late-stage development products, and concentrated upfront investment largely involving expenses incurred in preparing for U.S. and European product launches. Nevertheless, we will persist with efforts going forward geared toward developing new drugs and nurturing other drugs.

Under the fourth pillar of our strategy, that of ensuring people's health and well-being, we are focusing on ensuring people's health through efforts that involve discovering innovative drugs that satisfy unmet medical needs, as well as expanding the scope of application of products and adding dosage forms. We will also ensure consistent supplies of high-quality products while taking action in response to societal demands for lower medical fees.

In our biosimilars business, which is a joint venture with FUJIFILM Corporation, we are making steady progress in clinical development with respect to top-quality pharmaceutical products that are highly cost-competitive in markets around the world. At the same time, we are also making steady progress with business partnerships encompassing our sales strategy, while going forward we intend to embark on preparations for application procedures in the U.S. and Europe.

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 overseas markets. We believe that diagnostics business will increasingly grow in importance going forward in line with further development with respect to individualized medicine and preventative medicine, thereby bringing about more new business opportunities for our diagnostics business in the healthcare field.

In the Bio-Chemicals business, we are addressing the key issues of strengthening the revenue base and providing value with a focus on people’s health, by taking advantage of our high share of the market in our specialty area encompassing the pharmaceuticals, medical and healthcare fields. We will continue with efforts geared toward enhancing our cost competitiveness and create a business structure that is resistant to the impact of exchange rate volatility, while also supplying products of value besides just ingredients and substances, with respect to our customer enterprises and the health of their customers down the line, by branding, providing them with functionality data, and leveraging our intellectual property rights and others.

The Company will develop more socially reliable operational processes through efforts that include building a global governance framework and engendering awareness of compliance, with the aim of becoming a global specialty pharmaceutical group. We are promoting a Creating Shared Value (CSV) managerial approach where all those of the Kyowa Hakko Kirin Group act as members of the Kirin Group with respect to further contributing to the global community. To that end, we obviously act in compliance with amendments to Japan’s Companies Act and Japan’s Corporate Governance Code, while also encouraging initiatives regarding diversity and people’s health in areas that include empowering women and ensuring mutual respect across cultures.

4. Basic Rationale for Selection of Accounting Standards

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

5. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of December 31, 2015	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	13,236	20,657
Notes and accounts receivable - trade	106,829	108,867
Merchandise and finished goods	61,965	67,724
Work in process	12,363	12,608
Raw materials and supplies	10,476	10,951
Deferred tax assets	11,147	10,611
Short-term loans receivable	96,104	41,672
Accounts receivable - other	7,692	5,318
Other	4,818	5,145
Allowance for doubtful accounts	(202)	(366)
Total current assets	324,433	283,192
Non-current assets		
Property, plant and equipment		
Buildings and structures	141,227	134,423
Accumulated depreciation	(91,810)	(89,937)
Buildings and structures, net	49,417	44,485
Machinery, equipment and vehicles	165,623	153,286
Accumulated depreciation	(134,994)	(131,092)
Machinery, equipment and vehicles, net	30,629	22,193
Land	46,685	54,271
Construction in progress	11,339	23,371
Other	51,124	50,284
Accumulated depreciation	(42,152)	(42,714)
Other, net	8,972	7,569
Total property, plant and equipment	147,043	151,891
Intangible assets		
Goodwill	155,851	173,241
Sales right	56,233	67,231
Other	722	1,078
Total intangible assets	212,807	241,551
Investments and other assets		
Investment securities	14,043	22,766
Net defined benefit asset	6,964	6,444
Deferred tax assets	10,355	8,075
Other	5,311	5,389
Allowance for doubtful accounts	(194)	(175)
Total investments and other assets	36,480	42,500
Total non-current assets	396,331	435,943
Total assets	720,764	719,135

(1) Consolidated balance sheets (continued)

(Millions of yen)

	As of December 31, 2015	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	19,086	22,729
Short-term loans payable	4,840	4,868
Accounts payable - other	39,866	39,257
Income taxes payable	11,830	7,718
Provision for sales rebates	2,097	1,753
Provision for point card certificates	238	294
Provision for bonuses	427	695
Other	6,436	7,864
Total current liabilities	84,823	85,182
Non-current liabilities		
Deferred tax liabilities	12,092	16,235
Net defined benefit liability	1,883	3,714
Provision for directors' retirement benefits	114	149
Allowance for loss on plants reorganization	3,203	3,304
Asset retirement obligations	404	268
Other	3,385	4,912
Total non-current liabilities	21,082	28,584
Total liabilities	105,906	113,766
Net assets		
Shareholders’ equity		
Capital stock	26,745	26,745
Capital surplus	509,127	512,326
Retained earnings	85,997	68,103
Treasury shares	(26,881)	(26,675)
Total shareholders' equity	594,989	580,499
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,979	2,753
Foreign currency translation adjustment	18,819	24,414
Remeasurements of defined benefit plans	(2,360)	(2,631)
Total accumulated other comprehensive income	19,438	24,536
Subscription rights to shares	430	332
Total net assets	614,858	605,368
Total liabilities and net assets	720,764	719,135

(2) Consolidated statements of income

(Millions of yen)

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Net sales	364,316	333,446
Cost of sales	138,922	127,542
Gross profit	225,393	205,904
Selling, general and administrative expenses		
Haulage expenses	2,182	2,067
Promotion expenses	14,531	13,897
Salaries	26,959	26,121
Bonuses	9,921	9,968
Retirement benefit expenses	3,658	4,053
Depreciation	10,975	9,673
Research and development expenses	51,518	47,667
Amortization of goodwill	13,433	12,826
Other	48,446	43,455
Total selling, general and administrative expenses	181,628	169,731
Operating income	43,765	36,173
Non-operating income		
Interest income	459	629
Dividend income	259	441
Foreign exchange gains	–	101
Gain on valuation of derivatives	1,295	–
Other	912	1,133
Total non-operating income	2,927	2,305
Non-operating expenses		
Interest expenses	59	145
Foreign exchange losses	1,932	–
Loss on valuation of derivatives	–	680
Loss on disposal of non-current assets	1,100	810
Share of loss of entities accounted for using equity method	3,738	6,055
Other	657	1,274
Total non-operating expenses	7,489	8,966
Ordinary income	39,203	29,511

(2) Consolidated statements of income (continued)

(Millions of yen)

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Extraordinary income		
Gain on sales of investment securities	6,566	–
Gain on sales of non-current assets	983	–
Compensation income	619	–
Insurance income	–	308
Total extraordinary income	8,168	308
Extraordinary losses		
Impairment loss	5,762	1,342
Loss due to fire	209	309
Compensation expenses	–	400
Business structure improvement expenses	–	289
Loss on sales of shares of subsidiaries and associates	–	233
Total extraordinary losses	5,971	2,575
Income before income taxes and minority interests	41,400	27,245
Income taxes - current	18,704	13,568
Income taxes - deferred	(7,079)	(2,221)
Total income taxes	11,625	11,346
Income before minority interests	29,774	15,898
Net income	29,774	15,898

Consolidated statements of income (Comprehensive)

(Millions of yen)

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Income before minority interests	29,774	15,898
Other comprehensive income		
Valuation difference on available-for-sale securities	225	1,338
Foreign currency translation adjustment	(5,272)	9,981
Remeasurements of defined benefit plans, net of tax	271	–
Share of other comprehensive income of entities accounted for using equity method	(46)	–
Total other comprehensive income	(4,821)	11,320
Comprehensive income	24,953	27,218
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,953	27,218
Comprehensive income attributable to minority interests	–	–

(3) Consolidated statements of changes in equity

January 1, 2014 to December 31, 2014

(Millions of yen)

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

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

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

January 1, 2015 to December 31, 2015

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	26,745	512,326	68,103	(26,675)	580,499
Cumulative effects of changes in accounting policies		(3,201)	1,786		(1,415)
Restated balance	26,745	509,125	69,889	(26,675)	579,084
Changes of items during period					
Dividends of surplus			(13,682)		(13,682)
Net income			29,774		29,774
Purchase of treasury shares				(232)	(232)
Disposal of treasury shares		2		26	29
Increase by merger			15		15
Net changes of items other than shareholders' equity					
Total changes of items during period	–	2	16,108	(205)	15,905
Balance at end of current period	26,745	509,127	85,997	(26,881)	594,989

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	2,753	24,414	(2,631)	24,536	332	–	605,368
Cumulative effects of changes in accounting policies		(276)		(276)			(1,691)
Restated balance	2,753	24,138	(2,631)	24,259	332	–	603,676
Changes of items during period							
Dividends of surplus							(13,682)
Net income							29,774
Purchase of treasury shares							(232)
Disposal of treasury shares							29
Increase by merger							15
Net changes of items other than shareholders' equity	225	(5,318)	271	(4,821)	97	–	(4,723)
Total changes of items during period	225	(5,318)	271	(4,821)	97	–	11,181
Balance at end of current period	2,979	18,819	(2,360)	19,438	430	–	614,858

(4) Consolidated statements of cash flows

(Millions of yen)

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	41,400	27,245
Depreciation	23,126	23,885
Impairment loss	5,762	1,342
Amortization of goodwill	13,433	12,826
Increase (decrease) in net defined benefit liability	(155)	(696)
Decrease (increase) in net defined benefit asset	(1,341)	(292)
Contribution to employees’ retirement benefits trust	–	(19,000)
Interest and dividend income	(719)	(1,070)
Interest expenses	59	145
Share of (profit) loss of entities accounted for using equity method	3,738	6,055
Loss (gain) on sales and retirement of property, plant and equipment	(686)	224
Loss (gain) on sales of investment securities	(6,566)	(76)
Loss (gain) on sales of shares of subsidiaries and associates	–	233
Decrease (increase) in notes and accounts receivable - trade	1,034	(6,426)
Decrease (increase) in inventories	5,436	(12,018)
Increase (decrease) in notes and accounts payable - trade	(2,873)	(1,720)
Other, net	(1,435)	4,766
Subtotal	80,213	35,424
Interest and dividend income received	719	1,072
Interest expenses paid	(57)	(300)
Income taxes paid	(14,348)	(16,819)
Net cash provided by (used in) operating activities	66,526	19,377

(4) Consolidated statements of cash flows (continued)

(Millions of yen)

	January 1, 2015 to December 31, 2015	January 1, 2014 to December 31, 2014
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,058)	(30,466)
Proceeds from sales of property, plant and equipment	3,080	186
Purchase of intangible assets	(1,038)	(4,186)
Purchase of investment securities	(6,701)	(4,556)
Proceeds from sales of investment securities	17,951	1,252
Proceeds from sales of shares of subsidiaries and associates	–	1,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(14,510)
Payments into time deposits	(1,440)	(1,166)
Proceeds from withdrawal of time deposits	4,610	1,300
Net decrease (increase) in short-term loans receivable	(54,462)	68,388
Other, net	(689)	(436)
Net cash provided by (used in) investing activities	(57,747)	16,805
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	52	(23,405)
Purchase of treasury shares	(232)	(116)
Cash dividends paid	(13,682)	(13,683)
Other, net	(197)	22
Net cash provided by (used in) financing activities	(14,060)	(37,184)
Effect of exchange rate change on cash and cash equivalents	1,052	(1,227)
Net increase (decrease) in cash and cash equivalents	(4,228)	(2,228)
Cash and cash equivalents at beginning of period	17,013	19,242
Cash and cash equivalents at end of period	12,784	17,013

6. Segment Information, etc.

Segment information

1. Outline of reportable segments

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

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

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

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

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

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

Effective from the current fiscal year, 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 fiscal year ended December 31, 2015 increased by ¥123 million in the Pharmaceuticals segment and ¥345 million in the Bio-Chemicals segment.

(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 current fiscal year, the Company has adopted the straight-line method.

In line with this change, in comparison with under the previous method, segment profit in the fiscal year ended December 31, 2015 increased by ¥1,400 million in the Pharmaceuticals segment and ¥867 million in the Bio-Chemicals segment.

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

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

(Millions of yen)

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

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

Fiscal period: January 1, 2015 – December 31, 2015

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments[1]	Consolidated[2]
Net sales					
Sales to external customers	278,402	85,913	364,316	–	364,316
Inter-segment sales and transfers	894	2,981	3,876	(3,876)	–
Total	279,296	88,895	368,192	(3,876)	364,316
Segment profit	36,202	8,127	44,330	(565)	43,765
Segment assets	485,156	157,329	642,486	78,278	720,764
Other items					
Depreciation and amortization	16,569	6,558	23,127	(1)	23,126
Goodwill amortization	12,807	625	13,433	–	13,433
Investment in equity method companies	1,653	–	1,653	–	1,653
Increase in property, plant and equipment and intangible assets	11,537	8,501	20,039	–	20,039

Notes: 1. Adjustments are as follows:
(1) Segment profit: Adjustment of negative ¥565 million for elimination of inter-segment transactions
(2) Segment assets: Adjustment of ¥78,278 million includes elimination of inter-segment transactions of negative ¥24,269 million and corporate assets unallocated to each reportable segment of ¥102,547 million. Corporate assets are primarily surplus operating cash (cash and deposits, short-term loans receivable).
2. Segment profit is adjusted for operating income as recorded in the consolidated financial statements.

Related information

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

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

(Millions of yen)

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

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

(2) Property, plant and equipment

(Millions of yen)

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

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	42,663	Pharmaceuticals

Fiscal period: January 1, 2015 – December 31, 2015

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
249,980	24,170	57,992	31,099	1,073	364,316

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

(2) Property, plant and equipment

(Millions of yen)

Japan	America	Europe	Asia	Total
122,001	10,315	632	14,095	147,043

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	45,970	Pharmaceuticals

Impairment loss in non-current assets by reportable segment

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

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated
Impairment loss	1,123	219	1,342	–	1,342

Fiscal period: January 1, 2015 – December 31, 2015

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated
Impairment loss	2,991	2,771	5,762	–	5,762

Amortization of goodwill and unamortized balance by reportable segment

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

(Millions of yen)

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

Fiscal period: January 1, 2015 – December 31, 2015

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated
Amount amortized	12,807	625	13,433	–	13,433
Balance at end of period	148,186	7,664	155,851	–	155,851

Occurrence of negative goodwill by reportable segment

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

No applicable items

Fiscal period: January 1, 2015 – December 31, 2015

No applicable items