KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary
Fiscal 2010

(January 1, 2010– December 31, 2010)

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

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

Fiscal Year Ended December 31, 2010
(The twelve-month period from January 1, 2010 to December 31, 2010)

January 28, 2011

Stock Code:	4151	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of General Meeting of Shareholders: March 24, 2011
Scheduled start date of dividend payment: March 25, 2011
Scheduled date of submission of Financial Report: March 16, 2011

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2010

Kyowa Hakko Kirin has changed its fiscal year-end from March 31 to December 31 resulting in an irregular nine-month period for fiscal 2009 and as a result, changes from the previous fiscal year are not provided. Further, April 1, 2009 to December 31, 2009 figures for net income per share (¥), fully diluted net income per share (¥), return on equity (%) and recurring income to total assets ratio (%) represent income for the nine-month period.

(1) Consolidated operating results	Fiscal year ended December 31, 2010	Change (%)	Fiscal period ended December 31, 2009	Change (%)
Net sales	413,738	--	309,111	--
Operating income	45,410	--	28,243	--
Recurring income	46,500	--	29,479	--
Net income	22,197	--	8,797	--
Net income per share (¥)	¥38.96		¥15.41	
Fully diluted net income per share (¥)	¥38.94		¥15.40	
Return on equity (%)	4.1%		1.6%	
Recurring income to total assets ratio (%)	6.7%		4.2%	
Operating income to sales ratio (%)	11.0%		9.1%	

Notes: Income (loss) from equity method investment:
Fiscal year ended December 31, 2010: ¥1,074 million; Fiscal period ended December 31, 2009: ¥1,558 million

(2) Consolidated financial position	As of December 31, 2010	As of December 31, 2009
Total assets (millions of yen)	695,862	695,268
Net assets (millions of yen)	544,992	540,343
Shareholders' equity ratio (%)	78.2%	77.1%
Net assets per share (¥)	¥954.58	¥940.79

Note: Total shareholders' equity: December 31, 2010: ¥543,914 million; December 31, 2009: ¥535,826 million.

(3) Consolidated cash flows	Fiscal year ended December 31, 2010	Fiscal period ended December 31, 2009
Net cash provided by operating activities	64,189	24,203
Net cash used in investing activities	(32,373)	(13,246)
Net cash used in financing activities	(14,446)	(16,906)
Cash and cash equivalents at end of period	79,882	63,745

Note: The fiscal period ended December 31, 2009 was an irregular nine-month period resulting from the change in fiscal year-end and therefore fiscal period ended December 31, 2009 figures for net cash provided by operating activities, net cash used in investing activities and net cash used in financing activities are for the nine-month period.

2. Dividends

	Fiscal period ended December 31, 2009	Fiscal year ended December 31, 2010	Fiscal year ending December 31, 2011 (forecast)
Interim dividend per share (¥)	¥10.00	¥10.00	¥10.00
Year-end dividend per share (¥)	¥5.00	¥10.00	¥10.00
Total dividend per share (¥)	¥15.00	¥20.00	¥20.00
Total dividend amount (millions of yen)	¥8,543	¥11,396	
Dividend payout ratio (consolidated)	97.3%	51.3%	44.7%
Ratio of dividends to net assets	1.6%	2.1%	

3. Consolidated Results Forecasts for the Fiscal Year Ending December 31, 2011

Millions of yen

	Interim		Full year	
		Change %		Change %
Net Sales	175,000	(14.0)	325,000	(21.4)
Operating income	20,000	(7.8)	37,000	(18.5)
Recurring income	20,500	(8.2)	38,000	(18.3)
Net income	14,500	46.4	25,500	14.9
Net income per share	¥25.45		¥44.75	

4. Other

1) Transfer of important subsidiaries during the period (Transfers of certain subsidiaries resulting in changes in the scope of consolidation): None
2) Changes in accounting principles, procedures and presentation in the preparation of these financial statements:
(1) Changes in accordance with revision to accounting standards: Yes
(2) Other changes: None
3) Number of shares outstanding (ordinary shares)
(1) Number of shares outstanding at end of period (including treasury shares):
December 31, 2010: 576,483,555 shares; December 31, 2009: 576,483,555 shares
(2) Number of treasury shares at end of period:
December 31, 2010: 6,691,427 shares; December 31, 2009: 6,935,900 shares

(Reference)

1. Non-Consolidated Results for the Fiscal Year Ended December 31, 2010

1) Non-Consolidated Operating Results

(Millions of yen; Amounts less than 1 million yen have been ignored)

	Fiscal year ended December 31, 2010		Fiscal period ended December 31, 2009	
		Change (%)		Change (%)
Net sales	192,979	--	143,899	--
Operating income	40,213	--	28,600	--
Recurring income	43,188	--	30,697	--
Net income	31,201	--	16,072	--
Net income per share (¥)	¥54.76		¥28.15	
Fully diluted net income per share (¥)	¥54.74		¥28.14	

Note: Due to the nine-month fiscal period resulting from the change in the financial year-end to December 31, changes compared to the previous fiscal year are not provided. Further, April 1, 2009 to December 31, 2009 figures for net income per share (¥) and fully diluted net income per share are calculated based on net income for the nine-month period.

2) Non-Consolidated financial position

	As of December 31, 2010	As of December 31, 2009
Total assets (millions of yen)	380,913	367,754
Net assets (millions of yen)	307,121	289,836
Shareholders' equity ratio (%)	80.6%	78.8%
Net assets per share (¥)	¥538.64	¥508.54

Note: Shareholders' equity: As of December 31, 2010: ¥306,913 million; As of December 31, 2009: ¥289,639 million

Notice regarding the appropriate use of the financial forecasts

The above forecasts are based on the information available and assumptions made at the time of release of this document about a number of uncertain factors that may affect results in the future. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please refer to page 9 Operating Results and Financial Position (3) Outlook for Fiscal 2011.

1. Operating Results and Financial Position

I. Summary of business performance

1) Operating results for the fiscal year ended December 31, 2010

Billions of yen

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009	Change
Net sales	413.7	407.0	6.7
Operating income	45.4	30.9	14.4
Recurring income	46.5	32.6	13.8
Net income	22.1	10.0	12.1

Note: The fiscal period ended December 31, 2009 was a nine-month reporting period due to the change in fiscal year-end from March 31 to December 31. As a result, figures recorded here for the twelve-month period ended December 31, 2009 are derived by subtracting figures for the April to December (nine-month period) of FY ended March 31, 2009 from figures for the twelve-month period ended March 31, 2009, and adding these figures to figures for the April to December period (nine-month period) ended December 31, 2009.

During the fiscal year ended December 2010 (January 1, 2010 to December 31, 2010) the domestic economy continued to gradually recover although the improvement was weak and the outlook remains uncertain due to fears that overseas economies, primarily those of the Europe and U.S., will underperform expectations, as well as due to changes in foreign exchange rates.

Against this background we achieved a strong start in the first year of our 2010-12 Medium-term Business Plan as we work towards our goal of becoming a world-class, R&D based life sciences company, founded on biotechnology with the pharmaceutical business at its core.

In the Pharmaceuticals business in Japan, in addition to the effects of reductions in National Health reimbursement prices in April, domestic market conditions remained challenging due to the promotion of generic pharmaceuticals, increased competition as European and American drug manufacturers and major domestic pharmaceutical companies shift their area of focus to cancer and other areas with unmet medical needs, and the growing trend towards the development of biopharmaceuticals. Against this background, Kyowa Hakko Kirin further strengthened its domestic sales operation with the aim of expanding sales of core products and achieving swift market penetration of new products.

We also sought to advance our antibody pharmaceuticals, one of our core strengths, to the next stage of clinical development in Japan and overseas, while also seeking to form new technology and product licensing agreements as well as enhancing our production facilities for investigational therapeutic antibodies. Further, we moved to strengthen our competitive position through launching a new research building in our Tokyo Research Park, while also reorganizing existing production facilities in order to enhance efficiency.

In our Bio-Chemicals business, as the yen rapidly appreciated, we strived to expand sales of high-value-added products mainly focused on amino acids for use in infusions and pharmaceutical raw materials. Further, in our health care business we strengthened our health food mail order *Remake Series*, while promoting development of the market for in-house branded amino acid materials such as ornithine.

In the Chemicals business, the economic recovery in Asia, mainly China, led to increased product demand. Overseas markets conditions for core products were firm, while we focused on sales of environment-friendly specialty chemicals.

As a result despite the challenging environment we achieved growth in sales and profits. Compared to the previous year, consolidated net sales increased 1.7% to ¥413.7 billion, operating income increased 46.8% to ¥45.4 billion and recurring income increased 42.5% to ¥46.5 billion. Net income increased by 121.1% to ¥22.1 billion.

Regarding our Chemicals business, Kyowa Hakko Kirin has signed a basic agreement to sell all shares owned by Kyowa Hakko Kirin in Kyowa Hakko Chemical Co., Ltd., to KJ Holdings Inc. in March 2011. As a result, Kyowa Hakko Kirin will be able to effectively focus its resources on its ethical pharmaceutical products business, while Kyowa Hakko Chemical can flexibly manage its business in order to meet diverse market needs, independently of Kyowa Hakko Kirin.

2) Segmental Review

Note: As the previous fiscal period was a nine-month period, figures for the twelve-month period from January 1, 2009 to December 31, 2009 have been provided here as reference

Pharmaceuticals

Billions of yen

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
Net sales	210.3	207.3	2.9
Operating income	35.8	31.8	4.0

In the Pharmaceuticals business, consolidated net sales were ¥210.3 billion (up 1.4% compared to the same period of the previous year), while operating income was ¥35.8 billion (up 12.7%). Domestic sales of ethical pharmaceutical products were broadly flat despite the effects of reductions in National Health reimbursement prices in April. By product, sales of renal anemia treatments Nesp and Espo and Regpara, a treatment for secondary hyperparathyroidism during dialysis therapy increased. Also, Parkinson's disease treatment Permax, launched in April, and Fentos, a transdermal analgesic for persistent cancer pain launched in June, each performed well. However, due in part to the effects of reductions in National Health reimbursement prices in April, sales of products including Coniel, a treatment for hypertension and angina pectoris, were lower than in the previous comparable period. In the licensing-out of technologies and export of pharmaceutical products, revenues increased significantly due to an increase in one-time income from outlicensing and strong performance in export of pharmaceutical products, mainly to Asia.

Sales at subsidiary Kyowa Medex, which is responsible for the manufacture and sale of diagnostic reagents, were up compared to the previous twelve-month period as sales of clinical chemistry diagnostic reagents and exports both performed well.

In new drug development in Japan, in the cancer therapeutic area ARQ 197 commenced Phase II trials as a gastric cancer treatment in July. An application was filed in February for KW-2246, an analgesic for cancer pain, but the application was temporarily withdrawn in August and it was decided to conduct additional clinical trials (Phase III clinical trials). In addition, in September, KW-0761 entered late Phase II clinical trials as a joint therapy with mLSG15 for CCR4-positive Adult T-Cell Lymphoma and as a treatment for peripheral T/NK cell lymphoma.

In the renal therapeutic area in Japan, Nesp injection plastic syringe, a long-acting enythropoiesis stimulating agent, was approved and sales were launched in August. Overseas, in March approval was received in South Korea and Taiwan for Regpara.

In the areas of immunology and allergy in Japan, in July antiallergenic Allelock received additional approvals for children aged seven and above regarding effect/efficacy and dosing method and amount.

Further, following receipt of approval, sales of Allelock OD Tablets, a disintegrating oral tablet developed in-house using our latest technology, began in November. In overseas markets, in June approval was received for Allelock in China.

In the central nervous system therapeutic area in Japan, in July antiepileptic drug Topina began Phase III clinical trials for pediatric indications. In November, approval for additional applications of Depakene, an antiepileptic drug, for its effectiveness and efficiency in averting the onset of migraine headaches was filed.

In other therapeutic areas, in Japan, an application was filed for AMG531, a treatment for ideopathic thrombocytopenic purpura, in March (approval was received In January 2011).

In therapeutic antibody research and development, while strengthening our in-house development pipeline of antibody pharmaceuticals we also developed the global outlicensing of our Potelligent® and Complegent® technologies via our U.S. subsidiary BioWa, Inc. To date, we have licensing agreements with sixteen companies for these technologies and we are actively pursuing our strategy of promoting the fastest possible development of antibody pharmaceuticals that utilize our original technology.

Bio-Chemicals

Billions of yen

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
Net sales	84.2	90.6	(6.4)
Operating income	3.2	3.9	(0.6)

In the Bio-Chemicals business, consolidated net sales were ¥84.2 billion (down by 7.1% compared to the previous twelve-month period), while operating income was ¥3.2 billion (down 17.4%). Sales of pharmaceutical and industrial use raw materials, mainly amino acids, nucleic acids and related compounds, increased compared to the previous twelve-month period despite the effects of a strong yen, primarily due to an increase in demand from Asia for pharmaceutical raw materials and amino acids for intravenous liquids and strong sales of raw materials for generic pharmaceuticals in the domestic market. In health care products, sales were much higher than in the previous year due to strong sales of materials related to Kirin Health Project *KIRIN Plus-i* that was launched in April, as well as strong growth in the number of customers of our mail order *Remake Series*.

In agrochemicals and products for the livestock and fisheries industries, sales were down significantly due to the transfer of domestic livestock and fisheries product sales to Asuka Pharmaceuticals in April, and in alcohol, sales were down due to the transfer of raw material alcohol sales to Daiichi Alcohol, the joint venture between Kyowa Hakko Bio Co., Ltd. and Mercian Corporation, in July. Daiichi Fine Chemical sales declined due to sluggish sales of bulk pharmaceuticals and intermediate products.

In R&D, in the area of amino acids, nucleic acids and related compound we focused on R&D and new product development to raise productivity of fermented products at the Bio Process Research and Development Laboratories and the Bio Process Development Center and on synthetic compounds at Daiichi Fine Chemical. At the Healthcare Product Development Center, we continued the exploration and development of functions and applications of a variety of amino acids and other compounds.

Chemicals

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
			Billions of yen
Net sales	130.0	64.2	65.8
Operating income	5.6	(5.5)	11.2

In the Chemicals business, operating results improved significantly compared to the previous twelve-month period that was significantly impacted by the global economic recession. Consolidated net sales were ¥130.0 billion, up by 102.5% compared to the same period of the previous year and operating income was ¥5.6 billion (compared to an operating loss of ¥5.5 billion in the previous year).

In the domestic market, both sales and sales volumes recorded a large increase due to recovery of demand for automobiles and household appliances, and price revisions reflecting a rise in fuel and raw material prices and higher overseas product prices. In exports, sales and sales volumes also improved due to strong sales of environment-friendly specialty chemicals and strong overseas market conditions for core products.

All product areas, including solvents, plasticizer raw materials and specialty chemicals, recorded higher sales volumes and sales revenues. Particularly strong growth was recorded by specialty chemicals such as raw materials for refrigerant oils and by high purity solvents for electronic materials.

Miyako Kagaku and Kashiwagi Corporation, which were included in the Chemicals segment from fiscal 2010, also performed strongly.

Other business

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
			Billions of yen
Net sales	10.4	63.7	(53.2)
Operating income	0.3	0.4	(0.0)

In the Other business segment, due to changes in segmental classification, net sales decreased 83.5% to ¥10.4 billion and operating income decreased 16.4% to ¥0.3 billion.

Segments by region

Japan

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
			Billions of yen
Net sales	399.3	385.9	13.4
Operating income	41.9	25.0	16.9

In the Japan segment, net sales increased 3.5% to ¥399.3 billion and operating income increased 67.5% to ¥41.9 billion due to the recovery of the Chemicals Business and other factors.

Other regions

	Fiscal year ended December 31, 2010	Twelve months ended December 31, 2009*	Change
			Billions of yen
Net sales	49.8	51.0	(1.1)
Operating income	3.9	5.4	(1.4)

In the Other regions segment, net sales decreased 2.2% to ¥49.8 billion and operating income decreased 27.4% to ¥3.9 billion due to a decrease in revenues from technologies at overseas subsidiaries and a decline in amounts upon conversion to yen due to the effects of the strong yen.

3) Outlook for Fiscal 2011

	FORECAST FY to December 31, 2011	Amount change compared to FY ended December 31, 2010	Percentage change compared to FY ended December 31, 2010
		Billions of yen	%
Net sales	325.0	(88.7)	-21.4%
Operating income	37.0	(8.4)	-18.5%
Recurring income	38.0	(8.5)	-18.3%
Net income	25.5	3.3	+14.9%

These forecasts assume average exchange rates for fiscal 2011 of ¥85/US$ and ¥110/euro.

In the fiscal year to December 31, 2011 we expect the domestic economy to improve against a background of improving overseas economies and the effect of various policy measures. However, concerns such as volatility in the foreign exchange market, the effects of deflation and concerns about worsening employment conditions remain, and the outlook remains uncertain.

In this environment, in the Pharmaceuticals business, we will further strengthen our domestic sales capabilities aiming for early market penetration of new products and expanding sales of core products, while more actively promoting our global development. In the Bio-Chemicals business, we will aim to expand sales in the amino acid market, primarily those for pharmaceutical use in high value added areas, and promote the development of the market for in-house branded amino acid materials such as ornithine.

Our consolidated financial results forecasts for fiscal 2011 (January 1, 2011 to December 31, 2011) are for net sales of ¥325.0 billion, a decrease of 21.4%, operating income of ¥37.0 billion, down 18.5%, recurring income of ¥38.0 billion, down 18.3%, and net income of ¥25.5 bn, an increase of 14.9%.

In the Pharmaceuticals business, we forecast growth in sales due to an increase in sales volumes of core products including antiallergic agent Allelock, antiallergic ophthalmic solution Patanol, and Regpara, a treatment for secondary hyperthyroidism during dialysis therapy. We are also anticipating growth from new products such as Fentos, a transdermal analgesic for persistent cancer pain and Asacol, an ulcerative colitis treatment. However, due to an expected large increase in R&D spending, we expect operating income to decline.

In the Bio-Chemicals business, we expect a decrease in revenues and profits due to the effects of a strong yen and a sluggish performance of core products at Daiichi Fine Chemical, despite an expected increase in sales volumes of core amino acids and related compounds, and the mail order *Remake Series.*

In the Chemicals business, we anticipate a large decrease in revenue and profits due to the transfer of all shares held in Kyowa Hakko Chemical Co., Ltd., scheduled for March, whose revenues and profits will only be recorded in the consolidated accounts for the first quarter of the fiscal year.

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

II. Summary of Financial Position

1) Assets, Liabilities, and Net Assets

Total assets as of December 31, 2011 were ¥695.8 billion, an increase of ¥0.5 billion compared to the end of the previous fiscal period. Current assets increased by ¥12.2 billion compared to the end of the previous consolidated fiscal period to ¥288.8 billion due to increases in short-term loans to the parent company, cash and time deposits and others items. Noncurrent assets decreased by ¥11.6 billion to ¥407.0 billion due to the amortization of goodwill and a reduction of investment securities due to sales, and despite the acquisition of intangible noncurrent assets and an increase in deferred tax assets.

Liabilities decreased by ¥4.0 billion compared to the end of the previous fiscal period to ¥150.8 billion due to the partial repayment of short-term loans and a decrease in accounts and notes payable due to payments following the completion of large-scale faculties and despite an increase in income taxes payable,

Net assets at the end of the fiscal year were ¥544.9 billion, an increase of ¥4.6 billion due to recording a net profit for the period and despite decreases in the foreign exchange adjustment account and minority interests. As a result, the shareholders' equity ratio as of the end of the fiscal period was 78.2%, an increase of 1.1 percentage points compared to the end of the previous fiscal period.

2) Cash Flow Summary

Billions of yen

	FORECAST FY to December 31, 2011	Amount change compared to FY ended December 31, 2010	Change
Cash flows from operating activities	64.1	39.7	24.3
Cash used in investing activities	(32.3)	(1.7)	(30.5)
Cash used in financing activities	(14.4)	(15.9)	1.4

Cash and cash equivalents as of December 31, 2010 were ¥79.8 billion, an increase of ¥16.1 billion compared to the balance of ¥63.7 billion as of December 31, 2009. The main contributing factors affecting cash flow during the fiscal year were as follows:

Net cash provided by operating activities was ¥64.1 billion. The main inflows included net income before income taxes of ¥42.2 billion, deprecation expenses of ¥22.1 billion, and goodwill amortization of ¥9.9 billion. The main outflows included corporate, etc. tax payments of ¥13.6 billion.

Net cash used in investing activities was ¥32.3 billion. The main outflows included payments of ¥28.0 billion for the acquisition of tangible noncurrent assets and payments of ¥7.4 billion for the acquisition of intangible noncurrent assets. The main inflows included ¥6.3 billion from the sale of investment securities.

Net cash used in financing activities was ¥14.4 billion. This was primarily due to outflows of a ¥8.5 billion for payment of dividends and a ¥5.3 billion net decrease in short-term loans.

Key Shareholders’ Equity and Cash Flow Indicators

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Shareholders’ equity ratio (%)	63.8%	64.5%	77.0%	77.1%	78.2%
Shareholders’ equity (market price base) ratio (%)	114.5%	96.0%	67.9%	80.7%	68.5%
Cash flow / Interest bearing debt ratio (years)	0.6	0.4	0.3	0.5	0.1
Interest coverage ratio (times)	106.3	100.3	82.9	93.6	313.4

Notes:
Shareholders’ equity ratio = Shareholders' equity / Total assets
Shareholders’ equity (market price base) ratio = Market capitalization / Total assets
Cash flow/ Interest bearing debt ratio = Operating cash flow/ Interest-bearing debt
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 borrowings, corporate bonds and long-term borrowings.
*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) Fiscal 2011 Outlook for Financial Position

Cash flows from operating activities: Operating cash flows are expected to decrease compared to the previous fiscal year due to an anticipated increase in outflows such as corporate, etc., tax payments, and despite expected improvements in net income before income taxes.

Cash flows from investing activities: A large increase in cash from investing activities is expected due to a decrease in payments for the acquisition of tangible noncurrent assets and other items and from anticipated revenues from the sale of shares of affiliated companies.

Cash flows from financing activities: The amount of dividend paid is expected to increase compared to the previous fiscal period. We will remain flexible and act in consideration of the economic and funding environment in regard to financing, such as fund procurement and loan repayment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2011 are expected to be at a much higher level than at the end of fiscal 2010.

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.

III. Basic Policy on Profit Distribution: Fiscal 2010 and Fiscal 2011 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, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on net assets. Kyowa Hakko Kirin aims to retain sufficient reserves to make the investments in facilities and research and development that are required to fund new growth.

In accordance with this basic policy, we expect to pay a year-end dividend for fiscal 2010 of ¥10 per share. As a result, the annual dividend is expected to be ¥20 per share, consisting of an interim dividend of ¥10 per share, and a year-end dividend of ¥10 per share.

In our 2010 to 2012 Medium-term Business Plan we will continue to target a consolidated dividend payout ratio of 30% on a prior to amortization of goodwill basis. For the fiscal year ending December 2011, we expect to pay an annual dividend of ¥20 yen per share consisting of an interim dividend of ¥10 and a year-end dividend of ¥10.

IV. 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' judgments 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 judgment of the Group as of December 31, 2010.

1) Risks associated with the operating environment in the domestic pharmaceutical industry

In the Group's core Pharmaceuticals operations, under the domestic public pharmaceutical price system, the official prices for the majority of ethical pharmaceuticals are periodically reduced and also for those newly created drugs and others that are outside the scope of additional pricing provisions the Group is unable to avoid the effects of reductions in selling prices of its existing drugs. 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.

In addition, the Kyowa Hakko Kirin Group's business performance and financial position could also 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, intensified competition from European and American pharmaceutical companies, and the strategies of major specialist companies

2) Risks that substantial R&D investment will not be recovered.

Kyowa Hakko Kirin Group invests significantly in the development of new products, technologies, improving existing products and developing applications, etc. For example, in the Group's main Pharmaceutical business, the importance of future growth being based upon the success of ground-breaking new drugs cannot be exaggerated. In ethical drug operations, the development of new drugs requires long periods of time and substantial R&D expenditures. The process of development and sales of new pharmaceuticals is inherently complicated and uncertain. In the long-term development of new drugs, there may be cases where the expected efficacy is not confirmed and R&D will be halted, or cases where successfully launched products may not result in the expected level of sales. There may also be cases where serious unpredicted side effects result in sales being suspended after the product is launched. As a result of various factors such as these, it may not be possible for the Group to recover its investment in R&D.

In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies that are expected to differentiate the Group from its competitors by making use of key technologies, such as its core fermentation technologies and biotechnologies. There is no guarantee these investments will produce results. As stated 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.

3) Risks related to Intellectual Property Assets

In cases where the Group is subject to litigation as a result of our products or technology being in violation 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. Conversely, in cases where the Group's intellectual property rights are infringed upon by competitive products to the Group's products or out-licensed products, sales of the Group's products or revenues from technology could decline earlier than forecast and similarly, the Group's business performance and financial position could be adversely affected.

4) Risk of side effects

Pharmaceutical products undergo strict safety audits at the development stage and following checks by the relevant authorities are approved, however following launch, on occasion previously unknown side effects based on the accumulated results of users may be come 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.

5) Legal regulation risk

In the course of carrying out its operations in Japan and overseas, the Group must strictly comply with legal regulations. For example, in the Pharmaceuticals business, in Japan and overseas the Group is subject to pharmaceutical-related regulations in all countries at each stage, from new drug development to drug manufacturing, importing and exporting, sales, distribution, and use. The Group must comply with a large number of laws and business practices, and in addition there are a variety of approval and permission systems as well as monitoring systems. 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 defective products

The Group manufactures a variety of products at plants in countries where it operates in line with locally recognized quality control and other standards. The Group also requires that companies whose merchandize we purchase and sell conform to the necessary quality and standards applied to the products. However, this is not a guarantee that all products will be free of defects, and the possibility of product recalls cannot be ruled out. The Group has taken out product liability insurance, but there is no guarantee this will provide enough coverage against liability claims that the Group may be forced to bear. It should also be pointed out that the Group may not be able to maintain insurance coverage at conditions acceptable to us. For example, in instances of large-scale product recalls or product defects that lead to claims, including severe side effects in ethical pharmaceuticals and drug induced diseases, that could heavily impact the Group's social credibility resulting in large expenses or losses or declines in sales that may adversely affect the Group's business performance and financial position.

7) Disaster-related and accident-related risks

To minimize the negative effects of halting manufacturing line activities, the Group conducts periodic disaster prevention tests and facility maintenance for all of its production line facilities. However, there is no guarantee that the Group will be able to completely prevent events such as earthquakes or fires that interrupt production, such as accidents, electricity outages, and boiler stoppages. Further, operating activities could be negatively affected if damage from a disaster to our head office, sales or distribution facilities goes beyond the scope anticipated by our disaster management systems and each system is unable to perform its function.

The Group handles substances that are subject to various legal regulations and guidelines. Despite the fact that these substances in the factories and research facilities are strictly managed in accordance with specifications, as a result of natural disasters etc. these substances could enter the external environment and cause damage to the surrounding area.

Further, should an infectious disease such as a new form of influenza spread throughout the society in countries or regions where the Group is developing its businesses, the Group’s operating activity could be limited.

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) Impact on production activities as a result of a tightening in environmental restrictions

The Group engages in the manufacture of amino acid products using fermentation technology. Sugars, and other nutrient sources are also used in the fermentation production process, which generates waste fluid. This fermentation waste is processed and disposed of in accordance with the environmental regulations of the countries in which the Group engages in manufacturing activities, but both domestically and overseas there is a trend for these environmental regulations to be made more severe each year. The Group is making efforts to utilize materials with low environmental burdens as raw materials and improve our wastewater treatment technology, but in the future it is possible that our manufacturing activities will be limited as a result of alterations in the contents of environmental restrictions, leading to increased manufacturing costs, which as a result may adversely impact the Group’s business performance and financial position.

The Chemicals business is currently facing issues such as restrictions on volatile organic compounds (VOC) and is moving to meet these issues with appropriate responses, but the Group’s business performance and financial position could be adversely affected by the future content of environmental safety restrictions.

9) Potential risks for overseas business activities

The Group maintains business activities in the North America, Europe and Asia. Business development into overseas markets encapsulates a number of risks, examples of which are outlined below:

1. Unanticipated laws, restrictions and tax systems that exert an adverse impact on the company.
2. Adverse political and/or economic factors.
3. Issues regarding hiring and maintaining personnel.
4. Social unrest as a result of acts of terror, wars or other factors.

In instances where the Group is unable to effectively develop its business overseas as a result of such potential risks manifesting themselves, there is the possibility that the Group’s business performance and financial position could be adversely affected.

10) Risk of declines in product sales prices as a result of fluctuations in the supply/demand balance

Products in the Chemicals business include those likely to be impacted by global supply/demand balances and where the underlying markets experience major fluctuations, including solvents and raw materials for plasticizers. Our competitors may strengthen their production capabilities or demand could rapidly decline for these products, both in Japan and overseas, sales prices may fall drastically in cases of over-supply, and the Group’s business performance and financial position could be adversely impacted in instances where we are unable to offset this by expanding sales volumes.

11) Risk of crude oil price fluctuations on profit margin

In the Chemicals business the main raw materials of its products are derived from refined crude oil products such as naphtha-derived ethylene and propylene that are highly sensitive to crude oil price fluctuations. Global demand and supply and unpredictable factors such as changes in weather conditions, war and terrorism have caused large fluctuations in the price of crude oil and should be expected to do so in the future. In the Bio-Chemicals business, the increase in the price of raw materials has become a significant issues caused by an increase in the price of fuel, the increased demand from developing countries, the expanding demand of ethanol and a poor agricultural harvest due to unseasonable weather. If the rise of raw materials prices cannot be reflected in the selling price of products in a timely manner, or cannot be absorbed though cost reduction measures, the Group’s business performance and financial position could be adversely affected.

12) Risk of changes to foreign exchange rate

The Group conducts foreign currency denominated transactions such as receiving income from overseas sales and licensing-out of technologies overseas acquiring raw materials overseas and 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.

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.

13) Risk of changes to share prices

The Group owns marketable securities of its business partners, financial institutions and others and in cases where market valuations drop significantly an appraisal loss on our holdings would be incurred and the Group’s business performance and financial position could be adversely affected. Further, a portion of the Company’s corporate pension assets comprise marketable securities and actuarial accounting differences in retirement benefit accounting could result from changes to the market value of these and the Group’s business performance and financial position could be adversely affected.

14) Risk of impairment of noncurrent assets

As regards the Group’s noncurrent assets, in cases where there is as a decline in business profitability due to a marked deterioration of the operating environment, or a significant drop in market prices, the application of noncurrent asset impairment accounting could result in an impairment loss and the Group’s business performance and financial position could be adversely affected.

15) Risk concerning procurement of necessary raw materials

For certain raw materials procured by the Group, changing suppliers and substituting raw materials can be very difficult and they may only be available through a small number of specialized suppliers. Although we have taken measures to store enough a sufficient supply of important raw materials to ensure production for a certain period of time, we cannot rule out the unexpected. Therefore, if procuring important resources for which there is no substitute becomes extremely difficult, product manufacturing may be suspended and the Group’s business performance and financial position could be adversely affected.

2. Group Status

Kyowa Hakko Kirin Group is composed of Kyowa Hakko Kirin Co., Ltd., 45 subsidiaries, 22 affiliates and one parent company (Kirin Holdings Company Limited) and operates primarily in the Pharmaceuticals, Bio-Chemicals, Chemicals, and Other business divisions. The major operating activities of the company and the main group companies are outlined below.

Pharmaceuticals Business	Prescription pharmaceuticals are manufactured and sold predominantly by the parent company 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. Overseas, Kirin Kunpeng (China) Bio-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 U.S. 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 in the U.S. of new drug candidates created by the parent company. Kyowa Hakko Kirin California, Inc. generates new candidate compounds and Hematech, Inc. and Hematech-GAC Venture, LLC is involved in the research and development for manufacturing therapeutic antibodies. Jeil-Kirin Pharm. Inc., Kyowa Hakko Kirin (Taiwan) Co., Ltd., Kyowa Hakko Kirin (Hong Kong) Co., Ltd., Kyowa Hakko Kirin (Singapore) Pte. Ltd., Kyowa Hakko Kirin Italia S.r.l. and Kyowa Hakko Kirin UK Ltd. sell pharmaceuticals in their respective areas, Korea, Taiwan, Hong Kong, Singapore, Italia, U.K. and the surrounding region.
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., and Kyowa Hakko (Hong Kong) Co., Ltd., 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. Healthcare products for the domestic market are sold by Kyowa Wellness Co., Ltd., and Shinwa Pharmaceutical Co., Ltd. sells health foods. Alcohol is primarily manufactured by Kyowa Hakko Bio Co., Ltd. and sales are handled through Daiichi Alcohol Co., Ltd. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supplies equipment to Kyowa Hakko Kirin, Kyowa Hakko Bio Co., Ltd. and certain related companies.
Chemicals Business	Chemical products such as solvents, plasticizers and their raw materials, and specialty chemicals are mainly manufactured by Kyowa Hakko Chemical Co., Ltd., and partly by J-PLUS Co., Ltd., Kurogane Kasei Co., Ltd., and Japan Ethyl Acetate Co., Ltd.. Sales are handled by these four companies in addition to Miyako Kagaku Co., Ltd. and Kashiwagi Co., Ltd. Kyowa Hakko Chemical Co., Ltd. also sells products provided by certain related companies, supplies raw materials to certain related companies. Kyowa Hakko Industry (S) Pte Ltd primarily sells products produced and supplied by Kyowa Hakko Chemical Co., Ltd. and supplies raw materials to Kyowa Hakko Chemical Co., Ltd.. Note: As of the current fiscal year, Miyako Kagaku Co., Ltd. and Kashiwagi Co., Ltd. have been reclassified from the Other Business division to the Chemicals Business.
Other Business	Companies including Chiyoda Kaihatsu Co., Ltd. and Chiyoda Unyu Co., Ltd. are responsible for activities including distribution, insurance agencies and wholesale, and provide services to Kyowa Hakko Kirin and some of its related companies. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications. Kirin Kyowa Foods Company, Limited, Kirin Kyowa FD Co., Ltd. (formerly Kyowa F.D. Foods Co., Ltd.), Kirin Ohland Foods Co., Ltd., (formerly Ohland Foods Co., Ltd.) Aji-Nihon Co., Ltd. and Zenmi Foods Co., Ltd. manufacture and sell seasonings, bakery products and ingredients and processed foods.

Note: Unless specifically stated otherwise, in this document 'the Group' refers to Kyowa Hakko Kirin and its 31 consolidated subsidiaries.

Illustration of the Kyowa Hakko Kirin Group.

Parent company
Kirin Holdings Company Limited

Pharmaceuticals Business: 19 Companies

(Mfg./Sales)
◎ Kyowa Medex Co., Ltd.
◎ Kirin Kunpeng (China)Bio-Pharmaceutical Co., Ltd.
Other: 1 Company

(Sales/R&D)
◎ Kyowa Medical Promotion Co., Ltd.
◎ Kyowa Hakko Kirin America, Inc.
◎ BioWa, Inc.
◎ Kyowa Hakko Kirin Pharma, Inc.
◎ Kyowa Hakko Kirin California, Inc.
◎ Hematech, Inc.
◎ Hematech-GAC Venture, LLC
◎ Jeil-Kirin Pharm. Inc.
◎ Kyowa Hakko Kirin (Taiwan) Co., Ltd.
◎ Kyowa Hakko Kirin (Hong Kong) Co., Ltd.
◎ Kyowa Hakko Kirin (Singapore) Pte. Ltd.
◎ Kyowa Hakko Kirin Italia S.r.l.
○ Kyowa Hakko Kirin UK Ltd.
Other: 3 Companies

Bio-Chemicals Business: 21 Companies

(Mfg./Sales)
◎ Kyowa Hakko Bio Co., Ltd.
◎ Daiichi Fine Chemical Co., Ltd.
◎ BioKyowa Inc.
◎ Shanghai Kyowa Amino Acid Co., Ltd.
Other: 3 Companies

(Sales)
◎ Kyowa Hakko U.S.A., Inc.
◎ Kyowa Hakko Europe GmbH
◎ Kyowa Hakko Bio Italia S.r.l.
◎ Kyowa Hakko (Hong Kong) Co., Ltd.
◎ Kyowa Hakko Bio Singapore Pte. Ltd.
◎ Kyowa Hakko Bio U.S. Holdings, Inc.
◎ Kyowa Wellness Co., Ltd.
◎ Shinwa Pharmaceutical Co., Ltd.
◎ Kyowa Engineering Co., Ltd.
Daiichi Alcohol Co., Ltd.
Other: 4 Companies

Services
Raw Materials/ Products
Services/ Equipment
Products
Products/ Technology outlicensing
Services

Kyowa Hakko Kirin Co., Ltd.

Services
Services

Chemicals Business: 9 Companies

(Mfg./Sales)
◎ Kyowa Hakko Chemical Co., Ltd.
✳ J-PLUS Co., Ltd.
✳ Kurogane Kasei Co., Ltd.
Japan Ethyl Acetate Co. Ltd.
Other: 1 Company

(Sales)
◎ Miyako Kagaku Co., Ltd.
◎ Kashiwagi Co., Ltd.
○ Kyowa Hakko Industry (S) Pte Ltd.
Other: 1 Company

Other Business: 18 Companies

(Mfg./Sales)
◎ Chiyoda Kaihatsu Co., Ltd.
○ Chiyoda Unyu Co., Ltd.
✳ Japan Synthetic Alcohol Co., Ltd.
✳ Kirin Kyowa Foods Company, Limited
✳ Kyowa FD Foods Co., Ltd.
✳ Kirin Ohland Foods Co., Ltd.
✳ Aji-Nihon Co., Ltd.
✳ Zenmi Foods Inc.
Other: 10 Companies

◎ Consolidated subsidiary
○ Non-consolidated subsidiary
✳ Affiliate accounted for by the equity method
(no mark) Affiliate not accounted for by the equity method

* On January 1, 2011 Kashiwagi Co., Ltd. merged with Miyako Kagaku Co., Ltd. and was eliminated.

3. Management Policies

(1) Basic Management Policies

The Kyowa Hakko Kirin Group's fundamental management policy is to contribute to the health and well being of people worldwide by creating new value through the pursuit of advancements in life sciences and technology. Based on this policy, the Group is developing business around the world as a creative and innovative R&D corporation.

Our businesses aim to provide products, services, and information that deliver superior quality and performance in line with our focus on customer satisfaction. In addition, we are working to build a highly transparent and healthy corporate management that discloses accurate information in a timely and fair manner. At the same time, by fully accepting our corporate social responsibility such as through compliance and quality assurance we are striving to be a life-sciences company that earns the broad trust of society.

(2) Management Targets

The Kyowa Hakko Kirin Group has formulated the Group's three-year 2010 to 2012 Medium-term Business Plan with fiscal 2010 being the first year of the plan. In 2012, the final year of the plan, we are targeting net sales of ¥454.0 billion and operating income of ¥51.7 billion, however these targets are under review due to the planned cancellation of the Chemicals segment following the transfer of shares of Kyowa Hakko Chemical Co., Ltd., scheduled for March 31, 2011.

(3) Medium- and long-term management polices and issues

Kyowa Hakko Kirin Group aims to be a world-class R&D-focused life sciences company, based on biotechnology and with the pharmaceutical business at its core. In pursuit of this vision we are aiming for global growth by providing new value that addresses a diversity of needs.

As regards the Pharmaceuticals business, domestically we are facing reduced drug prices and the promotion of generic pharmaceuticals as a part of the National Health Reimbursement Policy, and internationally we are facing increased competition from the development of new drugs and intensification of competition from European and American drug manufacturers and major domestic pharmaceutical companies. In response to this, the Group will endeavor to further strengthen its domestic sales capabilities, expand sales of core products and strive to quickly penetrate markets with new products. Further, we will establish the Asian Development Department to reinforce our development structure in Asia, while strengthening our sales force particularly in China. In Europe and the U.S., we will actively promote global development, including consideration of reinforced marketing systems for sales of new drugs.

Regarding research and development, we will endeavor to continue to create new cutting-edge products by promoting the forging of product and technological licenses and progress through clinical trial stages for antibody pharmaceuticals domestically and overseas, leveraging the Group's core antibody technologies primarily in the areas of cancer, kidney, and immunological diseases and allergies.

In production, we will ensure high levels of quality assurance and strengthen cost competitiveness by improving productivity through the construction of new facilities that promote automation and resolve the issues of aging of facilities and location through reorganization of production facilities. Further, we have established the Corporate Quality Control Department that will coordinate and control quality assurance in our pharmaceutical, pharmaceutical raw materials and other operations in relation to overseas regulations.

In the Bio-Chemicals business, as a group that has both fermentation and synthetic technology we are aiming for growth in the medical treatment and healthcare areas as a biotech company. In fine chemicals we are being affected by price declines resulting from market entry of Chinese and other manufacturers, mainly in the amino acid health food and other markets, in addition to the current impact of foreign exchange rates. Nevertheless we will strive for business growth through development of global sales and we aim to expand sales of amino acids and related compounds, primarily of those for pharmaceutical use in high-value added areas.

In healthcare, we will implement initiatives aimed at expanding market scale and providing materials that can be used safely while promoting the development of markets for our in-house brands such as ornithine. We will also focus our efforts on continuing to provide high quality products by reinforcing our quality assurance structure and ensure enhanced cost competitiveness through the maintenance and restructuring of the Group's overseas and domestic production facilities, such as our facilities in Yamaguchi.

In the Chemicals business, the operating environment continues to remain unclear due to instability in the global economy and uncertainty in crude oil and naphtha trends. However, we are actively growing sales of core products in growth markets, primarily China, as well as implementing thorough cost controls and operating efficiencies in order to support profits.

Regarding our Chemicals business, Kyowa Hakko Kirin has signed a basic agreement to sell all shares owned by Kyowa Hakko Kirin in Kyowa Hakko Chemical Co., Ltd., to KJ Holdings Inc. in March 2011. As a result, Kyowa Hakko Kirin will be able to effectively focus its resources on its ethical pharmaceutical products business, while Kyowa Hakko Chemical can flexibly implement the business management required to meet diverse market needs, independently of Kyowa Hakko Kirin.

(1) Consolidated Balance Sheets

Millions of yen

	As of December 31, 2010	As of December 31, 2009
ASSETS		
Current assets:		
Cash and deposits	33,128	30,159
Notes and accounts receivable-trade	122,378	120,869
Merchandise and finished goods	40,803	43,863
Work in process	10,628	8,970
Raw materials and supplies	10,329	10,971
Deferred tax assets	8,368	9,250
Short-term loans receivable	53,483	40,342
Other	9,880	12,313
Allowance for doubtful accounts	(149)	(153)
Total current assets	288,852	276,587
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	153,135	146,096
Accumulated depreciation	(108,850)	(107,203)
Buildings and structures, net	44,284	38,893
Machinery, equipment and vehicles	211,317	204,828
Accumulated depreciation	(185,510)	(178,836)
Machinery, equipment and vehicles, net	25,806	25,992
Land	70,697	71,993
Construction in progress	10,578	17,588
Other	51,584	51,413
Accumulated depreciation	(43,213)	(43,321)
Other, net	8,371	8,091
Total property, plant and equipment	159,738	162,559
Intangible assets		
Goodwill	162,659	170,054
Other	9,943	4,067
Total intangible assets	172,602	174,122
Investments and other assets		
Investment securities	55,289	66,422
Long-term loans receivable	510	496
Deferred tax assets	9,954	4,263
Other	10,391	12,267
Allowance for doubtful accounts	(1,476)	(1,451)
Total investments and other assets	74,669	81,998
Total noncurrent assets	407,010	418,680
Total assets	695,862	695,268

Consolidated Balance Sheets (continued)

	Millions of yen	
	As of December 31, 2010	As of December 31, 2009
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	49,463	48,965
Short-term loans payable	7,253	12,690
Accounts payable-other	24,208	32,364
Income taxes payable	15,379	7,312
Provision for sales rebates	284	283
Provision for bonuses	100	1,225
Provision for repairs	601	1,051
Other	5,028	5,944
Total current liabilities	102,321	109,838
Noncurrent liabilities		
Long-term loans payable	262	537
Deferred tax liabilities	16,379	14,646
Provision for retirement benefits	24,109	27,268
Provision for directors' retirement benefits	134	107
Provision for environmental measures	887	--
Other	6,776	2,526
Total noncurrent liabilities	48,549	45,086
Total liabilities	150,870	154,924
NET ASSETS		
Shareholders' equity:		
Capital stock	26,745	26,745
Capital surplus	512,359	512,398
Retained earnings	20,744	7,093
Treasury stock	(6,676)	(6,932)
Total shareholders' equity	553,172	539,304
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(2,195)	475
Deferred gains or losses on hedges	0	3
Foreign currency translation adjustment	(7,063)	(3,956)
Total valuation and translation adjustments	(9,258)	(3,478)
Subscription rights to shares	207	196
Minority interests	869	4,321
Total net assets	544,992	540,343
Total liabilities and net assets	695,862	695,268

(2) Consolidated Statements of Income

Millions of yen

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Net sales	413,738	309,111
Cost of sales	222,759	169,371
Gross profit	190,979	139,739
Selling, general and administrative expenses		
Haulage expenses	2,876	2,049
Promotion expenses	12,787	8,971
Provision of allowance for doubtful accounts	191	273
Salaries	22,308	16,914
Bonuses	8,825	6,548
Provision for bonuses	--	1,086
Retirement benefit expenses	4,048	2,614
Depreciation	1,889	723
Research and development expenses	44,064	34,795
Amortization of goodwill	9,742	7,042
Other	38,835	30,477
Total selling, general and administrative expenses	145,568	111,496
Operating income	45,410	28,243
Non-operating income		
Interest income	362	443
Dividends income	844	914
Equity in earnings of affiliates	1,074	1,558
Other	2,920	1,095
Total non-operating income	5,201	4,012
Non-operating expenses		
Interest expenses	199	244
Foreign exchange losses	1,280	112
Loss on disposal of noncurrent assets	1,493	1,163
Provision of allowance for doubtful accounts	19	312
Other	1,119	943
Total non-operating expenses	4,111	2,776
Recurring income	46,500	29,479

Consolidated Statements of Income (continued)

	Millions of yen	
	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Extraordinary income		
Gain on sales of investment securities	1,828	--
Gain on negative goodwill	854	--
Reversal of allowance for doubtful accounts	139	--
Gain on sales of noncurrent assets	--	27
Total extraordinary income	2,822	27
Extraordinary loss		
Loss on revision of retirement benefit plan	1,771	--
Loss on valuation of investment securities	1,473	537
Impairment loss	1,374	2,671
Non-recurring depreciation on noncurrent assets	1,225	3,299
Provision for environmental measures	887	--
Loss on sales of noncurrent assets	189	--
Loss on sales of investment securities	101	991
Loss on change in equity	--	1,379
Total extraordinary losses	7,023	8,878
Income before income taxes and minority interests	42,299	20,628
Income taxes-current	21,363	16,450
Income taxes-deferred	(1,323)	(4,819)
Total income taxes	20,040	11,631
Minority interests in income	61	199
Net income	22,197	8,797

(3) Consolidated Statements of Changes in Shareholders' Equity

Millions of yen, rounded down

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Consolidated statements of changes in net assets		
Shareholders' equity		
Capital stock		
Balance at the end of previous 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 end of previous period	512,398	512,418
Changes of items during the period		
Disposal of treasury stock	(39)	(19)
Total changes of items during the period	(39)	(19)
Balance at the end of current period	512,359	512,398
Retained earnings		
Balance at the end of previous period	7,093	10,432
Changes of items during the period		
Dividends from surplus	(8,546)	(11,434)
Net income	22,197	8,797
Change of scope of consolidation	--	(811)
Increase by merger	--	109
Total changes of items during the period	13,650	(3,339)
Balance at the end of current period	20,744	7,093
Treasury stock		
Balance at the end of previous period	(6,932)	(2,392)
Changes of items during the period		
Purchase of treasury stock	(113)	(4,637)
Disposal of treasury stock	369	97
Total changes of items during the period	256	(4,539)
Balance at the end of current period	(6,676)	(6,932)

Consolidated Statements of Changes in Shareholders' Equity (cont.)

Millions of yen, rounded down

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Total shareholders' equity		
Balance at the end of previous period	539,304	547,203
Changes of items during the period		
Dividends from surplus	(8,546)	(11,434)
Net income	22,197	8,797
Purchase of treasury stock	(113)	(4,637)
Disposal of treasury stock	330	78
Change of scope of consolidation	--	(811)
Increase by merger	--	109
Total changes of items during the period	13,868	(7,898)
Balance at the end of current period	553,172	539,304
Valuation and translation adjustments		
Valuation difference on available-for-sale		
Balance at the end of previous period	475	(4,732)
Changes of items during the period		
Net changes of items other than shareholders' equity	(2,670)	5,208
Total changes of items during the period	(2,670)	5,208
Balance at the end of current period	(2,195)	475
Deferred gains or losses on hedges		
Balance at the end of previous period	3	4
Changes of items during the period		
Net changes of items other than	(3)	(1)
Total changes of items during the period	(3)	(1)
Balance at the end of current period	0	3
Foreign currency translation adjustment		
Balance at the end of previous period	(3,956)	(3,920)
Changes of items during the period		
Net changes of items other than	(3,106)	(36)
Total changes of items during the period	(3,106)	(36)
Balance at the end of current period	(7,063)	(3,956)
Total valuation and translation adjustments		
Balance at the end of previous period	(3,478)	(8,648)
Changes of items during the period		
Net changes of items other than shareholders' equity	(5,779)	5,170
Total changes of items during the period	(5,779)	5,170
Balance at the end of current period	(9,258)	(3,478)
Subscription rights to shares		
Balance at the end of previous period	196	188
Changes of items during the period		
Net changes of items other than shareholders' equity	11	7
Total changes of items during the period	11	7
Balance at the end of current period	207	196

Consolidated Statements of Changes in Shareholders' Equity (cont.)

Millions of yen, rounded down

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Minority interests		
Balance at the end of previous period	4,321	4,326
Changes of items during the period		
Net changes of items other than shareholders' equity	(3,451)	(5)
Total changes of items during the period	(3,451)	(5)
Balance at the end of current period	869	4,321
Total net assets		
Balance at the end of previous period	540,343	543,070
Changes of items during the period		
Dividends from surplus	(8,546)	(11,434)
Net income	22,197	8,797
Purchase of treasury stock	(113)	(4,637)
Disposal of treasury stock	330	78
Change of scope of consolidation	--	(811)
Increase by merger	--	109
Net changes of items other than shareholders' equity	(9,219)	5,172
Total changes of items during the period	4,648	(2,726)
Balance at the end of current period	544,992	540,343

(4) Consolidated Statements of Cash Flows

Millions of Yen

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	42,299	20,628
Depreciation and amortization	22,188	17,003
Impairment loss	1,374	2,671
Amortization of goodwill	9,928	7,181
Increase (decrease) in provision for retirement benefits	(3,137)	576
Decrease (increase) in prepaid pension costs	(251)	823
Increase (decrease) in provision for bonuses	(1,122)	(2,891)
Increase (decrease) in allowance for doubtful accounts	--	501
Interest and dividends income	(1,207)	(1,357)
Interest expenses	199	244
Equity in (earnings) losses of affiliates	(1,074)	(1,558)
Loss (gain) on sales and retirement of property, plant and equipment	624	277
Loss (gain) on sales of investment securities	(1,726)	981
Loss (gain) on valuation of investment securities	1,473	537
Decrease (increase) in notes and accounts receivable-trade	(2,627)	(9,813)
Decrease (increase) in inventories	476	4,588
Increase (decrease) in notes and accounts payable-trade	1,955	6,187
Other, net	6,516	(1,968)
Subtotal	75,890	44,612
Interest and dividends income received	2,114	1,535
Interest expenses paid	(204)	(258)
Compensation for damage paid	(13,610)	(21,685)
Income taxes paid	**64,189**	**24,203**

Consolidated Statements of Cash Flows (continued)

Millions of Yen

	January 1, 2010 to December 31, 2010	April 1, 2009 to December 31, 2009
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(28,001)	(19,777)
Proceeds from sales of property, plant and equipment	1,148	2,283
Purchase of intangible assets	(7,471)	--
Purchase of investment securities	(362)	(2,217)
Proceeds from sales and redemption of investment securities	6,363	4,023
Purchase of investments in capital of subsidiaries	(3,880)	--
Payments into time deposits	(7,012)	(4,135)
Proceeds from withdrawal of time deposits	6,290	3,212
Net decrease (increase) in short-term loans receivable	--	4,690
Other, net	553	(1,326)
Net cash provided by (used in) investing activities	(32,373)	(13,246)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(5,380)	(383)
Repayment of long-term loans payable	--	(202)
Purchase of treasury stock	(113)	(4,637)
Cash dividends paid	(8,568)	(11,372)
Cash dividends paid to minority shareholders	(54)	(204)
Other, net	(329)	(105)
Net cash provided by (used in) financing activities	**(14,446)**	**(16,906)**
Effect of exchange rate change on cash and cash equivalents	**(1,231)**	**(39)**
Net increase (decrease) in cash and cash equivalents	**16,137**	**(5,989)**
Cash and cash equivalents at beginning of period	**63,745**	**69,286**
Increase in cash and cash equivalents from newly consolidated subsidiary	**--**	**393**
Increase in cash and cash equivalents resulting from merger	**--**	**268**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**--**	**(214)**
Cash and cash equivalents at end of period	**79,882**	**63,745**

Segment information
(1) Business segment information

Fiscal period: January 1, 2010 – December 31, 2010

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales:							
(1) Sales to external customers	210,157	75,578	124,360	3,643	413,738	--	413,738
(2) Inter-segment sales and transfers	205	8,658	5,657	6,855	21,377	(21,377)	--
Total	210,362	84,236	130,018	10,499	435,116	(21,377)	413,738
Operating expenses	174,505	80,961	124,339	10,135	389,941	(21,613)	368,328
Operating income	35,857	3,275	5,678	363	45,175	235	45,410
II. Assets, depreciation and amortization, impairment loss and capital expenditures							
Assets	381,349	135,337	102,313	17,659	636,660	59,202	695,862
Depreciation and amortization	10,733	6,731	4,652	73	22,190	(2)	22,188
Impairment loss	804	558	11	--	1,374	--	1,374
Capital expenditures	19,251	7,603	2,504	15	29,375	(1)	29,374

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko Kirin Group. The main products of each segment are as follows:
   - Pharmaceuticals: Ethical pharmaceuticals and diagnostics reagents
   - Bio-Chemicals: Pharmaceutical and industrial-use raw materials, healthcare products, agrochemicals and products for livestock and fisheries industries, and alcohol
   - Chemicals: Solvents, plasticizer raw materials, and specialty chemicals
   - Other: Distribution, insurance agencies and wholesale
2. Entire company assets included within Elimination/Corporate are ¥171,533 million and mainly comprise excess working capital (cash and deposits, and short-term loans) and long-term investments (investment securities).
3. As of the current fiscal year, consolidated subsidiaries Miyako Kagaku Co., Ltd., and Kashiwagi Co., Ltd., who manage wholesales operation for chemicals and other products, have been transferred under the umbrella of Kyowa Hakko Chemical, our core chemical business, in order to optimize the Group management structure. Having reviewed the segment information for both consolidated subsidiaries, they have both been transferred from the Other segment to the Chemical segment in light of their current sales figures and trends in their management structure. Applying the classification of Business segment of the current fiscal year to that of the previous fiscal period would result as follows:

Fiscal period: April 1, 2009 – December 31, 2009

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Other	Total	Elimination / Corporate	Consolidated
I. Net Sales:							
(1) Sales to external customers	157,931	63,250	85,246	2,683	309,111	--	309,111
(2) Inter-segment sales and transfers	341	6,501	3,434	5,114	15,391	(15,391)	--
Total	158,273	69,751	88,680	7,797	324,503	(15,391)	309,111
Operating expenses	131,615	66,703	90,515	7,548	296,382	(15,514)	280,867
Operating income (loss)	26,657	3,048	(1,834)	249	28,120	123	28,243
II. Assets, depreciation and amortization, impairment loss and capital expenditures							
Assets	381,818	140,916	103,447	17,043	643,226	52,041	695,268
Depreciation and amortization	9,211	4,321	3,412	58	17,005	(1)	17,003
Impairment loss	2,559	111	--	--	2,671	--	2,671
Capital expenditures	16,506	5,000	3,608	19	25,135	(0)	25,135

Business segment information (continued)

Fiscal period: April 1, 2009 – December 31, 2009

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales:							
(1) Sales to external customers	157,931	63,250	45,562	42,366	309,111	--	309,111
(2) Inter-segment sales and transfers	341	6,501	6,763	7,133	20,740	(20,740)	--
Total	158,273	69,751	52,326	49,500	329,851	(20,740)	309,111
Operating expenses	131,615	66,703	54,310	49,099	301,729	(20,861)	280,867
Operating income (loss)	26,657	3,048	(1,984)	400	28,122	121	28,243
II. Assets, depreciation and amortization, impairment loss and capital expenditures							
Assets	381,818	140,916	80,464	42,393	645,592	49,675	695,268
Depreciation and amortization	9,211	4,321	3,357	113	17,005	(1)	17,003
Impairment loss	2,559	111	--	--	2,671	--	2,671
Capital expenditures	16,506	5,000	3,583	45	25,135	(0)	25,135

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko Kirin Group. The main products of each segment are as follows:
   - Pharmaceuticals: Ethical pharmaceuticals and diagnostics reagents
   - Bio-Chemicals: Pharmaceutical and industrial-use raw materials, healthcare products, agrochemicals and products for livestock and fisheries industries, and alcohol
   - Chemicals: Solvents, plasticizer raw materials, and specialty chemicals
   - Other: Wholesale and distribution
2. Entire company assets included within Elimination/Corporate are ¥172,571 million and mainly comprise excess working capital (cash and deposits, and short-term loans) and long-term investments (investment securities).

3. The Food business (primary products: seasonings, bakery products and ingredients, and processed food) segment has been excluded as of the fiscal period ended December 31, 2009. The Food business was discontinued at the end of the current consolidated fiscal year following the sale of shares of the consolidated subsidiaries that operated the businesses at the end of the previous consolidated fiscal year.
4. The January 1, 2009 to December 31, 2009, twelve-month financial statements of 11 consolidated subsidiaries whose balance sheet date is the same as the consolidated balance sheet date were used in the preparation of prior consolidated financial reports, and since their balance sheet date is within three months of the consolidated balance sheet date they have also been used in the preparation of the current nine-month consolidated financial report that resulted from the change of fiscal year-end to December 31. As a result, net sales increased in each of the Pharmaceuticals, Bio-Chemicals and Other businesses by ¥356 million, ¥7,173 million and ¥4,458 million respectively, and operating income decreased ¥59 million in the Pharmaceuticals business, and increased in the Bio-Chemicals and Other businesses by ¥196 million and ¥21 million respectively.

(2) Geographic segment information

January 1, 2010– December 31, 2010

Millions of yen

	Japan	Other regions	Total	Eliminations/ Corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	374,382	39,356	413,738	--	413,738
(2) Inter-segmental sales and transfers	24,952	10,543	35,495	(35,495)	--
Total	399,334	49,899	449,234	(35,495)	413,738
Operating expenses	357,350	45,967	403,318	(34,989)	368,328
Operating income	41,984	3,932	45,916	(505)	45,410
2. Assets	611,240	44,895	656,136	39,726	695,862

Notes:

1. The countries and regions have been classified geographically.
2. Countries and regions other than Japan, America, Europe and Asia are segmented, however since each of their net sales is less than 10% of total sales they have been grouped together under Other regions.
3. The main countries included in regions other than Japan are as follows:
   America………… North America
   Europe…………. Germany and Italy
   Asia………………China, Korea, Taiwan, Hong Kong and Singapore
4. Entire company assets included within Elimination/Corporate are ¥171,533 million and mainly comprise excess working capital (cash and deposits, and short-term loans) and long-term investments (investment securities).

April 1, 2009– December 31, 2009

Millions of yen

	Japan	Other regions	Total	Eliminations/ Corporate	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	275,916	33,194	309,111	--	309,111
(2) Inter-segmental sales and transfers	15,792	7,408	23,200	(23,200)	--
Total	291,709	40,603	332,312	(23,200)	309,111
Operating expenses	267,259	37,243	304,503	(23,635)	280,867
Operating income	24,449	3,359	27,809	434	28,243
2. Assets	611,491	46,085	657,576	37,691	695,268

Notes:

1. The countries and regions have been classified geographically.
2. Countries and regions other than Japan, America, Europe and Asia are segmented, however since each of their net sales is less than 10% of total sales they have been grouped together under Other regions.
3. The main countries included in regions other than Japan are as follows:
   America………… North America
   Europe…………. Germany and Italy
   Asia………………China, Korea, Taiwan, Hong Kong and Singapore
4. Entire company assets included within Elimination/Corporate are ¥172,571 million and mainly comprise excess working capital (cash and deposits, and short-term loans) and long-term investments (investment securities).

The January 1, 2009 to December 31, 2009, twelve-month financial statements of consolidated subsidiaries whose balance sheet date is the same as the consolidated balance sheet date were used in the preparation of prior consolidated financial reports, and since their balance sheet date is within three months of the consolidated balance sheet date they have also been used in the preparation of the current nine-month consolidated financial report that resulted from the change of fiscal year-end to December 31. As a result, net sales in both Japan and other regions increased by ¥4,458 million and ¥7,527 million respectively, and operating income in both Japan and other regions increased by ¥21 million and ¥136 million respectively.

(3) Overseas Sales

January, 2010– December 31, 2010

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	23,467	21,477	39,689	507	85,141
(2) Consolidated sales					413,738
(3) Overseas sales as a percentage of consolidated sales	5.7	5.2	9.6	0.1	20.6

Notes:

1. The regions have been classified geographically.
2. Regions other than Japan are as follows:
   America………… North America and Latin America
   Europe…………. All of Europe
   Asia………………All of Asia
   Other Regions…. Oceania and Africa
3. Overseas sales comprise sales by Kyowa Hakko Kirin and its consolidated subsidiaries to customers outside of Japan.

April 1, 2009 – December 31, 2009

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	16,849	18,524	27,415	578	63,367
(2) Consolidated sales					309,111
(3) Overseas sales as a percentage of consolidated sales	5.5%	6.0%	8.9%	0.2%	20.5%

Notes:

1. The regions have been classified geographically.
2. Regions other than Japan are as follows:
   America………… North America and Latin America
   Europe…………. All of Europe
   Asia………………All of Asia
   Other Regions…. Oceania and Africa
3. Overseas sales comprise sales by Kyowa Hakko Kirin and its consolidated subsidiaries to customers outside of Japan.
4. Consolidated subsidiaries whose balance sheet date is December 31, were used in the preparation of prior consolidated financial reports. The change of consolidated fiscal year-end to December 31 has resulted in an irregular nine-month fiscal period, however since the balance sheet date of these subsidiaries is with three months of the consolidated fiscal year-end, the twelve-month financial reports of these subsidiaries have been used in the preparation of the current nine-month consolidated financial report. As a result, net sales increased in America, Europe and Asia by ¥1,811 million, ¥3,124 million and ¥1,278 million respectively.