KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary
Fiscal 2011

(January 1, 2011– December 31, 2011)

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

Fiscal Year Ended December 31, 2011
(The twelve-month period from January 1, 2011 to December 31, 2011)

January 31, 2012

Stock Code:	4151	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of General Meeting of Shareholders: March 22, 2012
Scheduled start date of dividend payment: March 23, 2012
Scheduled date of submission of Financial Report: March 16, 2012
Appendix materials to accompany the annual financial report: Yes
FY2011 earnings presentation meeting: Yes
(For institutional investors and securities analysts)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2011 *(Millions of yen rounded down)*

(1) Consolidated operating results	Fiscal year ended December 31, 2011	Change (%)	Fiscal year ended December 31, 2010	Change (%)
Net sales	343,722	(16.9)	413,738	--
Operating income	46,614	2.7	45,410	--
Ordinary income	46,754	0.5	46,500	--
Net income	25,608	15.4	22,197	--
Net income per share (¥)	¥45.16		¥38.96	
Fully diluted net income per share (¥)	¥45.14		¥38.94	
Return on equity (%)	4.7%		4.1%	
Ordinary income to total assets ratio (%)	6.9%		6.7%	
Operating income to sales ratio (%)	13.6%		11.0%	

Notes: Income (loss) from equity method investments:
Fiscal year ended December 31, 2011: ¥199 million; Fiscal year ended December 31, 2010: ¥1,074 million

(*Millions of yen)*

(2) Consolidated financial position	As of December 31, 2011	As of December 31, 2010
Total assets (millions of yen)	658,873	695,862
Net assets (millions of yen)	540,023	544,992
Shareholders' equity ratio (%)	81.8%	78.2%
Net assets per share (¥)	¥970.16	¥954.58

Note: Total shareholders' equity: December 31, 2011: ¥538,869 million; December 31, 2010: ¥543,914 million.

(*Millions of yen)*

(3) Consolidated cash flows	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2010
Net cash provided by operating activities	40,634	64,189
Net cash provided by (used in) investing activities	18,460	(32,373)
Net cash provided by (used in) financing activities	(30,740)	(14,446)
Cash and cash equivalents at end of period	107,555	79,882

2. Dividends

	Fiscal year ended December 31, 2010	Fiscal year ending December 31, 2011	Fiscal year ending December 31, 2012 (forecast)
Interim dividend per share (¥)	¥10.00	¥10.00	¥10.00
Year-end dividend per share (¥)	¥10.00	¥10.00	¥10.00
Total dividend per share (¥)	¥20.00	¥20.00	¥20.00
Total dividend amount (millions of yen)	¥11,396	¥11,252	
Dividend payout ratio (consolidated)	51.3%	44.3%	54.9%
Ratio of dividends to net assets	2.1%	2.1%	

3. Consolidated Results Forecasts for the Fiscal Year Ending December 31, 2012

(*Millions of yen)*

	Interim		Full year	
		Change %		Change %
Net Sales	163,000	(12.5)	326,000	(5.2)
Operating income	22,500	(24.8)	48,000	3.0
Ordinary income	19,500	(35.5)	42,500	(9.1)
Net income	8,500	(52.0)	20,000	(21.9)
Net income per share	¥15.46		¥36.42	

4. Other

(1) Transfer of important subsidiaries during the period: Yes
New: 1 Company (Strakan International S.a r.l.)
Eliminated: 1 Company (Kyowa Hakko Chemical Co., Ltd.)

(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 (including treasury shares)	December 31, 2011	576,483,555 shares	December 31, 2010	576,483,555 shares
2. Number of treasury shares	December 31, 2011	21,037,327 shares	December 31, 2010	6,691,427 shares
3. Average number of shares during the period	FY ended December 31, 2011	567,029,639 shares	FY ended December 31, 2010	569,711,311 shares

(Reference)
Non-Consolidated Results for the Fiscal Year Ended December 31, 2011

(1) Non-Consolidated Operating Results

(Millions of yen)

	Fiscal year ended December 31, 2011		Fiscal year ended December 31, 2010	
		Change (%)		Change (%)
Net sales	206,096	6.8%	192,979	--
Operating income	48,626	20.9%	40,213	--
Ordinary income	72,654	68.2%	43,188	--
Net income	66,444	113.0%	31,201	--
Net income per share (¥)	117.18		¥54.76	
Fully diluted net income per share (¥)	117.11		¥54.74	

(2) Non-Consolidated financial position

(*Millions of yen*)

	As of December 31, 2011	As of December 31, 2010
Total assets (millions of yen)	419,851	380,913
Net assets (millions of yen)	347,185	307,121
Shareholders' equity ratio (%)	82.6%	80.6%
Net assets per share (¥)	¥624.61	¥538.64

Note: Shareholders' equity: As of December 31, 2011: ¥346,934 million; As of December 31, 2010: ¥306,913 million

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

Notice regarding the appropriate use of the financial forecasts:
This document contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. For a variety of reasons, actual financial results may differ materially from the forecasts presented here. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please see page 8, Operating Results, Financial Position and Outlook for Fiscal 2012.

Contents

1. Operating Results and Financial Position

(1) Summary of business performance

1) Operating results for the fiscal year ended December 31, 2011

(Billions of yen)

	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2010	Change
Net sales	343.7	413.7	(70.0)
Operating income	46.6	45.4	1.2
Ordinary income	46.7	46.5	0.2
Net income	25.6	22.1	3.4

During the fiscal year ended December 2011 (January 1, 2011 to December 31, 2011) the domestic economy continued to be affected by the Great East Japan Earthquake that occurred on March 11, 2011, while the outlook remained uncertain due to continued strong yen and a slowdown in overseas economies as well as the financial crisis in Europe.

In the Pharmaceuticals business, domestic market conditions remained challenging due to the promotion of generic pharmaceuticals, the increasing presence of European and American drug manufacturers and major specialist pharmaceutical companies, and increasing global competition in new drug development. Against this background, Kyowa Hakko Kirin further strengthened its domestic sales operation with the aim of expanding sales of core products and of rapidly penetrating the market with new products. Aiming for further progress in overseas development, in April we acquired all outstanding shares of ProStrakan Group plc (ProStrakan), a UK specialty pharmaceutical company, making it our wholly owned subsidiary and securing its management resources.

In the Bio-Chemicals business, we worked to expand sales of high value-added products such as amino acids, nucleic acids and related compounds, primarily pharmaceutical and industrial use raw materials, despite being heavily affected by the rapid appreciation of the yen. In healthcare products, we carried out initiatives to strengthen mail-order sales of our *Remake Series*, mainly using our own brand materials such as Ornithine.

In the Chemicals business, we sold all shares of Kyowa Hakko Chemical Co., Ltd. in March with the aim of effectively focusing our operational resources in the pharmaceutical products and pharmaceuticals materials businesses.

Partly due to the removal of the Chemicals business from the scope of consolidation, consolidated net sales for the fiscal year totaled ¥343.7 billion (down 16.9% compared with the previous year). However, we achieved record highs in profits despite a challenging operating environment as operating income rose 2.7% to ¥46.6 billion, ordinary income rose 0.5% to ¥46.7 billion, and net income rose 15.4% to ¥25.6 billion.

Although the plants of some of our suppliers were affected by the Great East Japan Earthquake, Kyowa Hakko Kirin Group did not suffer significant damage.

Segmental performance

Note: As of the current fiscal year, the Accounting Standards for Disclosure about Segments of an Enterprise and Related Information (ASBJ statement No. 17, March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, March 21, 2008) have been applied. Year-on-year comparisons are provided since the segmental classification following application of these accounting standards is the same as that previously used.

Pharmaceuticals business

(Billions of yen)

	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2010	Change
Net sales	229.3	210.3	18.9
Operating income	41.3	35.8	5.4

In the Pharmaceuticals business, consolidated net sales increased 9.0% to ¥229.3 billion and operating income increased 15.2% to ¥41.3 billion. Domestic sales of core ethical pharmaceutical products such as Nesp, a treatment for renal anemia, were robust while sales of Allelock, an antiallergic agent, and Patanol antiallergic eye drops, were significantly higher than the previous fiscal year due to the effects of higher amounts of airborne pollen and other factors. In addition, sales of Fentos, a transdermal analgesic for persistent cancer pain, Asacol, an ulcerative colitis treatment, Regpara, a treatment for secondary hyperparathyroidism during dialysis therapy, and sales of Romiplate, a treatment for chronic idiopathic thrombocytopenic purpura, launched in April, also grew steadily. In the licensing-out of technologies and export of pharmaceutical products, revenues from licensing-out of technologies were lower than in the same period of the previous consolidated fiscal year while exports, primarily those to Asia, performed strongly.

Sales at subsidiary Kyowa Medex, which manufactures and sells diagnostic reagents, were up compared to the previous consolidated fiscal year as sales of immunological reagents and exports both performed well.

ProStrakan Group plc, a UK-based specialty pharmaceuticals company, was acquired on April 21, 2011. ProStrakan has an established development and marketing capability for cancer-related and other drugs in Europe and the US. Looking ahead, we can dramatically advance our global strategy through a mutually beneficial partnership accelerating development and expanding sales of new global drugs in core areas. As regards consolidated accounting treatment following the acquisition of ProStrakan, June 30, 2011 is the deemed acquisition date therefore our consolidated results for fiscal 2011 include the results of ProStrakan and its ten subsidiaries for the six-month period from July 1, 2011 to December 31, 2011 (net sales of ¥6.9 billion).

In new drug development in Japan, in the cancer therapeutic area, KRN125 began Phase III clinical trials in February targeting chemotherapy induced febril neutropenia. In April, we submitted an NDA for anti-CCR4 antibody KW-0761 that targets adult T-cell leukemia-lymphoma, a type of hematological cancer. In Asia, ARQ 197, in conjunction with Erlotinib, began comparative international Phase III trials in August in Japan, South Korea and Taiwan for patients diagnosed with advanced or metastatic non-small cell lung cancer. In December, KRN321 (product name in Japan: Nesp) began Phase II trials in Japan and South Korea targeting anemia caused by myelodysplastic syndrome. In addition, Pegfilgrastim (product name Neulasta) was approved in Taiwan in September.

In the renal therapeutic area in Japan, Phase III clinical trials commenced in January 2011 for KRN321 targeting renal anemia in infants. In Asia, Phase III trials for KRN321 that targets renal anemia in patients on dialysis commenced in India in September. In October, approval was filed in China for KRN1493 (product name in Japan: Regpara) that is being developed as a treatment for secondary hyperparathyroidism.

In the areas of immunology and allergy in Japan, in July approval was received for antiallergenic Allelock granules, and sales commenced in November. In Asia, in August, anti-IL5R humanized monoclonal antibody KHK4563 began Phase II trials targeting bronchial asthma in South Korea and Japan.

In the central nervous system therapeutic area in Japan, in June, approval was gained for additional applications of Depakene, an antiepileptic drug, for usage and volumes and its effectiveness and efficiency in averting the onset of migraine headaches. In July, an NDA was filed for KW-6500, a drug being developed to treat hyperanakinesia caused by Parkinsons' disease-related motion complications.

In other areas, in Japan, we received approval for Romiplate, a treatment for chronic idiopathic thrombocytopenic purpura, and commenced sales in April. Phase III clinical trials for KW-3357 which targets diffuse intravascular coagulation syndrome following a reduction of antithrombin (an anticoagulant component) began in June. Further, in July, approval was received for Nauzelin OD tablets, used to treat diseases of the gastrointestinal tract, and sales commenced in December. Overseas, in South Korea, approvals was received in June for Nplate (product name in Japan: Romiplate), a treatment for chronic idiopathic thrombocytopenic purpura. ProStrakan, which became a consolidated subsidiary in April, received approval in the U.S. for Rectiv™, a treatment for pain associated with chronic anal fissures, in June.

In therapeutic antibody research and development, while strengthening our in-house development pipeline of therapeutic antibodies 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 nineteen companies for these technologies and we are actively pursuing our strategy of promoting the fastest possible development of therapeutic antibodies that utilize our original technology.

Bio-Chemicals business

(Billions of yen)

	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2010	Change
Net sales	77.5	84.2	(6.6)
Operating income	2.8	3.2	(0.3)

In the Bio-Chemicals business, consolidated net sales were ¥77.5 billion (down by 7.9%), while operating income was ¥2.8 billion (down 11.6%). Sales declined due to the significant impact of the strong yen although sales volumes of pharmaceutical and industrial use raw materials, mainly amino acids, nucleic acids and related compounds showed steady growth as a result of active efforts to expand sales to meet increased overseas demand.

In healthcare products, we achieved steady growth in mail-order sales, primarily those of own brand materials such as Ornithine. However sales were lower than in the previous year due to the delay of the planned April renewal of Kirin Health Project *KIRIN Plus-i* related products resulting from the earthquake disaster.

Sales at Daiichi Fine Chemical declined due to a drop in sales volumes and sales prices of certain bulk pharmaceuticals and intermediate products.

In R&D, we are actively developing new products and new applications based on functional data while continuing to focus on researching to improve efficiency in the fermentation production process for core products such as amino acids, nucleic acids and related compounds. In healthcare-related products, we plan to strengthen product development, improve efficiencies in R&D, manufacturing, marketing, and our training and sales support operations, and strengthen integrated operations. We will develop enhanced high value-added pharmaceuticals and intermediate products leveraging the fermentation and enzyme technology of Dai-Ichi Fine Chemical, such as its highly functional organic synthesis technology.

Chemicals business

(Billions of yen)

	January 1 to March 31, 2011 First quarter of the fiscal year ended December 31, 2011*	Fiscal year ended December 31, 2010	Change
Net sales	33.5	130.0	(96.4)
Operating income	2.1	5.6	(3.5)

The Chemicals segment results includes only the consolidated results of the first quarter of the consolidated fiscal year (January 1, 2011 to March 31, 2011) due to the sale by Kyowa Hakko Kirin of all outstanding shares of Kyowa Hakko Chemical on March 31, 2011.

In the Chemicals business, consolidated net sales were ¥33.5 billion (up by 10.8% compared to the first quarter of the previous year), and operating income was ¥2.1 billion (up 216.6%). In the previous fiscal year (the 12-month period from January 1, 2010 to December 31, 2010), net sales in the Chemicals business were ¥130.0 billion and operating income was ¥5.6 billion

Domestic and overseas sales revenues and sales volumes increased over the first quarter of the previous fiscal year supported by factors including increased demand and firm markets in Asia, and a recovery in domestic demand.

All areas including solvents, plasticizer raw materials and specialty chemicals, recorded higher sales volumes and sales revenues than the first quarter of the previous fiscal year. Particularly strong growth was recorded by specialty chemicals in which raw materials for refrigerant oils performed steadily.

Other

(Billions of yen)

	Fiscal year ended December 31, 2011	Fiscal year ended December 31, 2010	Change
Net sales	10.6	10.4	0.1
Operating income	0.3	0.3	(0.0)

In the Other segment, consolidated net sales were ¥10.6 billion (up by 1.5% compared to the previous fiscal year), while operating income was ¥0.3 billion (down 0.8%).

2) Outlook for Fiscal 2012

(Billions of yen)

	FORECAST FY to December 31, 2012	Amount change compared to FY ended December 31, 2011	Percentage change compared to FY ended December 31, 2011
Net sales	326.0	(17.7)	(5.2)%
Operating income	48.0	1.3	3.0%
Ordinary income	42.5	(4.2)	(9.1)%
Net income	20.0	(5.6)	(21.9)%

These forecasts assume average exchange rates for fiscal 2012 of ¥77/US$, ¥98/euro and ¥119/British pound

In the fiscal year to December 31, 2012 in the domestic economy, we expect the trend towards gradual improvement to continue. However, the outlook remains uncertain and due to factors such as a further worsening of fiscal and financial problems in Europe, overseas economies could underperform expectations thereby increasing the risk of downward pressure on the domestic economy.

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. We will also more actively promote global expansion of our development and sales capabilities. In the Bio-Chemicals business, we will develop global sales of amino acids, nucleic acids and related compounds, primarily in high value-added areas for use in pharmaceutical products, medical treatment and healthcare. In domestic healthcare, we will promote the development of the market for in-house branded amino acid materials such as Ornithine.

Our consolidated financial results forecasts for fiscal 2012 (January 1, 2012 to December 31, 2012) are for net sales of ¥326.0 billion, a decrease of 5.2% compared to the previous fiscal year, operating income of ¥48.0 billion, up 3.0%, ordinary income of ¥42.5 billion, down 9.1%, and net income of ¥20.0 billion, a decrease of 21.9%.

In the Pharmaceuticals business, we expect to be heavily affected by the reduction in National Health reimbursement prices scheduled for April 2012, however we anticipate an increase in sales and profits compared to the previous fiscal year due to factors including expected growth in sales of products such as Fentos, a transdermal analgesic for persistent cancer pain, Regpara, a treatment for secondary hyperthyroidism during dialysis therapy, Asacol, an ulcerative colitis treatment and Romiplate, a treatment for chronic idiopathic thrombocytopenic purpura, as well as licensing revenues from the biosimilar joint venture with FUJIFILM Corporation. planned to be established in the spring, and a full year consolidated contribution from ProStrakan.

In the Bio-Chemicals business, we are aiming for an increase in sales over the previous consolidated fiscal year due to an increase in sales volumes of core amino acids, nucleic acids and related compounds and mail-order Remake Series, despite the effects of a strong yen. In regards to operating income, we expect a decrease in revenues due to anticipated increases in depreciation and amortization following large-scale capital expenditure at DAIICHI Fine Chemical.

In the Chemicals business, net sales and operating income will not be recorded due to the elimination of the Chemicals segment at the end of March 2011 following the transfer of all shares held in Kyowa Hakko Chemical Co., Ltd. In the first quarter of the fiscal year ended December 2011, consolidated net sales in the Chemicals business were ¥33.5 billion and operating income was ¥2.1 billion.

*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, 2011 were ¥658.8 billion, a decrease of ¥36.9 billion compared to the end of the previous fiscal period, while liabilities were ¥118.8 billion, a decrease of ¥32.0 billion over the same period. As a result of the effect of the sales of all shares of equity method affiliate Kirin Kyowa Foods Company, Limited and consolidated subsidiary Kyowa Hakko Chemical during the current fiscal year, there were significant decreases in assets including accounts and notes receivable, tangible non-current assets and investment securities, as well as in liabilities including accounts and notes payable and others. However, along with income received from the sales of these two companies short-term loans to the parent company for the purposes of funds management increased significantly. Intangible non-current assets, such as goodwill and sales rights, increased significantly due to inclusions in the scope of consolidation following the acquisition of ProStrakan Group and its ten subsidiaries.

Net assets at the end of the fiscal year were ¥540.0 billion, a decrease of ¥4.9 billion due to decreases in the foreign exchange adjustment account, payment of dividends and acquisition of our own shares and despite recording net income of ¥25.6 billion.

As a result, the shareholders' equity ratio as of the end of the fiscal period was 81.8%, an increase of 3.6 percentage points compared to the end of the previous fiscal period.

Reference: Accounting treatment for acquisition of ProStrakan

The following chart is an overview of the allocation of assets at market value or acquisition cost related to the acquisition of ProStrakan on June 30, 2011 (deemed acquisition date) and the impact (amortization of intangible assets and goodwill) on consolidated results during the first three quarters of the current fiscal year.

	Allocation of assets at market value or acquisition cost	Amount amortized during FY2011	Amortization method and period
Intangible assets (sales rights, etc.)	£182.3 mn	£9.0 mn	Period set on case-by-case basis (4.5-19.5 years), straight-line method
Deferred tax liabilities on intangible assets	-£37.9 mn	-	
Other assets and liabilities (net)	-£75.6 mn	-	
Goodwill	£218.3 mn	£7.3 mn	15 years, straight-line method
Total	£287.1 mn	£16.3 mn	

2) Cash Flow Summary

(Billions of yen)

	FY ended December 31, 2011	FY ended December 31, 2010	Change
Cash flows from operating activities	40.6	64.1	(23.5)
Cash used in investing activities	18.4	(32.3)	50.8
Cash used in financing activities	(30.7)	(14.4)	(16.2)

Cash and cash equivalents as of December 31, 2011 were ¥107.5 billion, an increase of ¥27.6 billion compared to the balance of ¥79.8 billion as of December 31, 2010. The main contributing factors affecting cash flow during the fiscal year were as follows:

Net cash provided by operating activities was ¥40.6 billion, a decrease of 36.7% over the previous fiscal year. The main inflows included net income before income taxes of ¥46.1 billion, deprecation expenses of ¥22.8 billion, and goodwill amortization of ¥10.7 billion. The main outflows included corporate, etc. tax payments of ¥29.0 billion and a ¥12.8 billion increase in working capital resulting mainly from an increase in inventory assets.

Net cash provided by investing activities was ¥18.4 billion compared to an outflow of ¥32.3 billion in the previous fiscal year. Major outflows included ¥36.9 billion for the acquisition of shares in subsidiaries accompanying changes to the scope of consolidation and ¥16.3 billion for the acquisition of tangible fixed assets, while major inflows were ¥52.7 billion from the sale of shares of subsidiaries accompanying changes to the scope of consolidation and ¥15.1 billion from the sale of shares in affiliate companies.

Net cash used in financing activities was ¥30.7 billion (a 112.8% increase compared to the same period of the previous fiscal year). The main outflows were ¥12.5 billion for share repurchases, ¥11.4 billion for the payment of dividends and ¥6.5 billion for the repayment of long-term loans payable.

(Reference)

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Shareholders' equity ratio (%)	64.5%	77.0%	77.1%	78.2%	81.8%
Shareholders' equity (market price base) ratio (%)	96.0%	67.9%	80.7%	68.5%	79.4%
Cash flow / Interest bearing debt ratio (years)	0.4	0.3	0.5	0.1	0.1
Interest coverage ratio (times)	100.3	82.9	93.6	313.4	305.4

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) Status of cashflows

Cash flows from operating activities: Operating cash inflow is expected to increase compared to fiscal 2011 due to an anticipated decrease in outflows for corporate and other taxes, etc., and despite an expected decrease in net income before income taxes during the consolidated fiscal period.

Cash flows from investing activities: Cashflow from investing activities is expected to turn from an inflow in fiscal 2011 to an outflow in fiscal 2012 as the large inflows that were seen in fiscal 2011 from the sale of shares in affiliate companies and sale of shares in subsidiaries accompanying changes to the scope of consolidation are not expected to recur, while an increases in payments for acquisition of tangible fixed assets is expected.

Cash flows from financing activities: As a decline in cash outflow for the repayment of long-term borrowings is expected cash outflow from financing activities is expected to be lower in fiscal 2012 than in fiscal 2011. As regards the sourcing of funds, repayment of borrowings and the repurchase of the company's own shares, we will remain flexible and act in consideration of the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2012 are expected to be at a higher level than at the end of fiscal 2011.

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 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. We plan to improve our capital efficiency by acting flexibly and quickly with regards to the repurchase of shares. 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 2011 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 at least 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.

(4) Business Risks and Other Risks

With respect to Kyowa Hakko Kirin Group's business performance and financial position, the major risks that may significantly affect investors' 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.

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.
5. Changes among competitors and in the operating environment.

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 crude oil price fluctuations on profit margin

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 bioethanol 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.

11) 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.

12) 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.

13) 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.

14) 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., 51 subsidiaries, 6 affiliates and one parent company (Kirin Holdings Company, Limited) and operates primarily in the Pharmaceuticals, Bio-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 Kyowa Hakko Kirin and Kyowa Medex Co., Ltd. manufactures and sells diagnostic reagents. Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities of Kyowa Hakko Kirin products. 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 US. BioWa, Inc. pursues out-licensing of antibody technology and is involved in the strategic development of Kyowa Hakko Kirin's therapeutic antibody business. Kyowa Hakko Kirin Pharma., Inc. handles the development in the U.S. of new drug candidates created by the Kyowa Hakko Kirin. 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. ProStrakan plc and its ten subsidiaries and one affiliate are involved in the development and sales of ethical pharmaceuticals in Europe and the US. 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., Kyowa Hakko (Hong Kong) Co., Ltd., and Kyowa Hakko Bio Singapore Pte. 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. Alcohol is 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.
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.

Note:

1. On March 31, 2011 Kyowa Hakko Kirin transferred all outstanding shares of Chemical segment company Kyowa Hakko Chemical Co., Ltd. As a result, the Chemicals segment was eliminated at the end of the first quarter ended March 31.
2. Unless specifically stated otherwise, in this document 'the Group' refers to Kyowa Hakko Kirin and its 38 consolidated subsidiaries.

Illustration of the Kyowa Hakko Kirin Group

Parent company
Kirin Holdings Company, Limited

Kyowa Hakko Kirin Co., Ltd.

Raw Materials

Services

Products/ Technology outlicensing

Services

Equipment

Services

Pharmaceuticals Business: 32 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
- ◎ ProStrakan Group plc
- ◎ Strakan International S.a r.l.
- ◎ Strakan Pharmaceuticals Limited
- ◎ ProStrakan Limited
- ◎ ProStrakan Pharma S.A.S
- ◎ ProStrakan Farmaceutica SLU
- ◎ ProStrakan Pharma GmbH
- ◎ ProStrakan Holdings B.V.
- ◎ ProStrakan Pharma B.V.
- ◎ ProStrakan S.r.l.
- ◎ ProStrakan Inc.
- ✳ ProStrakan AB
- ◎ Kyowa Hakko Kirin Italia S.r.l.
- ◎ 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 UK Ltd.

Other: 4 Companies

Bio-Chemicals Business: 19 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.
- ◎ Kyowa Engineering Co., Ltd.
- Daiichi Alcohol Co., Ltd.

Other: 3 Companies

Other Business: 6 Companies

- ◎ Chiyoda Kaihatsu Co., Ltd.
- ○ Chiyoda Unyu Co., Ltd.
- ✳ Japan Synthetic Alcohol Co., Ltd.

Other: 3 Companies

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

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 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 originally targeted net sales of ¥454.0 billion and operating income of ¥51.7 billion, however due to the elimination of the Chemicals segment following the sale of shares of Kyowa Hakko Chemical Co., Ltd. at the end of March 2011 our current plan targets for fiscal 2012 are for net sales of ¥326.0 billion and operating income of ¥48.0 billion.

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

The theme of our group medium-term business plan for 2010 to 2012 is to accelerate progress in our development pipeline, efficiently allocating business resources by pursuing three key initiatives:

- Select and focus our business portfolio
- Restructure manufacturing locations to enhance profits
- Develop our world-class antibody technology business.

Around three years have passed since the creation of Kyowa Hakko Kirin in October 2008. Over the last year in particular we have been actively selecting and focusing our business portfolio through major steps including the sale of our chemical products business Kyowa Hakko Chemical, the acquisition of U.K. specialty pharma business ProStrakan plc thereby securing a development and sales base to expand in Europe and the U.S., and our recently announced entry into the biosimilar pharmaceuticals business via a joint venture with FUJIFILM Corporation. Against a background of limited prospects for growth in Japan's pharmaceutical market and an increasingly severe competitive environment, these steps represent our initiatives to seize new growth opportunities in the pharmaceutical products market by efficiently focusing our resources on our pharmaceutical materials and pharmaceutical product businesses, while pursuing growth in Europe and the U.S. as well as in Asia. In realizing our vision in these ways, we believe that the Kyowa Hakko Kirin Group is truly entering a new stage in its evolution.

In our Pharmaceuticals business, while developing our new business portfolio as outlined above, it is vital that we continue to strengthen the sales capability of our existing business base in the Japanese market. We are striving to expand sales of core products such as Nesp, while aiming to achieve rapid market penetration of new products. Meanwhile, we are strengthening our sales capability in Asia, particularly in China, and also seeking to speed up our development efforts in Asia. Further, by relocating Kyowa Hakko Kirin staff at ProStrakan, our new partner in Europe and the U.S., we are strengthening cooperation and actively promoting development and sales globally.

As regards our second initiative, restructuring manufacturing locations to enhance profits, by restructuring our production base we are solving issues of the location and aging of facilities and pursuing automation through building new facilities and also increasing cost competitiveness by raising production efficiency and achieving a high level of product quality control.

In research and development we are pursuing our third initiative, to develop our world-class antibody technology business with a focus on the cancer, nephrology, and immunology and allergy product areas. Our aim is to generate a sustained flow of groundbreaking new drugs by speeding up clinical development in Japan and overseas of antibody pharmaceuticals that utilize our core strength in antibody technology, while also licensing technology and products.

In the Bio-Chemicals business, we are aiming for growth as a biotech group that has both fermentation and synthesis technology. As a global business we are significantly affected by exchange rate movements but we aim to achieve growth by actively promoting sales of amino acids, nucleic acids and related compounds in the areas of pharmaceuticals, medical treatment and healthcare. In the healthcare market in Japan, we are implementing 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 are also focusing our efforts on continuing to provide high quality products by reinforcing our quality assurance structure and ensure enhanced cost competitiveness through the reorganization and improvement of the Group’s overseas and domestic production facilities, such as our facilities in Yamaguchi, Japan.

Finally, in consideration of the 2011 earthquake disaster in Japan we are conducting a full review of our standard disaster response procedures and crisis response procedures while reviewing and introducing further improvements to items in our business continuity plan.

4. Consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	As of December 31, 2011	As of December 31, 2010
ASSETS		
Current assets:		
Cash and deposits	27,063	33,128
Notes and accounts receivable-trade	99,109	122,378
Merchandise and finished goods	36,840	40,803
Work in process	12,232	10,628
Raw materials and supplies	9,907	10,329
Deferred tax assets	8,629	8,368
Short-term loans receivable	82,958	53,483
Other	8,067	9,880
Allowance for doubtful accounts	(591)	(149)
Total current assets	284,217	288,852
Non-current assets:		
Property, plant and equipment		
Buildings and structures	129,190	153,135
Accumulated depreciation	(91,855)	(108,850)
Buildings and structures, net	37,334	44,284
Machinery, equipment and vehicles	139,796	211,317
Accumulated depreciation	(120,761)	(185,510)
Machinery, equipment and vehicles, net	19,034	25,806
Land	53,954	70,697
Construction in progress	6,221	10,578
Other	46,967	51,584
Accumulated depreciation	(40,569)	(43,213)
Other, net	6,398	8,371
Total property, plant and equipment	122,943	159,738
Intangible assets		
Goodwill	177,267	162,659
Sales rights	29,025	--
Other	4,324	9,943
Total intangible assets	210,616	172,602
Investments and other assets		
Investment securities	24,818	55,289
Long-term loans receivable	--	510
Deferred tax assets	6,680	9,954
Other	9,958	10,391
Allowance for doubtful accounts	(361)	(1,476)
Total investments and other assets	41,096	74,669
Total non-current assets	374,656	407,010
Total assets:	658,873	695,862

(1) Consolidated Balance Sheets (continued)

(Millions of yen)

	As of December 31, 2011	As of December 31, 2010
LIABILITIES		
Current liabilities:		
Notes and accounts payable-trade	27,341	49,463
Short-term loans payable	5,943	7,253
Accounts payable-other	31,009	24,208
Income taxes payable	7,821	15,379
Provision for sales rebates	667	284
Provision for point card certificates	167	--
Provision for bonuses	161	100
Provision for repairs	--	601
Other	5,254	5,028
Total current liabilities	78,366	102,321
Non-current liabilities:		
Long-term loans payable	98	262
Deferred tax liabilities	10,926	16,379
Provision for retirement benefits	20,654	24,109
Provision for directors' retirement benefits	94	134
Provision for environmental measures	737	887
Asset retirement obligations	654	--
Other	7,317	6,776
Total non-current liabilities	40,484	48,549
Total liabilities:	118,850	150,870
NET ASSETS		
Shareholders’ equity:		
Capital stock	26,745	26,745
Capital surplus	512,348	512,359
Retained earnings	34,956	20,744
Treasury stock	(19,194)	(6,676)
Total shareholders' equity	554,856	553,172
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3,144)	(2,195)
Deferred gains or losses on hedges	--	0
Foreign currency translation adjustment	(12,841)	(7,063)
Total accumulated other comprehensive income	(15,986)	(9,258)
Subscription rights to shares:	250	207
Minority interests:	902	869
Total net assets:	540,023	544,992
Total liabilities and net assets:	658,873	695,862

(2) Consolidated Statements of Income

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Net sales	343,722	413,738
Cost of sales	146,167	222,759
Gross profit	197,555	190,979
Selling, general and administrative expenses		
Haulage expenses	2,093	2,876
Sales promotion	13,175	12,787
Provision for point card certificates	132	--
Provisions for allowance for doubtful accounts	65	191
Salaries	22,248	22,308
Bonuses	9,579	8,825
Employee retirement benefit expense	3,604	4,048
Depreciation expense	3,439	1,889
Research and development expense	47,927	44,064
Amortization of goodwill	10,635	9,742
Other	38,037	38,835
Total selling, general and administrative expenses	150,940	145,568
Operating income	46,614	45,410
Non-operating income		
Interest income	497	362
Dividends income	536	844
Income (loss) from equity method investments	199	1,074
Other	1,000	2,920
Total non-operating income	2,233	5,201
Non-operating expenses		
Interest expenses	135	199
Foreign exchange loss	154	1,280
Loss on revaluation of derivatives	142	--
Loss on disposal of non-current assets	670	1,493
Provision for allowance for doubtful accounts	--	19
Other	990	1,119
Total non-operating expenses	2,093	4,111
Ordinary income	46,754	46,500

(2) Consolidated Statements of Income (cont.)

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Extraordinary income		
Gain on sales of affiliates' stocks	7,217	--
Reversal of allowance for doubtful accounts	115	139
Gain on sale of investment securities	--	1,828
Gain on negative goodwill	--	854
Total extraordinary income	7,332	2,822
Extraordinary loss		
Loss on valuation of investment securities	2,374	1,473
Advisory fees	1,098	--
Impairment loss	769	1,374
Loss on sale of investment securities	692	101
Loss on disaster	650	--
Loss on sales of non-current assets	635	189
Non-recurring depreciation of non-current assets	477	1,225
Loss on adjustment for changes of accounting standard for asset retirement	447	--
Loss on a liquidation of operations	419	--
Loss on liquidation of affiliates	209	--
Provision for point card certificates for prior periods	128	--
Loss on revision of retirement benefit plan	--	1,771
Reserve for provisions for environmental measures	--	887
Total extraordinary loss	7,903	7,023
Income before income taxes and minority interests	46,183	42,299
Corporate, local, and enterprise taxes	22,539	21,363
Corporate tax adjustment	(2,049)	(1,323)
Total corporate taxes	20,489	20,040
Income before minority interests	25,694	--
Minority interests in income	86	61
Net income	25,608	22,197

(3) Consolidated Statements of Income (Comprehensive)

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Income before minority interests	25,694	--
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,200)	--
Deferred gains or losses on hedges	2	--
Foreign currency translation adjustment	(5,799)	--
Share of other comprehensive income of associates accounted for using equity method	(3)	--
Total other comprehensive income	(7,001)	--
Comprehensive income	18,693	--
Breakdown		
Comprehensive income attributable to owners of the parent	18,628	--
Comprehensive income attributable to minority interests	65	--

(4) Consolidated statements of changes in shareholders' equity

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
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	512,359	512,398
Changes of items during the period		
Disposal of treasury stock	(10)	(39)
Total changes of items during the period	(10)	(39)
Balance at the end of current period	512,348	512,359
Retained earnings		
Balance at the end of previous period	20,744	7,093
Changes of items during the period		
Dividends from surplus	(11,396)	(8,546)
Net income	25,608	22,197
Total changes of items during the period	14,212	13,650
Balance at the end of current period	34,956	20,744
Treasury stock		
Balance at the end of previous period	(6,676)	(6,932)
Changes of items during the period		
Purchase of treasury stock	(12,582)	(113)
Disposal of treasury stock	64	369
Total changes of items during the period	(12,518)	256
Balance at the end of current period	(19,194)	(6,676)
Total shareholders' equity		
Balance at the end of previous period	553,172	539,304
Changes of items during the period		
Dividends from surplus	(11,396)	(8,546)
Net income	25,608	22,197
Purchase of treasury stock	(12,582)	(113)
Disposal of treasury stock	54	330
Total changes of items during the period	1,683	13,868
Balance at the end of current period	554,856	553,172
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	(2,195)	475
Changes of items during the period		
Net changes of items other than shareholders' equity	(949)	(2,670)
Total changes of items during the period	(949)	(2,670)
Balance at the end of current period	(3,144)	(2,195)

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

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Deferred gains or losses on hedges		
Balance at the end of previous period	0	3
Changes of items during the period		
Net changes of items other than shareholders' equity	(0)	(3)
Total changes of items during the period	(0)	(3)
Balance at the end of current period	--	0
Foreign currency translation adjustment		
Balance at the end of previous period	(7,063)	(3,956)
Changes of items during the period		
Net changes of items other than shareholders' equity	(5,778)	(3,106)
Total changes of items during the period	(5,778)	(3,106)
Balance at the end of current period	(12,841)	(7,063)
Net cumulative total of other comprehensive income		
Balance at the end of previous period	(9,258)	(3,478)
Changes of items during the period		
Net changes of items other than shareholders' equity	(6,728)	(5,779)
Total changes of items during the period	(6,728)	(5,779)
Balance at the end of current period	(15,986)	(9,258)
Subscription rights to shares		
Balance at the end of previous period	207	196
Changes of items during the period		
Net changes of items other than shareholders' equity	42	11
Total changes of items during the period	42	11
Balance at the end of current period	250	207
Minority interests		
Balance at the end of previous period	869	4,321
Changes of items during the period		
Net changes of items other than shareholders' equity	33	(3,451)
Total changes of items during the period	33	(3,451)
Balance at the end of current period	902	869
Total net assets		
Balance at the end of previous period	544,992	540,343
Changes of items during the period		
Dividends from surplus	(11,396)	(8,546)
Net income	25,608	22,197
Purchase of treasury stock	(12,582)	(113)
Disposal of treasury stock	54	330
Net changes of items other than shareholders' equity	(6,652)	(9,219)
Total changes of items during the period	(4,968)	4,648
Balance at the end of current period	540,023	544,992

(5) Consolidated statements of cash flows

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	46,183	42,299
Depreciation and amortization	22,833	22,188
Impairment loss	769	1,374
Amortization of goodwill	10,713	9,928
Increase (decrease) in provision for retirement	(989)	(3,137)
Decrease (increase) in prepaid pension costs	(1,869)	(251)
Increase (decrease) in provision for bonuses	--	(1,122)
Interest and dividends income	(1,034)	(1,207)
Interest expenses	135	199
Equity in (earnings) losses of affiliates	(199)	(1,074)
Loss (gain) on sales and retirement of property, plant and equipment	315	624
Loss (gain) on sales of investment securities	675	(1,726)
Loss (gain) on valuation of investment securities	2,374	1,473
Loss (gain) on sales of stocks of subsidiaries and affiliates	(7,217)	--
Decrease (increase) in notes and accounts receivable-trade	(4,792)	(2,627)
Decrease (increase) in inventories	(6,429)	476
Increase (decrease) in notes and accounts payable-trade	(1,656)	1,955
Other, net	8,617	6,516
Subtotal	68,431	75,890
Interest and dividends income received	1,396	2,114
Interest expenses paid	(133)	(204)
Income taxes paid	(29,061)	(13,610)
Net cash provided by (used in) operating activities	40,634	64,189
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(16,381)	(28,001)
Proceeds from sales of property, plant and equipment	198	1,148
Purchase of intangible assets	(1,108)	(7,471)
Purchase of investment securities	(1,516)	(362)
Proceeds from sales of investment securities	2,258	6,363
Proceeds from sales of stocks of subsidiaries and affiliates companies	15,130	--
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(36,979)	--
Proceeds from sales of investments in subsidiaries	52,745	--
Purchase of investments in capital of subsidiaries	--	(3,880)
Payments into time deposits	(2,122)	(7,012)
Proceeds from withdrawal of time deposits	6,332	6,290
Other, net	(95)	553
Net cash provided by (used in) investing activities	18,460	(32,373)

(5) Consolidated statements of cash flows (continued)

(Millions of yen)

	January 1, 2011 to December 31, 2011	January 1, 2010 to December 31, 2010
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(76)	(5,380)
Repayment of long-term loans payable	(6,509)	--
Purchase of treasury stock	(12,582)	(113)
Cash dividends paid	(11,433)	(8,568)
Cash dividends paid to minority shareholders	(38)	(54)
Other, net	(99)	(329)
Net cash provided by (used in) financing activities	**(30,740)**	**(14,446)**
Effect of exchange rate change on cash and cash equivalents	**(681)**	**(1,231)**
Net increase (decrease) in cash and cash equivalents	**27,672**	**16,137**
Cash and cash equivalents at beginning of the period	**79,882**	**63,745**
Cash and cash equivalents at end of period	**107,555**	**79,882**

5. Segment information
(1) Business segment information

Fiscal period: January 1, 2011 – December 31, 2011

1. Outline of reporting segments

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

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

The Chemicals business manufactures and sells solvents, plasticizer raw materials, specialty chemicals, and others.

However, following the sale on March 31, 2011 of all shares held in Kyowa Hakko Chemical Co., Ltd by Kyowa Hakko Kirin Group the Chemicals business segment has been discontinued as of the end of the first quarter of fiscal 2011.

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

3. Information on sales and profits (loss), assets, liabilities and other items by segment

Fiscal period: January 1, 2011 – December 31, 2011

(Millions of yen)

	Pharmaceuticals	Bio-Chemicals	Chemicals	Other[1]	Total	Adjusted amount[2]	Consolidated[3]
Net Sales:							
Sales to external customers	229,159	74,370	32,787	7,405	343,722	--	343,722
Inter-segment sales and transfers	180	3,193	762	3,253	7,390	(7,390)	--
Total	229,339	77,563	33,550	10,659	351,113	(7,390)	343,722
Segment income	41,314	2,896	2,135	360	46,706	(92)	46,614
Segment assets	426,252	137,497	--	7,075	570,824	88,049	658,873
Other items							
Depreciation and amortization	15,339	6,457	974	64	22,835	(2)	22,833
Goodwill amortization	9,997	625	12	--	10,635	--	10,635
Investment in equity method companies	69	--	--	1,186	1,255	--	1,255
Increase in tangible fixed assets and intangible fixed assets	11,886	7,482	317	11	19,697	--	19,697

Notes:
1. The Other segment includes business not covered by in the segment report and includes the distribution business and others.
2. Adjusted amounts are as follows:
(1) Segment income: Adjustment of -¥92 million for elimination of intersegment transactions
(2) Segment assets: Adjustment of ¥88,049 million includes elimination of segment transactions of -¥10,544 million and company-wide assets unallocated to each segment of ¥98,593 million. Company-wide assets are primarily surplus operating cash (cash and deposits, short-term loans) and funds for long-term investments.
3. Segment income is adjusted for operating income as recorded in the consolidated financial statements.

Related information

Fiscal period: January 1, 2011 – December 31, 2011

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

(Millions of yen)

	Japan	America	Europe	Asia	Other regions	Total
1. Net sales	272,568	20,071	25,169	25,426	486	343,722

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

(2) Tangible fixed assets

Omitted since over 90% of the value of tangible fixed assets as recorded on the consolidated balance sheet are in Japan.

3. Main customers

(Millions of yen)

Customer	Sales	Related segment
Alfresa Pharma Corporation	45,832	Pharmaceuticals

Impairment loss in noncurrent assets by segment

Fiscal period: January 1, 2011 – December 31, 2011

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Chemicals	Other	Total	Adjustments	Consolidated
Impairment loss	151	617	--	--	769	--	769

Amortization of goodwill and unamortized balance by business segment

Fiscal period: January 1, 2011 – December 31, 2011

(Millions of yen)

	Pharmaceuticals	Bio-Chemical	Chemicals	Other	Total	Adjustments	Consolidated
Amount amortized	9,997	625	12	--	10,635	--	10,635
Balance at end of period	167,100	10,166	--	--	177,267	--	177,267

Occurrence of negative goodwill by business segment

Fiscal period: January 1, 2011 – December 31, 2011

No applicable items

Additional information

As of the current fiscal year, Accounting Standards on Disclosure of Segment Information (ASBJ No. 17, March 27, 2009) and Application Guidance of Accounting Standards on Disclosure of Segment Information (ASBJ Guidance No. 20, March 21, 2008) will be applied.

Because the newly applied segment classifications are identical to those previously used, there is no effect on Segment information.

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:

Geographic segment information

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

(Millions of yen)

	Japan	Other regions	Total	Eliminations/ Corporate	Consolidated
I. 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
II. 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).

Overseas Sales

Fiscal period: January, 2010– December 31, 2010

(Millions of yen)

	America	Europe	Asia	Other Regions	Total
I Overseas sales	23,467	21,477	39,689	507	85,141
II Consolidated sales					413,738
III 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.