

KYOWA KIRIN

Kyowa Hakko Kirin Co, Ltd.

Consolidated Financial Summary Fiscal 2012

(January 1, 2012– December 31, 2012)

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, 2012
(The twelve-month period from January 1, 2012 to December 31, 2012)

January 31, 2013

| | | | |
|-------------|---|-------------------|---|
| Stock Code: | 4151 | Listed Exchanges: | 1st Section of the Tokyo Stock Exchange |
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| URL | http://www.kyowa-kirin.com/investors/index.html | Inquiries: | Shigeru Morotomi Managing Officer, Corporate Communications Department |

Scheduled date of General Meeting of Shareholders: March 22, 2013 Scheduled start date of dividend payment: March 25, 2013

Scheduled date of submission of Financial Report: March 15, 2013

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, 2012 (Millions of yen rounded down)

| (1) Consolidated operating results | Fiscal year ended December 31, 2012 | Change (%) | Fiscal year ended December 31, 2011 | Change (%) |
|---|--|------------|--|------------|
| Net sales | 333,158 | (3.1) | 343,722 | (16.9) |
| Operating income | 52,905 | 13.5 | 46,614 | 2.7 |
| Ordinary income | 49,001 | 4.8 | 46,754 | 0.5 |
| Net income | 24,199 | (5.5) | 25,608 | 15.4 |
| Net income per share (¥) | ¥44.12 | | ¥45.16 | |
| Fully diluted net income per share (¥) | ¥44.10 | | ¥45.14 | |
| Return on equity (%) | 4.4% | | 4.7% | |
| Ordinary income to total assets ratio (%) | 7.3% | | 6.9% | |
| Operating income to sales ratio (%) | 15.9% | | 13.6% | |

Notes: Comprehensive income: Fiscal year ended December 31, 2012: ¥34,709 million (85.7%); Fiscal year ended December 31, 2011: ¥18,693 million (13.8%)

Income (loss) from equity method investments: Fiscal year ended December 31, 2012: ¥(4,861) million; Fiscal year ended December 31, 2011: ¥199 million

| (2) Consolidated financial position | As of December 31, 2012 | As of December 31, 2011 |
|-------------------------------------|-------------------------|-------------------------|
| Total assets (millions of yen) | 679,342 | 658,873 |
| Net assets (millions of yen) | 555,898 | 540,023 |
| Shareholders' equity ratio (%) | 81.7% | 81.8% |
| Net assets per share (¥) | ¥1,013.61 | ¥970.16 |

Note: Total shareholders' equity: December 31, 2012: ¥554,870 million; December 31, 2011: ¥538,869 million.

| (3) Consolidated cash flows | Fiscal year ended December 31, 2012 | Fiscal year ended December 31, 2011 |
|---|--|--|
| Net cash provided by operating activities | 59,134 | 40,634 |
| Net cash provided by (used in) investing activities | (98,772) | 18,460 |
| Net cash provided by (used in) financing activities | (19,189) | (30,740) |
| Cash and cash equivalents at end of period | 50,334 | 107,555 |

2. Dividends

| | Fiscal year ended December 31, 2011 | Fiscal year ending December 31, 2012 | Fiscal year ending December 31, 2013 (forecast) |
|---|--|---|---|
| Interim dividend per share (¥) | ¥10.00 | ¥10.00 | 12.50 |
| Year-end dividend per share (¥) | ¥10.00 | ¥10.00 | 12.50 |
| Total dividend per share (¥) | ¥20.00 | ¥20.00 | 25.00 |
| Total dividend amount (millions of yen) | ¥11,252 | ¥10,948 | |
| Dividend payout ratio (consolidated) | 44.3% | 45.3% | 45.6% |
| Ratio of dividends to net assets | 2.1% | 2.0% | |

3. Consolidated Results Forecasts for the Fiscal Year Ending December 31, 2013 (Millions of yen)

| | Interim | | Full year | |
|----------------------|---------|----------|-----------|----------|
| | | Change % | | Change % |
| Net Sales | 169,000 | 1.6% | 338,000 | 1.5% |
| Operating income | 29,000 | 13.3% | 55,000 | 4.0% |
| Ordinary income | -- | -- | 49,000 | (0.0)% |
| Net income | -- | -- | 30,000 | 24.0% |
| Net income per share | -- | | ¥54.80 | |

Note: As of FY ending December 31, 2013, only full year results forecasts for operating income and ordinary income are provided, and the interim results forecasts will only show figures for net sales and operating income.

4. Other

(1) Transfer of important subsidiaries during the period: 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 Changes in accounting policies other than in 1: None
- ③ Changes in accounting estimates: None
- ④ Restatements: None

(3) Number of shares outstanding (ordinary shares)

| | | | | |
|---|----------------------------|--------------------|----------------------------|--------------------|
| 1. Number of shares outstanding (including treasury shares) | December 31, 2012 | 576,483,555 shares | December 31, 2011 | 576,483,555 shares |
| 2. Number of treasury shares | December 31, 2012 | 29,062,630 shares | December 31, 2011 | 21,037,327 shares |
| 3. Average number of shares during the period | FY ended December 31, 2012 | 548,449,701 shares | FY ended December 31, 2011 | 567,029,639 shares |

(Reference)

Non-Consolidated Results for the Fiscal Year Ended December 31, 2012

(1) Non-Consolidated Operating Results

(Millions of yen)

| | Fiscal year ended December 31, 2012 | | Fiscal year ended December 31, 2011 | |
|--|-------------------------------------|------------|-------------------------------------|------------|
| | | Change (%) | | Change (%) |
| Net sales | 218,117 | 5.8 | 206,096 | 6.8% |
| Operating income | 60,722 | 24.9 | 48,626 | 20.9% |
| Ordinary income | 63,166 | (13.1) | 72,654 | 68.2% |
| Net income | 42,401 | (36.2) | 66,444 | 113.0% |
| Net income per share (¥) | 77.31 | | 117.18 | |
| Fully diluted net income per share (¥) | 77.27 | | 117.11 | |

(2) Non-Consolidated financial position

(Millions of yen)

| | As of December 31, 2012 | As of December 31, 2011 |
|--------------------------------|-------------------------|-------------------------|
| Total assets (millions of yen) | 446,459 | 419,851 |
| Net assets (millions of yen) | 370,710 | 347,185 |
| Shareholders' equity ratio (%) | 83.0% | 82.6% |
| Net assets per share (¥) | ¥676.82 | ¥624.61 |

Note: Shareholders' equity: As of December 31, 2012: ¥370,507 million; As of December 31, 2011: ¥346,934 million

Notice regarding auditing procedures

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

Notice regarding the appropriate use of the financial forecasts:

This document contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. For a variety of reasons, actual financial results may differ materially from the forecasts presented here. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please see page 7, 1. Operating Results and Financial Position 2) Outlook for Fiscal 2013.

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1. Operating Results and Financial Position

(1) Summary of business performance

1) Operating results for the fiscal year ended December 31, 2012

| | <i>(Billions of yen)</i> | | |
|------------------|--|--|--------|
| | Fiscal year ended December 31, 2012 | Fiscal year ended December 31, 2011 | Change |
| Net sales | 333.1 | 343.7 | (10.5) |
| Operating income | 52.9 | 46.6 | 6.2 |
| Ordinary income | 49.0 | 46.7 | 2.2 |
| Net income | 24.1 | 25.6 | (1.4) |

- In the Pharmaceuticals business, the operating environment remained challenging, impacted by a decline in both domestic and international success rates of new drug generation and stricter screening, progress with measures to reduce medical treatment costs, and increased market share of generic pharmaceuticals. Against this background, Kyowa Hakko Kirin made progress with new drug development in Europe, America and Asia, while pursuing expanded sales of core products and swift penetration of the market with new products, mainly in Japan. To prepare our business platform for global growth we further strengthened collaboration with the ProStrakan Group plc (ProStrakan), the UK company which we acquired in the previous year, and launched a biosimilar products business through a joint venture (affiliated company) established between FUJIFILM Corporation and Kyowa Hakko Kirin Co., Ltd.
- In the Bio-Chemicals business, despite being heavily affected by the strength of the yen due to our comparatively large volume of overseas activities, we worked to expand sales and revise prices of high value-added products such as amino acids, nucleic acids and related compounds which are seeing buoyant demand. In healthcare products, we carried out initiatives to strengthen mail-order sales, mainly using our own brand materials such as Ornithine.
- Consolidated net sales for the fiscal year were down compared with the previous year, impacted by the removal of the Chemicals business (previous year sales of ¥33.5 billion, operating income ¥2.1 billion) from the scope of consolidation. However, due to strong sales of core products in the Pharmaceuticals business, operating income rose to a new high for the third year in a row.

Although ordinary income rose, net income declined compared to the previous year when a gain on sales of affiliates' stock was recorded.

Pharmaceuticals business

| | <i>(Billions of yen)</i> | | |
|------------------|--|--|--------|
| | Fiscal year ended December 31, 2012 | Fiscal year ended December 31, 2011 | Change |
| Net sales | 249.8 | 229.3 | 20.5 |
| Operating income | 50.3 | 41.3 | 9.0 |

- Domestic sales of pharmaceutical products were robust but were affected by a reduction in standard drug prices in Japan and other factors.
- Domestic sales of core pharmaceutical products such as *Nesp*, a treatment for renal anemia, and *Allelock*, an antiallergic agent, trended strongly. Meanwhile, sales of *Coniel*, a treatment for hypertension and angina pectoris declined, impacted by generic pharmaceuticals.

- Sales of *Regpara*, a treatment for secondary hyperparathyroidism during dialysis therapy, *Fentos*, a transdermal analgesic for persistent cancer pain, *Asacol*, an ulcerative colitis treatment, and *Romiplate*, a treatment for chronic idiopathic thrombocytopenic purpura, also grew steadily.
- We began sales of *POTELIGEO*[®] for adult T-cell leukemia-lymphoma (ATL) in May and *Apokyn*[®] for the treatment of Parkinson's disease in July, and sales performed well.
- In the licensing-out of technologies and export of pharmaceutical products, sales increased due to strong exports combined with the booking of licensing revenue from FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. for the development of biosimilars.
- Sales of 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 which was newly consolidated as of June 30, 2011, performed broadly in line with expectations, contributing net sales of ¥16.2 billion with an operating loss (after amortization of goodwill) of ¥2.5 billion.

R&D activities in the Pharmaceuticals business were as follows:

Oncology

(Domestic)

- We received approval in March for *POTELIGEO*[®] for relapsed or refractory CCR4-positive adult T-cell leukemia-lymphoma (ATL) and began sales in May. Also, in March Kyowa Medex Co., Ltd. secured approval for *POTELIGEO*[®] *TEST*, an in vitro diagnostic reagent designed to help identify patients most likely to respond to *POTELIGEO*[®], and began sales in May.
- In November, we submitted an application for approval of KW-2246 a treatment for cancer pain (overseas brand name *Abstral*).
- In October, we resolved to discontinue international Phase III trials in Japan, Korea and Taiwan of ARQ 197 in combination with *Erlotinib* for patients with advanced or metastatic non-small cell lung cancer, after a recommendation by the Safety Review Committee concerning side effects in interstitial lung disease patients.

(Overseas)

- In South Korea, we secured approval in May for neutropenia treatment, *Neulasta*.
- In Taiwan we received approval in October for *Sancuso* (common name: *Granisetron*), a treatment for nausea and vomiting induced by chemotherapy.
- In the U.S. we began phase III studies in December on KW-0761 (domestic brand name *POTELIGEO*[®]) for relapsed or refractory cutaneous T-cell lymphoma.
- In Europe and the U.S. we began phase II trials in August on KW-0761 for relapsed or refractory adult T-cell leukemia-lymphoma.
- In Europe, ProStrakan received approval in April for *Sancuso*, a treatment for nausea and vomiting induced by chemotherapy.

Nephrology

(Domestic)

- In September we filed for additional approval of *Nesp* for renal anemia in infants.
- We began Phase II trials in February on RTA 402 for chronic kidney disease patients with Type 2 diabetes mellitus, but decided to suspend the trials in October following news that the overseas phase III trial being conducted by Reata Pharmaceuticals had been terminated due to safety concerns.

(Overseas)

- In India, in September we discontinued phase III trials on KRN321 for renal anemia in dialysis patients following a review of our portfolio in response to changes in the business environment and other factors.

Immunology and allergy

(Domestic)

- We began Phase II trials in December on KHK4827 for psoriasis.

CNS

(Domestic)

- We obtained approval in March for *Apokyn*[®] for the treatment of Parkinson's disease and began sales in July.
- We filed in March for approval of KW-6002, also for Parkinson's disease.
- In December we filed for additional approval of anti-epileptic drug *Topina* for use in infants and for a new formulation (granules)
- We began phase II trials in May on KHK6188, an agent for neuropathic pain in post-herpes zoster patients.

Other

(Overseas)

- We obtained approval in October for *Nplate* (domestic brand name *Romiplate*) for the treatment of chronic idiopathic thrombocytopenic purpura.

Bio-Chemicals business

| | <i>(Billions of yen)</i> | | |
|------------------|--|--|--------|
| | Fiscal year ended December 31, 2012 | Fiscal year ended December 31, 2011 | Change |
| Net sales | 76.9 | 77.5 | (0.5) |
| Operating income | 2.1 | 2.8 | (0.7) |

Domestic business

- Sales in the pharmaceutical and medical treatment fields increased compared to the previous fiscal year.
 - In the pharmaceutical and medical fields pharmaceutical-use amino acids, nucleic acids such as ATP, and other pharmaceutical raw materials each performed steadily.
 - Tranexamic acid sales volumes grew strongly following completion of production facilities in the previous year.
- Sales in the healthcare field were broadly unchanged on the previous fiscal year.
 - In healthcare, we achieved strong growth in mail-order sales, primarily those of *Ornithine*.
 - As an ingredient in Kirin Health Project *KIRIN Plus-i* brands, *Ornithine* is blended in beverages, yoghurt and rice porridge. While awareness has greatly increased due to the synergistic effect of mail-order sales advertising, sales as a raw material have also increased.
 - However, sales of materials other than food and beverage raw materials were subdued.

Overseas business

- Sales in overseas business were in line with the previous year.
 - In the US, sales of amino acids for supplements performed steadily.
 - In Europe and Asia, amino acids and nucleic acids including infusion-use amino acids, and pharmaceutical raw material-use citicoline continued to perform strongly.
 - High capacity utilization at each factory continued and we responded to this buoyant demand by revising sales prices.

- However, overseas sales were flat overall due to the significant impact of the strong yen.
- In R&D, we are actively developing manufacturing methods for new raw materials using high technological capabilities and developing new markets while continuing to focus on research to improve efficiency in the fermentation production process for core products such as amino acids, nucleic acids and related compounds.
- Through the combination of fermentation technology and organic synthesis technology we are developing new manufacturing methods for high value-added pharmaceuticals and intermediate products.
- In the Healthcare field, based on functional data obtained through joint research with Japanese and overseas universities and research institutes we are actively making new product proposals and application developments that can contribute to health maintenance.

Other

| | <i>(Billions of yen)</i> | | |
|------------------|--|--|--------|
| | Fiscal year ended December 31, 2012 | Fiscal year ended December 31, 2011 | Change |
| Net sales | 10.4 | 10.6 | (0.2) |
| Operating income | 0.3 | 0.3 | (0.0) |

Net sales in the Other segment, principally distribution, were ¥10.4 billion (down by 2.2% compared to the previous fiscal year), while operating income was ¥0.3 billion (down 5.9%).

2) Outlook for fiscal 2013

| | <i>(Billions of yen)</i> | | |
|------------------|-------------------------------------|--|--|
| | FORECAST FY to December 31, 2013 | Amount change compared to FY ended December 31, 2012 | Percentage change compared to FY ended December 31, 2012 |
| Net sales | 338.0 | 4.8 | 1.5% |
| Operating income | 55.0 | 2.0 | 4.0% |
| Ordinary income | 49.0 | (0.0) | 0.0% |
| Net income | 30.0 | 5.8 | 24.0% |

These forecasts assume average exchange rates for fiscal 2013 of ¥85/US\$, ¥115/euro and ¥140/British pound.

- Consolidated financial results forecasts for fiscal 2013 (January 1, 2013 to December 31, 2013) are for net sales of ¥338.0 billion, an increase of 1.5% compared to the previous fiscal year, operating income of ¥55.0 billion, up 4.0%, ordinary income of ¥49.0 billion (unchanged), and net income of ¥30.0 billion, an increase of 24.0%.
- In the Pharmaceuticals business, we forecast an increase in sales compared to the previous fiscal year due to growth in domestic sales volumes of products such as *Nesp*, a treatment for renal anemia, *Patanol* antiallergic eye drops, *Fentos*, a transdermal analgesic for persistent cancer pain, *Asacol*, an ulcerative colitis treatment, and *Regpara*, a treatment for secondary hyperthyroidism during dialysis therapy, as well as growth in overseas sales at ProStrakan. However, segmental operating income is expected to decline due to lower licensing revenue and other factors.
- In the Bio-Chemicals business, we are forecasting higher sales and profits due to an increase in sales volumes of core amino acids, nucleic acids and Ornithine and other factors, and in addition to making progress with the restructuring of Daiichi Fine Chemical Co., Ltd., we also expect the yen to weaken compared to fiscal 2012.
- Ordinary income is forecast to be at the same level as last fiscal year due to factors including an increase in losses from investment in equity method and other factors. However, net income is

expected to increase due to a decline in extraordinary losses and the recording of extraordinary gains on the sales of affiliates' stocks and other factors.

*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, 2012 were ¥679.3 billion, an increase of ¥20.4 billion compared to the end of the previous fiscal period. Current assets declined by ¥19.7 billion to ¥303.9 billion due to an increase in short-term loans to the parent company as part of cash management. Goodwill from amortization decreased, but an increase from the acquisition of tangible assets and an increase in sales rights resulted in an increase in non-current assets of ¥0.6 billion to ¥375.3 billion.

Liabilities were ¥123.4 billion, an increase of ¥4.5 billion over the same period, due to an increase in income taxes payable.

Net assets at the end of the fiscal year were ¥555.8 billion, an increase of ¥15.8 billion due to increases in the foreign exchange adjustment account, which offset acquisition of our own shares and payment of dividends.

As a result, the shareholders' equity ratio as of the end of the fiscal period was 81.7%, a decrease of 0.1 percentage points compared to the end of the previous fiscal period.

2) Cash flow summary

| | <i>(Billions of yen)</i> | | |
|--------------------------------------|-------------------------------|-------------------------------|---------|
| | FY ended December 31, 2012 | FY ended December 31, 2011 | Change |
| Cash flows from operating activities | 59.1 | 40.6 | 18.4 |
| Cash used in investing activities | (98.7) | 18.4 | (117.2) |
| Cash used in financing activities | (19.1) | (30.7) | (11.5) |

Cash and cash equivalents as of December 31, 2012 were ¥50.3 billion, a decrease of ¥57.2 billion compared to the balance of ¥107.5 billion as of December 31, 2011.

Of the short-term loans to the parent company as part of cash management, the amount not included in the scope of cash and cash equivalents was increased by ¥67.0 billion, which resulted in a significant decrease in cash and cash equivalents at the end of the fiscal period.

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

Net cash provided by operating activities was ¥59.1 billion, an increase of 45.5% over the previous fiscal year. The main inflows included net income before income taxes of ¥45.0 billion, depreciation expenses of ¥20.9 billion, and goodwill amortization of ¥12.0 billion. The main outflows included corporate, etc. tax payments of ¥15.9 billion.

Net cash provided by investing activities was an outflow of ¥98.7 billion compared to an inflow of ¥18.4 billion in the previous fiscal year. Major outflows included a net increase in of ¥66.9 billion in short term loans, and ¥17.5 billion for the acquisition of tangible fixed assets, while major inflows were ¥2.4 billion from the sale and redemption of investment securities.

Net cash used in financing activities was ¥19.1 billion (a 37.6% decrease compared to the same period of the previous fiscal year). The main outflows were ¥7.5 billion for share repurchases and ¥11.0 billion for the payment of dividends.

(Reference)

Key shareholders' equity and cash flow indicators

| | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|--|----------------|----------------|----------------|----------------|----------------|
| Shareholders' equity ratio (%) | 77.0% | 77.1% | 78.2% | 81.8% | 81.7% |
| Shareholders' equity (market price base) ratio (%) | 67.9% | 80.7% | 68.5% | 79.4% | 68.4% |
| Cash flow / Interest bearing debt ratio (years) | 0.3 | 0.5 | 0.1 | 0.1 | 0.1 |
| Interest coverage ratio (times) | 82.9 | 93.6 | 313.4 | 305.6 | 484.2 |

Notes:

Shareholders' equity ratio = Shareholders' equity / Total assets

Shareholders' equity (market price base) ratio = Market capitalization / Total assets

Cash flow / Interest bearing debt ratio = 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 cash flows

Cash flows from operating activities: Operating cash inflow is expected to be in line with fiscal 2012 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: Cash outflow from investing activities is expected to be lower in fiscal 2013 due to an expected net decrease in short term loans, and despite anticipated outflows from the acquisition of tangible and intangible fixed assets.

Cash flows from financing activities: As a decline in cash outflow for the repurchase of the company's own shares is expected, cash outflow from financing activities is expected to be lower in fiscal 2013 than in fiscal 2012, despite an anticipated increase in dividend payments. 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 2013 are expected to be at a higher level than at the end of fiscal 2012.

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 2011 and Fiscal 2012 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, research and development and

our development pipeline that are required to fund new growth.

In accordance with this basic policy, we expect to pay a year-end dividend for fiscal 2012 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 2013 to 2015 Medium-term Business Plan we aim for a stable return through a consolidated dividend payout ratio of 40% on a prior to amortization of goodwill basis*. For the fiscal year ending December 2013, we expect to pay an annual dividend of ¥25 yen per share consisting of an interim dividend of ¥12.5 and a year-end dividend of ¥12.5.

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

(4) Business risks and other risks

With respect to Kyowa Hakko Kirin Group's business performance and financial position, the major risks that may significantly affect investors' 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, 2012.

1) Risks associated with R&D investment

In ethical drug operations, the development of new drugs requires long periods of time and substantial R&D expenditure. The process of development and sale of new pharmaceuticals is inherently complicated and uncertain. In the long-term development of new drugs, there may be cases where the expected efficacy or stability is not confirmed.

In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies to differentiate the Group from its competitors. However, as with R&D for ethical drug operations, there is no guarantee that these investments will produce results, and as above, in cases where expected R&D results are not realized, the Group's future growth and profitability may decline and our business performance and financial position may also be adversely affected.

2) Risks related to intellectual property assets

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.

3) Risk of side effects

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

4) Risks related to pharmaceutical regulations

The Pharmaceuticals business, KHK Group's core business, operates under the pharmaceutical regulatory authorities of the countries in which we operate. In Japan, Kyowa Hakko Kirin Group's business performance and financial position could 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, in addition to price reductions under the domestic public pharmaceutical price system. Overseas, pressure from control on medical fees are high, and in cases where a price reduction cannot be compensated for by an increase in volumes, the Group's business performance and financial position could be adversely affected.

5) Legal regulation risk

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

Furthermore, in the future, if laws and regulations that must be observed in Japan and overseas change, the Group's business performance and financial position could be adversely affected.

6) Risk of changes to foreign exchange rate

The Group conducts foreign currency denominated transactions such as receiving income from overseas sales 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.

7) Disaster-related and accident-related risks

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

Although KHK Group maintains a disaster prevention system and has prepared a business continuity plan, should an event or accident as described above occur it might result in significant damage and negatively impact the Group's position of trust in society. Additionally, the Group's business performance and financial position could be adversely affected.

8) Other risks

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

2. Group Status

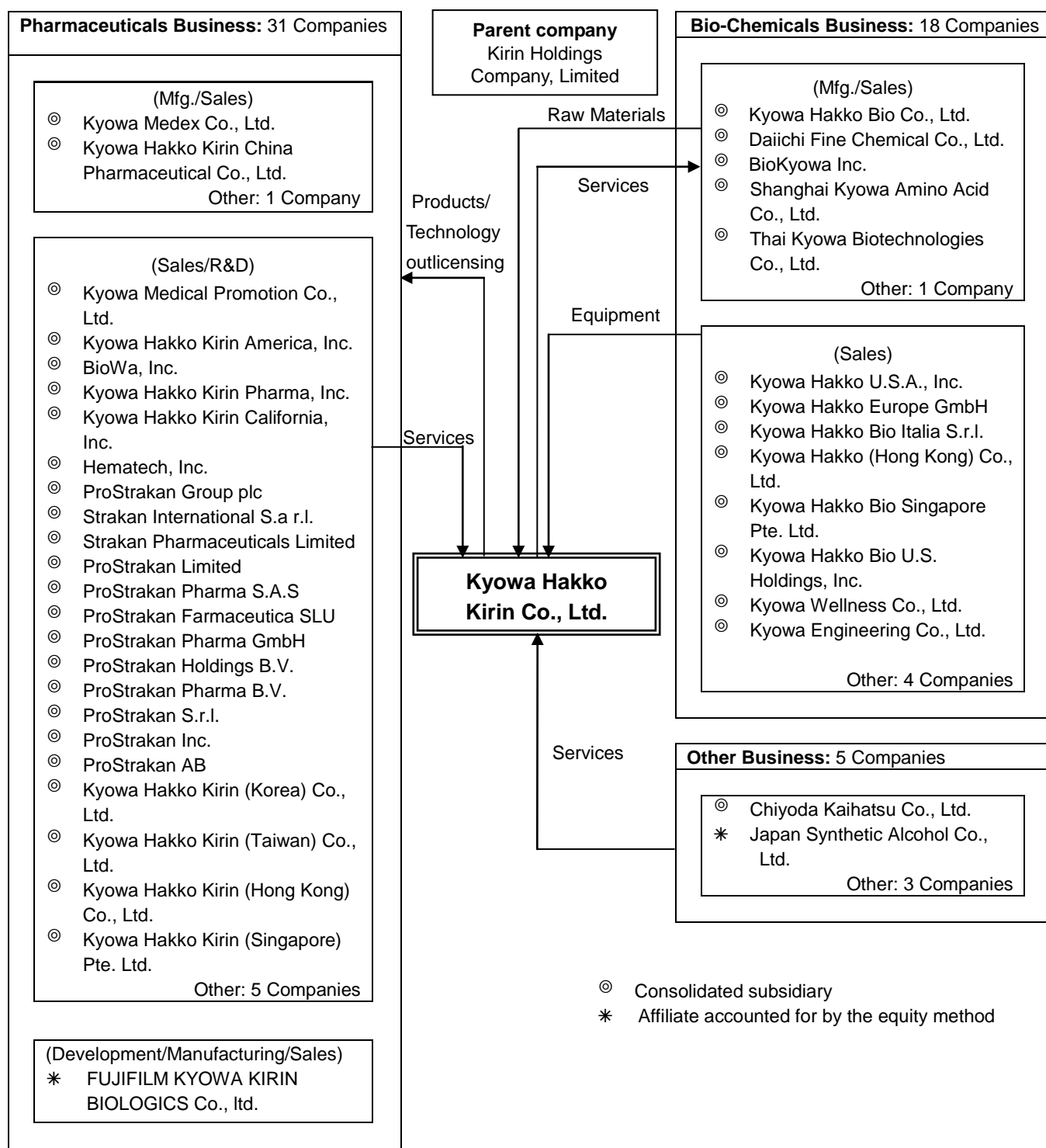
Kyowa Hakko Kirin Group is composed of Kyowa Hakko Kirin Co., Ltd., 49 subsidiaries, 5 affiliates and one parent company (Kirin Holdings Company, Limited) and operates primarily in the Pharmaceuticals, Bio-Chemicals and Other business divisions. The major operating activities of the company and the main group companies are outlined below.

| | |
|---------------------------------|--|
| Pharmaceuticals Business | <p>Prescription pharmaceuticals are manufactured and sold predominantly by Kyowa Hakko Kirin, and Kyowa Medex Co., Ltd. manufactures and sells diagnostic reagents. Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities of Kyowa Hakko Kirin products. FUJIFILM KYOWA KIRIN BIOLOGICS CO., LTD. develops bio-similar pharmaceutical products with plans for manufacturing and sale.</p> <p>Overseas, Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. manufactures and sells pharmaceuticals in China. Kyowa Hakko Kirin America, Inc. is a holding company for administration and management of the Pharmaceuticals business subsidiaries in the US. BioWa, Inc. pursues out-licensing of antibody technology and is involved in the strategic development of Kyowa Hakko Kirin's therapeutic antibody business. Kyowa Hakko Kirin Pharma., Inc. handles the development of new drug candidates in the U.S. created by Kyowa Hakko Kirin. Kyowa Hakko Kirin California, Inc. generates new candidate compounds and Hematech, Inc. is involved in the research and development for manufacturing therapeutic antibodies. ProStrakan plc and its 11 subsidiaries are involved in the development and sales of ethical pharmaceuticals in Europe and the US. Kyowa Hakko Kirin (Korea) Co., Ltd., Kyowa Hakko Kirin (Taiwan) Co., Ltd., Kyowa Hakko Kirin (Hong Kong) Co., Ltd., Kyowa Hakko Kirin (Singapore) Pte. Ltd., sell pharmaceuticals in their respective areas, Korea, Taiwan, Hong Kong and Singapore, and the surrounding region among countries in Asia.</p> |
| Bio-Chemicals Business | <p>Kyowa Hakko Bio Co., Ltd., Daiichi Fine Chemical Co., Ltd., BioKyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture raw materials for pharmaceutical and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. These are sold directly by these four companies and also by overseas subsidiaries such as Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Hakko Bio Italia S.r.l., Kyowa Hakko (Hong Kong) Co., Ltd., and Kyowa Hakko Bio Singapore Pte. Ltd. In Thailand, Thai Kyowa Biotechnologies Co., Ltd. was established in November and construction of a new amino acid production facility is under way with plans to begin production in the second half of 2015. Kyowa Hakko Bio U.S. Holdings, Inc. is a holding company for administration and management of the Bio-Chemicals business subsidiaries in the U.S. Healthcare products for the domestic market are sold by Kyowa Wellness Co., Ltd.</p> <p>Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supply equipment to Kyowa Hakko Kirin, Kyowa Hakko Bio Co., Ltd. and certain related companies.</p> |
| Other Business | <p>Companies including Chiyoda Kaihatsu Co., Ltd. are responsible for activities including distribution, contractual work, wholesale and insurance, and provide services to Kyowa Hakko Kirin and some of its related companies.</p> <p>In addition, Japan Synthetic Alcohol Co., Ltd. manufactures and sells alcohol for industrial applications.</p> |

Note:

1. 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



Note: On January 1, 2013, Kyowa Wellness Co., Ltd. merged with Kyowa Hakko Bio Co., Ltd. and was eliminated.

3. Management policies

(1) Basic management policies

The Kyowa Hakko Kirin Group's corporate philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. Under this policy, through new drug development we are aiming to become a global specialty pharmaceutical company.

By fulfilling our corporate social responsibility through transparency, fairness and compliance, we are striving to be a company that earns the trust of all stakeholders.

(2) Management targets

The Kyowa Hakko Kirin Group formulated the Group's three-year 2013 to 2015 Medium-term Business Plan with fiscal 2013 being the first year of the plan. Our guidance on targets for 2015, the final year of the plan, is for net sales of ¥358 billion and operating income of ¥60 billion.

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

Kyowa Hakko Kirin Group companies are pursuing global growth by providing new value in response to various needs based on our group management philosophy "strive to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies."

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

- Further strengthen competitiveness in Japan through our category strategy
- Expand our business base in the U.S., Europe and Asia and aim to become a global specialty pharmaceutical company
- Strengthen the revenue base of our Bio-chemicals business

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

Within this environment Kyowa Hakko Kirin is aiming for accelerated competitive advantage and sustainable growth and to further strengthen competitiveness in Japan through its category strategy. Focusing on the four categories of nephrology, cancer, immunology/allergy and CNS in which we already have a strong presence, we will take strides to become a truly major player and strengthen cooperation consistently on every function from R&D to manufacturing and sales. In addition to the steady launch of new drugs from our extensive pipeline, we are aiming to build an effective sales structure leveraging a high degree of expertise, maximize sales and win trust among medical practitioners.

In R&D, we are improving our capabilities in drug discovery to launch new drugs in response to unmet medical needs. We are also advancing antibody drugs through domestic and international clinical development, maximizing value by promoting alliances on antibody technology and trying new approaches to drug discovery such as with nucleic acid drugs. Moreover, in an effort to increase our probability of success in the clinical development stage we are driving translational research using our

global research network, emphasizing open innovation, taking advantage of external information and knowledge, and actively promoting research collaboration from the earliest stages of development.

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

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

Furthermore, through pursuing a business model which implements late-stage development and marketed products from ProStrakan we are enhancing our product range in major Western markets and expanding our market presence.

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

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

In our Diagnostics business, via Kyowa Medex Co., Ltd. we are providing advanced diagnostic products and instruments necessary for the treatment of various diseases, and are establishing a strong position in Japan while building a business base in China. Through development and launch of drugs for in vitro diagnostic use (clinical diagnostic reagents), analytic instruments and companion diagnostic drugs (in vitro diagnostic reagents used for personalized medicine) in cooperation with our R&D department, we are aiming for synergies with the pharmaceuticals business and improved added value.

In our Bio-Chemicals business we are aiming for sustained growth as a biotech group that has both fermentation and synthesis technology while strengthening our revenue base. Creation of a business structure that is resistant to the impact of exchange rate movements while strengthening production capacity to respond to increased global demand for amino acids are current issues that must be addressed. We have enhanced cost competitiveness through the reorganization and improvement of the Group's overseas and domestic production facilities, such as Yamaguchi Production Center, Daiichi Fine Chemical Co., Ltd. and BioKyowa Inc. At the same time we are further improving our global business base with the construction of a new production facility in Thailand and other improvements, creating a strong business base that is resistant to the effect of exchange rate movements and actively responding to strong global demand.

In domestic healthcare, in order to respond appropriately to the needs of our customers, Kyowa

Wellness Co., Ltd. which was responsible for raw materials sales and mail order sales was fully absorbed by Kyowa Hakko Bio Co., Ltd. from January, 2013. In the future, through effective advertising activities we are aiming to increase product recognition in mail order sales, represented by Ornithine, while supplying in-house materials that our customers can use with comfort and peace of mind.

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

4. Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

| | As of December 31, 2012 | As of December 31, 2011 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and deposits | 21,577 | 27,063 |
| Notes and accounts receivable-trade | 101,556 | 99,109 |
| Merchandise and finished goods | 40,334 | 36,840 |
| Work in process | 12,176 | 12,232 |
| Raw materials and supplies | 10,931 | 9,907 |
| Deferred tax assets | 10,369 | 8,629 |
| Short-term loans receivable | 98,194 | 82,958 |
| Other | 9,228 | 8,067 |
| Allowance for doubtful accounts | (381) | (591) |
| Total current assets | 303,988 | 284,217 |
| Non-current assets: | | |
| Property, plant and equipment | | |
| Buildings and structures | 134,875 | 129,190 |
| Accumulated depreciation | (94,114) | (91,855) |
| Buildings and structures, net | 40,760 | 37,334 |
| Machinery, equipment and vehicles | 143,595 | 139,796 |
| Accumulated depreciation | (124,200) | (120,761) |
| Machinery, equipment and vehicles, net | 19,395 | 19,034 |
| Land | 53,386 | 53,954 |
| Construction in progress | 7,360 | 6,221 |
| Other | 48,166 | 46,967 |
| Accumulated depreciation | (42,196) | (40,569) |
| Other, net | 5,969 | 6,398 |
| Total property, plant and equipment | 126,872 | 122,943 |
| Intangible assets | | |
| Goodwill | 168,850 | 177,267 |
| Sales rights | 36,214 | 29,025 |
| Other | 2,442 | 4,324 |
| Total intangible assets | 207,506 | 210,616 |
| Investments and other assets | | |
| Investment securities | 23,654 | 24,818 |
| Deferred tax assets | 7,724 | 6,680 |
| Other | 9,871 | 9,958 |
| Allowance for doubtful accounts | (276) | (361) |
| Total investments and other assets | 40,974 | 41,096 |
| Total non-current assets | 375,353 | 374,656 |
| Total assets: | 679,342 | 658,873 |

(1) Consolidated balance sheets (continued)*(Millions of yen)*

| | As of December 31, 2012 | As of December 31, 2011 |
|---|----------------------------|----------------------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Notes and accounts payable-trade | 26,303 | 27,341 |
| Short-term loans payable | 5,699 | 5,943 |
| Accounts payable-other | 29,009 | 31,009 |
| Income taxes payable | 15,777 | 7,821 |
| Provision for sales rebates | 771 | 667 |
| Provision for point card certificates | 187 | 167 |
| Provision for bonuses | 241 | 161 |
| Other | 7,784 | 5,254 |
| Total current liabilities | 85,774 | 78,366 |
| Non-current liabilities: | | |
| Long-term loans payable | -- | 98 |
| Deferred tax liabilities | 11,262 | 10,926 |
| Provision for retirement benefits | 19,503 | 20,654 |
| Provision for directors' retirement benefits | 114 | 94 |
| Provision for environmental measures | 331 | 737 |
| Asset retirement obligations | 383 | 654 |
| Other | 6,074 | 7,317 |
| Total non-current liabilities | 37,668 | 40,484 |
| Total liabilities: | 123,443 | 118,850 |
| NET ASSETS | | |
| Shareholders' equity: | | |
| Capital stock | 26,745 | 26,745 |
| Capital surplus | 512,329 | 512,348 |
| Retained earnings | 48,127 | 34,956 |
| Treasury stock | (26,538) | (19,194) |
| Total shareholders' equity | 560,663 | 554,856 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (2,264) | (3,144) |
| Foreign currency translation adjustment | (3,528) | (12,841) |
| Total accumulated other comprehensive income | (5,792) | (15,986) |
| Subscription rights to shares: | 203 | 250 |
| Minority interests: | 823 | 902 |
| Total net assets: | 555,898 | 540,023 |
| Total liabilities and net assets: | 679,342 | 658,873 |

(2) Consolidated statements of income*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|--|---|---|
| Net sales | 333,158 | 343,722 |
| Cost of sales | 122,467 | 146,167 |
| Gross profit | 210,690 | 197,555 |
| Selling, general and administrative expenses | | |
| Haulage expenses | 1,794 | 2,093 |
| Sales promotion | 13,400 | 13,175 |
| Provision for point card certificates | 145 | 132 |
| Provisions for allowance for doubtful accounts | (9) | 65 |
| Salaries | 23,368 | 22,248 |
| Bonuses | 9,939 | 9,579 |
| Employee retirement benefit expense | 4,375 | 3,604 |
| Depreciation expense | 5,663 | 3,439 |
| Research and development expense | 44,776 | 47,927 |
| Amortization of goodwill | 12,026 | 10,635 |
| Other | 42,305 | 38,037 |
| Total selling, general and administrative expenses | 157,785 | 150,940 |
| Operating income | 52,905 | 46,614 |
| Non-operating income | | |
| Interest income | 604 | 497 |
| Dividends income | 993 | 536 |
| Foreign exchange gain | 1,224 | -- |
| Income (loss) from equity method investments | -- | 199 |
| Other | 1,343 | 1,000 |
| Total non-operating income | 4,167 | 2,233 |
| Non-operating expenses | | |
| Interest expenses | 205 | 135 |
| Foreign exchange loss | -- | 154 |
| Loss on revaluation of derivatives | 784 | 142 |
| Loss on disposal of non-current assets | 874 | 670 |
| Provision for allowance for doubtful accounts | 4,861 | -- |
| Other | 1,344 | 990 |
| Total non-operating expenses | 8,070 | 2,093 |
| Ordinary income | 49,001 | 46,754 |

(2) Consolidated statements of income (cont.)*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|---|---|---|
| Extraordinary income | | |
| Gain on sales of affiliates' stocks | -- | 7,217 |
| Reversal of allowance for doubtful accounts | -- | 115 |
| Total extraordinary income | -- | 7,332 |
| Extraordinary loss | | |
| Impairment loss | 1,341 | 769 |
| Loss on liquidation of affiliates | 1,035 | 209 |
| Loss on valuation of investment securities | 1,007 | 2,374 |
| Loss on sale of investment securities | 344 | 692 |
| Loss on a restructuring of operations | 247 | -- |
| Advisory fees | -- | 1,098 |
| Loss on disaster | -- | 650 |
| Loss on sales of non-current assets | -- | 635 |
| Non-recurring depreciation of non-current assets | -- | 477 |
| Loss on adjustment for changes of accounting standard for asset retirement | -- | 447 |
| Loss on a liquidation of operations | -- | 419 |
| Provision for point card certificates for prior periods | -- | 128 |
| Total extraordinary loss | 3,976 | 7,903 |
| Income before income taxes and minority interests | 45,025 | 46,183 |
| Corporate, local, and enterprise taxes | 24,095 | 22,539 |
| Corporate tax adjustment | (3,485) | (2,049) |
| Total corporate taxes | 20,609 | 20,489 |
| Income before minority interests | 24,415 | 25,694 |
| Minority interests in income | 215 | 86 |
| Net income | 24,199 | 25,608 |

(3) Consolidated statements of income (Comprehensive)*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|--|---|---|
| Income before minority interests | 24,415 | 25,694 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 874 | (1,200) |
| Deferred gains or losses on hedges | -- | 2 |
| Foreign currency translation adjustment | 9,413 | (5,799) |
| Share of other comprehensive income of associates accounted for using equity method | 6 | (3) |
| Total other comprehensive income | 10,294 | (7,001) |
| Comprehensive income | 34,709 | 18,693 |
| Breakdown | | |
| Comprehensive income attributable to owners of the parent | 34,393 | 18,628 |
| Comprehensive income attributable to minority interests | 316 | 65 |

(4) Consolidated statements of changes in shareholders' equity*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|---|---|---|
| Consolidated statements of changes in net assets | | |
| Shareholders' equity | | |
| Capital stock | | |
| Balance at the beginning of period | 26,745 | 26,745 |
| Changes of items during the period | | |
| Total changes of items during the period | -- | -- |
| Balance at the end of current period | 26,745 | 26,745 |
| Capital surplus | | |
| Balance at the beginning of period | 512,348 | 512,359 |
| Changes of items during the period | | |
| Disposal of treasury stock | (19) | (10) |
| Total changes of items during the period | (19) | (10) |
| Balance at the end of current period | 512,329 | 512,348 |
| Retained earnings | | |
| Balance at the beginning of period | 34,956 | 20,744 |
| Changes of items during the period | | |
| Dividends from surplus | (11,028) | (11,396) |
| Net income | 24,199 | 25,608 |
| Total changes of items during the period | 13,170 | 14,212 |
| Balance at the end of current period | 48,127 | 34,956 |
| Treasury stock | | |
| Balance at the beginning of period | (19,194) | (6,676) |
| Changes of items during the period | | |
| Purchase of treasury stock | (7,511) | (12,582) |
| Disposal of treasury stock | 167 | 64 |
| Total changes of items during the period | (7,344) | (12,518) |
| Balance at the end of current period | (26,538) | (19,194) |
| Total shareholders' equity | | |
| Balance at the beginning of period | 554,856 | 553,172 |
| Changes of items during the period | | |
| Dividends from surplus | (11,028) | (11,396) |
| Net income | 24,199 | 25,608 |
| Purchase of treasury stock | (7,511) | (12,582) |
| Disposal of treasury stock | 147 | 54 |
| Total changes of items during the period | 5,807 | 1,683 |
| Balance at the end of current period | 560,663 | 554,856 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | | |
| Balance at the beginning of period | (3,144) | (2,195) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 880 | (949) |
| Total changes of items during the period | 880 | (949) |
| Balance at the end of current period | (2,264) | (3,144) |

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

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|--|---|---|
| Deferred gains or losses on hedges | | |
| Balance at the beginning of period | -- | 0 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | -- | (0) |
| Total changes of items during the period | -- | (0) |
| Balance at the end of current period | -- | -- |
| Foreign currency translation adjustment | | |
| Balance at the beginning of period | (12,841) | (7,063) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 9,313 | (5,778) |
| Total changes of items during the period | 9,313 | (5,778) |
| Balance at the end of current period | (3,528) | (12,841) |
| Net cumulative total of other comprehensive income | | |
| Balance at the beginning of period | (15,986) | (9,258) |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 10,194 | (6,728) |
| Total changes of items during the period | 10,194 | (6,728) |
| Balance at the end of current period | (5,792) | (15,986) |
| Subscription rights to shares | | |
| Balance at the beginning of period | 250 | 207 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (47) | 42 |
| Total changes of items during the period | (47) | 42 |
| Balance at the end of current period | 203 | 250 |
| Minority interests | | |
| Balance at the beginning of period | 902 | 869 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (79) | 33 |
| Total changes of items during the period | (79) | 33 |
| Balance at the end of current period | 823 | 902 |
| Total net assets | | |
| Balance at the beginning of period | 540,023 | 544,992 |
| Changes of items during the period | | |
| Dividends from surplus | (11,028) | (11,396) |
| Net income | 24,199 | 25,608 |
| Purchase of treasury stock | (7,511) | (12,582) |
| Disposal of treasury stock | 147 | 54 |
| Net changes of items other than shareholders' equity | 10,067 | (6,652) |
| Total changes of items during the period | 15,875 | (4,968) |
| Balance at the end of current period | 555,898 | 540,023 |

(5) Consolidated statements of cash flows*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|--|---|---|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes and minority interests | 45,025 | 46,183 |
| Depreciation and amortization | 20,904 | 22,833 |
| Impairment loss | 1,341 | 769 |
| Amortization of goodwill | 12,026 | 10,713 |
| Increase (decrease) in provision for retirement | (1,173) | (989) |
| Decrease (increase) in prepaid pension costs | (450) | (1,869) |
| Interest and dividends income | (1,598) | (1,034) |
| Interest expenses | 205 | 135 |
| Equity in (earnings) losses of affiliates | 4,861 | (199) |
| Loss (gain) on sales and retirement of property, plant and equipment | 248 | 315 |
| Loss (gain) on sales of investment securities | 321 | 675 |
| Loss (gain) on valuation of investment securities | 1,007 | 2,374 |
| Loss (gain) on sales of stocks of subsidiaries and affiliates | (0) | (7,217) |
| Decrease (increase) in notes and accounts receivable-trade | (708) | (4,792) |
| Decrease (increase) in inventories | (2,647) | (6,429) |
| Increase (decrease) in notes and accounts payable-trade | (2,522) | (1,656) |
| Other, net | (3,486) | 8,617 |
| Subtotal | 73,354 | 68,431 |
| Interest and dividends income received | 1,844 | 1,396 |
| Interest expenses paid | (122) | (133) |
| Income taxes paid | (15,942) | (29,061) |
| Net cash provided by (used in) operating activities | 59,134 | 40,634 |
| Net cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | (17,587) | (16,381) |
| Proceeds from sales of property, plant and equipment | 446 | 198 |
| Purchase of intangible assets | (9,339) | (1,108) |
| Purchase of investment securities | (6,460) | (1,516) |
| Proceeds from redemption and sales of investment securities | 2,466 | 2,258 |
| Proceeds from sales of stocks of subsidiaries and affiliates companies | 0 | 15,130 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | (111) | (36,979) |
| Proceeds from sales of investments in subsidiaries | -- | 52,745 |
| Payments into time deposits | (3,224) | (2,122) |
| Proceeds from withdrawal of time deposits | 3,051 | 6,332 |
| Net (gain) loss on short-term loans | (66,998) | 196 |
| Other, net | (1,015) | (292) |
| Net cash provided by (used in) investing activities | (98,772) | 18,460 |

(5) Consolidated statements of cash flows (continued)*(Millions of yen)*

| | January 1, 2012 to December 31, 2012 | January 1, 2011 to December 31, 2011 |
|--|---|---|
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term loans payable | (374) | (76) |
| Repayment of long-term loans payable | (100) | (6,509) |
| Purchase of treasury stock | (7,511) | (12,582) |
| Cash dividends paid | (11,029) | (11,433) |
| Cash dividends paid to minority shareholders | (44) | (38) |
| Other, net | (128) | (99) |
| Net cash provided by (used in) financing activities | (19,189) | (30,740) |
| Effect of exchange rate change on cash and cash equivalents | 1,606 | (681) |
| Net increase (decrease) in cash and cash equivalents | (57,221) | 27,672 |
| Cash and cash equivalents at beginning of the period | 107,555 | 79,882 |
| Cash and cash equivalents at end of period | 50,334 | 107,555 |

Segment Information

(1) Business segment information

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

1. Outline of reporting segments

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

Our group's foundation is operating companies and comprises businesses groups formed on the basis of similarities in the products and services handled by each company. A core company in each business group is in charge of formulating a comprehensive domestic and overseas strategy and for developing business operations. The Kyowa Hakko Kirin Group has two reporting segments Pharmaceuticals and Bio-Chemicals. The Pharmaceuticals business manufactures and sells ethical pharmaceuticals, diagnostic reagents and others. The Bio-Chemicals business manufactures and sells raw materials for pharmaceutical and industrial use, primarily amino acids, nucleic acids and related compounds, healthcare products and others.

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

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

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

(Millions of yen)

| | Pharmaceuticals | Bio-Chemicals | Other ¹ | Total | Adjusted amount ² | Consolidated ³ |
|---|-----------------|---------------|--------------------|---------|------------------------------|---------------------------|
| Net Sales: | | | | | | |
| Sales to external customers | 249,691 | 75,133 | 8,334 | 333,158 | -- | 333,158 |
| Inter-segment sales and transfers | 199 | 1,833 | 2,095 | 4,127 | (4,127) | -- |
| Total | 249,891 | 76,966 | 10,429 | 337,286 | (4,127) | 333,158 |
| Segment income | 50,392 | 2,127 | 338 | 52,859 | 46 | 52,905 |
| Segment assets | 435,369 | 141,864 | 7,218 | 584,452 | 94,889 | 679,342 |
| Other items | | | | | | |
| Depreciation and amortization | 14,573 | 6,280 | 52 | 20,906 | (1) | 20,904 |
| Goodwill amortization | 11,400 | 625 | -- | 12,026 | -- | 12,026 |
| Investment in equity method companies | -- | -- | 1,239 | 1,239 | -- | 1,239 |
| Increase in tangible fixed assets and intangible fixed assets | 18,333 | 9,454 | 24 | 27,812 | (3) | 27,808 |

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 ¥46 million for elimination of intersegment transactions

(2) Segment assets: Adjustment of ¥94,889 million includes elimination of segment transactions of -¥11,245 million and company-wide assets unallocated to each segment of ¥106,135 million. Company-wide assets are primarily surplus operating cash (cash and deposits, short-term loans) and funds for long-term investments.

3. Segment income is adjusted for operating income as recorded in the consolidated financial statements.

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

(Millions of yen)

| | Pharmaceuticals | Bio-Chemicals | Chemicals ¹ | Other ² | Total | Adjusted amount ³ | Consolidated ⁴ |
|---|-----------------|---------------|------------------------|--------------------|---------|------------------------------|---------------------------|
| 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 Chemicals business was eliminated at the end of the first quarter of the consolidated fiscal year following the transfer of all shares on March 31, 2011.
2. The Other segment includes business not covered by in the segment report and includes the distribution business and others.
3. 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.
4. Segment income is adjusted for operating income as recorded in the consolidated financial statements.

Related information

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

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

(Millions of yen)

| | Japan | America | Europe | Asia | Other regions | Total |
|--------------|---------|---------|--------|--------|---------------|---------|
| 1. Net sales | 260,524 | 21,207 | 30,997 | 19,880 | 548 | 333,158 |

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

(2) 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 | 45,741 | Pharmaceuticals |

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, 2012– December 31, 2012

(Millions of yen)

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

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

(Millions of yen)

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

Amortization of goodwill and unamortized balance by business segment

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

(Millions of yen)

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

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, 2012 – December 31, 2012

No applicable items

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

No applicable items