KYOWA KIRIN

# Kyowa Hakko Kirin Co., Ltd.

## Consolidated Financial Summary (JGAAP)
## Fiscal 2016

**(January 1, 2016 – December 31, 2016)**

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 the information currently available to the Company and on certain assumptions deemed to be reasonable by management. As such, they do not constitute guarantees by the Company of future performance. Actual results may differ materially from these projections for a wide variety of reasons, including fluctuations in exchange rates, changing economic conditions, legislative and regulatory developments, delays in new product launches, and pricing and product initiatives of competitors.

# SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (JGAAP)
## for Fiscal Year Ended December 31, 2016
(The twelve-month period from January 1, 2016 to December 31, 2016)

January 31, 2017


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Scheduled date of Ordinary General Meeting of Shareholders: March 23, 2017
Scheduled start date of dividend payment: March 24, 2017
Scheduled date of submission of Annual Securities Report: March 15, 2017
Appendix materials to accompany the annual financial report: Yes
FY2016 earnings presentation meeting: Yes (for institutional investors and securities analysts)

*(Millions of yen rounded down)*

## 1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2016

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

| (1) Consolidated operating results | Fiscal year ended December 31, 2016 | Change (%) | Fiscal year ended December 31, 2015 | Change (%) |
|---|---|---|---|---|
| Net sales (millions of yen) | 343,019 | (5.8) | 364,316 | 9.3 |
| Operating income (millions of yen) | 31,638 | (27.7) | 43,765 | 21.0 |
| Ordinary income (millions of yen) | 26,397 | (32.7) | 39,203 | 32.8 |
| Profit attributable to owners of parent (millions of yen) | 18,669 | (37.3) | 29,774 | 87.3 |
| Basic earnings per share (yen) | 34.12 | | 54.40 | |
| Fully diluted earnings per share (yen) | 34.08 | | 54.36 | |
| Return on equity (%) | 3.1 | | 4.9 | |
| Ordinary income to total assets ratio (%) | 3.7 | | 5.4 | |
| Operating income to sales ratio (%) | 9.2 | | 12.0 | |

Notes: Comprehensive income: Fiscal year ended December 31, 2016: (¥556) million; –%
Fiscal year ended December 31, 2015:¥24,953 million; (8.3%)

Share of (profit) loss of entities accounted for using equity method: Fiscal year ended December 31, 2016: (¥6,042) million;
Fiscal year ended December 31, 2015: (¥3,738) million

| (2) Consolidated financial position | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| Total assets (millions of yen) | 697,167 | 720,764 |
| Net assets (millions of yen) | 600,745 | 614,858 |
| Equity ratio (%) | 86.1 | 85.2 |
| Net assets per share (yen) | 1,096.78 | 1,122.80 |

Note: Equity: As of December 31, 2016: ¥600,182 million; As of December 31, 2015: ¥614,427 million

*(Millions of yen)*

| (3) Consolidated cash flows | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Net cash provided by (used in) operating activities | 65,752 | 66,526 |
| Net cash provided by (used in) investing activities | (48,968) | (57,747) |
| Net cash provided by (used in) financing activities | (13,598) | (14,060) |
| Cash and cash equivalents at end of period | 13,075 | 12,784 |

## 2. Dividends

| | Fiscal year ending December 31, 2017 (Forecast) | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|---|
| Interim dividend per share (yen) | 12.50 | 12.50 | 12.50 |
| Year-end dividend per share (yen) | 12.50 | 12.50 | 12.50 |
| Total dividend per share (yen) | 25.00 | 25.00 | 25.00 |
| Total dividend amount (millions of yen) | | 13,680 | 13,681 |
| Dividend payout ratio (consolidated) (%) | 72.0 | 73.3 | 46.0 |
| Ratio of dividends to net assets (%) | | 2.3 | 2.2 |

## 3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2017

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

| | Full year | |
|---|---|---|
| | | Change (%) |
| Net sales (millions of yen) | 344,000 | 0.3 |
| Operating income (millions of yen) | 35,000 | 10.6 |
| Ordinary income (millions of yen) | 30,000 | 13.6 |
| Profit attributable to owners of parent (millions of yen) | 19,000 | 1.8 |
| Basic earnings per share (yen) | 34.72 | |

**Notes:**

**1) Changes to significant subsidiaries during the period**

**(Changes of specified subsidiaries resulting in changes in the scope of consolidation during the period under review):** No

**2) Changes in accounting policies, accounting estimates, and restatement:**

1. Changes in accounting policies in accordance with changes in accounting standards: No
2. Changes in accounting policies other than 1. above: No
3. Changes in accounting estimates: No
4. Restatement: No

**3) Number of shares issued (ordinary shares)**

1. Number of shares issued (including treasury shares)
   - As of December 31, 2016 576,483,555 shares
   - As of December 31, 2015 576,483,555 shares
2. Number of treasury shares
   - As of December 31, 2016 29,261,490 shares
   - As of December 31, 2015 29,256,749 shares
3. Average number of shares during the period
   - FY ended December 31, 2016 547,224,646 shares
   - FY ended December 31, 2015 547,285,401 shares

## (Reference)
## Non-Consolidated Results for the Fiscal Year Ended December 31, 2016

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

| (1) Non-consolidated operating results | Fiscal year ended December 31, 2016 | Change (%) | Fiscal year ended December 31, 2015 | Change (%) |
|---|---|---|---|---|
| Net sales (millions of yen) | 204,394 | (6.2) | 217,949 | 8.0 |
| Operating income (millions of yen) | 31,723 | (20.6) | 39,931 | 13.9 |
| Ordinary income (millions of yen) | 40,819 | (16.1) | 48,633 | 16.0 |
| Profit (millions of yen) | 12,179 | (69.7) | 40,241 | 27.8 |
| Basic earnings per share (yen) | 22.26 | | 73.53 | |
| Fully diluted earnings per share (yen) | 22.24 | | 73.47 | |

| (2) Non-consolidated financial position | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| Total assets (millions of yen) | 507,595 | 520,482 |
| Net assets (millions of yen) | 445,338 | 447,423 |
| Equity ratio (%) | 87.6 | 85.9 |
| Net assets per share (yen) | 812.79 | 816.83 |

Note: Equity: As of December 31, 2016: ¥444,775 million; As of December 31, 2015: ¥446,992 million

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

**Notice regarding the appropriate use of the earnings forecasts:**
The forward-looking statements, including earnings forecasts, contained in these materials are based on the information currently available to the Company and on certain assumptions deemed to be reasonable by management. As such, they do not constitute guarantees by the Company of future performance. Actual results may differ materially from these projections for a wide variety of reasons. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 8, 1. Summary of Business Performance and Financial Position (1) Summary of business performance 2) Outlook for Fiscal 2017.

## Contents

# 1. Summary of Business Performance and Financial Position

## (1) Summary of business performance

### 1) Business performance in Fiscal 2016

*(Billions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 | Change |
|---|---|---|---|
| Net sales | 343.0 | 364.3 | (21.2) |
| Operating income | 31.6 | 43.7 | (12.1) |
| Ordinary income | 26.3 | 39.2 | (12.8) |
| Profit attributable to owners of parent | 18.6 | 29.7 | (11.1) |

- Consolidated net sales and operating income for the current fiscal year decreased due mainly to the effects of reductions in drug price standards and yen appreciation, the decline in licensing revenue and an increase in research and development expenses, despite growth in sales of new products.
- Ordinary income and profit attributable to owners of parent respectively decreased due to the decrease in operating income.
- Steady progress was made in the first year of the five-year Mid-term Business Plan launched in 2016, and a solid step was made before the leap toward becoming a global specialty pharmaceutical group.

  In the Japan business, although impacted by the market penetration of generics in conjunction with measures to reduce medical costs as well as reductions in drug price standards, we gave priority to our core products and new drugs in our allocation of sales resources, and saw strong sales of core products, including NESP®, a long-acting erythropoiesis stimulating agent, REGPARA®, a treatment for secondary hyperparathyroidism, G-Lasta®, a sustained-duration Granulocyte Colony-Stimulating Factor (G-CSF) product, and NOURIAST®, an antiparkinsonian agent. Also, in September we launched a new product LUMICEF® in Japan ahead of other markets in the world, offering a new psoriasis treatment option.

  In the international business, in addition to bringing our U.S. and European subsidiaries all under the KYOWA KIRIN company name to achieve penetration of the KYOWA KIRIN brand, we bolstered our business base targeting the launch of future in-house products. This effort included expanding our business regions, centered on Moventig®, an opioid-induced constipation (OIC) treatment, which we began selling in Europe.

  In research and development, we have been working with Ultragenyx to jointly develop KRN23, one of the global strategic products positioned as a key growth driver. In June, KRN23 received breakthrough therapy designation from the U.S. Food and Drug Administration (FDA), while at the end of the year the European Medicines Agency (EMA) accepted our application for approval for this drug. In addition, we achieved the primary goals for multiple products under development in Japan as well as the development of the biosimilar candidate FKB327 for which we have been working in the U.S. and Europe, and we are preparing to obtain fast approvals and to bring these drugs to market.

  In the Bio-Chemicals business, in addition to becoming resistant to the impact of exchange rate volatility, boosting production efficiency, and continuing to upgrade the production platform with the aim of bolstering our product supply framework, we worked to increase the added value of existing products amid rising health consciousness and growing interest in product quality. Sales volume of Cognizin® (Citicoline), which we created a brand name and registered as a trademark, increased significantly as its functionality has been highly evaluated, and was adopted as a national brand by a major U.S. nationwide health food chain. Meanwhile, mail-order sales grew steadily, as in addition to the core product Ornithine, the product development and marketing strategy of the new product Arginine EX accurately captured consumer needs.

**Performance by segment**

**Pharmaceuticals business**

*(Billions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 | Change |
|---|---|---|---|
| Net sales | 263.2 | 279.2 | (16.0) |
| Operating income | 26.3 | 36.2 | (9.8) |

- Sales in Japan decreased compared to the previous fiscal year due mainly to the impact of reductions in drug price standards implemented in April, despite the growth in sales of new products.
  - Sales of core products NESP®, a long-acting erythropoiesis stimulating agent, and REGPARA®, a treatment for secondary hyperparathyroidism, were solid.
  - There was steady growth in sales of new products such as G-Lasta®, a sustained-duration Granulocyte Colony-Stimulating Factor (G-CSF) product, NOURIAST®, an antiparkinsonian agent, Onglyza®, a treatment for type 2 diabetes, and Dovobet®, a topical combination drug for psoriasis vulgaris.
  - Sales of long term NHI products such as ALLELOCK®, an anti-allergy agent, CONIEL®, a hypertension and angina pectoris drug, and GRAN®, a G-CSF product, decreased due to the impacts of the market penetration of generics, etc.
  - We launched LUMICEF® for psoriasis treatment in September.
- International sales decreased compared to the previous fiscal year due to the impact of yen appreciation and the decline in licensing revenue.
  - In Europe and the U.S., while sales of products such as Abstral® and PecFent®, which are treatments for cancer pain, increased, sales decreased compared to the previous fiscal year due to the impact of yen appreciation and the decline in licensing revenue.
  - We acquired the European sales rights to Moventig®, an opioid-induced constipation (OIC) treatment, from AstraZeneca, and launched sales in April.
  - In Asia, despite steady sales particularly in China and South Korea, sales decreased compared to the previous fiscal year, reflecting the impact of yen appreciation.

R&D activities in the Pharmaceuticals business:

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

**Nephrology**

- In Japan, we are currently conducting phase III clinical study of calcium receptor agonist KHK7580 for secondary hyperparathyroidism patients receiving hemodialysis.
- In Japan, we are currently conducting phase II clinical study for RTA 402 targeting chronic kidney disease (CKD) with type 2 diabetes.
- In China, in February we withdrew our application for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in patients receiving dialysis. The timing for reapplication is undecided.

**Oncology**

- In Japan, we are currently conducting phase III clinical study evaluating c-Met inhibitor ARQ 197 for

patients with c-Met diagnostic-high inoperable hepatocellular carcinoma treated with one prior sorafenib therapy.

- Anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®) is currently conducting phase III clinical study targeting cutaneous T-cell lymphoma in the U.S., Europe, Japan, etc., and phase II clinical study targeting adult T-cell leukemia-lymphoma in the U.S., Europe, etc.

**Immunology and allergy**

- In Japan, we obtained approval in July for LUMICEF®, the anti-IL-17 receptor A fully human antibody for indications of psoriasis vulgaris, arthropathic psoriasis, pustular psoriasis, and psoriatic erythroderma, for which existing treatments are insufficiently effective, and launched the drug in September.
- As part of the multi-regional clinical study being conducted by AstraZeneca, our licensing partner for the anti-IL-5 receptor humanized monoclonal antibody KHK4563 mainly in the U.S. and Europe, we are currently carrying out a phase III clinical study of KHK4563 in Japan and South Korea, targeting bronchial asthma patients, and a phase III clinical study in Japan, targeting patients with chronic obstructive pulmonary disease.
- In Japan, in July we applied for approval of additional dosage and administration for the ulcerative colitis treatment drug ASACOL® that is being jointly developed with Zeria Pharmaceutical Co., Ltd.

**CNS**

- In the U.S., Canada, Europe, and other areas, in December we received preliminary results for a phase III clinical study of KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson's disease. Although the results did not meet the primary endpoints of the study, we will study the potential for reapplication in the U.S. after performing a detailed analysis of the study results, including those from the secondary endpoints, and holding discussions with the U.S. Food and Drug Administration (FDA).

**Other**

- For the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23, we are currently carrying out a multi-regional phase III clinical study in the U.S., Canada, Europe, Japan and South Korea, targeting X-linked hypophosphatemia in adult patients, and a phase II clinical study in the U.S., targeting tumor induced osteomalacia and epidermal nevus syndrome. Also, we initiated a phase II clinical study in Japan and South Korea, targeting tumor induced osteomalacia and epidermal nevus syndrome in June, and a multi-regional phase III clinical study in the U.S., Canada, Europe, Australia, Japan and South Korea, targeting X-linked hypophosphatemia in pediatric patients in October. Furthermore, in Europe, at the end of the year, application for approval for indication in treatment of X-linked hypophosphatemia was accepted by the European Medicines Agency (EMA).
- In China, we are currently conducting a phase III clinical study of thrombopoietin receptor agonist AMG531 (product name in Japan: ROMIPLATE®) targeting chronic idiopathic (immune) thrombocytopenic purpura. Also, in June, we initiated phase II/III clinical study in aplastic anemia in Japan and South Korea.
- In Japan, in September we applied for approval of the 1800IU product of the recombinant antithrombin (AT) drug ACOALAN®.

**Bio-Chemicals business**

*(Billions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 | Change |
|---|---|---|---|
| Net sales | 83.6 | 88.8 | (5.2) |
| Operating income | 5.3 | 8.1 | (2.8) |

- Sales in Japan decreased compared to the previous fiscal year.
  - In the pharmaceutical and medical treatment fields, sales declined year on year due mainly to the effect of a drop in the price of some products.
  - In the healthcare field, sales increased year on year due to firm growth in mail-order sales of Ornithine, the new product Arginine EX and other products.
- International sales decreased compared to the previous fiscal year, partly reflecting further yen appreciation in foreign exchange.
  - In the Americas, sales decreased compared to the previous fiscal year due to yen appreciation, despite an increase in sales volume for Cognizin® (Citicoline), etc., which was adopted in a U.S. nationwide health food chain's supplement series.
  - In Europe, sales decreased compared to the previous fiscal year, due to yen appreciation, despite strong sales of amino acids for infusion and industrial uses.
  - In Asia, sales decreased compared to the previous fiscal year due to the effect of a drop in the price of some products resulting from intensified competition.

R&D activities in the Bio-Chemicals business:

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

### 2) Outlook for Fiscal 2017

*(Billions of yen)*

| | FORECAST* FY ending December 31, 2017 | Change compared to FY ended December 31, 2016 | % Change compared to FY ended December 31, 2016 |
|---|---|---|---|
| Net sales | 344.0 | 0.9 | 0.3% |
| Operating income | 35.0 | 3.3 | 10.6% |
| Ordinary income | 30.0 | 3.6 | 13.6% |
| Profit attributable to owners of parent | 19.0 | 0.3 | 1.8% |

These forecasts assume average exchange rates of ¥110/US$, ¥120/euro and ¥140/British pound.

- Consolidated financial earnings forecasts for fiscal 2017 (January 1, 2017 to December 31, 2017) are for net sales of ¥344.0 billion, an increase of 0.3% compared to the current fiscal year, operating income of ¥35.0 billion, up 10.6%, ordinary income of ¥30.0 billion, up 13.6%, and profit attributable to owners of parent of ¥19.0 billion, an increase of 1.8%.

- In the Pharmaceuticals business, sales are expected to be at the same level as the current fiscal year due mainly to anticipated growth of new products such as G-Lasta®, a sustained-duration G-CSF product and NOURIAST®, an antiparkinsonian agent, and the increase in licensing revenue, despite the market penetration of generics, impacts of foreign exchange rates, etc. We also forecast an increase in operating income mainly due to an increase in licensing revenue and a decrease in research and development expenses despite the likelihood of higher expenses incurred in preparing for U.S. and European product launches.
- In the Bio-Chemicals business, sales are expected to be at the same level as the current fiscal year. However, we forecast an increase in operating income due to an increase in mail-order sales of products that include core amino acids, nucleic acids, Ornithine and Arginine EX.
- Ordinary income and profit attributable to owners of parent are also forecast to increase compared to the current fiscal year, due to the increase of operating income and the decrease of share of loss of entities accounted for using equity method.

*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. As such, they do not constitute guarantees by the Company of future performance. 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, 2016 were ¥697.1 billion, a decrease of ¥23.5 billion compared to the end of the previous fiscal year. Current assets increased by ¥2.0 billion year on year to ¥326.4 billion as despite decreases in inventories and notes and accounts receivable - trade, there was an increase in short-term loans to the parent company as fund management. Non-current assets decreased by ¥25.6 billion to ¥370.6 billion, affected by the impact of yen appreciation, decreases in goodwill and sales right due to amortization, and others.
- Liabilities as of December 31, 2016 were ¥96.4 billion, a decrease of ¥9.4 billion compared to the end of the previous fiscal year, due to decreases in income taxes payable, deferred tax liabilities and other items.
- Net assets as of December 31, 2016 were ¥600.7 billion, a decrease of ¥14.1 billion compared to the end of the previous fiscal year, mainly due to payment of dividends and a decrease in foreign currency translation adjustment, which offset factors including the booking of profit attributable to owners of parent.
  As a result, the equity ratio as of the end of the current fiscal year was 86.1%, an increase of 0.9 percentage points compared to the end of the previous fiscal year.

#### 2) Cash flow summary

*(Billions of yen)*

| | FY ended December 31, 2016 | FY ended December 31, 2015 | Change |
|---|---|---|---|
| Net cash provided by (used in) operating activities | 65.7 | 66.5 | (0.7) |
| Net cash provided by (used in) investing activities | (48.9) | (57.7) | 8.7 |
| Net cash provided by (used in) financing activities | (13.5) | (14.0) | 0.4 |
| Cash and cash equivalents at end of period | 13.0 | 12.7 | 0.2 |

- Cash and cash equivalents as of December 31, 2016 were ¥13.0 billion, an increase of ¥0.2 billion compared to the balance of ¥12.7 billion as of December 31, 2015.

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

- Net cash provided by operating activities was ¥65.7 billion, a 1.2% decrease compared to the previous fiscal year. The main factors included profit before income taxes of ¥30.2 billion,

depreciation of ¥23.0 billion and amortization of goodwill of ¥12.6 billion, despite income taxes paid of ¥18.4 billion, etc.

- Net cash used in investing activities was ¥48.9 billion, a 15.2% decrease compared to the previous fiscal year. Major outflows included purchase of property, plant and equipment, and intangible assets of ¥29.2 billion, a net increase of ¥18.7 billion in short-term loans receivable. Major inflows included proceeds from sales of property, plant and equipment of ¥4.7 billion.
- Net cash used in financing activities was ¥13.5 billion, a 3.3% decrease compared to the previous fiscal year. The main outflows included cash dividends paid of ¥13.6 billion.

(Reference)
Key cash flow indicators

| | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | Fiscal 2015 | Fiscal 2016 |
|---|---|---|---|---|---|
| Equity ratio (%) | 81.7% | 82.6% | 84.1% | 85.2% | 86.1% |
| Equity (market value basis) ratio (%) | 68.4% | 88.2% | 86.5% | 145.4% | 126.8% |
| Interest bearing debt to cash flow ratio (years) | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 |
| Interest coverage ratio (times) | 484.2 | 234.2 | 64.4 | 1,155.2 | 860.6 |

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

### 3) Outlook for Fiscal 2017

- Cash flows from operating activities: Operating cash inflow is expected to decrease from the current fiscal year due to an anticipated increase in working capital, etc. although profit before income taxes is expected to remain level with the current fiscal year.
- Cash flows from investing activities: Cash outflow from investing activities is expected to be lower in the next fiscal year than in the current fiscal year, due to an expected decrease in outflow from the purchase of property, plant and equipment, and intangible assets.
- Cash flows from financing activities: Cash outflow from financing activities is expected to be at the same level as the current fiscal year in the next fiscal year. As regards the sourcing of funds, repayment of borrowings and the purchase of treasury shares, we will remain flexible and act as appropriate for the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2017 are expected to be at the same level as at the end of fiscal 2016.

Note: The above financial position outlook is based on information available to management at the current time. As such, they do not constitute guarantees by the Company of future performance. The actual results may differ significantly from projections.

## (3) Basic policy on profit distribution: Fiscal 2016 and Fiscal 2017 dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key management priorities.
Our basic policy on profit distribution is to deliver stable dividends, while maintaining fully adequate internal reserves for future business expansion and other developments, and considering factors such as our consolidated results for the respective fiscal years and the dividend payout ratio. We plan to

improve our capital efficiency by acting rapidly with regards to purchase of treasury shares. Kyowa Hakko Kirin intends to use internal reserve funds for investments required to drive new growth, such as those in research and development, capital expenditures, and our development pipeline's expansion that are expected to contribute to the improvement of our future corporate value.

In accordance with this basic policy, we plan to pay a year-end dividend for fiscal 2016 of ¥12.50 per share. As a result, the annual dividend is expected to be ¥25 per share, consisting of an interim dividend of ¥12.50 per share and a year-end dividend of ¥12.50 per share.

In our 2016 to 2020 Mid-term Business Plan, until 2018 we aim for a stable dividend payment, targeting a consolidated dividend payout ratio of 40% on a basis of profit before amortization of goodwill. For the fiscal year ending December 2017, we expect to pay an annual dividend of ¥25 per share, consisting of an interim dividend of ¥12.50 and a year-end dividend of ¥12.50.

## 2. Management Policies

### (1) Basic management policies

The Kyowa Hakko Kirin Group's management philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. In accordance with this philosophy, with new drug business at its core, the Group is pursuing a unique pharmaceutical business model that combines our biosimilars, diagnostics and bio-chemical businesses as it progresses toward a leap forward to become a global specialty pharmaceutical group, as set out in the new Mid-term Business Plan.
By faithfully fulfilling our corporate social responsibility through transparency, fairness, and compliance and in harmony with society, as a group involved in human life, we are striving to be a group that earns the trust of all stakeholders.

### (2) Management targets

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

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

In recent years, and in Japan in particular, growth in the pharmaceuticals market has leveled off due to the market penetration of generics in conjunction with progress in measures to reduce medical costs and significant revisions to the drug price system. Research and development-oriented pharmaceutical companies will have to accelerate their efforts to shift their sources of revenue from long term NHI products and the domestic market to new pharmaceuticals and the global market. In this environment, the Kyowa Hakko Kirin Group is taking steps to achieve our four strategic priorities of enhancing global competitive strengths, taking on challenges of innovation, making improvements resulting in unsurpassed operational processes, and ensuring people's health and well-being, all premised on the notion of "Leaping Forward for Global Specialty Pharmaceutical Company," as set forth in our five-year Mid-term Business Plan released in January 2016.
Under the first strategic priority of enhancing global competitive strengths, we are working toward contributing to the health and well-being of people around the world by successfully launching KRN23, one of our global strategic products, in the U.S. and European markets. We now have higher expectations for KRN23 to receive approval in the U.S. and Europe, as in June KRN23 received

breakthrough therapy designation in the U.S. from the U.S. Food and Drug Administration (FDA), while in Europe at the end of the year the European Medicines Agency (EMA) accepted our application for approval for this drug. Going forward, we will continue to pursue early, successful market launches and aim to maximize KRN23's value. In addition, Benralizumab (KHK4563), currently under development for treatment of asthma and chronic obstructive pulmonary disease (COPD), is being licensed out to AstraZeneca and is expected to contribute to overseas sales in the form of licensing revenue going forward. In Asia, where economic growth continues, we are strengthening the business base targeting stable future growth in China, and local subsidiaries in South Korea, Taiwan, Singapore, Thailand, and other countries are implementing business strategies in accordance with local conditions and changes in the business environment in each country.

Under the second strategic priority of taking on challenges of innovation, by combining the expertise we have gained by studying diseases and patients' needs at the research facilities we have established in each of the four categories of nephrology, oncology, immunology/allergy, and CNS, with the cutting-edge technology platforms for drug discovery cultivated in the fields of antibody drugs, an area of our strengths, small molecule drugs, nucleic acid medicines, and regenerative medicine, as well as outside technologies from open innovation, we will aim to build an attractive pipeline as a pharmaceutical company that discovers new drugs. In addition, in the pipeline of new drugs in late-stage development, a number of drugs, including KHK7580, being developed for the treatment of secondary hyperparathyroidism patients receiving hemodialysis, ARQ197, being developed for the treatment of inoperable hepatocellular carcinoma, and RTA402, under development for the treatment of chronic kidney disease (CKD) with Type 2 Diabetes, have achieved plan goals without problem, and we are accelerating our activities aimed at early filing for approval and market launches. Moreover, in the field of immuno-oncology, which has received a lot of attention in recent years, we will continue to pursue combination trials with other drugs, centered on KW-0761 (product name in Japan: POTELIGEO®).

Under the third strategic priority of making improvements resulting in unsurpassed operational processes, we are working to heighten our profitability by further strengthening cooperation in a consistent manner across every function from R&D to manufacturing and sales. At the same time, we aim to grow as a trusted company, which includes building a global governance framework and ensuring thorough compliance awareness. In particular in Japan, we are accelerating our area marketing strategy to contribute to community healthcare, and are providing high-quality healthcare data. In addition, upholding our responsibility as a pharmaceuticals company, we will continue to build an even more reliable production platform by further advancing our production technology in order to deliver a stable supply of pharmaceuticals which must be of high quality. Furthermore, we will further enhance our initiatives including promotion of "smart work" and provide an environment in which our diverse personnel can mutually respect one another while playing an active role.

Under the fourth strategic priority of ensuring people's health and well-being, we are working to engage in efforts that involve discovering innovative drugs that satisfy unmet medical needs, expanding the scope of application of products and adding dosage forms, and also ensuring stable supplies of high-quality products while taking action in response to societal demands for lower medical costs. These efforts are part of our "CSV (Creating Shared Value) Management" philosophy to create shared value with society, and we will contribute to helping people with a diverse range of medical needs.

In our biosimilars business, which is a joint venture with FUJIFILM Corporation, we are making steady progress in developing top-quality, highly cost-competitive pharmaceutical products, with the aim of introducing them in markets around the world. Concerning FKB327, an adalimumab biosimilar candidate, we are engaged in a business partnership encompassing our sales strategy, and going forward we will continue to file applications in the U.S. and Europe. In addition, steady progress is being made on an international joint clinical trial for bevacizumab biosimilar candidate FKB238, with which we are collaborating with AstraZeneca.

We believe that diagnostics business will increasingly grow in importance going forward in line with further development with respect to individualized medicine and preventative medicine, thereby bringing about more new business opportunities for our diagnostics business in the healthcare field. Kyowa Medex Co., Ltd. (“Kyowa Medex”) received approval in Japan for a new diagnostic reagent for primary aldosteronism, and also received approval for insurance application and launched sales of a diagnostic reagent for rickets and osteomalacia, which stem from Vitamin D deficiency. Overseas, Kyowa Medex is preparing to launch businesses of the FGF23 diagnostic reagent and fecal occult blood diagnosis in the U.S., and will continue to provide both advanced diagnostic reagents and diagnostic medical devices needed for the treatment of various diseases.
In the Bio-Chemicals business, we are addressing the key issues of strengthening the revenue base and providing value with a focus on people’s health, by taking advantage of our high share of the market in our specialty area encompassing the pharmaceuticals, medical and healthcare fields. Concerning the reorganization of our production centers, during 2016 we completed trial manufacturing at Hofu using new facilities for products for which production is being transferred from the Yamaguchi Production Center (Ube) to the Yamaguchi Production Center (Hofu). In terms of providing value with a focus on people’s health, as a part of our marketing strategy developed in the U.S. and rolled out worldwide, we delivered AminoScope®, a magazine published by our U.S. subsidiary, to our customers around the world. We will continue to reorganize our production centers to boost factory productivity, further enhance the value of branded products, and strengthen relationships with customers in the mail-order business. Moreover, we will continue to supply all of our customers with products that contain value exceeding their ingredients and substances for our customers’ health by providing functionality data and leveraging our intellectual property rights.
The Kyowa Hakko Kirin Group’s management philosophy is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. In accordance with this philosophy, with new drug development at its core, the Group is pursuing a unique pharmaceutical business model that combines its biosimilars, diagnostics and bio-chemicals businesses as it progresses toward a leap forward to become a global specialty pharmaceutical group, as set out in the new Mid-term Business Plan.

## 3. Basic Rationale for Selection of Accounting Standards

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

## 4. Consolidated Financial Statements

### (1) Consolidated balance sheets

*(Millions of yen)*

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and deposits | 13,066 | 13,236 |
| Notes and accounts receivable - trade | 100,999 | 106,829 |
| Merchandise and finished goods | 51,349 | 61,965 |
| Work in process | 12,934 | 12,363 |
| Raw materials and supplies | 11,945 | 10,476 |
| Deferred tax assets | 10,824 | 11,147 |
| Short-term loans receivable | 114,866 | 96,104 |
| Accounts receivable - other | 5,900 | 7,692 |
| Other | 4,848 | 4,818 |
| Allowance for doubtful accounts | (265) | (202) |
| Total current assets | 326,469 | 324,433 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 141,432 | 141,227 |
| Accumulated depreciation | (89,967) | (91,810) |
| Buildings and structures, net | 51,464 | 49,417 |
| Machinery, equipment and vehicles | 162,747 | 165,623 |
| Accumulated depreciation | (133,539) | (134,994) |
| Machinery, equipment and vehicles, net | 29,207 | 30,629 |
| Land | 45,685 | 46,685 |
| Construction in progress | 15,339 | 11,339 |
| Other | 49,935 | 51,124 |
| Accumulated depreciation | (40,585) | (42,152) |
| Other, net | 9,350 | 8,972 |
| Total property, plant and equipment | 151,047 | 147,043 |
| Intangible assets | | |
| Goodwill | 134,910 | 155,851 |
| Sales right | 49,402 | 56,233 |
| Other | 708 | 722 |
| Total intangible assets | 185,021 | 212,807 |
| Investments and other assets | | |
| Investment securities | 11,412 | 14,043 |
| Net defined benefit asset | 6,563 | 6,964 |
| Deferred tax assets | 11,496 | 10,355 |
| Other | 5,257 | 5,311 |
| Allowance for doubtful accounts | (100) | (194) |
| Total investments and other assets | 34,629 | 36,480 |
| Total non-current assets | 370,698 | 396,331 |
| Total assets | 697,167 | 720,764 |

## (1) Consolidated balance sheets (continued)

*(Millions of yen)*

| | As of December 31, 2016 | As of December 31, 2015 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 18,230 | 19,086 |
| Short-term loans payable | 5,360 | 4,840 |
| Accounts payable - other | 37,608 | 39,866 |
| Income taxes payable | 8,183 | 11,830 |
| Provision for sales rebates | 1,677 | 2,097 |
| Provision for point card certificates | 249 | 238 |
| Provision for bonuses | 422 | 427 |
| Other | 7,684 | 6,436 |
| Total current liabilities | 79,416 | 84,823 |
| Non-current liabilities | | |
| Deferred tax liabilities | 9,144 | 12,092 |
| Net defined benefit liability | 2,358 | 1,883 |
| Provision for directors' retirement benefits | 120 | 114 |
| Allowance for loss on plants reorganization | 2,988 | 3,203 |
| Asset retirement obligations | 502 | 404 |
| Other | 1,891 | 3,385 |
| Total non-current liabilities | 17,006 | 21,082 |
| Total liabilities | 96,422 | 105,906 |
| **Net assets** | | |
| Shareholders' equity | | |
| Capital stock | 26,745 | 26,745 |
| Capital surplus | 509,128 | 509,127 |
| Retained earnings | 90,986 | 85,997 |
| Treasury shares | (26,889) | (26,881) |
| Total shareholders' equity | 599,970 | 594,989 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2,037 | 2,979 |
| Foreign currency translation adjustment | 2,385 | 18,819 |
| Remeasurements of defined benefit plans | (4,210) | (2,360) |
| Total accumulated other comprehensive income | 212 | 19,438 |
| Subscription rights to shares | 562 | 430 |
| Total net assets | 600,745 | 614,858 |
| Total liabilities and net assets | 697,167 | 720,764 |

## (2) Consolidated statements of income

*(Millions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Net sales | 343,019 | 364,316 |
| Cost of sales | 134,526 | 138,922 |
| Gross profit | 208,493 | 225,393 |
| Selling, general and administrative expenses | | |
| Haulage expenses | 1,936 | 2,182 |
| Promotion expenses | 13,920 | 14,531 |
| Salaries | 26,865 | 26,959 |
| Bonuses | 9,472 | 9,921 |
| Retirement benefit expenses | 3,704 | 3,658 |
| Depreciation | 9,799 | 10,975 |
| Research and development expenses | 53,792 | 51,518 |
| Amortization of goodwill | 12,642 | 13,433 |
| Other | 44,719 | 48,446 |
| Total selling, general and administrative expenses | 176,854 | 181,628 |
| Operating income | 31,638 | 43,765 |
| Non-operating income | | |
| Interest income | 476 | 459 |
| Dividend income | 321 | 259 |
| Foreign exchange gains | 1,893 | – |
| Gain on valuation of derivatives | – | 1,295 |
| Other | 1,046 | 912 |
| Total non-operating income | 3,738 | 2,927 |
| Non-operating expenses | | |
| Interest expenses | 42 | 59 |
| Foreign exchange losses | – | 1,932 |
| Loss on valuation of derivatives | 1,824 | – |
| Loss on disposal of non-current assets | 776 | 1,100 |
| Share of loss of entities accounted for using equity method | 6,042 | 3,738 |
| Other | 293 | 657 |
| Total non-operating expenses | 8,978 | 7,489 |
| Ordinary income | 26,397 | 39,203 |

## (2) Consolidated statements of income (continued)

*(Millions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Extraordinary income | | |
| Gain on sales of non-current assets | 3,107 | 983 |
| Gain on forgiveness of debts | 1,334 | – |
| Gain on sales of investment securities | 264 | 6,566 |
| Compensation income | – | 619 |
| Total extraordinary income | 4,707 | 8,168 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | 481 | – |
| Impairment loss | 335 | 5,762 |
| Loss due to fire | – | 209 |
| Total extraordinary losses | 816 | 5,971 |
| Profit before income taxes | 30,288 | 41,400 |
| Income taxes - current | 13,763 | 18,704 |
| Income taxes - deferred | (2,144) | (7,079) |
| Total income taxes | 11,619 | 11,625 |
| Profit | 18,669 | 29,774 |
| Profit attributable to owners of parent | 18,669 | 29,774 |

**Consolidated statements of comprehensive income**

*(Millions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Profit | 18,669 | 29,774 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (942) | 225 |
| Foreign currency translation adjustment | (16,364) | (5,272) |
| Remeasurements of defined benefit plans | (1,850) | 271 |
| Share of other comprehensive income of entities accounted for using equity method | (69) | (46) |
| Total other comprehensive income | (19,225) | (4,821) |
| Comprehensive income | (556) | 24,953 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (556) | 24,953 |
| Comprehensive income attributable to non-controlling interests | – | – |

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

Fiscal year ended December 31, 2015

*(Millions of yen)*

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

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

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

Fiscal year ended December 31, 2016

*(Millions of yen)*

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 26,745 | 509,127 | 85,997 | (26,881) | 594,989 |
| Cumulative effects of changes in accounting policies | | | | | – |
| Restated balance | 26,745 | 509,127 | 85,997 | (26,881) | 594,989 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (13,680) | | (13,680) |
| Profit attributable to owners of parent | | | 18,669 | | 18,669 |
| Purchase of treasury shares | | | | (8) | (8) |
| Disposal of treasury shares | | 0 | | 0 | 0 |
| Increase by merger | | | | | – |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | – | 0 | 4,988 | (8) | 4,980 |
| Balance at end of current period | 26,745 | 509,128 | 90,986 | (26,889) | 599,970 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of current period | 2,979 | 18,819 | (2,360) | 19,438 | 430 | 614,858 |
| Cumulative effects of changes in accounting policies | | | | | | – |
| Restated balance | 2,979 | 18,819 | (2,360) | 19,438 | 430 | 614,858 |
| Changes of items during period | | | | | | |
| Dividends of surplus | | | | | | (13,680) |
| Profit attributable to owners of parent | | | | | | 18,669 |
| Purchase of treasury shares | | | | | | (8) |
| Disposal of treasury shares | | | | | | 0 |
| Increase by merger | | | | | | – |
| Net changes of items other than shareholders' equity | (942) | (16,433) | (1,850) | (19,225) | 132 | (19,093) |
| Total changes of items during period | (942) | (16,433) | (1,850) | (19,225) | 132 | (14,112) |
| Balance at end of current period | 2,037 | 2,385 | (4,210) | 212 | 562 | 600,745 |

## (4) Consolidated statements of cash flows

*(Millions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income taxes | 30,288 | 41,400 |
| Depreciation | 23,029 | 23,126 |
| Impairment loss | 335 | 5,762 |
| Amortization of goodwill | 12,642 | 13,433 |
| Increase (decrease) in net defined benefit liability | (397) | (155) |
| Decrease (increase) in net defined benefit asset | (1,285) | (1,341) |
| Interest and dividend income | (798) | (719) |
| Interest expenses | 42 | 59 |
| Share of (profit) loss of entities accounted for using equity method | 6,042 | 3,738 |
| Loss (gain) on sales and retirement of property, plant and equipment | (2,845) | (686) |
| Loss (gain) on sales of investment securities | (252) | (6,566) |
| Decrease (increase) in notes and accounts receivable - trade | 3,715 | 1,034 |
| Decrease (increase) in inventories | 6,880 | 5,436 |
| Increase (decrease) in notes and accounts payable - trade | 178 | (2,873) |
| Other, net | 5,950 | (1,435) |
| Subtotal | 83,526 | 80,213 |
| Interest and dividend income received | 798 | 719 |
| Interest expenses paid | (76) | (57) |
| Income taxes paid | (18,496) | (14,348) |
| Net cash provided by (used in) operating activities | 65,752 | 66,526 |

## (4) Consolidated statements of cash flows (continued)

*(Millions of yen)*

| | Fiscal year ended December 31, 2016 | Fiscal year ended December 31, 2015 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (20,675) | (19,058) |
| Proceeds from sales of property, plant and equipment | 4,792 | 3,080 |
| Purchase of intangible assets | (8,566) | (1,038) |
| Purchase of investment securities | (6,050) | (6,701) |
| Proceeds from sales of investment securities | 813 | 17,951 |
| Net decrease (increase) in short-term loans receivable | (18,771) | (54,462) |
| Other, net | (510) | 2,481 |
| Net cash provided by (used in) investing activities | (48,968) | (57,747) |
| **Cash flows from financing activities** | | |
| Net increase (decrease) in short-term loans payable | 342 | 52 |
| Purchase of treasury shares | (8) | (232) |
| Cash dividends paid | (13,680) | (13,682) |
| Other, net | (252) | (197) |
| Net cash provided by (used in) financing activities | (13,598) | (14,060) |
| **Effect of exchange rate change on cash and cash equivalents** | (2,895) | 1,052 |
| **Net increase (decrease) in cash and cash equivalents** | 290 | (4,228) |
| **Cash and cash equivalents at beginning of period** | 12,784 | 17,013 |
| **Cash and cash equivalents at end of period** | 13,075 | 12,784 |

## 5. Segment Information, etc.

### Segment information

1. Outline of reportable segments

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

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

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

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

The method of accounting for reportable segments is a method that follows the accounting policies adopted for the preparation of consolidated financial statements.

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

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

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

*(Millions of yen)*

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

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

**Fiscal period: January 1, 2016 – December 31, 2016**

*(Millions of yen)*

| | Pharmaceuticals | Bio-Chemicals | Total | Adjustments[1] | Consolidated[2] |
|---|---|---|---|---|---|
| Net sales | | | | | |
| Sales to external customers | 262,507 | 80,512 | 343,019 | – | 343,019 |
| Inter-segment sales and transfers | 785 | 3,114 | 3,899 | (3,899) | – |
| Total | 263,292 | 83,626 | 346,918 | (3,899) | 343,019 |
| Segment profit | 26,325 | 5,311 | 31,636 | 1 | 31,638 |
| Segment assets | 446,705 | 153,995 | 600,701 | 96,466 | 697,167 |
| Other items | | | | | |
| Depreciation and amortization | 16,184 | 6,846 | 23,030 | (1) | 23,029 |
| Goodwill amortization | 12,017 | 625 | 12,642 | – | 12,642 |
| Investment in equity method companies | 1,541 | – | 1,541 | – | 1,541 |
| Increase in property, plant and equipment and intangible assets | 24,112 | 8,000 | 32,112 | (75) | 32,036 |

Notes: 1. Adjustments are as follows:
(1) Segment profit: Adjustment of ¥1 million for elimination of inter-segment transactions
(2) Segment assets: Adjustment of ¥96,466 million includes elimination of inter-segment transactions of negative ¥25,157 million and corporate assets unallocated to each reportable segment of ¥121,623 million. Corporate assets are primarily surplus operating cash (cash and deposits, short-term loans receivable).
2. Segment profit is adjusted for operating income as recorded in the consolidated financial statements.

## Related information

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

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

*(Millions of yen)*

| Japan | Americas | Europe | Asia | Other regions | Total |
|---|---|---|---|---|---|
| 249,980 | 24,170 | 57,992 | 31,099 | 1,073 | 364,316 |

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

(2) Property, plant and equipment

*(Millions of yen)*

| Japan | Americas | Europe | Asia | Total |
|---|---|---|---|---|
| 122,001 | 10,315 | 632 | 14,094 | 147,043 |

3. Main customers

*(Millions of yen)*

| Customer | Sales | Related segment |
|---|---|---|
| Alfresa Pharma Corporation | 45,970 | Pharmaceuticals |

**Fiscal period: January 1, 2016 – December 31, 2016**

1. Products and services

Identical to segment information and therefore omitted.

2. Region

(1) Sales

*(Millions of yen)*

| Japan | Americas | Europe | Asia | Other regions | Total |
|---|---|---|---|---|---|
| 246,766 | 17,723 | 49,159 | 28,172 | 1,197 | 343,019 |

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

(2) Property, plant and equipment

*(Millions of yen)*

| Japan | Americas | Europe | Asia | Total |
|---|---|---|---|---|
| 125,296 | 9,387 | 469 | 15,894 | 151,047 |

3. Main customers

*(Millions of yen)*

| Customer | Sales | Related segment |
|---|---|---|
| Alfresa Pharma Corporation | 46,761 | Pharmaceuticals |

### Impairment loss in non-current assets by reportable segment

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

*(Millions of yen)*

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

Fiscal period: January 1, 2016 – December 31, 2016

*(Millions of yen)*

| | Pharmaceuticals | Bio-Chemicals | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|
| Impairment loss | 281 | 54 | 335 | – | 335 |

### Amortization of goodwill and unamortized balance by reportable segment

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

*(Millions of yen)*

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

Fiscal period: January 1, 2016 – December 31, 2016

*(Millions of yen)*

| | Pharmaceuticals | Bio-Chemicals | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|
| Amount amortized | 12,017 | 625 | 12,642 | – | 12,642 |
| Balance at end of period | 127,871 | 7,038 | 134,910 | – | 134,910 |

### Occurrence of negative goodwill by reportable segment

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

No applicable items

Fiscal period: January 1, 2016 – December 31, 2016

No applicable items