

Annual Report 2013 For the year ended December 31, 2013

Kyowa Hakko Kirin Co., Ltd.



Commitment to Life

Countless precious lives surround us. Brought into this world, blessed, raised with loving care—full of dreams, happiness as the goal of life. Deeply instill in us, and know that what we work for—the most precious presence of all on this planet. Infinite possibilities for us, a pharmaceutical company.

Believe in ourselves, believe in our power, believe in what we have built together. Not a large company, but with qualities like none other. History so unique we can be proud of, technology unmatched, And superior human beings that cannot be found elsewhere.

Be brave; do not shy away from challenges. Have passion; break away from the norm. Innovation is not just about growth—but instead a leap towards the future, a grand growth with wings. Wings never to be given to those who settle for the status-quo.

Don't just make medicine. Make people smile, bring light to their lives. How strongly one longs to live. How deeply one is loved by their loved ones. How sincerely one desires to help the one life they dedicate themselves to in the field of medicine. Stay receptive, sharpen your sensitivities. Let us become the top company in the world who cares the most for life. Strength is not what saves the world. A caring heart is what the world calls for.

Strive to become a superb team.

One human being, excellent or not, is ever so powerless, as a power of one, mistakes, even a possibility. Show the world the excellence of coming together. Amazing results, when we become one. Be driven. Think of those fighting for their lives every day. Their strong devotion to life speaks to our hearts. Hurry—do not scurry, but we must not stand still. Stay sincere, always—may that be our vow. We make medicine. This is, our walk of life.

Work, can bring happiness. Remember this, always. Born on this planet in various parts of the globe, passing through life in different ways, And like a miracle we found one another—our jobs, our team, our company. Know this, and be fulfilled, always. Be thankful of what you have, pour your heart and soul into the mission you were given, Be proud of your work, the work to save precious lives.

We are, each and everyone of us, Kyowa Hakko Kirin.

Taking the walk of life, one life at a time.



We aim to make global contributions by creating new value.

The Kyowa Hakko Kirin Group is dedicated to its management philosophy of "contributing 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." I place the highest importance on "creating new value." New value is not generated by our research and development departments alone. We combine the creative ideas of each employee across our sales & marketing, production and functional divisions to develop new drugs. These drugs are supplied to health care providers to contribute significantly to saving lives that formerly would have been lost and to enrich Quality of Life (QOL).

We bring smiles to all people who long for well-being through a sincere commitment to life that emphasizes cooperation with health care providers and continuously moving forward with life. Our "Commitment to Life," shared by all Group employees, codifies this attitude. I make every management decision based on the Group's management philosophy and "Commitment to Life."

The environment of the pharmaceutical industry is becoming increasingly challenging due to factors including intensifying international competition to discover new drugs, the promotion of generic drug use, and reductions in National Health Insurance (NHI) reimbursement prices in Japan. We therefore continue to implement our basic strategies to become a global specialty pharmaceutical company that is strong in biotechnology in order to fully exercise our capabilities under these conditions. In our focus areas, nephrology, oncology, immunology/ allergy, and the central nervous system, we are formulating and implementing strategies with consistent coordination that is integrated from research and development through to production, sales & marketing. Our objective is to generate continuous global growth and contribute to society by addressing unmet needs in medical care and health economics.

Finally, it is important for us to be trusted by society, especially our stakeholders, in order to share the happiness of staying healthy together. Therefore, we respect and engage in active dialogue with stakeholders. Our annual report 2013 provides both financial and non-financial information. We hope it will help you understand the Kyowa Hakko Kirin Group.

April 2014

Nobuo Hanai, Ph.D.

Executive Director of the Board President and Chief Executive Officer



The Kyowa Hakko Kirin Group companies 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.



Kyowa Hakko Kirin

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Creating innovative, efficacious ethical drugs in the categories of nephrology, oncology, immunology/allergy and the central nervous system

Focusing on the categories of nephrology, oncology, immunology/allergy and the central nervous system, we are enhancing cooperation and consistency from research and development to production, sales & marketing to rapidly evolve into a major player. We will steadily launch products from our wellstocked pipeline while creating an effective, highly specialized sales organization with the objective of earning the trust of health care providers. **Ethical Drugs**

FUJIFILM KYOWA KIRIN BIOLOGICS

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Providing biosimilars that offer high quality at lower costs

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The mission of FUJIFILM KYOWA KIRIN BIOLOGICS is to deliver reliable, high-quality and costcompetitive biosimilars by using new technologies that merge Kyowa Hakko Kirin's world-class biopharmaceutical manufacturing technologies with engineering technologies for manufacturing and quality control developed by FUJIFILM Corporation through its various businesses.

Kyowa Medex

Contributing to the advancement of personalized medicine through companion diagnostics

In cooperation with Kyowa Hakko Kirin's R&D operations, Kyowa Medex seeks to generate synergies with the pharmaceuticals business and enhance added value through the development and launch of *in vitro* diagnostic reagents, analyzers and companion diagnostics that contribute to personalized medicine.

Biosimilars

Kyowa Hakko Bio

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Providing advanced technologies for high-value-added pharmaceutical, medical and health care applications

Kyowa Hakko Bio supplies a range of products in Japan and overseas, including amino acids, nucleotides, vitamins, peptides and synthetic compounds. Using innovative fermentation and synthesis technologies, the company will continue to provide superior-quality, high-value-added functional materials that satisfy needs in the pharmaceutical, medical and health care fields as it aims to become the world's premier biochemical manufacturer.

Bio-Chemicals

Diagnostics

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We aim to make global contributions by creating new value.

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The Kyowa Hakko Kirin Group

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Editorial Policy

Annual Report 2013

The Kyowa Hakko Kirin Group's Annual Report 2013 integrates key information formerly presented in its Annual Report, which covered a comprehensive range of issues including management philosophy, vision, business strategy and finances, and in its CSR Report, which covered CSR initiatives.

We also updated our websites so that they present activities and data

that we could not include in Annual Report 2013.

In this report, Group companies are abbreviated as follows: Kyowa Hakko Kirin Co., Ltd. (Kyowa Hakko Kirin); KYOWA HAKKO BIO CO., LTD. (Kyowa Hakko Bio); FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. (FUJIFILM KYOWA KIRIN BIOLOGICS); Kyowa Medex Co., Ltd. (Kyowa Medex).

A Message from the Executive Vice President



As we develop our business using our strengths in biotechnology, we aim to contribute to the health and well-being of people around the world.

as we take on of becoming a pharmaceutica Addressin

We will emphasize diversity as we take on the challenge of becoming a global speciality pharmaceutical company.

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- Scope This report covers Kyowa Hakko Kirin Co., Ltd. and its consolidated subsidiaries in Japan and overseas, as well as certain non-consolidated subsidiaries and affiliates.
 - Environmental data is annotated for the convenience of readers.
- Reporting Period The reporting period includes calendar year 2013 and part of 2014.

Note to Performance Forecasts

Forecasts contained in Annual Report 2013 represent judgments based on information available as of January 31, 2014. It should be noted that there is a possibility that actual results could differ significantly due to a variety of factors. Kyowa Hakko Kirin and its consolidated subsidiaries

For the years ended December 31, 2013, 2012, 2011 and 2010, and the nine months ended December 31, 2009

			Millions of yen			
	2013	2012	2011	2010	2009	
For the Year:						
Net sales	¥340,611	¥333,158	¥343,722	¥413,738	¥309,111	
Operating income	51,773	52,905	46,614	45,410	28,243	
Net income	30,078	24,199	25,608	22,197	8,797	
Capital expenditures	35,183	27,808	19,697	29,374	25,135	
Depreciation and amortization	21,592	20,904	22,833	22,188	17,003	
R&D expenses	43,682	44,808	47,961	44,210	34,979	
At Year-End:						
Total assets	719,257	679,342	658,873	695,862	695,268	
Interest-bearing debt	6,207	5,699	6,042	7,515	13,228	
Total net assets	595,415	555,898	540,023	544,992	540,343	
Total shareholders' equity	578,329	560,663	554,856	553,172	539,304	
			Yen			
Per Share Data:						
Net income-basic ²	¥ 54.95	¥ 44.12	¥45.16	¥38.96	¥15.40	
Net assets	1,085.2	1,013.6	970.2	954.6	940.8	
Cash dividends	25	20	20	20	15	
Financial Ratios:						
Return on assets (ROA)	4.30%	3.62%	3.78%	3.19%	1.26%	
Return on equity (ROE)	5.24%	4.43%	4.73%	4.11%	1.64%	

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥105.40=U.S.\$1, the approximate exchange rate at December 31, 2013.

2. Net income per share–basic is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.





Energy Consumption^{2,3} (For the year) (1,000 kl of oil equivalent) 200



1. The data for 2009 and 2010 include Kyowa Hakko Chemical.

2. The domestic plants and research laboratories of Kyowa Hakko Kirin, Kyowa Medex, Kyowa Hakko Bio and Daiichi Fine Chemical are covered.

2009

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The overseas plants of Kyowa Hakko Kirin China Pharmaceutical Co., Ltd., BioKyowa Inc. (U.S.A.) and Shanghai Kyowa Amino Acid Co., Ltd. are also covered. 3. Data is for April to March, 2009 to 2012, and January to December 2013.

Overseas bases

2010

2011

Kyowa Hakko Kirin (including Kyowa Medex)

📃 Kyowa Hakko Bio 📃 Daiichi Fine Chemical

2012

2013

%	Thousands of U.S. dollars ¹
2013/2012	2013
2.2	\$3,231,606
(2.1)	491,209
24.3	285,370
26.5	333,804
3.3	204,861
(2.5)	414,446
5.9	6,824,070
8.9	58,895
7.1	5,649,100
3.2	5,486,992
%	U.S. dollars ¹
24.5	\$ 0.521
7.1	10.296
25.0	0.237

		Millions of yen		%
	2013	2012	2011	2013/2012
Overseas Sales Ratio of Overseas Sales to Net Sales	¥86,526 25.4%	¥72,632 21.8%	¥71,152 20.7%	19.1 3.6 points
Sales by Region: Japan America Europe Asia Other Regions	254,085 23,948 37,226 24,420 931	260,524 21,207 30,997 19,880 548	272,568 20,071 25,169 25,426 486	(2.5) 12.9 20.1 22.8 69.8







4. As of June each year

5. The data published from 2009 to 2012 were inaccurate and have been corrected.

6. The number of fatal and lost time accidents per million working hours.

We will contribute to society as a pharmaceutical company with a unique business structure.

As a global pharmaceutical company we will meet the expectations of stakeholders by utilizing our unique business structure that encompasses the Pharmaceuticals business and the Bio-Chemicals business.

Executive Director of the Board President and Chief Executive Of

Q1 The year 2013 was the first year of Medium-Term Business Plan – 2013 to 2015. How well did it unfold?

Fundamentally driven by the key theme of "becoming a global specialty pharmaceutical company," we operated our business with the basic strategies of maximizing the value of businesses in Japan, accelerating drug development in Europe and the United States, and strengthening the revenue base of our Bio-Chemicals business. The watchwords "Fairness," "Transparency" and "Speed" (FTS) delineate my approach to management. I have recently added "Sensitivity" to this list.

Fairness and Transparency are the fundamentals for compliance, while Speed and Sensitivity are indispensable elements for our contribution to society as a pharmaceutical company. We must position ourselves to be able to launch our drugs quickly and globally, being conscious of not just the speed of research and development, but also of other internal operations and systems.

I added Sensitivity because it enables us to provide useful drugs, but only if each employee cares about patients and consistently generates creative ideas within an organization where all functions are unified from sales and marketing that meet the needs of health care

1. Erythropoiesis stimulating agent for treating renal anemia

providers to production and R&D. We need to be aware of what is happening bedside; otherwise, we are likely to become less perceptive of various conditions. In a clear example, we would be unable to address the wants and needs of health care providers and patients if our sales and marketing organization failed to effectively tell our production and R&D organizations what drugs doctors want and what information they need.

The medium-term business plan we launched in 2013 has made steady progress. NESP® has maintained the number-one share of the domestic ESA¹ market since 2011. Moreover, ProStrakan Group plc (ProStrakan) of the United Kingdom, acquired in 2011, increased net sales by 20 percent year on year and achieved operating profitability (after amortization of goodwill and sales rights). Other achievements included the contribution of the Bio-Chemicals business to minimizing the decrease in consolidated operating income for 2013 (resulting from reduced earnings in the Pharmaceuticals business) and record consolidated ordinary income for the fourth consecutive fiscal year.



Overview of Medium-Term Business Plan - 2013 to 2015

Q2 Please discuss specific details of the progress you are making toward becoming a global specialty pharmaceutical company.

First of all, I feel employees' attitudes have been quickly changing because we clearly delineated our theme. Our employees are aware that we need to become more global, and their motivation to act globally is increasing.

In new drug development, Kyowa Hakko Kirin Pharma, Inc. of the United States and ProStrakan functioned as One Drug Development Organization (ODDO)² to move steadily forward in globally developing three new drugs, including therapeutic antibodies. Two of the candidates, KW-0761³ and KW-6002,³ are in final clinical trials in Europe and the United States. We also aim for the timely launch of KRN23³ through collaboration with Ultragenyx Pharmaceutical Inc., which specializes in developing orphan drugs. We are targeting the launch of these new drugs in Europe and the United States from 2016 onward as we steadily advance our global specialty pharmaceutical strategy.

A virtual organization that integrates the management of overseas bases to develop drugs
 Please refer to page 23 for pharmaceutical pipeline details.

Q3 What do you think of CSR in relation to future growth as a global specialty pharmaceutical company?

Under the current medium-term business plan, we are concentrating on a broad array of CSR initiatives that respond to society's expectations for a global specialty pharmaceutical company. In particular, we are striving to ensure compliance with laws, regulations, rules, standards and business ethics and to revamp and reinforce audits and quality assurance systems in order to be a company that meets global business standards.

It is fortunate that as a pharmaceutical company our core business itself can contribute to society. This meaningful work of providing new drugs for unmet medical needs, makes a permanent contribution to life while allowing our company to grow.

In recent years, the concept of healthy life expectancy⁴ has gained attention because of the desire to maintain a socially active lifestyle for as long as possible. As a pharmaceutical company, we believe we must contribute to medical care that extends healthy life expectancy. Harmony with society is crucial in this context. We are simply one player contributing to medical care, and must always keep in mind that we co-exist with various other parties including patients and health care professionals.

4. "An estimate of the equivalent years in full health that a person can expect to live on the basis of the current mortality rates and prevalence distribution of health states in the population." Source: World Health Organization



Q4 Please comment on the uniqueness and strengths that are the driving forces behind the continuous growth of the Kyowa Hakko Kirin Group.

First of all, we have a unique business structure that encompasses the Pharmaceuticals business and the Bio-Chemicals business. This diversified structure makes us better able to reduce the significant risks involved in new drug development.

Another major strength is our platform that enables us to research, develop and produce therapeutic antibodies using our own technology. The Kyowa Hakko Kirin Group is a unique company unlike any in Japan, Europe, the United States or Asia. The ability to create biopharmaceuticals is one of our greatest advantages, as indicated by the large number of candidates now in our pharmaceutical pipeline. Moreover, the Kyowa Hakko Kirin Group's biosimilars business, through a joint venture with FUJIFILM Corporation, is also highly promising as a driver of continuous global growth. I believe biosimilars will help resolve global issues such as unmet health economics needs and rising social insurance costs.

Finally, the diversity of our employees is essential for planning and executing programs to build continued trust with various stakeholders. We will therefore continue to emphasize human resource development, which will create new group strengths.

Q5 What does the Group need to do given factors such as the impact of changes in the operating environment on Medium-Term Business Plan - 2013 to 2015?

Key issues during 2013 were the market penetration of generic drugs and the ongoing depreciation of the yen in foreign exchange markets. In 2014, measures to reduce health care costs in Japan will accompany NHI price reductions. These trends mirror those in countries overseas. The Japanese economy is showing signs of recovery, but corporate management will also face significant changes, such as the increase in the consumption tax rate. Moreover, the hurdles to new drug approval in Japan and overseas have been rising.

Our operating environment is becoming increasingly challenging, but we are steadily executing the three basic strategies of the current medium-term business plan. I am confident that we will meet the expectations of investors by utilizing our unique business structure and contributing to society as a global specialty pharmaceutical company.





Hajime Nakajima

Director of the Board*

Apr. 1977: Mar. 2004:	, i ,,
M. 0000	Company, Limited
Mar. 2006:	General Manager, Nagoya Plant Production Division. Domestic
	Alcohol Beverages Company, Kirin
	Brewery Company, Limited
Mar. 2007:	Executive Officer, Kirin Brewery
	Company, Limited
Mar. 2009:	Managing Director, Kirin Brewery
	Company, Limited
Mar. 2011:	Managing Director, Kirin Holdings
	Company, Limited
Mar. 2012:	Director of the Board, Kyowa Hakko
	Kirin Co., Ltd. (to present)
	Managing Director, Representative
	Director, Kirin Holdings Company,
	Limited (to present)

Fumihiro Nishino

Director of the Board Managing Executive Officer Vice President Head Sales & Marketing Division

Nov. 1982: Apr. 2004:	Joined Kyowa Hakko Kogyo Co., Ltd. General Manager, Pharmaceutical Sales Planning Department, Kyowa Hakko Kogyo Co., Ltd.
Oct. 2006:	General Manager, Pharmaceutical Marketing Department of Pharmaceutical Sales Division,
	Kyowa Hakko Kogyo Co., Ltd.
Apr. 2007:	Executive Officer,
	Kyowa Hakko Kogyo Co., Ltd.
Oct. 2008:	Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Apr. 2011:	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Mar. 2012:	Director of the Board,
	Managing Executive Officer, Kyowa
	Hakko Kirin Co., Ltd. (to present)

Hiroyuki Kawai, Ph.D.

Executive Director of the Board Executive Vice President

Apr. 1979:	Joined Kirin Brewery Company, Limited
Mar. 2004:	General Manager, Development Division, Pharmaceutical Company, Kirin Brewery Company, Limited
Jul. 2007:	Director, Executive Officer Head, Kirin Pharma Company, Limited
Mar. 2008:	Representative Director, Executive Vice President, Executive Officer, Kirin Pharma Company, Limited
Oct. 2008:	Managing Executive Officer, Kyowa Hakko Kirin Co., Ltd.
Mar. 2010:	Director of the Board, Managing Executive Officer, Kyowa Hakko Kirin Co., Ltd.
Mar. 2013:	Director of the Board, Senior Managing Executive Officer, Kyowa Hakko Kirin Co., Ltd.
Mar. 2014:	· ·

Nobuo Hanai, Ph.D.

Executive Director of the Board President and Chief Executive Officer

Apr. 1976:	Joined Kyowa Hakko Kogyo Co., Ltd.
Feb. 2003:	President and Chief Executive Officer,
	BioWa, Inc.
Jun. 2006:	Executive Officer,
	Kyowa Hakko Kogyo Co., Ltd.
Oct. 2008:	Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Apr. 2009:	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Jun. 2009:	Director of the Board,
	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Mar. 2010:	Director of the Board,
	Senior Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Mar. 2012:	Executive Director of the Board,
	President and Chief Executive Officer,
	Kyowa Hakko Kirin Co., Ltd. (to
	present)

* Outside Director



Kazuyoshi Tachibana

Director of the Board Managing Executive Officer

Apr. 1978:	Joined Kyowa Hakko Kogyo Co., Ltd.
Apr. 2005:	General Manager, Pharmaceutical
	Strategic Planning Division and
	Pharmaceutical Manufacturing
	Strategy Department,
	Kyowa Hakko Kogyo Co., Ltd.
Jun. 2005:	Executive Officer,
	Kyowa Hakko Kogyo Co., Ltd.
Oct. 2008:	Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Apr. 2009:	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Jun. 2009:	Director of the Board,
	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
	(to present)

Toshifumi Mikayama, Ph.D.

Director of the Board
Managing Executive Officer
Director Overseas Business Department

Apr. 1983:	Joined Kirin Brewery Company, Limited
Mar. 2004:	General Manager, Planning Division of
	Pharmaceutical Division, Kirin Brewery
	Company, Limited
Jul. 2007:	Director, Executive Officer,
	Kirin Pharma Company, Limited
Oct. 2008:	Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Mar. 2012:	Managing Executive Officer,
	Kyowa Hakko Kirin Co., Ltd.
Mar. 2014:	Director of the Board,

Managing Executive Officer, Kyowa Hakko Kirin Co., Ltd. (to present)

Koichiro Nishikawa

Director of the Board*

Apr. 1970:	Joined Hitachi, Ltd.
Aug. 1995:	Vice President, Hitachi America, Ltd.
Apr. 1999:	General Manager, Business Development Office, Hitachi, Ltd.
Apr. 2001:	General Manager, Global Business Development Division, Hitachi, Ltd.
Jun. 2003:	Executive Officer, Hitachi, Ltd.
Jan. 2006:	Vice President and Executive Officer, Hitachi, Ltd.
Apr. 2007:	Senior Vice President and Executive Officer, Hitachi, Ltd.
Apr. 2010:	Senior Vice President and Executive Officer, Hitachi Cable, Ltd.
Apr. 2012:	Senior Advisor, Hitachi Research Institute
Jun. 2013:	International Affairs Committee member, Japan Association of Athletics Federations (to present)
Oct. 2013:	President, Japan Industrial Track & Field Association (to present)
Mar. 2014:	Director of the Board, Kyowa Hakko Kirin Co., Ltd. (to present)

* Outside Director

The sustainable growth of the Kyowa Hakko Kirin Group is supported by the maintenance and strengthening of its financial foundation.

Q1 Please present and analyze results for 2013.

The operating environment in the Pharmaceuticals business remained challenging both in Japan and overseas, due to factors including a decline in drug discovery success rates and stricter approval review processes, and ongoing measures to reduce health care costs. Despite this environment, we achieved the highest net income in company history.

The Pharmaceuticals business focused on the launch and early market penetration of NOURIAST[®], an antiparkinsonian agent, ONGLYZA[®], a treatment for type 2 diabetes, and Abstral[®], a treatment for breakthrough cancer pain, while making efforts to maximize the sales of core products including NESP[®], a renal anemia treatment.

Overseas, ProStrakan achieved operating profitability (after amortization of goodwill and sales rights) in its third year since joining the Kyowa Hakko Kirin Group.

In the Bio-Chemicals business, sales of core amino acids and nucleotides were strong and the depreciation of the yen helped improve earnings.

Q2 What is the outlook for 2014?

The Pharmaceuticals business will concentrate on maximizing sales of core product NESP® as well as new products including NOURIAST® and ONGLYZA®. However, we forecast that operating income will decrease due to factors including the impact of National Health Insurance (NHI) price reductions slated for April 2014, the influence of generic drug versions of antiallergic agent ALLELOCK® and a biosimilar of neutropenia agent GRAN®, and higher R&D expenses associated with products moving into late-stage development overseas. In the Bio-Chemicals business, we forecast that sales and earnings will increase due to factors including higher sales of amino acids, nucleotides and mail-order sales of *ornithine*, and progress in the business restructuring of Daiichi Fine Chemical.

Given the above, we will continue to control expenses to maintain our profits. However, we forecast that in 2014 net sales will decrease 1.1 percent year on year to ¥337.0 billion, operating income will decrease 20.8 percent to ¥41.0 billion, and net income will decrease 33.5 percent to ¥20.0 billion.



Note: 2009 data are for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

Q3 Please explain the Kyowa Hakko Kirin Group's financial strategy.

We employ the cash management system to utilize capital effectively within the Group. In 2013, we globalized the system by applying it to overseas subsidiaries in order to effectively manage capital in yen, dollars, euros or pounds. We manage our capital primarily with short-term loans to our parent company, Kirin Holdings Company, Limited.

We aggressively invest our capital in growth, and continue to invest in new drug candidates and strategic technologies. Our main ongoing projects are investments in the biosimilars business and the construction of a plant in Thailand that will be the third overseas base of the Bio-Chemicals business. We are also actively considering investment opportunities that include mergers and acquisitions. As we maintain a solid credit rating, we are

capable of flexible fundraising via channels such as commercial paper and bank loans. However, we do not expect to need external funding unless for a large transaction because we have approximately ¥130 billion in cash on hand.

Concerning shareholder returns, under Medium-Term Business Plan – 2013 to 2015, we are targeting a stable dividend payout ratio of 40 percent of earnings on a consolidated basis, before the amortization of goodwill that resulted from the merger with Kyowa Hakko Kirin Pharma, Inc. We increased the annual cash dividend per share by ¥5.00 to ¥25.00 in 2013. We will also flexibly consider share repurchases in light of issues including the market environment and investment in our businesses.

Q4 What issues does the Group face in the future?

We need to further strengthen our global capital management system including addition of other currencies, especially the Chinese renminbi. Also, we need to advance the global tax strategy, and improve key performance indicators including ROE. We will enhance ROE by increasing after-tax income by using assets effectively, generating growth in global markets in the Pharmaceuticals business, and improving profitability in the Bio-Chemicals business.









Review of Operations

Main Segments (As of December 31, 2013)

Pharmaceuticals

R&D, production and sale of ethical drugs emphasizing renal anemia, oncology, allergies and hypertension, and in vitro diagnostic reagents



Core Products Ethical Drugs

NESP®/ESPO® (ESA) REGPARA® (Secondary Hyperparathyroidism) CONIEL® (Cardiovascular) ONGLYZA® (Type-2 Diabetes) GRAN® (G-CSF) Fentos® (Transdermal Persistent Cancer Pain) POTELIGEO® (Anti-CCR4 Humanized Antibody) Romiplate® (Chronic Idiopathic Thrombocytopenic Purpura) ALLELOCK[®] (Antiallergic) Patanol® (Antiallergic Eyedrops) ASACOL[®] (Inflammatory Bowel Disease) NOURIAST[®] (Parkinson's Disease) DEPAKENE® (Antiepileptic)

In Vitro Diagnostic Reagents

POTELIGEO® TEST Determiner[®] series (Clinical Chemistry Diagnostic Reagents)

Production and sale of amino acids, nucleotides and related compounds for use in pharmaceuticals and their intermediates, health foods, dietary supplements and cosmetics

Bio-Chemicals

Sales Composition*



Net Sales*/Segment Income

15

12

9

6

З

2013

Core Products

Pharmaceutical and Industrial-use Products

Histidine Citicoline Glutathione Arginine Pravastatin

Tranexamic acid

Health Care Products

Kyowa Hakko Bio's Health Food Series
Ornithine, Lactococcus Plasma, etc.
Ornithine series
Arginine
Citrulline
Vitamin K2
Other

Gibberellin

Highlights of 2013

February	Launched a smartphone application for the pollen information website, Pollinosis Navi	July	Held groundbreaking ceremony for a plant at Thai Kyowa Biotechnologies Co., Ltd. Launched ONGLYZA [®] tablets 2.5mg and 5mg for type 2 diabetes Completed construction of an API plant at Daiichi Fine Chemical		
May	Began constructing a new formulating line at the Takasaki Plant Renewed the skin and allergy information site Kayumi Navi				
	and launched smartphone applications for this site and for				
	health care providers		Submitted application for additional indications for		
	Launched the antiparkinsonian agent NOURIAST® tablets 20 mg		mogamulizumab (product name: POTELIGEO®)		
June	Submitted application for approval in Japan for sustained-	August	Launched beauty supplement Amino Premier®		
	duration G-CSF product (KRN125)		Created diabetes information website Diabetes Support Net		

Note: The Kyowa Hakko Kirin Group revised its business segments in 2013 by eliminating the Other segment and reclassifying the affiliates it formerly included to the Pharmaceuticals segment. Segment information for 2012 has been restated to reflect these changes.

Industry Trends

- An increasing number of companies are taking their in-house pipeline into consideration while deploying resources to areas including generic and over-the-counter (OTC) drugs because drug discovery success rates are declining in Japan and overseas and approval review processes are becoming more stringent.
- Ensuring product pipeline viability, investing in biotech start-ups, enhancing bases in Europe and the United States, and entering markets in emerging countries are essential to executing global strategy.
- Revisions to the Pharmaceutical Affairs Act as it applies to drugs and medical devices slated for June 2014 will almost entirely remove the ban on online sales of non-prescription drugs.

2013 Performance Review

- Net sales increased 0.6 percent year on year to ¥261.0 billion, and segment income decreased 9.1 percent to ¥46.1 billion. Domestic sales of ethical drugs increased year on year.
- NESP® sales decreased year on year due to factors including the impact on shipments following the December 2012 launch of new products resulting from a temporary increase in distributor inventory of new and former products.
- Sales of Patanol[®] increased substantially due to the large amount of airborne pollen. Sales of ALLELOCK[®] and CONIEL[®] decreased due to factors including the impact of generics.
- Sales of products including REGPARA®, ASACOL®, Romiplate® and Fentos® increased.
- We launched NOURIAST® in May 2013, ONGLYZA® in July 2013, and Abstral® in December 2013.
- Revenues from exports of pharmaceuticals and technology out-licensing decreased from the previous year. Among various factors, exports were steady but out-licensing revenue from FUJIFILM KYOWA KIRIN BIOLOGICS for the development of biosimilars decreased.
- At ProStrakan, steady growth of Abstral[®] and other core products supported 43.4 percent growth in net sales to ¥23.3 billion and operating income (after amortization of goodwill and sales rights) of ¥0.2 billion, compared with an operating loss of ¥2.5 billion for the previous year.

Industry Trends

- Demand for amino acids for pharmaceutical use centered on infusions will increase due to global population growth and improving quality of life.
- In the United States, competition intensified in some sectors of the market for amino acids used in supplements. In Europe, sales of amino acids and nucleotides, including infusion-use amino acids and the active pharmaceutical ingredient (API) citicoline, continued to grow steadily. In Asia, the competitive environment remained challenging.

2013 Performance Review

- Sales in pharmaceutical and medical markets increased year on year.
- In pharmaceutical and medical markets, sales of pharmaceutical-use amino acids and other APIs were solid.
- Tranexamic acid sales decreased compared with the previous year when shipments were centralized.
- Sales in the health care business decreased.
- In the health care business, mail-order sales of ornithine and other products grew steadily. Ornithine is
 an ingredient in Kirin Health Project Kirin Plus-i beverages and other products. Enhanced awareness of
 ornithine supported higher mail-order sales.
- In November 2013, we launched a functional lactobacillus supplement in tablet form named "Lactococcus Plasma." It is Kyowa Hakko Bio's first health food product co-branded with the *Kirin Plus-i* logo.
- Sales of food and beverage ingredients decreased.
- The depreciation of the yen supported growth in overseas business sales.
- Sales in the United States increased overall even though competition intensified for some amino acids for supplements.
- Sales in Europe increased due to factors including higher sales of APIs.
- Sales increased in Asia despite the continued challenging competitive environment due to factors including an increase in sales of infusion-use amino acids in China.

September	Concluded an agreement with Ultragenyx Pharmaceutical Inc. of the United States to develop and market the anti-	Closed the Yokkaichi Plant as part of production facil reorganization			
	FGF23 fully human monoclonal antibody KRN23	December	Launched Abstral [®] sublingual tablet 100µg, 200µg and 400µg		
	Opened a translational research laboratory in Singapore		Concluded co-promotion partnership agreement for		
	Additional indication of long-acting erythropoiesis-stimulating agent NESP [®] for pediatric patients with renal anemia		combined topical calcipotriol/betamethasone dipropionate product in Japan		
	approved in Japan		Created disease information website for idiopathic		
November	Kyowa Hakko Bio launched its lactobacillus supplement named "Lactococcus Plasma"		thrombocytopenic purpura (ITP) called ITP Navi		
	Initiated a global phase III trial of istradefylline (KW-6002) for Parkinson's disease				

Pharmaceuticals Business

We aim to be a Japan-based global specialty pharmaceutical company that contributes to the health and well-being of people around the world.



Nobuo Hanai, Ph.D. Executive Director of the Board President and Chief Executive Officer

Priorities for the Pharmaceuticals Business

In the Pharmaceuticals business, we use leading-edge biotechnology centered on antibody technologies to continuously create breakthrough new drugs that we develop and market globally. The mission of Kyowa Hakko Kirin is to respond earnestly to the unmet medical needs of patients, their families and health care professionals facing the challenge of disease for which no effective treatment currently exists. To fulfill this mission, we will further enhance our R&D capabilities centered on therapeutic antibodies. Our "Commitment to Life," created through intensive discussion among employees and managers when Kyowa Hakko Kirin was established in 2008, is the basis of

the Kyowa Hakko Kirin Group's plan to take on the challenge of developing new drugs and further expanding the Pharmaceuticals business.

Faster drug discovery is a key issue in addressing unmet medical needs. We therefore enhance coordination among all of our capabilities from R&D to production, sales & marketing, and implement product portfolio management (PPM) in the four categories of nephrology, oncology, immunology/allergy and the central nervous system. Moreover, FUJIFILM KYOWA KIRIN BIOLOGICS, a joint venture with FUJIFILM Corporation in the biosimilars business, has the important mission of addressing unmet health economics needs.¹ The joint venture began a clinical trial in the





Net sales by region is disclosed from 2012.
 Data as of the end of December for each year

Number of Employees²





United Kingdom from April 2013 for its first drug, FKB327.

Drawing on these basic strategies, we are also collaborating with external partners and energetically sharing resources to further enhance our therapeutic antibody business, which is the greatest strength of our Pharmaceuticals business. As a result, we believe that we will align the Pharmaceuticals business even more closely with the aim of becoming a global specialty pharmaceutical company.

Category Strategy to Further Enhance Competitiveness in Japan

Our category strategy is a main component of Medium-Term Business Plan – 2013 to 2015 and revolves around enhancing coordination among all of our functions and PPM. We will accelerate drug discovery and maximize the value of the drugs we launch to further enhance the foundation of our business in Japan.

In the nephrology category, the anemia therapy NESP® maintained its leading share of the ESA² market throughout 2013. To help combat diabetes, the most common cause of chronic kidney disease (CKD), we launched ONGLYZA® in July 2013 to treat type 2 diabetes.

In the oncology category, we are filing applications in Japan to expand the use of anti-CCR4 humanized antibody POTELIGEO®, a treatment for adult T-cell leukemia-lymphoma (ATL), to include indications that target patients with untreated ATL and patients with relapsed or refractory peripheral T-cell lymphoma (PTCL) and cutaneous T-cell lymphoma (CTCL).³

In the immunology/allergy category, generic drugs of ALLELOCK[®], our main antiallergic agent, are now available. However, we are concentrating on adding value with new formulations such as orally disintegrating (OD) tablets and granules. Moreover, we are proceeding with the development of KHK4827 for psoriasis and KHK4563 for asthma.

In the central nervous system category, we launched NOURIAST[®] in May 2013. This antiparkinsonian agent features a novel mechanism of action, and we are now targeting rapid market penetration.

Broadening Our Business Base in Europe, the United States and Asia

Core U.S.-based Kyowa Hakko Kirin Pharma, Inc. and U.K.-based ProStrakan are utilizing ODDO⁴ to raise the efficiency and accelerate the speed of global development.

In 2013, KW-0761 and KW-6002 entered final clinical trials in Europe and the United States. We also formed a collaboration with Ultragenyx Phamaceutical Inc., a U.S. start-up strong in developing drugs for rare diseases, or orphan drugs, to speed development of KRN23 for treating X-linked hypophosphatemic rickets.

As in Japan, countries throughout Asia are implementing systemic reform because of rising social insurance costs. Under these conditions, subsidiaries are structuring a business foundation that flexibly addresses conditions in each country.

Organizational, Cultural and Functional Transformation

We are now structuring management to engender the world-class compliance mindset required to become a global specialty pharmaceutical company.

Specifically, the Kyowa Hakko Kirin Group is creating a diverse but unified organization that shares the same management philosophy, action guidelines and "Commitment to Life." We believe this will harmonize R&D and sales & marketing in Japan and overseas as well as enable appropriate conduct that allows us to respond sensitively to feedback from stakeholders.

- 2. Erythropoiesis stimulating agent for treating renal anemia
- We have temporarily withdrawn the NDA that we submitted for additional indications for adult T-cell leukemia-lymphoma combination therapy (for untreated patients).
- One Drug Development Organization. A virtual organization that integrates the management of overseas bases to develop drugs

^{1.} Please refer to the glossary on page 85.

Research and Development

Kyowa Hakko Kirin is focusing on leading-edge biotechnologies centered on the Company's original antibody technologies.



Yoichi Sato Managing Executive Officer Vice President Head R&D Division

Priorities for R&D

Kyowa Hakko Kirin deploys leadingedge biotechnologies centered on the Company's original antibody technologies, such as POTELLIGENT® and KM Mouse, which produces fully human antibodies from mice. Our R&D focuses on discovering breakthrough new drugs that address unmet medical needs. In particular, we are concentrating on the four categories of nephrology, oncology, immunology/allergy and the central nervous system.

R&D Division Organization (As of April 1, 2014)

We consolidated and reorganized the Research Division and the Development Division on April 1, 2014, thus creating the R&D Division. It has established category-based R&D units to integrate drug discovery research, clinical development and value creation research for launched products into one consistent system. This will support new drug development that is linked to the needs of patients and health care providers while helping to maximize the value of products by nurturing drugs.



Pharmaceutical R&D

	2011	2012	2013
R&D expenses (Billions of yen)	44.5	41.3	40.4
R&D expenses as a percentage of net sales (%)	19.4	15.9	15.5
Number of R&D personnel*	1,308	1,309	1,216

* As of the end of December for each year, including production-related research personnel



In addition, the close collaboration between category-based R&D units and the three core functions of research, translational research, and development will accelerate R&D and improve success rates. We also intend to take on the challenge of pioneering innovative new drug discovery technologies, including therapeutic antibody and RNA interference technologies. Moreover, we are aiming to enhance drug discovery through open innovation that leverages external opportunities and integrates them with our knowledge and technologies.

International Research Organization

Kyowa Hakko Kirin's research organization encompasses four sites: Tokyo Research Park and Fuji Research Park in Japan, Kyowa Hakko Kirin California, Inc. in San Diego, the United States, and Singapore Translational Research Laboratory (STRL). In the United States, Kyowa Hakko Kirin has supported research at La Jolla Institute for Allergy & Immunology for more than 20 years through an industry-academia alliance. Centered on this alliance, we have also strengthened collaboration in translational research with nearby University of California, San Diego School of Medicine. Furthermore, STRL was established in September 2013 at Biopolis, known as Singapore's biomedical science center. It is expected to contribute to enhanced success rates of clinical development

by closely collaborating with research institutions in Singapore.

Clinical development in Europe and the United States will center on development subsidiary Kyowa Hakko Kirin Pharma, Inc. as the core of our One Drug Development Organization (ODDO) that includes ProStrakan. We are using this virtual organization to accelerate global development of in-house products. In Asia, Kyowa Hakko Kirin will take the lead in strengthening a development organization that encompasses Kyowa Hakko Kirin Korea Co., Ltd., Kyowa Hakko Kirin China Pharmaceutical Co., Ltd., and Kyowa Hakko Kirin (Taiwan) Co., Ltd. to accelerate joint international clinical trials.

Status of New Drug Development Nephrology

In Japan, the renal anemia treatment NESP® received approval in September 2013 for the additional indication of renal anemia in pediatric patients and for manufacturing and marketing NESP® Injection 5µg Plastic Syringe. In November 2013, we discontinued a phase II clinical study of RTA 402 licensed from Reata Pharmaceuticals, Inc. for chronic kidney disease (CKD) patients with type 2 diabetes due to safety concerns. Although this trial was discontinued, we continue to assess new development programs for RTA 402 in CKD patients with type 2 diabetes.

Oncology

In Japan, we received approval for Abstral[®], a treatment for managing breakthrough cancer pain, in September 2013. Moreover, in June 2013 we filed an NDA for KRN125, a long-acting granulocyte colonystimulating factor (G-CSF) for treating chemotherapy-induced febrile neutropenia. In addition, we submitted an NDA in July 2013 for the anti-CCR4 humanized antibody POTELIGEO® for additional indications and dosages for untreated CCR4-positive adult T-cell leukemia-lymphoma (ATL), relapsed or refractory CCR4-positive peripheral T-cell lymphoma (PTCL) and cutaneous T-cell lymphoma (CTCL).*

Immunology/Allergy

In Japan, we began a phase III clinical trial of KHK4827 for psoriasis patients in March 2013.

Central Nervous System

In Japan, antiparkinsonian agent NOURIAST® was approved in March 2013. Moreover, antiepileptic agent TOPINA® received approval in November 2013 for an additional pediatric indication, and in January 2014 for an additional fine granule formulation.

Overseas, we began a phase III clinical trial for antiparkinsonian agent KW-6002 in November 2013.

^{*} We have temporarily withdrawn the NDA that we submitted for additional indications for adult T-cell leukemia-lymphoma combination therapy (for untreated patients).

Pharmaceutical Pipeline (As of January 24, 2014)

Therapeutic Area	Code Name	Generic Name	Туре	Mechanism of Action	Indications	Country	Formulation	
	KDN201	Dorbopootin Alfo	Brotain	Long Acting Enthropoionic Stimulating Agent	Pediatric Renal Anemia	Japan	Injection	
	KRN321	Darbepoetin Alfa	Protein	Long-Acting Erythropoiesis Stimulating Agent	Renal Anemia (on Dialysis)	China	Injection	
						China		
	KRN1493	Cinacalcet	Con all malaguday	Coloium Decenter Aponist	Consider the constant widing	Philippines		
NEPHROLOGY	KRIN1493	Hydrochloride	Small molecular	Calcium Receptor Agonist	Secondary Hyperparathyroidism	Malaysia	Oral	
						Thailand		
	RTA 402	Bardoxolone Methyl	Small molecular	Antioxidant Inflammation Modulator	CKD in Patients with Type 2 Diabetes	Japan	Oral	
	KHK7580		Small molecular	Calcium Receptor Agonist	Secondary Hyperparathyroidism	Japan	Oral	
					Adult T-cell Leukemia-Lymphoma (ATL) Combination Therapy (for Untreated Patients)	Japan		
					Peripheral T/NK-cell Lymphoma (PTCL/CTCL)	Japan		
	KW-0761	Mogamulizumab	Antibody	Anti-CCR4 Humanized Antibody	Peripheral T-cell Lymphoma (PTCL)	Europe	Injection	
					Adult T-cell Leukemia-Lymphoma (ATL)	U.S./Europe		
					Cutaneous T-cell Lymphoma (CTCL)	U.S./Europe		
						Singapore		
	-	Granisetron	Small molecular	5-HT ₃ Serotonin Receptor Antagonist	Chemotherapy Induced Nausea and Vomiting	Malaysia	Patch	
						Hong Kong		
	KW-2246	Fentanyl Citrate	Small molecular	µ-Opioid Receptor Agonist	Cancer Pain	Japan	Sublingual tablet	
	KRN125	Pegfilgrastim	Protein	Long-Acting Granulocyte Colony Stimulating	Chemotherapy Induced Febrile Neutropenia	Japan	Injection	
ONCOLOGY		Cinacalcet		Factor	Hypercalcemia with Parathyroid Carcinoma or		-	
_	KRN1493	Hydrochloride	Small molecular	Calcium Receptor Agonist	Intractable Primary Hyperparathyroidism	Japan	Oral	
					Lung Cancer (EGF-Receptor Mutated)	Japan		
	ARQ 197	Tivantinib	Small molecular	c-Met Inhibitor	Hepatocellular Cancer	Japan	Oral	
-					Gastric Cancer	Japan/Korea		
-	KRN321	Darbepoetin Alfa	Protein	Long-Acting Erythropoiesis Stimulating Agent	Myelodysplastic Syndrome-related Anemia	Japan/Korea	Injection	
	KW-2478		Small molecular	HSP90 Inhibitor	Multiple Myeloma	U.K./U.S./ Philippines	Injection	
	BIW-8962		Antibody	Anti-GM2 Humanized Antibody	Cancer	Korea	Injection	
	KRN951	Tivozanib	Small molecular	VEGF Receptor Inhibitor	Cancer	Japan	Oral	
	CEP-37250/ KHK2804		Antibody	Anti-Tumor Specific Glycoprotein Humanized Antibody	Cancer	U.S.	Injection	
-	KHK2898		Antibody	Anti-CD98 Fully Human Antibody	Cancer	Singapore	Injection	
	KHK4563	Benralizumab	Antibody	Anti-IL-5 Receptor Humanized Antibody	Asthma	Japan/Korea	Injection	
	Z-206	Mesalazine	Small molecular	pH Dependent Controlled Release Tablet	Crohn's Disease	Japan	Oral	
-						U.S.		
IMMUNOLOGY/ ALLERGY	ASKP1240		Antibody	Anti-CD40 Fully Human Antibody	Organ Transplant Rejection	Japan	Injection	
	KHK4827	Brodalumab	Antibody	Anti-IL-17 Receptor Fully Human Antibody	Psoriasis	Japan	Injection	
	KW-0761	Mogamulizumab	Antibody	Anti-CCR4 Humanized Antibody	Asthma	Japan	Injection	
	KHK4083		Antibody	Immunomodulator Antibody	Autoimmune Diseases	Canada	Injection	
-	KHK4577		Small molecular	Anti-Inflammatory Agent	Inflammatory Diseases	Japan	Oral	
					-	Japan		
CENTRAL	KW-6002	Istradefylline	Small molecular	Adenosine A _{2A} Receptor Antagonist	Parkinson's Disease	U.S.	Oral	
NERVOUS						U.S./Europe		
	KW-6485	Topiramate	Small molecular	Antiepileptic Drug	Pediatric Epilepsy	Japan	Oral	
					······			
	AMG531	Romiplostim	Protein	Thrombopoietin Receptor Agonist	Idiopathic (Immune) Thrombocytopenic Purpura	Hong Kong Malaysia	Injection	
						Singapore	njocton	
OTHER						Japan		
	KW-3357	Antithrombin Gamma	Protein	Recombinant Human Antithrombin	Disseminated Intravascular Coagulation, Congenital Antithrombin	Europe	Injection	
	KRN23		Antibody	Anti-FGF23 Fully Human Antibody	X-linked Hypophosphatemic Rickets/Osteomalacia	U.S./Canada	Injection	
Discontinued					(XLH)	S.G./ Garraud		
Lisoonanded	KW-2450		Small molecular	IGF-1 Receptor Signal Inhibitor	Cancer	U.S.	Oral	
ONCOLOGY	r.w-240U		omaii muleculai			0.0.	Jiai	
	LY2523355	Litronesib	Small molecular	M Phase Kinesin Eg5 Inhibitor	Cancer	Japan	Injection	
	KHK2866		Antibody	Anti-HB-EGF Humanized Antibody	Cancer	U.S.	Injection	
CENTRAL			Small molecular	Company (CP2 Pacapter Accession	Nouropathic Pain	lanan	Oral	
NERVOUS SYSTEM	KHK6188		Small molecular	Cannabinoid CB2 Receptor Agonist	Neuropathic Pain	Japan	Oral	

	 Phase			_	
 I	 	NDA Filed	Approved 2013.9	Origin	Remarks
			2013.5	Kirin-Amgen Inc.	Launched in Japan for anemia of CKD patients
				NPS Pharmaceuticals, Inc.	
			2013.2		
			2013.6		
				Reata Pharmaceuticals, Inc.	The Phase II studies that were conducted in Japan are discontinued a future development program for RTA 402 is under consideration.
				Mitsubishi Tanabe Pharma Corporation	
				**	POTELLIGENT® antibody
				In-house	We have temporarily withdrawn the NDA that we submitted for additional indications for adult T-cell leukemia-lymphoma combinati thereas the submitted patients.
					therapy (for untreated patients)
			2013.8	Solasia Pharma K. K.	Launched by ProStrakan Group plc as Sancuso®
 			2013.3	(ProStrakan)	
			2013.9	Orexo AB (Pabl)	
				Kirin-Amgen Inc.	
				NPS Pharmaceuticals, Inc.	Launched in Japan for secondary hyperparathyroidism
	 			ArQule, Inc.	
	·			Kirin-Amgen Inc.	Launched in Japan for anemia of CKD patients
				In-house	
				In-house	POTELLIGENT®
				In-house	Being developed overseas by AVEO Pharmaceuticals Inc. as AV-951
				Teva Pharmaceutical Industries Ltd.	POTELLIGENT® Jointly developed with Teva Pharmaceutical Industries
				In-house	POTELLIGENT® KM Mouse
				In-house	POTELLIGENT® Being developed by AstraZeneca PLC/MedImmune, LLC as MEDI-56 worldwide except in Japan and other Asian countries
				Zeria Pharmaceutical Co., Ltd.	Launched in Japan for ulcerative colitis Jointly developed with Zeria Pharmaceutical Co., Ltd.
				- In-house	Jointly developed with Astellas Pharma Inc. KM Mouse
				Kirin-Amgen Inc.	
				In-house	POTELLIGENT®
				In-house	POTELLIGENT® KM Mouse
				In-house	
 			2013.3	-	
				In-house	
				- Janesan Pasaarah 8	
			2013.11	Janssen Research & Development, LLC	Launched in Japan for use as an antiepileptic drug
 				 Kirin-Amgen Inc.	
 				KINIT-AINgen Inc.	
	 			In-house	
				In-house	Jointly developed with Ultragenyx Pharmaceutical Inc. KM Mouse
				In-house	Discontinued due to revision of product development portfolio in oncology area.
	 			In-house	Discontinued due to revision of product development portfolio in oncology area.
				In-house	Discontinued due to revision of product development portfolio in oncology area.
				1	Discontinued due to revision of product development portfolio in

Sales & Marketing in Japan

We are concentrating on accelerating market penetration for new products and even greater competitiveness for existing products.



Priorities for Sales & Marketing in Japan

Kyowa Hakko Kirin's sales and marketing priorities in Japan are to accelerate the market penetration of new products and add to the value of existing products. We are doing this by further strengthening our competitiveness in Japan based on our category-based strategy and allocating resources appropriately in order to maximize effectiveness.

Kyowa Hakko Kirin expects its MRs to be health care providers. As such, they increase their expertise as medical professionals to provide information that helps health care providers give patients outstanding care. Moreover, we are using resources effectively by exercising synergies among marketing team members as they fulfill their roles and responsibilities with the aim of being an organization that maximizes team performance through collaboration. We also established the Product Information & Communication Department within the Sales & Marketing Division in October 2013 and unified external question and answer call centers to



NOURIAST®

achieve effective information activities and detailed responses.

Another priority in our division is ensuring reasonable costs as we continuously launch new products and respond steadily to unmet medical needs. We are enhancing sales efficiency by appropriately reducing costs and raising productivity while we launch new products and maintain and improve quality. We are also contributing to society while adapting to changes in the sales and marketing environment in areas such as compliance.

We received approval in Japan for three new products in 2013. We launched the antiparkinsonian agent NOURIAST® in May, the type 2 diabetes treatment ONGLYZA® in July, and breakthrough cancer pain treatment Abstral® in December. In addition, we filed an NDA during 2013 for KRN125, a long-acting G-CSF for treating chemotherapy-induced febrile neutropenia.

NOURIAST[®] is receiving attention as the world's first adenosine A_{2A} receptor antagonist with a unique



Vice President Head Sales & Marketing Division

Director of the Board

Managing Executive Officer



non-dopamine mechanism of action and since launch it has penetrated the market more quickly than expected. Steady penetration in Japan should also support an enhanced evaluation of this drug in overseas markets.

Enhancing the Competitiveness of Existing Products

Kyowa Hakko Kirin will add further value to its existing products through means including additional indications with the goal of increasing sales.

We submitted an NDA in Japan during July 2013 for anti-CCR4 humanized antibody POTELIGEO® for the additional indications of untreated adult T-cell leukemia-lymphoma (ATL), relapsed or refractory peripheral T-cell lymphoma (PTCL), and cutaneous T-cell lymphoma (CTCL)¹. In Japan, additional indications will also expand opportunities to use POTELIGEO® TEST, a companion *in vitro* diagnostic reagent used to make decisions about administering POTELIGEO®. (Kyowa Medex holds the manufacturing and marketing rights for POTELIGEO® TEST.)

In September 2013, for core product NESP[®] we received approval for the additional indication of renal anemia in pediatric patients and for manufacturing and marketing NESP[®] Injection 5µg Plastic Syringe. At the same time, NESP[®] is gaining stature as the only long-acting ESA² covering predialysis through dialysis in adults and infants with renal failure. Furthermore, NESP® retained its leading share of the ESA market in 2013.

In November 2013, antiepileptic agent TOPINA[®] received approval for an additional pediatric indication as an adjunctive therapy with other antiepileptic drugs.

- We have temporarily withdrawn the NDA that we submitted for additional indications for adult T-cell leukemia-lymphoma combination therapy (for untreated patients).
- 2. Erythropoiesis stimulating agent for treating renal anemia

Kyowa Medex: At the Forefront of Personalized Medicine

The treatment of disease with pharmaceuticals is moving from the approach targeting a broad array of patients to selecting drugs at the molecular level that are expected to be highly effective and safe. The trend today is toward administering to only patients for whom the drugs are expected to be effective to increase the reliability of treatment. Companion diagnostics are now essential in choosing treatment as they determine whether the therapeutic agent will be effective while decreasing side effects.

When concurrently developing drugs and companion diagnostics for this kind of personalized medicine, a key issue is the exchange of information up to approval. The Kyowa Hakko Kirin Group leveraged the multitasking capabilities of its organization to quickly launch the drug POTELIGEO[®] and its companion diagnostic, POTELIGEO[®] TEST.

Having made solid progress toward personalized medicine, Kyowa Medex will exercise additional synergies with Kyowa Hakko Kirin to develop companion diagnostics.



Overseas Operations

We are strengthening our overseas operations as we work toward becoming a global specialty pharmaceutical company.



Toshifumi Mikayama, Ph.D. Director of the Board Managing Executive Officer Director Overseas Business Department

Priorities for Overseas Operations

Essentially, Kyowa Hakko Kirin's priority for overseas operations is to build a solid sales & marketing organization that will enable us to become a global specialty pharmaceutical company.

We acquired ProStrakan in 2011 and the integration of Kyowa Hakko Kirin and ProStrakan offices in the United Kingdom and Italy has driven progress in strengthening the European sales & marketing organization. As a result, the importance of ProStrakan has increased as the Kyowa Hakko Kirin Group's base in Europe and the United States. Key priorities in the future include further enhancing a sales & marketing organization that accommodates new product sales in Europe and the United States as well as strengthening ProStrakan's sales & marketing network, including its offices in the L

Consol

in the United States.		To provide breakthrough drugs							
Consolidated Subsidiaries in Asia									
Consolidated	Date Established	MRs*	Sales (Billions of yen)						
Subsidiaries			2011	2012	2013				
Kyowa Hakko Kirin China Pharmaceutical Co., Ltd.	June 1997	84	2.8	2.9	3.2				
Kyowa Hakko Kirin Korea Co., Ltd.	May 1991	30	3.0	2.9	4.1				
Kyowa Hakko Kirin (Taiwan) Co., Ltd.	April 1992	20	2.0	2.1	2.8				
Kyowa Hakko Kirin (Hong Kong) Co., Ltd.	August 1993	6	0.5	0.5	0.8				
Kyowa Hakko Kirin (Singapore) Pte Ltd	March 2005	8	0.3	0.3	0.3				

* As of the end of December 2013

(Singapore) Pte. Ltd.

In Asia, a key priority is to establish operating fundamentals to achieve sustained growth in China. Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. is central to this effort, and is strengthening its revenue base through policies that include launching new drugs, enhancing production capacity and creating alliances with other companies. Another priority is to rapidly launch products under development and expand sales in economically vibrant countries and regions such as Korea, Taiwan, Hong Kong, Singapore and Thailand with business strategies tailored to conditions in respective countries and regions.

We will also strategically invest to further expand our sales & marketing bases in the United States, Europe and Asia with aspirations that include the introduction of new drugs.



created utilizing our strengths in biotechnology and antibody technology to patients in more countries and regions, we will investigate deployment into new countries and regions with the aim of sustainable growth as a global pharmaceutical company.

Focusing on Clinical Trials and NDAs Overseas

Further expanding markets and increasing our product line-up in overseas countries and regions is essential in becoming a global specialty pharmaceutical company. Therefore, we are focusing on the category-based strategy as we coordinate and energetically promote clinical trials and NDAs in Europe, the United States and Asia. We plan to focus on the oncology category particularly in Europe and the United States and the nephrology and oncology categories in Asia based on the status of the Kyowa Hakko Kirin Group's pipeline.

Solid Results for ProStrakan

ProStrakan is using its strengths in sales and marketing to promote the penetration of existing products in Europe and the United States. In 2013, growth in sales of Abstral[®], a treatment for breakthrough cancer pain, made a significant contribution to results in eight European countries, and sales of Sancuso[®], a treatment for chemotherapy-induced nausea and vomiting, began in the United Kingdom, Germany, the Netherlands and elsewhere.

In 2013, ProStrakan also increased sales and achieved operating profitability (after amortization of goodwill and sales rights) through improvements that included reducing manufacturing costs and lowering selling and administrative expenses, thereby reaching an important milestone in the third year since its acquisition.



Bio-Chemicals Business

Driven by innovative technologies, we will continue to provide high-valueadded functional materials of outstanding quality to meet the needs of the pharmaceutical, medical and health care fields.



Shuichi Ishino, Ph.D. President and CEO KYOWA HAKKO BIO CO., LTD.

Priorities for the Bio-Chemicals Business

The Bio-Chemicals business is divided into fine chemicals, health care and agribusiness. In the fine chemicals market, we manufacture and supply active pharmaceutical ingredients (APIs) including pharmaceutical-use amino acids, nucleotides and related compounds such as adenosine triphosphate. In the health care market, we manufacture and supply supplements and amino acids for functional ingredients. In the agribusiness market, we supply products such as plant growth regulators to farmers in Japan and overseas.

Net Sales by Region¹



Net sales by region is disclosed from 2012.
 As of the end of December for each year

The Bio-Chemicals business aims to strengthen its revenue base with sustained growth, by continuously supplying safe and reliable products that are reasonably priced in order to help enrich daily life in each of its market fields. We are structuring operations to minimize the impact of exchange rates, and are currently prioritizing expansion of production capacity to meet growing global demand for amino acids. In the health care market, we are enhancing recognition of our products through effective advertising and by supplying our own materials that consumers can use with confidence.







Responding to Strong Demand for High-Value-Added Amino Acids

The amino acid market is expanding rapidly backed by growing worldwide needs in the pharmaceutical, medical and health care fields. Further growth is expected in the future. In particular, the amino acid markets in Asia are rapidly expanding because of population growth, economic development and lifestyle changes.

We have manufacturing bases for amino acids in Japan, the United States and China. We are constructing a plant in Thailand that will feature the latest production technology to meet future growth in demand. The plant is scheduled to begin operation in 2015.

We have also enhanced production facilities at our base in the United States to alleviate current tight supply in the face of ongoing strong demand in the amino acid market.

Expansion in the Health Care Business

Amino acids have attracted attention in recent years as a result of people's increasing interest in taking care of their own health through self medication. Our amino acids and other supplement materials, centered on the United States market but available worldwide, are used as raw materials for a wide variety of supplements that help people improve their health.

In Japan, we began mail-order sales of our own amino acid supplement,

ornithine, in 2004, and have earned strong customer support. Ornithine is also used as an ingredient in Kirin Health Project *Kirin Plus-i* beverages and yogurt. Synergy with advertising in the mail-order business has enhanced recognition of ornithine, supporting higher sales of functional food ingredients as well as supplements. Moreover, in 2013 we launched a functional lactobacillus supplement in tablet form named "Lactococcus Plasma." This product is our first health food offering co-branded with the *Kirin Plus-i* logo.

In addition to ornithine, we will work to expand sales of citrulline and other products containing our unique materials in the domestic health care market.

Promoting Development of New Products and Materials

We deploy the technological capabilities we have acquired in the development of amino acids and nucleotide compounds to create production processes and new demand for materials such as oligosaccharides and dipeptides. In addition, we combine fermentation and organic synthesis technologies to develop new production processes for high-value-added APIs and intermediates. For example, we developed a breakthrough manufacturing method for the dipeptide alanylglutamine. This reduced costs significantly compared to the conventional chemical synthesis method and allows us to respond to customer needs while helping to create

new demand. We have also succeeded in using this technology to produce the dipeptide alanyltyrosine.

In the health care business, we will develop new product proposals and applications based on functional and safety data acquired through joint research with universities and research institutes in Japan and abroad.

Reorganizing Production Bases to Raise Manufacturing Organization Efficiency

We are integrating the biochemical plants at the Yamaguchi Production Center in Hofu and making a series of capital investments to enable efficient production of high-quality, highvalue-added amino acids. In March 2013, we completed new purification facilities for amino acids and other products. In November 2013, we began construction of new production facilities that are slated for completion in 2015.

The consolidation in Hofu will contribute to lower costs through reduced energy use and the introduction of new technologies. These measures will contribute to the Bio-Chemicals business's fundamental strategy of improving profitability during Medium-Term Business Plan – 2013 to 2015.

Production

We are strengthening our organization to ensure a stable supply of high-quality products and maximizing value by further improving our biopharmaceutical production technologies.

Priorities for Production

The Kyowa Hakko Kirin Group prioritizes the reliability of its drugs, and is energetically enhancing its infrastructure at each plant and laboratory to ensure the stable supply of high-quality products. Bio Process Research and Development Laboratories, Drug Formulation Research and Development Laboratories, and Chemical Process Research and Development Laboratories focus on R&D to develop production processes and formulation technologies to provide new value to patients and health care providers.

We also pursue strict management and technical support at contract manufacturers in Japan and overseas to consistently provide high-quality products.



Reorganization of Production Sites

Kyowa Hakko Kirin is restructuring its production sites to solve problems with location and old facilities to optimize production. At the Yokkaichi Plant, manufacturing ended in November 2013, and its role in supplying APIs for small molecule drugs has been transferred to Daiichi Fine Chemical. Currently, the Sakai Plant and Daiichi Fine Chemical are charged with supplying APIs for small molecule drugs, the Fuji Plant and the Ube Plant are charged with supplying oral dosage forms, the Fuji Plant and the Takasaki Plant are charged with supplying liquid pharmaceuticals, and the Takasaki Plant is charged with supplying biopharmaceuticals. We target the completion of our production base reorganization by the end of 2017, as shown in the chart below. We are also continuously updating our Business Continuity Plan (BCP) and are strengthening our ability to supply products in the event of an emergency.

Evolution and Value Maximization of Biopharmaceutical Production Technologies

Production technology for biopharmaceuticals, established and

evolved through the production of ESAs and other products for more than 20 years, is a strong advantage of Kyowa Hakko Kirin. At Bio Process Research and Development Laboratories, scientists specialized in process research and development of biopharmaceuticals are dedicated to achieving superior quality and productivity. By using these technologies, the optimal manufacturing system is designed for each product with the objective of launching the biopharmaceuticals in our development pipeline.

FUJIFILM KYOWA KIRIN BIOLOGICS, which is a joint venture with FUJIFILM established in March 2012, handles our biosimilars business. This company merges Kyowa Hakko Kirin's proprietary technologies in R&D and biopharmaceutical manufacturing with FUJIFILM's quality control and analysis technologies developed over many years through businesses such as photographic film. This joint venture will create revolutionary production processes for the development of competitive biosimilars.



Intellectual Property

Kyowa Hakko Kirin takes an international approach to strengthening its organization for acquiring and maintaining intellectual property rights, acquiring and granting licenses, and monitoring the rights of third parties.

Priorities for Intellectual Property

Intellectual property (IP) is a key management resource for the Kyowa Hakko Kirin Group. We therefore strive to acquire wide-ranging, robust and effective rights to the IP that underpins our business strategies. Also, we respect the IP rights of third parties and refrain from infringing on those rights. This enables us to not only ensure compliance but also maintain a high degree of freedom to operate in our research and business activities, which in turn contributes to maximizing value in each individual business.

Aiming to be a global specialty pharmaceutical company, Kyowa Hakko Kirin takes an international approach in strengthening its systems for activities such as acquiring and maintaining IP rights, acquiring and granting licenses and monitoring third parties' rights. For example, in the Pharmaceuticals business, the

Number of Patents Owned

Kvowa Hakko Kirin

*Excluding ProStrakan



Company protects core technologies and maximizes product value by managing product life cycles through the strategic filing of relevant patents.

Functions of the Legal and Intellectual Property Department

The Legal and Intellectual Property Department is responsible for the IP-related activities of the Group's Pharmaceuticals business. It is also working to make operations more efficient and to reinforce IP-related risk management in the Group through the provision of IP-related support to major subsidiaries.

The integration of business and IP strategies is an important Groupwide focus for Kyowa Hakko Kirin. The Legal and Intellectual Property Department is therefore enhancing intra-Group coordination through means including frequent meetings with relevant divisions and IP consulting with research laboratories.

Moreover, department members participate in major projects related to development themes to provide IP perspectives at key stages of research and business decision making.

Enhanced IP Training for Employees

The Legal and Intellectual Property Department also serves an important function of educating employees on IP. We collaborate with relevant divisions and develop and implement systematic educational programs that include training with up-to-date content that meets the needs of new employees, transferees and research laboratories.

A Patent Portfolio Consistent with Business Strategy

The development of new drugs requires many years and substantial investment, but the success rate is extremely low. Products that reach the market are therefore valuable assets that we need to protect with patents for as long as possible as one key to maximizing earnings.

The Legal and Intellectual Property Department helps the Company to structure a patent portfolio that is consistent with its business strategy by considering the strategic positioning of individual patent themes and their fit within Group operations. In addition, the department helps ensure that Kyowa Hakko Kirin is concentrating IP-related resources on

the most significant issues. It is also involved in organizational structuring that aggressively supports management initiatives to proactively assert patent rights.

Kenya Shitara, Ph.D.

Executive Officer Director Legal and Intellectual Property Department

Quality Assurance and Pharmacovigilance

We strive to establish a quality assurance system for safety and quality that supports the global development of our core businesses.



Kazuyoshi Adachi

Executive Officer Vice President Head Pharmacovigilance and Quality Assurance Division

Priorities for Quality Assurance

We consider customer safety our number one priority. We are building a three-tier structure to ensure sound operation of our quality assurance system. The first tier consists of quality assurance organizations at each plant. Above that, we have quality assurance organizations in each business field such as pharmaceuticals, bio-chemicals, and diagnostics. Finally, a dedicated corporate department oversees the quality assurance activities of the entire Group.

For pharmaceuticals, our core business, with our fundamental policy to supply superior-quality products along with accurate information to customers, we assure quality at all stages from development to manufacturing and post-marketing in order to consistently supply high-quality pharmaceuticals with guaranteed efficacy and safety. In pursuing our most important priority of putting patient safety first, we consistently and continuously assure the quality of pharmaceuticals including investigational drugs from many angles, as well as the data required for new drug applications (NDAs).

A Global Pharmaceutical Quality Assurance System

We formulated policies for the ICH Q10 pharmaceutical quality system in 2010, and are energetically building a global quality assurance system. We have created a system in which the president and other senior executives review the Plan-Do-Check-Act (PDCA) cycle for manufacturing and quality control to clarify their responsibilities in ensuring the effectiveness of ICH Q10. We have also begun knowledge management and product life cycle management as elements of ICH Q10.

As a Marketing Authorization Holder, we also comply with PIC/S (Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme), which is

The Kyowa Hakko Kirin Group's Quality Assurance Organization (As of April 1, 2014)





becoming an international standard for good manufacturing practice (GMP) inspections. In addition, we actively conduct quality audits of contract manufacturers in Japan and overseas.

We will continue to implement initiatives to provide products of even higher quality.

Pharmacovigilance

Pharmacovigilance (PV) allows Kyowa Hakko Kirin to put patient safety first in focusing on assuring the reliability of its products.

Benefit and Risk Assessment

All pharmaceuticals have both efficacy for treating patients (benefits) and side effects that are undesirable for patients (risks). The benefit-risk balance changes as a pharmaceutical product proceeds from development stages to approval review to manufacturing and post-marketing. Kyowa Hakko Kirin conducts timely benefit-risk assessments and reviews so that patients can use its pharmaceuticals safely and with confidence. We also conduct PV in



order to supply health care providers with appropriate information. In 2012, we became the first company to implement the Japanese version of the Oracle® Argus safety database (Argus/J) to enhance the quality of safety information collection and analysis and promote global responsiveness. Argus is widely used among the world's pharmaceutical companies to manage safety information.

Pharmaceutical Risk Management Plan

Following the European Union, Japan now also requires the formulation and submission of a pharmaceutical risk management plan (RMP) that incorporates safety measures to minimize the risks of pharmaceuticals.

Kyowa Hakko Kirin established an RMP support group well in advance of the ministerial ordinance, and formulated and submitted RMPs in a timely fashion for NDAs filed since April 2013.

Implementation of, and monitoring based on RMPs lead to continuous activities and initiatives to maximize the benefits of pharmaceuticals and minimize their risks. The goal of our quality assurance activities is to maximize the value of our drugs. We will energetically make use of our RMPs for this purpose.

Creation of a Global PV Organization

In 2011, the merger of ProStrakan of the United Kingdom added pharmaceutical sales in Europe and North America to our portfolio in Japan and Asia. We also created a collaborative international organization for clinical trials and expanded clinical development in Europe and the United States. The Quality Assurance Division is promoting global PV through collaboration between Japan, the United States and Europe.

Risk and Disaster Response

We fulfill our obligations as a pharmaceutical manufacturer and marketer by using e-learning to provide education to all employees on the harmful effects of medication (training to help all employees sincerely respond to and prevent recurrence of cases in which the harmful effects of a medication cause problems for society).

We also conduct product recall training each year to enable rapid and appropriate responses if a product risk emerges. In 2013, we implemented a joint recall exercise with external contract manufacturers and a recall exercise that included overseas sales offices.

Moreover, we have prepared for a major earthquake by formulating a business continuity plan (BCP) and creating an even more thorough quality assurance system.

A Message from the Executive Vice President

As we develop our business using our strengths in biotechnology, we aim to contribute to the health and well-being of people around the world.



We aim to become a company that continues to grow by making maximum use of our strengths in biotechnology. We focus on assuring high quality in our research, development and manufacturing processes to harness biotechnology that creates new value. While we harness nature's microbiological power, we use our technology, knowledge and experience to support high quality. We also have a major responsibility to society and our customers to communicate the capabilities of pharmaceutical products simply and accurately, so we are putting into place a structure that enables us to provide technical knowledge backed by a wide range of viewpoints and information based on accurate research data as quickly as possible. At the same time, we are promoting open innovation to incorporate leading-edge information. We will always value our sensitivity to meet the needs of new generations and to achieve sustainable business operations.

Communication is important in responding continuously to the expectations of society.

We want to use our strengths to meet stakeholder expectations and contribute to the creation of a sustainable society. In recent years, both treatment and prevention have improved health, while the new market of functional recovery to extend healthy lifespan is emerging. I believe that the pharmaceuticals, biosimilars, diagnostics, health food products and other products we provide must address social changes, particularly in the medical treatment environment. Based on our belief that we are responsible for quickly understanding needs, we will focus even more intensely on communicating with all of our stakeholders including health care providers and patients.
Business Model

Research

We focus on antibody technologies in using biotechnology to create new drugs. We conduct research including open innovation-style research and translational research, which "translates" findings in basic research into practical applications in clinical trials and treatments. This research also leverages our relationships with universities and research institutions in Japan and around the world.

- Therapeutic antibodies, small molecule drugs, RNA interference Technology
- Global network (four laboratories: two in Japan, one in San Diego in the United States, one in Singapore)

Development



In order to create valuable new drugs, our drug development organization conducts multinational clinical trials concurrently in Japan, Europe, the United States and Asia to investigate the safety of drugs under development. These clinical trials are structured to achieve efficient, timely results that are of high quality and scientifically and ethically sound.

- Biopharmaceutical and other pipelines
- One Drug Development Organization (ODDO): A virtual organization that integrates the management of overseas bases to develop drugs

Production



We have manufacturing technologies and facilities that can sustainably supply high-quality drugs in Japan and other countries. Scientists focused on our strengths in manufacturing drugs, especially biopharmaceuticals, aim to further strengthen competitiveness.

- World-class biopharmaceutical production technologies acquired through many years in the fermentation and pharmaceuticals businesses
- Production facilities (five in Japan, one overseas)
- Facilities for biopharmaceuticals with equipment for the cultivation of mammalian cells and for purification that are among the largest in the world

Sales & Marketing



We train highly ethical, knowledgeable and skilled medical representatives (MRs), who are a part of the health care cycle. Call centers and websites organized by disease and product promote the delivery of information that helps to ensure the best possible treatment.

- 65 sales offices in Japan, 28 international offices in 14 countries
- Number of MRs (Japan): 1,410
- Number of disease and health information websites (Japan): 7
- Number of inquiries for medical information to the call center in Japan: approximately 40,600 in 2013

Relationship with Stakeholders



Customers

We support the effective, safe use of our drugs by collecting and providing information that meets various needs.

Dialogue Tools

- MR visits
- Medical information call center
- Websites with disease-specific information
- Website for health care providers



Committed to transparency, fairness and consistency, we earn the trust of shareholders and investors through appropriate information disclosure.

Dialogue Tools

- General Meeting of Shareholders
- Websites for shareholders and investors (Japanese and English)

• Results presentations (Japanese

and English video)

R&D presentationsBusiness presentations

Shareholders and Investors

We promote fair transactions, partnering and CSR procurement to become a global specialty pharmaceutical company.

Dialogue Tools

Business Partners

- Partnering initiatives
- Kyowa Hakko Kirin Group
 Procurement Policy/Guidebook
- CSR procurement information meetings
- Survey on CSR initiatives
- Supplier hotline



Employees

We respect the human rights and individuality of employees, and seek to be a company that promotes diversity while growing along with employees.

Dialogue Tools

- Commitment to Life
- Employee education and training
- Human rights hotlines
- Work-life balance policies
- Measures for the active participation of women

We aim to contribute to, and earn the trust of society and the communities we serve using the assets we have accumulated through our businesses.

Dialogue Tools

- Websites
- Support for science education

(visiting workshops)

• Table tennis lessons

- Responsible Care activities
- Factory and laboratory tours

Society and Community

We actively engage in initiatives such as reducing CO₂ to protect the environment and support the achievement of a sustainable society.

Dialogue Tools

- Basic Policy on the Environment, Safety, and Product Safety
- Disclosure of environmental data, including environmental accounting
- ISO14001-based management
- Water Source Forest
 Conservation Activities

The Environment



We support the effective, safe use of our drugs by collecting and providing information that meets various needs.

Priorities for Our Relationship with Customers

One of our main priorities in relationships with customers is communicating the correct information from the vast amount of data available. We concentrate on communicating easy-tounderstand information that addresses the various needs of patients, their families and health care providers. Committed to promptly meeting these needs, we complement the activities of MRs with a medical information call center and websites for medical professionals and disease awareness.

We support the effective and safe use of our drugs by providing relevant content from health care provider reports, research reports from Japan and overseas, and information from overseas regulatory authorities to health care providers via our MRs and websites. We also have a system for communicating the information we obtain to relevant divisions according to content to support initiatives for nurturing drugs that are linked to product safety, quality assurance and product improvement.

	2011	2012	2013	
Medical Information	Approximately	Approximately	Approximately	
Call Center Inquiries	38,000	40,000	40,600	



Number of Inquiries to the Medical Information Call Center



Number of Inquiries to the Medical Information Call Center by Subject





Our MRs are highly specialized health care providers who provide information that helps health care professionals improve patient treatment. In 2013, our MRs focused on building understanding of the efficacy and safety of three new drugs for which we received approval in Japan. For existing products, MRs concentrate on communicating even more clearly the added value from new indications.

Medical Information **Call Center**

Websites



Our medical information call center responds to inquiries from health care providers, patients and their families. The number of inquiries has been increasing annually, and exceeded 40,000 in 2013. We are focusing on educating call center personnel so that we are able to respond to inquiries quickly and accurately. We have also implemented mechanisms with a third-party perspective for auditing whether we are providing easy-to-understand explanations of product benefits and risks. We are enhancing convenience in ways such as creating a framework for tabulating common inquiries and publishing them in question-and-answer compilations.

Disease and Health Information Websites

We maintain easy-to-understand disease information and content as a source of reference for disease causes, symptoms, treatments and healthy lifestyles for patients, their families and the general public in Japan.

We currently maintain seven websites with the themes of chronic kidney disease (CKD), diabetes, pollinosis, pruritus, Parkinson's disease, enuresis, and idiopathic thrombocytopenic purpura. For example, the CKD website uses illustrations and video clips for easy-tounderstand explanations of issues including anemia due to reduced kidney functions. It also features a page

where visitors can check the condition of their own kidneys using serum creatinine levels recorded during physicals and other health examinations.

The pollinosis website provides pollinosis treatment information and offers a convenient page that allows visitors to check pollen forecasts in municipalities of their choosing. We also provide a smartphone application as a helpful tool for people with pollinosis. Useful functions include a convenient alarm that keeps users from forgetting to take their medication and a diary for recording symptoms and pollen levels.

戸約度ナト

Japanese Only Websites



http://www.kyowa-kirin.co.jp/ckd/



kksmile®: A Website for Health Care Providers

information presented at conferences and in publications.

At kksmile®, a website for physicians, pharmacists and other health care professionals in Japan, the content focuses on in-depth information about our products in the fields of nephrology, circulatory system and diabetes; oncology and hematology; immunology and allergies; and central nervous system and gastroenterology. The site also provides the latest scientific





Diabetes Website http://www.kyowa-kirin.co.jp/diabetes

http://www.kvowa-kirin.co.ip/onesho/





http://www.kyowa-kirin.co.jp/kahun/



http://www.kvowa-kirin.co.ip/itp/



http://www.kksmile.com



Committed to transparency, fairness and consistency, we earn the trust of shareholders and investors through appropriate information disclosure.

and Investors

Priorities for Our Relationship with Shareholders and Investors

The Kyowa Hakko Kirin Group regards public relations for shareholders and investors as an important management issue. We formulated our Disclosure Policy to engage quickly and accurately in the timely, active disclosure of information based on transparency, fairness and consistency.

We make use of a wide array of opportunities and tools in our public relations activities, working to deepen communication with interested investors both institutional and individual.

Opportunities and Tools for Dialogue

Dialogue with Shareholders and Individual Investors

The 91st Annual General Meeting of Shareholders was held on March 20. 2014. The Notice of Convocation sent prior to the meeting was both easy on the environment and easy for shareholders to understand because it used environmentally friendly paper and ink and a universal design font, and also featured color photographs and graphs. Moreover, business reports presented at the meeting made use of visuals such as narrated videos.



All proposals were approved as resolutions after lively deliberation involving questions and answers.



91st Annual General Meeting of Shareholders

- Time: 10:00-11:22
- Attendees: 354
- Questioners: 6
- Number of questions: 13

For the record, 7,313 shareholders exercised their voting rights, representing 85.5 percent of total voting rights.

Moreover, we reformed the Japanese interim report and published a new Kyowa Hakko Kirin Report with the primary objective of improving our relationship with investors.

Dialogue with Institutional Investors

Direct dialogue with institutional investors in Japan and overseas is the key to our investor relations (IR) activities under a principle of responding sincerely to requests for interviews and other forms of interaction. Group executives and IR managers use many approaches to do this, including small meetings with multiple companies, individual interviews and teleconferences.

In addition, we hold IR events twice per year in order to deepen understanding of the Kyowa Hakko Kirin Group's corporate value among institutional investors. We conducted an information meeting for the Bio-Chemicals business in June 2013 and introduced topics ranging from the growth potential of the amino acids business to business strategy. We also conducted the Development Forum in November 2013, at which the president of U.S. subsidiary Kyowa Hakko Kirin Pharma, Inc. explained the current status of the global new drug development that he heads. Video of the Forum was made available in Japanese and English on the Group website.

We also present financial results guarterly. Management conducts presentations for first-half and year-end results, and teleconferences for first- and third-quarter results. Videos of these presentations are quickly posted on the Group's website in Japanese and English.

We emphasize a CSR perspective, which is a prerequisite of investment. Therefore, the Kyowa Hakko Kirin Group transformed its annual report, and since 2012 publishes an integrated report.



Development Forum 2013

Electronic versions are available on the Group website. Hardcopy versions can also be requested using the Eco Hotline¹ site in Japan and the Euroland² site overseas.

1. Eco Hotline: http://www.ecohotline.com/ 2. Euroland: http://www.euroland.com/

Key Financial Data

Access to Key Financial Data Kyowa Hakko Kirin is enhancing its investor relations website to facilitate access to data for investors to analyze. This site allows visitors to browse key financial data from the most recent 10 years in both numerical and graphical form. The key financial data can also be downloaded in Excel format for investors to use when financially analyzing Kyowa Hakko Kirin. Global Recognition Recognized by the global community for its management approach and active environmental efforts, Kyowa Hakko Kirin is included on the world's major socially responsible investment indexes, including the FTSE4Good Index Series and the MS-SRI (as of January 2014).





Morning Star Socially Responsible Investment Index

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Providing Information Online

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Investors (Japanese)

http://www.kyowa-kirin.co.jp/ir/

Investors (English) http://www.kyowa-kirin.com/investors/

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We promote fair transactions, partnering and CSR procurement to become a global specialty pharmaceutical company.

Priorities for Our Relationship with Business Partners

We have the social mission of quickly and consistently providing safe, reliable drugs that address unmet medical needs to patients and health care providers. We can only do this by building long-term relationships of mutual trust with our business partners. We accelerate the development and marketing of new drugs by energetically in-licensing and partnering with other companies, embracing their ideas and committing our assets to the relationship.

Our relationship with suppliers is also important, including contract drug manufacturers and suppliers of raw materials and APIs. Committed to open and fair procurement, we provide fair opportunities for suppliers through competitive bidding. We also comprehensively evaluate contract manufacturers and suppliers based on criteria ranging from quality, cost, delivery schedule and procurement stability, as well as CSR initiatives, technological strengths and proposal capabilities.

In order to make our CSR initiatives effective, it is essential to promote them throughout the supply chain, from suppliers to their upstream manufacturers. We will ensure that we implement CSR procurement while sharing the same mindset as our business partners.

Partnering Initiatives

We energetically enter into partnerships to enhance our product pipeline and maximize the value of our assets.

In September 2013, we entered into a collaboration and license agreement with Ultragenyx Pharmaceutical Inc. to develop and commercialize the Kyowa Hakko Kirin asset KRN23, an antifibroblast growth factor 23 (FGF23) antibody, in the United States, Canada and Europe. In December 2013, we concluded a co-promotion partnership agreement covering Japan with LEO Pharma A/S, for LEO Pharma's proprietary topical calcipotriol/betamethasone dipropionate combination product.

In December 2013, we successfully launched Abstral[®] for treating cancer pain, in collaboration with Hisamitsu Pharmaceutical Co., Inc. Kyowa Hakko Kirin in-licensed this drug from Orexo AB (Publ).

Mutual trust is essential for collaboration with business partners. Misunderstanding and friction can arise in corporate alliances with foreign partners from different cultures and even with Japanese partners with different corporate cultures. We maintain healthy partnerships with a spirit of goodwill by respecting the values of our partners.

Main Compounds under Collaboration in the Development Phase (As of January 24, 2014)

Area	Code	Company	Indication	Compounds originating in-house
NEPHROLOGY	KHK7580	Mitsubishi Tanabe Pharma Corporation	Secondary hyperparathyroidism	
	ARQ 197	ArQule, Inc.	Cancer	
ONCOLOGY	Tivozanib (KRN951)	AVEO Pharmaceuticals, Inc.	Cancer	•
	KHK4827	Kirin-Amgen Inc.	Psoriasis	
Topical ca IMMUNOLOGY/ ALLERGY	Z-206 (ASACOL®)	Zeria Pharmaceutical Co., Ltd.	Crohn's disease	
	Topical calcipotriol/betamethasone dipropionate combination product	LEO Pharma A/S	Psoriasis	
	MEDI-563 (KHK4563)	AstraZeneca PLC/MedImmune, LLC	Asthma, Chronic obstructive pulmonary disease (COPD)	•
	RGI-2001	REGiMMUNE Corporation	Immunosuppressive	•
	SAR252067	Sanofi	Ulcerative colitis	•
OTHER	KRN23	Ultragenyx Pharmaceutical Inc.	X-linked hypophosphatemic rickets/Osteomalacia (XLH)	•
	KRN5500	DARA BioSciences, Inc.	Neuropathic pain	•

Dialogue with Suppliers

We publish the Kyowa Hakko Kirin Group Procurement Policy on our website. This policy declares our commitment to open and fair procurement and to the promotion of CSR procurement with our suppliers with the goal of contributing to the advancement of a sustainable society.

In September 2013, we also formulated the Kyowa Hakko Kirin CSR Procurement Guidebook to set forth a clear code of conduct for implementing CSR procurement. This guidebook, which we have published on our website, provides basic standards that Kyowa Hakko Kirin should comply with. We also expect our suppliers to comply in a spirit of equal partnership.

We conducted a survey on CSR initiatives and in December 2013, we held information meetings in Tokyo for suppliers, addressing feedback from this survey and our commitment to CSR procurement. We had a lively exchange of opinions with suppliers about various CSR issues during the meetings. We intend to communicate with suppliers by periodically holding information meetings at several sites.



Dialogue with suppliers

Promoting CSR Procurement

The 2013 survey of CSR initiatives reconfirmed the high level of involvement among suppliers in the areas of compliance, labor management and risk management. At the same time, the survey also indicated that further improvement was required in areas including global warming countermeasures, green procurement activities and environmental audits of upstream suppliers.

Compared with the 2012 survey, however, suppliers have made steady progress with these issues, and we were able to confirm their cooperation with the requests mentioned in feedback from the 2012 survey.

The Procurement Department is also implementing periodic audits that include overseas Group companies. The department is also working to foster world-class ethics. We also addressed new issues such as biodiversity by exchanging opinions with external experts who had provided third-party viewpoints for previously published CSR reports, and we received advice on specific measures to promote CSR procurement.

Thus we intend to continuously promote CSR procurement throughout our supply chain by obtaining external opinions and supplier understanding.

Results of the Survey on CSR Initiatives

Number of Responses from Suppliers

2012	2013
271	227



Comparative Status of Selected Initiatives



We respect the human rights and individuality of employees, and seek to be a company that promotes diversity while growing along with employees.

Priorities for Our Relationship with Employees

Kyowa Hakko Kirin's Human Resource (HR) Philosophy affirms that we respect employees' initiative, encourage them to improve their abilities and creativeness, and that we will create a work environment in which they can pursue their own infinite possibilities. We see three keys to this concept: developing professionals, promoting diversity, and clarifying missions while ensuring fair treatment.

In other words, we develop employees with the high expertise and broad vision appropriate for a global specialty pharmaceutical company as well as respect different values so they can work well together. We also recognize the need to clarify the expected roles of employees and to reward them fairly for their achievements and contributions. This is our promise to employees. Opportunities and Tools for Dialogue

We create opportunities and tools for dialogue with employees to grow as a company.

(1) Human Resource Development

We offer a variety of training programs to put our HR Philosophy into practice and support employees' career development.

From 2010 to 2013, we focused on optional training programs, which generated constant results toward the objective of autonomous achievement through self-directed learning. Our training program for 2014 is the next step. Our goal is to enhance skills according to responsibilities centered on mandatory training by job grade.

Training by Job Grade We are clarifying qualifications and skills required for each job grade so that individual employees can fully exercise their skills, particularly when taking on new assignments.

New employee training provides fundamental knowledge necessary as a member of society and Pharmaceuticals business value chain training that includes various insights into the Company, thus creating opportunities to broaden and deepen understanding of the Company. In addition, managers learn about leadership and team building through supervision of staff and practical management courses.

Global Leader Training The Global Executive Program (GEP) and the Global Management Program (GMP) are among the programs that provide training for the qualifications and skills required to take action on a global stage.



Global Executive Program

These training programs are needed to achieve our vision of becoming a Japan-based global specialty pharmaceutical company that contributes to the health and well-being

	2011	2012	2013
Number of New Recruits (Domestic/Regular Position)	83	80	71
Male	58	47	40
Female	25	33	31
Foreign nationals	0	0	6
People with disabilities	1	4	4

of people around the world, but they are not the only requirements. However, they are meaningful opportunities for employees to realize the attitudes, knowledge and skills that Kyowa Hakko Kirin requires and then take voluntary action in areas where improvement is needed. Moreover, applying training and education in cumulative on-the-job training enhances workplace capabilities. We aim to achieve our corporate vision through the improved productivity and results that can be achieved when all employees exercise those capabilities.

(2) Fostering Human Rights Awareness

We conduct human rights training based on the policies and measures determined by the Kirin Group Human Rights Promotion Committee. We raise human rights awareness among all employees and each Kyowa Hakko Kirin Group company provides human rights training. Furthermore, we have established hotlines for communication and consultation regarding human rights.

In addition, the Kirin Group conducts Groupwide human rights awareness surveys, issues a president's message for Harassment Elimination Month, and solicits human rights slogans during Human Rights Week.

(3) Promoting Diversity

An organization that encourages mutual acceptance among employees with different backgrounds so they can achieve their full potential is crucial. We are therefore committed to creating a work environment where diversity is respected and valued.

Supporting an Optimum Work-Life Balance

System of leave and reduced working hours for childcare, system of leave to accommodate a spousal transfer, nursing concierge, a childcare leave forum, Children's Visiting Day (children of employees visit the workplace)



Children's Visiting Day

Globalizing Workforce Employment of new graduates in Asia, mutual exchanges of employees with overseas subsidiaries, global meetings



Global meeting

Measures for the Active Participation of Women Training for female managers, female

medical representative forums



Female MR forum

Promoting Employment of the Elderly and Disabled

Ongoing employment of the disabled, system for rehiring after the mandatory retirement age

(4) Promoting Safety and Health

We draw on the Guideline for the Maintenance and Promotion of Worker Health at Workplaces from the Ministry of Health, Labour and Welfare to promote industrial health practices with the objective of protecting the mental and physical health of workers by creating a comfortable workplace environment.

To address mental health care issues, we employ industrial physicians who specialize in these issues. We also implement primary and secondary measures that include using the external Employee Assistance Program (EAP) to conduct stress checks, training sessions, and establishing centers for face-to-face, phone and online counseling services. We cooperate closely with industrial physicians and other industrial health staff. We aim to prevent relapses and support continuous employment through programs to reinstate affected employees and the use of follow-up systems.



We aim to contribute to, and earn the trust of society and the communities we serve using the assets we have accumulated through our businesses.

Priorities for Our Relationship with Society and Community

A major priority for a corporation is ultimately enhancing the intangible asset represented by the value of its brands, which is tantamount to increasing corporate value. Earning the trust of society is crucial for the Kyowa Hakko Kirin Group in doing so.

Explaining to people in understandable terms issues such as the new drugs and technologies that enable the Kyowa Hakko Kirin Group to achieve its management philosophy and foster a deeper understanding of the Group's activities are essential to earning trust. We particularly want to take advantage of various opportunities for communication to build relationships with people in our core business areas and those who live near our plants and research laboratories. We want to strengthen our ties with society by responding sincerely to feedback, not by taking a corporate-centered approach. We intend to implement a wide array of policies as a corporation that coexists with society.

Opportunities and Tools for Dialogue

The Kyowa Hakko Kirin Group focuses on building trust by using many different tools in a broad array of situations to deepen communication with society.

Antibody and Amino Acid Websites

We want to share the knowledge obtained through R&D with society, and we also want people to understand our businesses better. We are therefore improving the websites for our core antibody and amino acid businesses.

For antibodies and immunology, we collaborated with illustrator Ryo Koshino to create a special site within our corporate website that presents an illustrated story, "The Story of Basic Immunology." Unlike in a general explanation, this illustrated story facilitates learning about antibodies and immunology through an enjoyable narrative. In December 2013, this site received a Promotion Site Grand Prize in the Web Grand Prix held by the Web Advertising Bureau of Japan. The



The Story of Basic Immunology

Web Grand Prix is an award "by the Internet community, from the Internet community, for the Internet community" to support the sound development of websites by recognizing outstanding achievements by companies and individuals. Kyowa Hakko Bio also created websites titled "Amino Acid Navi®" and "Healthy Ingredient Research Institute" that provide information about amino acids such as basic facts and their broadly based applications.



Healthy Ingredient Research Institute

Support for Science Classes for Nurturing the Next Generation

The Kyowa Hakko Kirin Group conducts science experiment classrooms at plants and laboratories. Scientists engaged in cutting-edge research visit elementary and junior high schools to prepare classes on experimentation covering various programs tailored to the age of the participants, with subjects including DNA, microbes and immunology. The Takasaki Plant conducted a science classroom during the students' summer vacation titled "Let's Experiment! Science is Fun." Moreover, the Tokyo Research Park has taken science classrooms to approximately 3,250 students some 90 times since beginning its Bio Adventure Project in 2000. In fact, one of our scientists decided to become a scientist after attending one of these classrooms. The Kyowa Hakko Kirin Group supports science education for children, who are the next generation, with the hope of inspiring even more children to become scientists.



Science class

Community Information Meeting at the Thai Plant Kyowa Hakko Bio is constructing a new plant featuring the latest production technology in Rayong Province, Thailand, which is approximately 100 kilometers southeast of Bangkok and has a population of about 600 thousand. We held an information meeting in April 2013 covering the Initial Environmental Evaluation (IEE) for the communities surrounding the construction site. Approximately 200 attendees received an explanation of the new plant's environmental friendliness and a forecast of its actual environmental impact.



Initial Environmental Evaluation meeting in Thailand

Support for the Japan Marrow Donor Program

In November 2013, Kyowa Hakko Kirin received a letter of appreciation from the Japan Marrow Donor Program at the National Marrow Donor Conference in Chiba.



A Word of Thanks from the Japan Marrow Donor Program

The Japan Marrow Donor Program acts as an intermediary between patients and registered voluntary bone marrow donors to help people with leukemia and other intractable hematological diseases. We receive various kinds of support from Kyowa Hakko Kirin, including cooperation for the National Marrow Donor Conference we hold each autumn and creation of videos for donor registration. Kyowa Hakko Kirin also gives us extensive support for the seminars and lectures we hold throughout Japan, which provides both broad knowledge and peace of mind to the afflicted.



Mr. Hidehiko Okubo Japan Marrow Donor Program General Manager of the Public Relations Department



We actively engage in initiatives such as reducing CO₂ to protect the environment and support the achievement of a sustainable society.

Priorities for the Environment

Initiatives to address environmental issues around the world are carried out under the principal theme of sustainable development, based on agreements such as the Framework Convention on Climate Change and the Convention on Biological Diversity adopted at the United Nations Conference on Environment and Development (also known as the Earth Summit) held in Rio de Janeiro in 1992. The Kyowa Hakko Kirin Group is also actively engaged in initiatives for the environment, one of the core subjects of ISO 26000. However, it is important that we stay on top of world trends, carefully determine how we should respond as a corporate group and incorporate that response in our action policies, targets and measures.

In measures to prevent global warming and reduce CO₂ emissions, the entire Kyowa Hakko Kirin Group will work to achieve shared goals under our recently set global target* of reducing our CO₂ emissions in fiscal 2020 to no more than 85 percent of the fiscal 1990 level. We conduct environmental assessments when we add new facilities or upgrade existing ones with the goal of introducing practical and improved technologies.

We will continue to contribute to the realization of a sustainable society by conducting environmental initiatives worldwide as a corporate group aiming to be a global specialty pharmaceutical company.

Basic Policy on the Environment, Safety and Product Safety

Based on Kyowa Hakko Kirin Group Management Philosophy, we will exert ourselves to realize an affluent society by conducting business activities with scientific consideration for health, safety, the environment and product safety throughout the entire life cycle of each of our products, which extends from research and development through production, marketing, use and disposal. At the same time, we are making efforts to ensure the quality and safety of our products, taking the safety of consumers as a matter of the greatest importance. (Revised March 22, 2012)

Environment and Safety Assessment and Management

Based on its own Basic Policy on the Environment, Safety, and Product Safety, as well as under the Responsible Care initiative for environmental protection and safety, the Kyowa Hakko Kirin Group conducts assessments at each stage of the product life cycle, from R&D to use and disposal.

The Kyowa Hakko Kirin Group has both an ISO 14001-certified environmental management system and an occupational safety and health management system centered on risk assessment, and continuously improves them through a systematic Plan-Do-Check-Act (PDCA) cycle. Moreover, our environmental and safety activities comply with relevant laws and regulations while also aiming to help us earn the trust of society by supporting resource recycling, ensuring and enhancing environmental and safety management, and minimizing risk.

Our Activities for Reducing CO₂ Emissions

In the future, our CO₂ emissions are predicted to increase due to operation of new plants. The Kyowa Hakko Kirin Group is working toward keeping CO₂ emissions to no more than 380,000 tons in line with its global target of reducing CO₂ emissions in fiscal 2020 to no more than 85 percent of the fiscal 1990 level.

In 2013, CO₂ emissions at domestic Group plants and laboratories and overseas plants were limited to 350,000 tons, which was 78 percent of the fiscal 1990 level. The Group's energy consumption in 2013 increased year on year to 148,000 kiloliters of oil equivalent, mainly because of increased production at overseas plants, but ecological projects such as the installation of high-efficiency boilers, installation of the latest energy-efficient equipment at new buildings, and improved operating methods enabled the Group to minimize the increase in CO₂ emissions.

Regarding renewable energy, photovoltaic power generation systems have been operating at the Fuji Plant, Tokyo Research Park and the Ube Plant, and began operating at the Takasaki Plant during 2013.



Office in Kyowa Hakko Kirin's Ube Plant powered by photovoltaic power generation system (45kWh)

^{*} Applicable to domestic plants and laboratories and overseas plants of Kyowa Hakko Kirin and its consolidated subsidiaries.

Initiatives for Conserving Biodiversity

The Kyowa Hakko Kirin Group is taking steps to maintain ecosystems and conserve biodiversity. We have participated in the Kirin Group's watersource protection project at the Kyowa Hakko Kirin Takasaki Plant since 2007 and at the Kyowa Hakko Kirin Fuji Plant, Kyowa Hakko Kirin Ube Plant, Kyowa Medex Fuji Plant and Kyowa Hakko Bio Yamaguchi Production Center since 2009. In 2013, employees at these five plants participated in underbrush clearing and tree planting and thinning as part of our Water Source Forest Conservation Activities.

In 2013, we began using bioassaybased whole effluent toxicity (WET) testing of wastewater as part of our efforts to preserve biodiversity. This will enable us to verify, examine and analyze the extent of the impact of the Kyowa Hakko Kirin Group's business sites on ecosystems.



Underbrush clearing

Environmental Accounting

In 2013, environmental investment totaled ¥784 million and environmental expenses totaled ¥4,931 million. Main investments included installation of high-efficiency, low-pollution wastewater processing systems, installation of high-efficiency freezers and boilers, changeover to LED lighting, and effective use of steam through steam pipe rerouting. This environmental investment generated an economic benefit of ¥26 million.*

Environmental Acounting 1, 2, 3

	Shimental Acounting				(Milli	ions of yen)
Cost classification		Malar achi ilias in 2010	20	12	20	13
		Major activities in 2013		Expenses	Investment	Expenses
(1) Busii	ness area cost		1,200	2,779	775	4,065
	(1)-1 Pollution prevention cost					
	 Cost of preventing water contamination 	Investment and maintenance cost for water contamination control facilities	386	1,334	310	1,262
Details	② Cost of preventing air pollution and other pollution	Investment and maintenance cost for air pollution control facilities, deodorization facilities, etc.	223	312	230	349
	(1)-2 Global environment conservation cost	Investment and maintenance cost for photovoltaic power generation facilities and chlorofluorocarbon-alternative freezers	526	178	170	160
	(1)-3 Resource circulation cost	Investment and maintenance cost for water-saving equipment, waste recycling and treatment facilities, etc.	64	956	66	2,294
(2) Upst	ream /downstream cost	Cost of green purchasing ⁴ and recycling containers and packaging	17	36	0	231
(3) Adm	inistration cost	Cost of operating an environmental management system, monitoring environmental impact, and other activities	51	379	9	404
(4) R&D	cost	Cost of developing environmentally friendly products and curtailing environmental impact	5	142	0	144
(5) Social activity cost		Cost of environmental conservation activities and of participating and cooperating in nature preservation activities	0	17	0	87
(6) Envir	ronmental remediation cost	Oil pollution liability insurance fee	0	1	0	0
		Total	1,274	3,354	784	4,931

Economic Benefit^{1,2}

			(, , ,
Item	Activities in 2013	2012	2013
Total investment	Expansion and rationalization of production and research facilities	17,810	19,324
Total R&D cost	R&D for new products and technologies	44,987	43,846
Sales of valuables in connection with (1)-3 and (2)	Sale of dried fungus fertilizer, used catalysts, and by-product oil	2	19*
Resource-saving effects in connection with (1)-2 and (1)-3	Energy and resource conservation and waste reduction	99	7*

1. Figures pertain to production sites and laboratories of Kyowa Hakko Kirin, Kyowa Medex, Kyowa Hakko Bio and Daiichi Fine Chemical.

2. Data are calculated in accordance with the Environmental Accounting Guidelines 2005 published by the Ministry of the Environment.

3. The sum and breakdown of table data may not equal the total due to rounding down.

4. Green purchasing statistics represent the purchase amount of environmentally friendly products, including Eco Mark products, and have been included as reference information.

(Millions of yen)

Message from an Outside Director

I wish to contribute advice using my global business experience.



I worked for Hitachi, Ltd. for 40 years, almost entirely in international operations and strategic alliances. As Kyowa Hakko Kirin takes on the challenge of becoming a global specialty pharmaceutical company, I would like to provide advice that maximizes opportunities and minimizes risks, thus contributing to its business growth and maximizing various stakeholder benefits.

Kyowa Hakko Kirin's aim to become a global specialty pharmaceutical company assumes cooperation with various companies in different countries and regions. We work with employees of many different nationalities. The ability to communicate is the key to doing business with partners who have diverse cultures and values. We need to understand the circumstances of those partners and build friendly but respectful relationships. For this, we must embrace diversity in our workplace.

Management that embraces such diversity is a priority in Japan. The active participation of women is a representative case. Kyowa Hakko Kirin offers women a broad array of opportunities to participate in management. From another perspective, I am interested in the relationship between companies and sports. A company needs to show respect for each employee's diverse talents and lifestyle. A good example is Kyowa Hakko Kirin's table tennis players who have the talent to represent Japan and compete at the Olympics and in international events. A company is expected to provide them with opportunities to train and compete, thus helping them to develop their valuable talents.

Another feature differentiating us is that both Kyowa Hakko Kirin and its parent company, Kirin Holdings Company, Limited are listed companies. I experienced a similar situation at Hitachi. I noticed that a listed subsidiary benefits from affiliation with a listed parent company, but at the same time we need to be very careful to take care of the interests of the listed subsidiary's general shareholders. I consider a listed subsidiary as a joint venture with its parent company and general shareholders. Keeping such perspectives in mind, I wish to provide opinions that will maximize the corporate value of Kyowa Hakko Kirin.

Corporate Governance Framework (As of April 1, 2014)

Kyowa Hakko Kirin's management is organized around the Board of Directors and the Board of Company Auditors, which together carry out the functions stipulated by the Companies Act of Japan. The following governance entities have been established to enhance management functions and efficiency.

Directors and Board of Directors

The Board of Directors performs critical Groupwide management functions, including strategic planning, decision making, and monitoring of operational execution. The Company has not adopted a company-with-committees governance system, but has established the Remuneration Consultative Committee and the Nomination Consultative Committee as advisory bodies to the Board of Directors. These committees consist of four directors each, including outside directors, and provide objective, impartial advice on compensation and nomination issues relevant to directors and company auditors.

Company Auditors and the Board of Company Auditors

Based on the audit policies established by the Board of Company Auditors, company auditors attend important meetings, including those of the Board of Directors, and inspect operations and assets to audit the performance of duties by directors. Moreover, the Board of Company Auditors exchanges opinions with the Internal Audit Department, which is a dedicated internal audit organization, regarding issues such as audit plans and important audit issues, and periodically receives reports on the results of audits. The Board of Company Auditors also periodically discusses audit plans, policies and status with the independent auditors. Furthermore, the Board of Company Auditors receives reports from internal control sections as needed regarding the status of the internal control system and related issues, and requests explanation if necessary.

Corporate Governance Summary

Organizational structure	Company with a board of company auditors
Chairman of the Board of Directors	Nobuo Hanai
Number of directors	7 (including 2 outside directors)
Number of company auditors	5 (including 4 outside company auditors)
Number of independent directors and company auditors*	1 outside director, 2 outside company auditors
Board of Directors meetings in 2013	Number of meetings: 15 Director attendance: 99 percent Company auditor attendance: 100 percent
Board of Company Auditors meetings in 2013	Number of meetings: 14 Company auditor attendance: 100 percent
Director remuneration	Total compensation for 2013 consisting of performance-linked base compensation and stock options as medium-term stock-based compensation (5 directors excluding outside directors): ¥283 million (base compensation: ¥242 million, stock options: ¥40 million)
Company auditor remuneration	Total compensation for 2013 (1 company auditor excluding outside company auditors): ¥25 million (base compensation: ¥25 million)
Accounting auditor	Ernst & Young ShinNihon LLC
* As of March 20, 2014	

Risk Management System and Internal Committees

Various internal committees have been established to enhance risk management and corporate governance in order to address the variety of risks inherent in management issues. Moreover, these committees regularly report their activities to the Board of Directors. An overview of each committee follows.

Executive Committee and Executive Officer System	A decision-making body for swift decisions and business execution
CSR Committee	Deliberates on important matters and basic policies associated with CSR
Group Quality Assurance Committee	Deliberates on basic policies relating to quality assurance
Information Disclosure Committee	Deliberates on basic information policies and important matters relating to information disclosure
Financial Management Committee	Deliberates on efficient financial activities and their accompanying risks

Internal Control System

The Company has formulated a basic policy to ensure a system for appropriate business operations (the "internal control system"). The Board of Directors periodically confirms its effectiveness.

The Functions of Outside Directors and Outside Company Auditors

Kyowa Hakko Kirin believes electing outside directors and outside company auditors who employ their backgrounds, expertise and experience improves management transparency and oversight, which are integral to its framework for supervising and auditing Group management independently, objectively and fairly.

Ensuring the Independence of Outside Directors and Outside Company Auditors

Kyowa Hakko Kirin has established its own Standards for the Independence of Outside Officers with reference to standards and other criteria including those of the Tokyo Stock Exchange for independence qualification.

Risk Management

Kyowa Hakko Kirin has established the CSR Committee to grasp and evaluate corporate risks from a Groupwide perspective, and to operate the risk management system.

Specifically, the CSR Committee conducts a risk census to identify critical risks, and risk management programs are prepared and implemented in each department of the Company. The progress of the risk management programs, which also cover the incidence of critical risks, is monitored quarterly by the CSR Management Department. After receiving the results, the CSR Committee deliberates basic policy and critical issues with regard to corporate risk management. (Please refer to page 72 for further details of corporate business risks.)

In addition, we are continuously improving our business continuity plan (BCP), applying what we learned from the Great East Japan Earthquake. We have formulated the Company BCP and guidelines, and revised the related internal rules and manuals depending on the risks to the Company. We also conduct disaster drills in our workplaces.

Please refer to our website for additional details. http://kyowa-kirin.com/about_us/corporate_governance/index.html

Compliance

We are committed to legal compliance, transparency and ethical management.



Hiroyuki Kawai, Ph.D. Executive Director of the Board Executive Vice President

Priorities for Compliance

For the Kyowa Hakko Kirin Group, compliance is the basis for corporate activities. We position stronger, more consistent compliance as a core component of CSR, and are inculcating a compliance mindset in all employees. We are promoting assiduous compliance on a global level as we take on the challenge of becoming a global specialty pharmaceutical company as part of Medium-Term Business Plan – 2013 to 2015.

Specific initiatives include strengthening and verifying compliance within the Kyowa Hakko Kirin Group's risk management system. We are sequentially implementing the same system at affiliates overseas. The Kyowa Hakko Kirin Group is also inculcating a compliance mindset in employees by encouraging full awareness of the Kyowa Hakko Kirin Group Compliance Guidelines. We have codified our fundamental mindset as a pharmaceutical company in the Kyowa Hakko Kirin Compliance Handbook, which we revised in April 2013 to conform with the Japan Pharmaceutical

Manufacturers Association (JPMA) Code of Practice established in January 2013.

In addition, each year the Kyowa Hakko Kirin Group provides and expands various types of training, including human rights and compliance training, corporate ethics lectures and e-learning. A total of 6,196 employees participated in human rights and compliance training in 2013. Test results at the end of e-learning courses show excellent levels of comprehension, indicating that employees are highly conscious of ethics. We have also set up four hotlines, including one to an outside attorney, for reporting and providing consultation on any legal or ethical violations that are discovered.

System for Promoting Compliance

In 2013, we reorganized our system for promoting risk management and compliance and formulated measures with the participation of employees with strong, practical knowledge of operations. Specifically, the CSR Committee, which is composed of directors of the board and vice president heads of divisions, determines

	2011	2012	2013
Number of hotline reports	32	37	37



fundamental policies and other issues. The Risk Management Task Force, which is composed of department directors, then determines short-term action plans based on these fundamental policies. The Compliance Subcommittee debates these action plans and determines the most effective practical approaches.

Promoting Transparency as a Pharmaceutical Company

Naturally, we recognize the importance of strict regulatory compliance because the activities of pharmaceutical companies are directly involved in life and health. The Kyowa Hakko Kirin Group's Pharmaceuticals business aims for exceptionally transparent business activities that are consistent with the letter and spirit of voluntary standards relevant to the creation and supply of pharmaceuticals, such as the Charter for Good Corporate Conduct established by the JPMA.

Collaboration with medical institutions and other organizations both in Japan and overseas is essential to promoting drug discovery and proper usage after marketing begins. However, during that process conflicts of interest between the social responsibilities of medical institutions and other organizations and the individuals involved in medical care can arise. Therefore, in 2011 the JPMA formulated its Transparency Guideline for the Relation between Corporate Activities and Medical Institutions, which Kyowa Hakko Kirin referred to in formulating its own corresponding guidelines under the same title. As a result, information about payments to medical institutions and other organizations is highly transparent, and we recently established the Transparency Promotion Group within the CSR Management Department to enhance effectiveness.

The Kyowa Hakko Kirin Group will promote actions corresponding to these guidelines to ensure highly ethical corporate activities.

Enhancing Transparency Overseas

On our challenge of becoming a global specialty pharmaceutical company, it is very important to maintain a strong commitment to compliance and increase the transparency of our business activities overseas.

In 2013, with regard to the disclosure of payments from pharmaceutical companies to physicians and medical institutions, we started a program to comply with the final rules of the Sunshine Act, which is a federal regulation in the United States enforced from August 1. Moreover, in order to strengthen our anti-bribery initiatives, President and CEO Nobuo Hanai delivered a message to all officers and employees in December and we are currently considering specific measures.

The Kyowa Hakko Kirin Group will conduct programs to enhance the transparency of our business activities overseas as well as in Japan.

Position on Animal Welfare

Animal testing is essential to evaluate the safety and effectiveness of pharmaceuticals. Kyowa Hakko Kirin has established its own animal testing standards in line with relevant laws and guidelines. Based on these standards, we have worked to properly care for laboratory animals and conduct animal testing in a way that promotes animal welfare as well as scientific benefit.

Kyowa Hakko Kirin was evaluated as properly conducting animal testing in accordance with the guidelines of the Ministry of Health, Labour and Welfare. Tokyo Research Park, Fuji Research Park and Takasaki Plant have received a certificate from the Center for Accreditation of Laboratory Animal Care and Use established by the Japan Health Sciences Foundation.

Moreover, Tokyo Research Park and Fuji Research Park received onsite evaluations from the third party institute Association for Assessment Accreditation of Laboratory Animal Care International in November 2013.*

* In March 2014, these two facilities received full accreditation.

Original technologies and strategies for addressing unmet needs

Kyowa Hakko Kirin will continuously take on challenges to provide society with new value.

A primary mission of a pharmaceutical company is to respond to requests from patients with diseases that have no effective treatments, their families and health care providers. Kyowa Hakko Kirin is committed to becoming a global specialty pharmaceutical company that can address unmet medical needs with therapeutic antibodies that leverage unique biotechnologies.

Over the past several years, new drug approval hurdles have become higher, success rates for new drug discovery have decreased, and development costs have risen. Moreover, factors such as aging populations, advances in medical technology, and expanding medical needs have caused medical costs to escalate, creating a global issue for developed and emerging countries alike. Breakthrough new drugs are eagerly anticipated, but they must also offer high quality without adding to medical cost pressures.

In this challenging operating environment, pharmaceutical companies need to transform their business model. Kyowa Hakko Kirin is confident that it can make progress with its proprietary fundamental technologies while using its unique operating structure to provide new value to society that is not limited to new drug discovery to offer benefits such as improved quality of life for patients. Five of our priorities and explanations of how we will address them follow.

Meet global with antibody

Kyowa Hakko Kirin's flagship antibody technologies are POTELLIGENT® antibody enhancing technology that significantly increases antibodydependent cellular cytotoxicity (ADCC), and our KM Mouse genetic engineering technology for producing fully human antibodies using animals. We developed these unique technologies over many years of biopharmaceutical research. The therapeutic antibodies we create with these technologies are pharmaceuticals that use the body's defense system, which is known as the immune system, to treat disease. Therapeutic antibodies are expected

expectations technologies.

to be effective drugs with few side effects because antibodies are a key component of the body's immune system. Kyowa Hakko Kirin also has leading-edge factories that conform to Good Manufacturing Practice (GMP), the international guidelines for controlling the production and quality of pharmaceuticals. We will refine our proprietary technologies and collaborate with partners worldwide to research and develop new therapeutic antibodies with the objective of contributing to health care by taking on challenges such as RNAi drugs.

Raise the probability of successful therapeutic antibody development.

Kyowa Hakko Kirin has a pipeline full of new therapeutic antibody candidates. However, we must conduct both non-clinical animal studies and clinical trials and pass strict approval reviews in commercializing new drug candidates. Raising the probability of success up to drug approval is a critical priority for a pharmaceutical company. Kyowa Hakko Kirin therefore engages in three main activities to do so.

First, we concentrate R&D in core therapeutic areas to search for new drug targets that address the needs of health care providers. Next, we complement our own research by enthusiastically employing external research results and fusing them with our own antibody technologies to create new drug candidates based on an open innovation style of R&D. Finally, we are strengthening translational research, which bridges basic and applied research, to make practical clinical use of treatment-related basic research. For example, approaches such as conducting clinical efficacy and safety studies for drug candidates using samples from patients help raise the probability of success by increasing clinical predictability.

Transform unmet health economics needs with biosimilars.

The development and manufacture of biopharmaceuticals involve significant costs that raise drug prices, which has resulted in a pronounced need for biosimilars that offer low cost, quality and outstanding reliability. With patents expiring on a succession of innovator biopharmaceuticals, quality and clinical trial guidelines have been clarified for biosimilars. Biopharmaceuticals account for seven of the top ten drugs on the global pharmaceutical market, which is but one of the many indications that the biosimilar market has outstanding potential.

Kyowa Hakko Kirin is building its presence in the biosimilars business. Complementing our world-class

biopharmaceutical manufacturing capabilities, in 2012 we established a joint venture called FUJIFILM KYOWA KIRIN BIOLOGICS with FUJIFILM Corporation, which has sophisticated engineering and production technologies. This joint venture began clinical trials in 2013 for its first biosimilar, FKB327, in the United Kingdom. We are targeting global market leadership as a result of steady drug development that addresses varying national regulations and the timely launch of competitive new drugs made possible through breakthrough production processes that achieve low costs.

Enter global markets marketing capabilities.

Our stated goal is to launch three new drugs in Europe and the United States from 2016, so we must build a powerful marketing organization in these areas to support rapid market penetration for these products. We are making progress building our sales and marketing organization in Europe around core Group company ProStrakan Group plc, which we acquired in 2011, and we intend to maximize the value of our businesses through means including additional M&A and alliances.

The competitiveness of our businesses in Japan supports the foundation of our businesses



with powerful

overseas, so we must strengthen both to become a global specialty pharmaceutical company. We are therefore executing our categorybased strategy. We intend to steadily launch drugs from our full pipeline while nurturing drugs to maximize the value of our products, and we are also building a highly specialized and consistent sales and marketing organization to earn the trust of health care providers. We believe these straightforward dayto-day actions will help enhance the competitiveness of our businesses in Japan.

Help make people smile with our unique operating structure.

The Kyowa Hakko Kirin Group is centered on the innovative Pharmaceuticals business of Kyowa Hakko Kirin and also encompasses the biosimilars business of FUJIFILM KYOWA KIRIN BIOLOGICS, the diagnostics business of Kyowa Medex, and the Bio-Chemicals business of Kyowa Hakko Bio. This unique operating structure allows us to capture a wide array of business opportunities while also absorbing the high risk of new drug development. Similarly structured pharmaceutical companies are rare in Japan, Europe, the United States and Asia, and the boundless possibilities

created by synergies among our businesses are a major strength of the Kyowa Hakko Kirin Group.

Building on cooperation with Kyowa Medex involving companion diagnostics, we will seek out fields in which we can exercise Group synergies. We do not just make drugs; we also make people smile. This is our commitment – we want to respond to a diverse range of health needs using the Group's broad array of technologies and knowledge. We will emphasize diversity as we take on the challenge of becoming a global specialty pharmaceutical company.

Diverse people enhance corporate competitiveness.

Japan's workforce is forecast to contract in the future, leading to rising demand from society for the active participation of diverse people. We need the organizational vitality and innovation that results from embracing diversity to transform the Kyowa Hakko Kirin Group into a global specialty pharmaceutical company. We are therefore implementing various measures within the Companywide Diversity & Inclusion (D&I) Project that we launched in 2010. One of the basic strategies of Medium-Term Business Plan - 2013 to 2015 is to increase productivity by bringing out the capabilities and motivation of employees. To achieve this, we are creating an environment in which people with diverse backgrounds can excel, developing people who are highly skilled and have broad perspectives, and cultivating global people. Ongoing initiatives will respond to social demands and enhance corporate competitiveness. Five of our priorities and explanations of how we will address them follow.



We are implementing two global leader training programs, the Global Executive Program (GEP) and the Global Management Program (GMP), to achieve our vision of being a Japan-based global specialty pharmaceutical company contributing to the health and wellbeing of people around the world. We are now focusing on training through practical work experience at overseas subsidiaries. In addition, Kyowa Hakko Kirin has promoted its globalization by recruiting six Asian employees since 2013, and is

Become a company where women can excel.

Our reasons for promoting the empowerment of female employees include our commitment to diversity as well as trends in the Japanese workforce. We are holding D&I Discussion Meetings to help support career development for female employees and senior employees who are pursuing successful careers while raising children. MRs have careers that are a challenge to build, so we hold Female MR Forums to help female MRs network with their peers. At present, the average length of service of our female employees is 16.0 years* and is gradually narrowing the difference with the 16.9 years for male employees. Moreover, to help them expand their horizons and grow, we are providing management training for female managers who are preparing to assume management positions. Currently, 4.4 percent* of our managers are women. We will continue to expand opportunities for women to excel and maintain initiatives to encourage selfmotivation among employees.

* Kyowa Hakko Kirin, as of December 31, 2013

people.

energetically exchanging personnel with foreign subsidiaries. We are also increasing opportunities for discussions on a dynamic scale in ways such as holding conferences with overseas human resource managers. We will implement measures to provide the necessary qualification and skills training and to refine our corporate culture so that employees can excel globally while accommodating the different cultures, needs and rules of the countries and regions we serve.

Cultivate employees who fully exercise their competencies, even if disabled.

In September 2012, we launched a project to promote employment of people with disabilities and brought together employees from throughout the Group to discuss it. In January 2013, we formulated the Kyowa Hakko Kirin Group Declaration to Promote Employment of People with Disabilities and used it in internal education activities. Moreover, we applied for a supplementary group budget to further promote employment of people with disabilities throughout the Group. As part of these initiatives, subsidiary Chiyoda Kaihatsu Co., Ltd. collaborated with a special support school to provide

on-the-job training to 24 intellectually disabled students during 2013. Kyowa Hakko Kirin had 89 employees¹ with disabilities as of June 1, 2013, for a ratio of workers with disabilities of 1.93 percent. The ratio of workers with disabilities has increased significantly from 1.73 percent in 2012. However, we were unable to meet the legally mandated ratio, which was raised to 2.0 percent in April 2013. We will deepen workplace understanding while creating jobs that help people with disabilities exercise their competencies.

Grow by changing

Kyowa Hakko Kirin is implementing policies it formulated to cultivate the next generation of Kyowa Hakko Kirin employees in order to create an environment of continuous contribution to performance regardless of issues such as individual lifestyle. We support childcare and nursing care in ways such as maintaining a system for leave and shorter working hours for employees providing childcare and nursing care. In 2013, the childcare leave system² was used by 49 employees³, 96 employees³ took advantage of shorter working hours to provide childcare, and 1 employee³ took advantage of shorter working hours to provide



The number of disabled persons according to the severity of disability set by the Act for Promotion of Employment of the Physically Handicapped

attitudes toward work.

nursing care. We also prepared to introduce a telecommuting system by conducting a trial operation in 2013. Other policies that support the families of employees include a spouse maternity leave system that gives paid leave in blocks of up to 10 days before and after the birth of a child, a system that gives a twoyear leave of absence to accommodate a spouse's job transfer, and Children's Visiting Days on which children can visit their parents' place of work. We will create an environment that encourages both the use and awareness of these systems to enhance our organizational vitality.

- People who began using the system in 2013 (excluding people who began leave in the previous year)
- 3. Kyowa Hakko Kirin, as of December 31, 2013

Mobilize our strengths through our "Commitment to Life."

Along with the respect for diversity previously discussed, we believe in the importance of a mindset shared by all employees worldwide. Our "Commitment to Life" is the cornerstone of this mindset. We formulated it when Kyowa Hakko Kirin was established in October 2008 through discussion among approximately 1,000 employees. It encapsulates our aspirations as pharmaceutical company employees to face life with sincerity and continue to move ahead, along with health care providers, to bring smiles to all people who are fighting against diseases. We distribute

cards with our "Commitment to Life" that employees carry with them, present the interactive website content "Invisible Things," and share videos of our "Commitment to Life" in action, among other initiatives to promote Companywide inculcation. Moreover, each department continuously develops its own measures tailored to its particular situation. We will implement measures to further inculcate our "Commitment to Life" to help employees embrace it with even greater depth of feeling in their day-to-day work.

Kyowa Hakko Kirin and its consolidated subsidiaries

For the years ended December 31, 2013, 2012, 2011 and 2010, the nine months ended December 31, 2009 and years ended March 31, 2004 to 2009

	2013/12	2012/12	2011/12	2010/12	
For the Year:					
Net sales	¥340,611	¥333,158	¥343,722	¥413,738	
Gross profit	212,761	210,690	197,555	190,979	
Selling, general and administrative expenses	160,987	157,785	150,940	145,568	
Operating income	51,773	52,905	46,614	45,410	
Net income	30,078	24,199	25,608	22,197	
Capital expenditures	35,183	27,808	19,697	29,374	
Depreciation and amortization	21,592	20,904	22,833	22,188	
R&D expenses	43,682	44,808	47,961	44,210	
Cash Flows:					
Net cash provided by operating activities	¥ 56,884	¥ 59,134	¥ 40,634	¥ 64,189	
Net cash provided by operating activities Net cash (used in) provided by investing activities					
Net cash used in) provided by investing activities	(77,163)	(98,772)	18,460	(32,373)	
Cash and cash equivalents at the end of the period	(12,579) 19 242	(19,189)	(30,740) 107 555	(14,446)	
Cash and cash equivalents at the end of the period	19,242	50,334	107,555	79,882	
At Year-End:					
Total current assets	¥329,320	¥303,988	¥284,217	¥288,852	
Total assets	719,257	679,342	658,873	695,862	
Total current liabilities	85,076	85,774	78,465	102,483	
Interest-bearing debt	6,207	5,699	6,042	7,515	
Total net assets	595,415	555,898	540,023	544,992	
Total shareholders' equity ²	578,329	560,663	554,856	553,172	
Number of employees	7,152	7,243	7,229	7,484	
Per Share Data:					
Per Share Data: Net income-basic ³	¥ 54.95	¥ 44.12	¥45.16	¥38.96	
Net assets	1,085.2	1,013.6	970.2	954.6	
Cash dividends	25	20	20	20	
Common Stock Price Range (Per share):					
High	¥1,256	¥970	¥953	¥1,040	
Low	833	757	628	773	
Stock Information (Thousands of shares):					
Number of common stock issued	576,483	576,483	576,483	576,483	
Weighted average number of common stock issued	547,391	548,449	567,029	569,711	
Velynted average number of common score locus.	041,001	040,440	001,020		
Financial Ratios:					
Return on assets (ROA)	4.30	3.62	3.78	3.19	
Operating return on assets	7.40	7.91	6.88	6.53	
Return on equity (ROE)	5.24	4.43	4.73	4.11	
Equity ratio	82.58	81.68	81.79	78.16	
Debt/equity ratio	1.05	1.03	1.12	1.38	
		15.88	13.56	10.98	
Operating income margin	15.20	10.00	10100		
Operating income margin EBITDA ⁴ (Millions of yen)	83,190	78,160	79,864	74,614	

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥105.40=U.S.\$1, the approximate exchange rate at December 31, 2013.

Due to a change in accounting standards, figures for total shareholders' equity in the years ended March 31, 2007 and 2006 have been restated.
 Net income per share-basic is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of

common stock. 4. EBITDA= Income before income taxes and minority interests + Interest expenses + Depreciation and amortization + amortization of goodwill

*: Earnings before amortization of goodwill: Net income before amortization of goodwill resulting from the April 2008 acquisition of Kyowa Hakko by Kirin Pharma through an exchange of shares.

Millions of yen							Thousands of U.S. dollars ¹
2009/12	2009/3	2008/3	2007/3	2006/3	2005/3	2004/3	2013/12
¥309,111	¥460,183	¥392,119	¥354,274	¥353,439	¥358,963	¥348,838	\$3,231,606
139.739	200.297	144,917	131,424	126,982	132,112	129,506	2,018,606
111,496	154,910	105,527	100,725	101,448	98,605	102,670	1,527,397
28,243	45,387	39,390	30,698	25,534	33,506	26,836	491,209
8,797	11.726	23.477	12,694	16,273	17,931	10,017	285,370
25,135	18,523	14,795	14,497	10,870	7,648	9,041	333,804
		,	,				
17,003	18,779	14,346	10,006	9,788	10,565	11,358	204,861
34,979	48,389	34,109	33,342	32,875	28,761	29,205	414,446
¥ 24,203	¥ 41,069	¥ 30,713	¥ 23,380	¥14,303	¥30,104	¥ 34,264	\$ 539,704
	· ·	,	,				
(13,246)	(3,981)	(9,492)	(8,493)	(1,795)	(8,104)	10,476	(732,097)
(16,906)	(20,978)	(13,499)	(24,417)	(5,139)	(9,116)	(44,226)	(119,349)
63,745	69,286	44,118	36,613	45,820	37,817	24,911	182,564
¥276,587	¥279,475	¥232,661	¥214,352	¥212,985	¥210,341	¥194,062	\$3,124,484
695,268	699,041	394,081	378,870	384,381	374,492	361,095	6,824,070
110,080	108,522	111,743	106,565	94,148	103,489	98,914	807,176
13,228	13,540	12,790	13,136	12,216	12,193	13,357	58,895
540,343	543,070	256,758	244,082	257,491			5,649,100
539,304	543,070	239,328	220,428	232,621	 235,439	 225,041	
,				5,800			5,486,992
7,436	7,256	6,073	5,756	5,600	5,960	6,294	
Yen							U.S. dollars ¹
¥15.40	¥20.42	¥58.99	¥31.31	¥38.34	¥41.67	¥22.99	\$ 0.521
940.8	938.4	639.7	607.5	604.9	556.3	522.6	10.296
15	20	10	10	10	10	7.5	0.237
¥1,178	¥1,235	¥1,430	¥1,154	¥946	¥864	¥719	\$11.92
793	586	933	722	656	661	495	7.90
570.400	570.400	000 010	000 010	404.040	404.040	404.040	
576,483	576,483	399,243	399,243	434,243	434,243	434,243	
570,935	574,083	397,716	405,270	422,919	427,635	431,497	
%, except EBITDA							
1.26	1.62	6.07	3.33	4.29	4.88	2.74	
4.05	6.26	10.19	8.04	6.73	9.11	7.35	
1.64	2.17	9.47	5.1	6.63	7.79	4.51	
77.07	77.04	64.53	63.8	66.55	62.87	62.32	
2.47	2.51	5.03	5.43	4.78	5.18	5.94	
9.14	9.86	10.05	8.67	7.22	9.33	7.69	
45,056	60,098	53,162	33,771	34,846	40,707	27,539	
54.3	53.8	16.9	31.9	26.1	24.0	32.6	

All amounts are rounded down.

Subsidiaries Included in the Scope of Consolidation

As of December 31, 2013, the number of consolidated subsidiaries decreased by two from a year earlier to 36. Kyowa Wellness Co., Ltd. merged with consolidated subsidiary Kyowa Hakko Bio and was removed from the scope of consolidation. In addition, Hematech, Inc. was liquidated and removed from the scope of consolidation.

Income and Expenses

Net Sales

For the year ended December 31, 2013, net sales increased 2.2 percent compared with the previous year to ¥340.6 billion. Sales increased in the Pharmaceuticals segment due to solid domestic sales of ethical drugs and growth in sales of ProStrakan of the United Kingdom. In the Bio-Chemicals segment, domestic sales of pharmaceutical-use amino acids and other active pharmaceutical ingredients (APIs) were firm, and sales also increased due to the foreign exchange impact of the deprecation of the yen.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales increased 4.4 percent to ¥127.8 billion, while gross profit increased 1.0 percent to ¥212.7 billion. As a result, the gross margin decreased 0.7 percentage points to 62.5 percent from 63.2 percent in the previous year.

Selling, general and administrative (SG&A) expenses increased 2.0 percent to ¥160.9 billion due to factors including the foreign exchange impact from the depreciation of the yen. The ratio of SG&A expenses to net sales decreased 0.1 percentage point to 47.3 percent from 47.4 percent.

As a result of the above, operating income decreased 2.1 percent to ¥51.7 billion. The operating income margin decreased 0.7 percentage point to 15.2 percent from 15.9 percent.

Other Revenue (Expenses)

Net other expenses decreased to ¥2.0 billion from ¥7.8 billion. Net other expenses decreased during fiscal 2013 because of gain of ¥3.2 billion on sales of affiliates' stock.

As a result, income before income taxes and minority interests increased 10.5 percent to ¥49.7 billion.

Income Taxes

Income taxes decreased 4.9 percent to ¥19.6 billion. The effective tax rate decreased 6.4 percentage points to 39.4 percent from 45.8 percent.

Net Income

Consequently, net income increased 24.3 percent to ¥30.0 billion, and the net margin increased 1.5 percentage points to 8.8 percent from 7.3 percent.

Gross Profit



SG&A Expenses (Billions of yen) (%) 50 200 47.4 47.3 43.9 160 157.7 40 150.9 36.1 145 150 35.2 111 4 30 100 20 50 10 0 0 2009 2010 2011 2012 2013 SG&A Expenses (left scale) SG&A Expenses to Net Sales (right scale)



(Billions of yen) (%) 30 10 8.8 25.6 8 7.5 20 6 4 10 2.9 2 0 0 2009 2010 2011 2012 2013

Net Income (left scale)

Net Margin (right scale)

Net Income

Note: 2009 data are for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

Performance by Business Segment

Net sales by reportable segment and segment income (loss) are presented in the table below. Segment performance figures include intersegment transactions.

The Kyowa Hakko Kirin Group revised its business segments in 2013. The Other segment was eliminated and the affiliates formerly included in this segment are now included in the Pharmaceuticals segment.

Yearly Information by Reportable Segment

	Thousands of Millions of yen U.S. dollars ¹							
	2013	2012 ³	2011	2010	2009 ²	2013		
Net sales:								
Pharmaceuticals	¥261,007	¥259,365	¥229,339	¥210,362	¥158,273	\$2,476,352		
Bio-Chemicals	82,919	76,966	77,563	84,236	69,751	786,713		
Chemicals	-	—	33,550	130,018	52,326	—		
Food	_	—	_	—	—	_		
Other	_	—	10,659	10,499	49,500	_		
Adjustments	(3,315)	(3,172)	(7,390)	(21,377)	(20,740)	(31,459)		
Consolidated total	¥340,611	¥333,158	¥343,722	¥413,738	¥309,111	\$3,231,606		
Segment income (loss):								
Pharmaceuticals	¥46,135	¥50,749	¥41,314	¥35,857	¥26,657	\$437,716		
Bio-Chemicals	5,667	2,127	2,896	3,275	3,048	53,775		
Chemicals	_	—	2,135	5,678	(1,984)	_		
Food	_	_	_	_	_	-		
Other	_	—	360	363	400	_		
Adjustments	(29)	28	(92)	235	121	(282)		
Consolidated total	¥51,773	¥52,905	¥46,614	¥45,410	¥28,243	\$491,209		

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥105.40=U.S.\$1, the approximate exchange rate at December 31, 2013.

2. 2009 data is for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

3. Segment information for 2012 has been restated to reflect the change in business segments discussed above.

Pharmaceuticals

In the core Pharmaceuticals segment, net sales increased 0.6 percent to ¥261.0 billion. Segment income decreased 9.1 percent to ¥46.1 billion.

Domestic sales increased year on year. Sales of our core ethical drug NESP®, a treatment for renal anemia, decreased due to lower shipments following the launch of a unified dosage product in 2012. Moreover, sales of ALLELOCK®, an antiallergic agent, and sales of CONIEL®, a treatment for hypertension and angina pectoris, decreased due to factors including the impact of generic pharmaceuticals. However, sales of Patanol® antiallergic eyedrops grew significantly due to the effects of higher amounts of airborne pollen.

Other products that recorded sales growth included 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.

Newly launched products in 2013 included NOURIAST[®], the world's first antiparkinsonian agent (May), ONGLYZA[®], a treatment for type 2 diabetes (July), and Abstral[®], a treatment for breakthrough cancer pain (December). All are performing well.

Revenues from exports of pharmaceuticals and technology out-licensing decreased from the previous year. Exports were steady but out-licensing revenue from FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. for the development of biosimilars decreased.

At ProStrakan, steady growth of Abstral®, a treatment for breakthrough cancer, and other core products supported net sales of ¥23.3 billion and operating income (after amortization of goodwill and sales rights) of ¥0.2 billion.

Bio-Chemicals

In the Bio-Chemicals segment, sales increased 7.7 percent to \$82.9 billion, and segment income increased 166.4 percent to \$5.6 billion.

In Japan, sales of pharmaceutical-use amino acids, nucleotides and other APIs were solid.

In the health care business, mail-order sales of *ornithine* and other products grew steadily. Ornithine is an ingredient in Kirin Health Project *Kirin Plus-i* brands such as beverages, and increased awareness of this product has contributed to mail-order sales.

Overseas sales increased from the previous year mainly because of the depreciation of the yen. Sales in the United States increased year on year even though sales of some amino acids for supplements faced intensifying competition. In Europe, sales of amino acids and nucleic acids, including infusion-use amino acids and the API citicoline, continued to grow steadily. In Asia, sales increased despite a challenging competitive environment due to factors including an increase in sales of infusion-use amino acids in China.

Quarterly Information by Reportable Segment

	Millions of yen										
	2013					2012					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	12 months	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	12 months	
Net sales:											
Pharmaceuticals	¥67,422	¥62,527	¥62,831	¥68,225	¥261,007	¥67,220	¥60,373	¥61,895	¥69,876	¥259,365	
Bio-Chemicals	19,997	21,209	20,378	21,333	82,919	20,589	19,493	17,405	19,478	76,966	
Total	87,420	83,737	83,210	89,559	343,927	87,809	79,866	79,301	89,354	336,331	
Adjustments	(750)	(699)	(814)	(1,051)	(3,315)	(697)	(687)	(900)	(886)	(3,172)	
Consolidated total	¥86,669	¥83,037	¥82,396	¥88,507	¥340,611	¥87,111	¥79,178	¥78,401	¥88,467	¥333,158	
Segment income (loss):											
Pharmaceuticals	¥13,061	¥11,064	¥12,837	¥ 9,172	¥46,135	¥16,735	¥6,791	¥11,582	¥15,639	¥50,749	
Bio-Chemicals	1,480	1,622	1,406	1,158	5,667	1,303	737	173	(86)	2,127	
Total	14,541	12,686	14,243	10,330	51,803	18,039	7,528	11,755	15,553	52,876	
Adjustments	(76)	24	(11)	33	(29)	0	16	2	9	28	
Consolidated total	¥14,465	¥12,711	¥14,232	¥10,364	¥51,773	¥18,039	¥7,545	¥11,758	¥15,562	¥52,905	

Sales by Geographic Segment (Year ended December 31, 2013) Millions of ven

Japan	America ¹	Europe	Asia	Other areas ²	Total			
¥254,085	¥23,948	¥37,226	¥24,420	¥931	¥340,611			

1. North America, Latin America

2. Oceania, Africa

Cash Flow

Cash and cash equivalents as of December 31, 2013 decreased ¥31.0 billion from a year earlier to ¥19.2 billion.

Kyowa Hakko Kirin participates in the cash management system of its parent company, Kirin Holdings Company, Limited. Under this system, short-term loans receivable to Kirin Holdings with maturities over three months are not included in cash and cash equivalents. These loans increased by ¥43.0 billion, which significantly decreased cash and cash equivalents at the end of the year.

Net cash provided by operating activities was ¥56.8 billion, a decrease of 3.8 percent compared with the previous year. The main source of cash was income before income taxes of ¥49.7

billion. Depreciation and amortization totaled \$21.5\$ billion and amortization of goodwill totaled \$11.5\$ billion. The main use of cash was income taxes paid of \$23.1\$ billion.

Net cash used in investing activities was ¥77.1 billion, a decrease of 21.9 percent compared with the previous year. Principal uses of cash included a net increase of ¥43.0 billion in short-term loans receivable and payment of ¥34.7 billion for purchase of property, plant and equipment and intangible assets. Principal sources of cash included proceeds from sales and redemption of investment securities totaling ¥3.9 billion.

Net cash used in financing activities decreased 34.4 percent to ¥12.5 billion. Principal uses of cash included cash dividends paid of ¥12.3 billion.

Financial Position

Assets

Total assets as of December 31, 2013 increased 5.9 percent, or ¥39.9 billion, from a year earlier to ¥719.2 billion. Total current assets increased ¥25.3 billion to ¥329.3 billion. Principal factors included an increase in short-term loans receivable to parent company Kirin Holdings Company, Limited.

Total property, plant and equipment, net, increased 8.7 percent, or ¥11.0 billion, to ¥137.9 billion. Investments and other assets increased 1.4 percent, or ¥3.5 billion, to ¥252.0 billion because sales rights increased.

Liabilities

Total liabilities increased 0.3 percent, or ¥0.3 billion, from the end of the previous year to ¥123.8 billion.

Total current liabilities decreased 0.8 percent, or ¥0.6 billion, to ¥85.0 billion.

Total noncurrent liabilities increased 2.9 percent, or ¥1.0 billion, to ¥38.7 billion. This was primarily the result of an increase in provision for reserves.

Interest-bearing debt increased 8.9 percent, or $\ensuremath{\texttt{Y0.5}}$ billion, to $\ensuremath{\texttt{Y6.2}}$ billion.



ROE and ROA





Working capital (total current assets minus total current liabilities) increased ¥26.0 billion from the previous year-end to ¥244.2 billion. The current ratio increased to 387.1 percent from 354.4 percent.

Net Assets

Total net assets increased 7.1 percent, or ¥39.5 billion, from the previous year-end to ¥595.4 billion, largely reflecting net income, net unrealized holding gain on other securities and foreign currency translation adjustments. Factors reducing net assets included payment of cash dividends.

As a result, the equity ratio increased 0.9 percentage point to 82.6 percent. Fiscal integrity remained high, as the debt/equity ratio was unchanged at 1.0 percent.

Performance Indicators

Return on equity (ROE) increased to 5.24 percent from 4.43 percent for the previous year, while return on assets (ROA) increased to 4.30 percent from 3.62 percent. Operating return on assets decreased to 7.40 percent from 7.91 percent.

Earnings before income tax, interest, depreciation, and amortization (EBITDA) increased 6.4 percent to ¥83.1 billion.



60

78 1

EBITDA

90

30

0

(Billions of yen)

45.0

Note: 2009 data are for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

2009 2010 2011 2012 2013

Capital Requirements and Financing

The Kyowa Hakko Kirin Group's capital requirements mainly consist of purchases of raw materials for manufacturing products, purchases of goods and supplies, and operating expenses such as manufacturing expenses and selling, general and administrative expenses. Principal operating expenses consist of payroll costs such as wages and bonuses, research and development expenses and promotional expenses. The Kyowa Hakko Kirin Group continuously makes capital investments for purposes such as expanding and streamlining production facilities and strengthening research and development capabilities. In addition, strategic investments are made to maximize the development pipeline and product portfolio value inclusive of new candidate substances and product lineup.

When procuring funds to support business activities, the Kyowa Hakko Kirin Group works to secure stable, low-cost capital primarily for Kyowa Hakko Kirin. We have introduced a global cash management system (CMS), which we use to support the efficient use of funds and reduction of financing costs for the Kyowa Hakko Kirin Group as a whole through approaches such as pooling of capital at Kyowa Hakko Kirin and domestic and overseas subsidiaries.

Kyowa Hakko Kirin maintains a short-term credit rating sufficient for meeting its funding requirements and is able to raise short-term funds through the flexible issuance of domestic commercial paper. We are also taking measures to improve our financial strength and increase our creditworthiness while considering the funding environment and other factors.

Capital Expenditures

Our policy for capital expenditures is to invest strategically while considering the balance between capital expenditures and depreciation and amortization. During the year ended December 31, 2013, we invested aggressively to reorganize production bases, increase operating efficiency and expand leading-edge production facilities as the basis for future growth.

Capital expenditures during the year ended December 31, 2013 increased 26.5 percent, or ¥7.3 billion, compared with the previous year to ¥35.1 billion. Significant investments included the acquisition of sales rights and the construction of a new manufacturing facility for active biopharmaceutical ingredients at the Takasaki Plant in the Pharmaceuticals business, and a new manufacturing plant at Thai Kyowa Biotechnologies Co., Ltd. in the Bio-Chemicals business. Depreciation and amortization increased 3.3 percent, or ¥0.6 billion, to ¥21.5 billion.

The table below presents a breakdown of capital expenditures and depreciation and amortization.

R&D Expenses

R&D expenses decreased 2.5 percent to ¥43.6 billion. As a percentage of consolidated net sales, R&D expenses decreased 0.6 percentage point to 12.8 percent from 13.4 percent for the previous year.

R&D expenses in the Pharmaceuticals segment totaled ¥40.4 billion and accounted for 92.5 percent of total R&D expenses. As a percentage of Pharmaceuticals segment sales, R&D expenses decreased 0.4 percentage point to 15.5 percent. R&D expenses in the Bio-Chemicals segment were ¥3.2 billion.

Breakdown of Capital Expenditures and Depreciation and Amortization

	Millions of yen									
	Capital Expenditures				Depreciation and Amortization					
	2013	2012	2011	2010	2013	2012	2011	2010		
Pharmaceuticals	¥22,921	¥18,357	¥11,886	¥19,251	¥14,966	¥14,625	¥15,339	¥10,733		
Bio-Chemicals	12,261	9,454	7,482	7,603	6,627	6,280	6,457	6,731		
Chemicals	<u> </u>	_	317	2,504	—	_	974	4,652		
Other	<u> </u>	_	11	15	—	_	64	73		
Adjustments	_	(3)	_	(1)	(1)	(1)	(2)	(2)		
Consolidated total	¥35,183	¥27,808	¥19,697	¥29,374	¥21,592	¥20,904	¥22,833	¥22,188		

Capital Expenditures







R&D Expenses



Note: 2009 data are for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

Per Share Data

Net income per share – basic was ¥54.95, compared with ¥44.12 for the previous year. Net income per share before amortization of goodwill was ¥71.85. Net assets per share as of December 31, 2013 increased to ¥1,085.2 from ¥1,013.6 a year earlier.

 Net Income per Share-Basic
 Net Assets per Share

 (Yen)
 (Yen)



Note: 2009 data are for the nine months ended December 31, 2009 because the Kyowa Hakko Kirin Group changed its fiscal year-end.

Management Plan

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. Under this philosophy, through new drug development we are aiming to become a global specialty pharmaceutical company.

The Kyowa Hakko Kirin Group formulated its three-year Medium-Term Business Plan – 2013 to 2015 with the year ended December 31, 2013 as the first year of the plan. Our targets for the year ending December 31, 2015, the final year of the plan, are net sales of ¥355.0 billion and operating income of ¥55.0 billion.

The theme of Medium-Term Business Plan – 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 United States, 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 outlook for the operating environment is becoming increasingly unclear, impacted by a

decline in drug discovery success rates and stricter approval review processes in Japan and overseas, progress with measures to reduce health care costs, and the rising market share of generic drugs. Competition among companies has undergone a major shift and is now a test of comprehensive strengths such as information collection and sharing capabilities, network strength and the ability to coordinate diverse functions. In particular, front-line medical professionals are demanding a higher level of expertise on the information provided.

In this environment, Kyowa Hakko Kirin will aim for an accelerated competitive advantage and sustainable growth by further strengthening competitiveness in Japan through its category strategy. Focusing on the four categories in which we

Goodwill

Kyowa Hakko Kirin recognized goodwill as a result of the April 1, 2008 exchange of shares in connection with the business combination through which Kirin Pharma Company Limited acquired Kyowa Hakko Kogyo Company, Limited because the acquisition cost exceeded the market value of Kyowa Hakko's net assets.

Goodwill from the business combination with Kirin Pharma Company Limited:

- Total goodwill generated: ¥191.9 billion
- Amortization method: Straight-line method
- Amortization period: 20 years (beginning the fiscal year ended March 31, 2009)

Amortization of goodwill from the business combination with Kirin Pharma Company Limited totaled ¥9.2 billion for the year ended December 31, 2013, the same as in the previous year.

already have a strong presence – nephrology, oncology, immunology/allergy and CNS – we will take strides toward becoming a truly major player and strengthen cooperation consistently on every function from R&D to manufacturing and sales. In addition to steadily launching new drugs from our extensive pipeline, we are aiming to build an effective marketing system using our high level of expertise to maximize sales and win trust among medical practitioners. We launched NOURIAST®, an antiparkinsonian agent; ONGLYZA®, a treatment for type 2 diabetes; and Abstral®, a treatment for breakthrough cancer pain in 2013, and intend to rely on our category strategy as we nurture these drugs to maximize product value.

In R&D, we will sharpen our ability to create and bring to market new drugs that address unmet medical needs. In addition, we will advance antibody drugs through domestic and international clinical development, maximize value by promoting alliances in antibody technology, and try new approaches to drug discovery with nucleotides and others. Moreover, to increase our probability of success in the clinical development stage, we are using our translational R&D center in Singapore, taking advantage of open innovation that aggressively utilizes external information and knowledge to actively promote research collaboration from the earliest stages of development.

In overseas business, we are pursuing global growth in accordance with region- and country-specific strategies with the help of ProStrakan Group plc. We acquired ProStrakan Group plc in 2011 and it is now an important constituent of the Group, as we expand our business bases in Europe, the United States and Asia with the aim of becoming a global specialty pharmaceutical company.

We regard activities to prepare for the U.S. launch of anti-CCR4 humanized antibody POTELIGEO[®], Kyowa Hakko Kirin's first therapeutic antibody, as an important step toward becoming a global specialty pharmaceutical company. Kyowa Hakko Kirin Pharma, Inc. of the United States is at the center of our drive to build in-house frameworks for the development and then the sale of global drugs with the objective

of achieving self-sustaining growth in the huge U.S. market.

Furthermore, we will actively promote a business model of in-licensing late-stage development and marketed products from ProStrakan to enhance our product range and expand our presence in major Western markets.

In Asia, our top priority is the reorganization of our business base for stable future growth in China. We are implementing business strategies at subsidiaries in Korea, Taiwan, Singapore, Thailand and other growing economies that reflect the prevailing conditions in each country.

In the biosimilars business, FUJIFILM KYOWA KIRIN BIOLOGICS, a joint venture with FUJIFILM Corporation, will leverage our world-class biopharmaceutical production technology to energetically advance development activities aimed at the timely launch of biosimilars with a view to expansion in the global market. FUJIFILM KYOWA KIRIN BIOLOGICS seeks to provide 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 deal with health care-related economic issues, including the problem of rising medical costs.

In our diagnostics business, we will provide advanced diagnostic products and instruments necessary for the treatment of various illnesses via Kyowa Medex, and will work to establish a firm position in Japan while building a foundation in the Chinese market. By developing and launching *in vitro* diagnostics (reagents for clinical trials), analytical instruments and companion diagnostics (*in vitro* diagnostic reagents used for personalized medicine) in cooperation with our R&D department, we will strive to achieve synergy between this business and the Pharmaceuticals business and improve added value.

In the Bio-Chemicals business, we will aim for sustained growth in the pharmaceutical, medical and health care areas while strengthening our revenue base as a biotech group that has both fermentation and synthesis technologies. Current issues to be addressed are the creation of a business structure that is resistant to the impact of exchange rate movements and expansion of production capacity to meet rising global demand for amino acids. We will enhance cost-competitiveness by reorganizing and improving the Kyowa Hakko Kirin Group's overseas and domestic production facilities, including the Yamaguchi Production Center, Daiichi Fine Chemical Co., Ltd. and BioKyowa Inc. in the United States. We also plan to finish construction of an amino acids plant at our new manufacturing facility in Thailand by the second half of 2015 in order to meet strong demand.

In the health care market in Japan, Kyowa Wellness Co., Ltd., which had been responsible for raw material sales and the mailorder sales business, was absorbed into Kyowa Hakko Bio in January 2013 to accurately address customer needs. In the mailorder business centered on *ornithine*, we will work to further enhance product awareness through effective advertising and provide unique materials that customers can use with confidence.

With the new drug business at its core, the Kyowa Hakko Kirin Group will pursue a unique pharmaceutical business model that combines biosimilars, diagnostics and bio-chemicals as it advances toward becoming a global specialty pharmaceutical company.

Outlook for 2014

In the year ending December 31, 2014, we forecast that net sales will decrease 1.1 percent year on year to ¥337.0 billion, operating income will decrease 20.8 percent to ¥41.0 billion, and net income will decrease 33.5 percent to ¥20.0 billion.

In the Pharmaceuticals segment, we forecast an increase in sales due to growth in core product NESP®, a treatment for renal anemia; and new products such as NOURIAST®, an antiparkinsonian agent; and ONGLYZA®, a treatment for type 2 diabetes. In overseas markets, we expect sales at ProStrakan to increase. However, we forecast that consolidated net sales will decrease in fiscal 2014 because we expect a significant impact from the drug price revisions slated for April 2014. In addition, we forecast that operating income will decrease due to development expenses associated with late-stage development products.

In the Bio-Chemicals segment, we forecast that sales and profits will increase due to factors including higher sales of core amino acids, nucleotides and ornithine, progress in restructuring at Daiichi Fine Chemical Co., Ltd., and further deprecation of the yen.

We forecast that net income will decrease due to factors including a decrease in operating income, increase in equity in losses of affiliates and a decrease in extraordinary gains.

Profit Distribution

The distribution of profits to shareholders through stable and sustainable dividends is a central priority for Kyowa Hakko Kirin. Our dividend policy balances issues including internal capital required for growth, annual consolidated results, the dividend payout ratio, and dividend return on net assets. We seek to improve capital efficiency through flexible, timely share repurchases. Kyowa Hakko Kirin allocates internal capital to research and development and capital expenditures that will contribute to enhancing future corporate value, and to expansion of the development pipeline and other investments that lead to new growth.

Based on this policy, Kyowa Hakko Kirin increased cash dividends per share by ¥5.00 for the year ended December 31, 2013 to ¥25.00, consisting of an interim dividend of ¥12.50 per share and a year-end dividend of ¥12.50 per share. As a result, the payout ratio was 45.5 percent of consolidated earnings, or 34.8 percent of earnings before amortization of goodwill.*

In Medium-Term Business Plan – 2013 to 2015, we will continue to target a dividend payout ratio of 40 percent of earnings on a consolidated basis before amortization of goodwill. For the year ending December 31, 2014, we expect to pay an annual cash dividend per share of ¥25.00, consisting of an interim dividend of ¥12.50 and a year-end dividend of ¥12.50.

^{*} Earnings before amortization of goodwill: Net income before amortization of goodwill resulting from the April 2008 acquisition of Kyowa Hakko Kogyo Company, Limited by Kirin Pharma Company Limited through an exchange of shares
With respect to Kyowa Hakko Kirin Group's business performance and financial position, the major risks that may significantly affect investors' assessments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the assessment of the Group as of December 31, 2013.

1) Risks associated with R&D investment

In ethical drug operations, the development of new drugs requires long periods of time and substantial R&D expenditure. In the longterm 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.

Moreover, 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

The Group strictly manages its intellectual property assets and closely monitors infringement by third parties. Nevertheless, in cases where the Group's intellectual property rights are infringed upon, sales of the Group's products or revenues from technology could decline earlier than forecast and the Group's business performance and financial position could be adversely affected. Furthermore, while the Group pays particular attention not to violate the intellectual property rights of others, in cases where the Group is subject to litigation based on allegations of infringement of intellectual property rights, the Group may be required to cease such activities, and pay compensation and/or settlement, and our business activities, business performance and financial position may 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 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, licensing-out of technologies overseas, and acquiring raw materials overseas. 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.

In addition, the gains and losses, and assets and liabilities of overseas-consolidated subsidiaries denominated in local currencies are translated into yen for the preparation of the consolidated financial 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, largescale 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. Kyowa Hakko Kirin and its consolidated subsidiaries As at December 31, 2013 and 2012

	Millions	s of yen	Thousands of U.S. dollars (Note 2)	
ASSETS	2013	2012	2013	
Current Assets:				
Cash and deposits	¥ 20,190	¥ 21,577	\$ 191,564	
Notes and accounts receivable:				
Trade	. 98,147	99,885	931,188	
Unconsolidated subsidiaries and affiliates	. 970	3,028	9,208	
Other	4,431	3,178	42,042	
	103,549	106,093	982,440	
Inventories	75,701	63,442	718,226	
Deferred tax assets	10,409	10,369	98,765	
Short-term loans receivable:				
Parent company	. 113,133	98,189	1,073,369	
Other		4	-	
	113,133	98,194	1,073,369	
Other current assets	-,	4,692	64,839	
Less: Allowance for doubtful accounts		(381)	(4,721)	
Total Current Assets	. 329,320	303,988	3,124,484	
Property, Plant and Equipment, at Cost:				
Land		53,386	518,223	
Buildings and structures		134,875	1,260,542	
Machinery and equipment		143,595	1,394,078	
Other Construction in progress	· · · · ·	48,166	453,471	
	. <u>13,501</u> 395,715	7,360 387,383	128,099 3,754,414	
	000,710	007,000	3,734,414	
Less: Accumulated depreciation	(257,795)	(260,511)	(2,445,877)	
Total Property, Plant and Equipment, Net		126,872	1,308,537	
	,	,		
Investments and Other Assets:				
Investment securities	. 20,588	18,248	195,339	
Investments in unconsolidated subsidiaries and affiliates	4,149	5,552	39,368	
Goodwill	163,713	168,850	1,553,259	
Sales rights	46,519	36,214	441,357	
Deferred tax assets	. 3,893	7,724	36,944	
Other assets	13,343	12,167	126,600	
Less: Allowance for doubtful accounts	. (191)	(276)	(1,821)	
Total Investments and Other Assets	252,016	248,481	2,391,048	
Total Assets	¥ 719,257	¥ 679,342	\$ 6,824,070	

	Millions of yen			
LIABILITIES AND NET ASSETS	2013	2012	U.S. dollars (Note 2) 2013	
Current Liabilities:				
Short-term loans payable	¥ 6,207	¥ 5,699	\$ 58,895	
Notes and accounts payable:				
Trade	22,517	22,429	213,639	
Unconsolidated subsidiaries and affiliates	171	267	1,629	
Construction and purchase of properties	9,942	7,763	94,332	
Other	27,823	25,843	263,984	
	60,455	56,303	573,585	
Income taxes payable	10,483	15,777	99,460	
Provision for sales rebates	1,217	771	11,547	
Other current liabilities	6,712	7,222	63,686	
Total Current Liabilities	85,076	85,774	807,176	
Noncurrent Liabilities:				
Deferred tax liabilities	11,807	11,262	112,021	
Provision for retirement benefits:				
Employees	19,196	19,503	182,128	
Directors and corporate auditors	134	114	1,273	
Asset retirement obligations	374	383	3,550	
Other noncurrent liabilities	7,253	6,405	68,819	
Total Noncurrent Liabilities	38,765	37,668	367,794	
Total Liabilities	123,841	123,443	1,174,970	
Net Assets:				
Shareholders' Equity				
Capital stock:				
Authorized: 987,900,000 shares at December 31, 2013 and 2012				
Issued: 576,483,555 shares at December 31, 2013 and 2012	26,745	26,745	253,747	
Additional paid-in capital	512,328	512,329	4,860,798	
Retained earnings	65,888	48,127	625,130	
Treasury stock, at cost:				
29,143,513 shares at December 31, 2013 and				
29,062,630 shares at December 31, 2012	(26,632)	(26,538)	(252,683)	
Total Shareholders' Equity	578,329	560,663	5,486,992	
Accumulated Other Comprehensive Income:				
Net unrealized holding gain (loss) on other securities	1,414	(2,264)	13,419	
Foreign currency translation adjustments	14,214	(3,528)	134,861	
Total Accumulated Other Comprehensive Income	15,628	(5,792)	148,281	
Subscription rights to shares	306	203	2,908	
Minority interests	1,150	823	10,917	
Total Net Assets	595,415	555,898	5,649,100	
Total Liabilities and Net Assets	¥719,257	¥679,342	\$6,824,070	

Kyowa Hakko Kirin and its consolidated subsidiaries For the years ended December 31, 2013 and 2012

	Millions	of yen	Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Net Sales (Note 5)	¥340,611	¥333,158	\$3,231,606
Cost of Sales (Note 3)	127,850	122,467	1,212,999
Gross Profit	212,761	210,690	2,018,606
Selling, General and Administrative Expenses (Note 3)	160,987	157,785	1,527,397
Operating Income (Note 5)	51,773	52,905	491,209
Other Revenue (Expenses):			
Interest and dividend income	1,445	1,598	13,718
Interest expense	(259)	(205)	(2,466)
Foreign exchange gains	2,098	1,224	19,907
Equity in losses of affiliates	(4,163)	(4,861)	(39,505)
Gain (loss) on sale and disposal of fixed assets	130	(825)	1,238
Gain on sales of affiliates' stock	3,217	_	30,522
Gain on sales of investment securities	687	_	6,520
Provision for loss on plants reorganization	(3,390)	_	(32,163)
Special extra retirement payments	(630)	_	(5,984)
Impairment loss	(207)	(1,341)	(1,967)
Loss on a liquidation of affiliates	(190)	(1,035)	(1,807)
Loss on valuation of investment securities	(150)	(1,007)	(1,425)
Loss on sales of investment securities	(131)	(344)	(1,244)
Loss on a liquidation of operations	_	(247)	_
Other, net	(455)	(834)	(4,320)
	(2,000)	(7,880)	(18,978)
Income before Income Taxes and Minority Interests	49,773	45,025	472,231
Income Taxes:			
Current	(17,490)	(24,095)	(165,944)
Deferred	(2,112)	3,485	(20,047)
	(19,603)	(20,609)	(185,991)
Income before Minority Interests	30,169	24,415	286,239
Minority Interests	(91)	(215)	(868)
Net Income	¥ 30,078	¥ 24,199	\$ 285,370

Consolidated Statements of Comprehensive Income

Kyowa Hakko Kirin and its consolidated subsidiaries For the years ended December 31, 2013 and 2012

	Millions	s of yen	Thousands of U.S. dollars (Note 2)
	2013	2012	2013
Income before Minority Interests	¥30,169	¥24,415	\$286,239
Other Comprehensive Income			
Net unrealized holding gain on other securities	3,678	874	34,899
Foreign currency translation adjustments	17,978	9,413	170,572
Share of other comprehensive income of associates			
accounted for using the equity method	_	6	_
Total Other Comprehensive Income	21,656	10,294	205,471
Comprehensive Income			
Comprehensive income attributable to:			
Owners of the parent	51,449	34,393	488,609
Minority interests	326	316	3,101
Total Comprehensive Income	¥51,826	¥34,709	\$491,711

Kyowa Hakko Kirin and its consolidated subsidiaries For the years ended December 31, 2013 and 2012

						Mil	lions of yen					
			Sharehold	lers' equity			Accumulated	other comprehe	ensive income			
	Number of shares issued	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Foreign currency translation adjustments	Total accumu- lated other com- prehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at January 1, 2012	576,483,555	¥26,745	¥512,348	¥ 34,956	¥(19,194)	¥554,856	¥(3,144)	¥(12,841)	¥(15,986)	¥250	¥ 902	¥540,023
Net income for the year ended December 31, 2012				24,199		24,199						24,199
Cash dividends				(11,028)		(11,028)						(11,028)
Purchases of treasury stock					(7,511)	(7,511)						(7,511)
Disposal of treasury stock			(19)		167	147						147
Net changes during the year							880	9,313	10,194	(47)	(79)	10,067
Balance at January 1, 2013	576,483,555	26,745	512,329	48,127	(26,538)	560,663	(2,264)	(3,528)	(5,792)	203	823	555,898
Net income for the year ended December 31, 2013				30,078		30,078						30,078
Cash dividends				(12,316)		(12,316)						(12,316)
Purchases of treasury stock					(126)	(126)						(126)
Disposal of treasury stock			(1)		32	30						30
Net changes during the year							3,678	17,743	21,421	103	326	21,851
Balance at December 31, 2013	576,483,555	¥26,745	¥512,328	¥ 65,888	¥(26,632)	¥578,329	¥ 1,414	¥ 14,214	¥ 15,628	¥306	¥1,150	¥595,415

Thousands of U.S. dollars (Note 2)

		Sha	areholders' e	equity		Accumulated	other compreh	ensive income			
	Capital stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain (loss) on other securities	Foreign currency translation adjustments	Total accumu- lated other com- prehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at January 1, 2013	\$253,747	\$4,860,812	\$ 456,615	\$(251,787)	\$5,319,388	\$(21,480)	\$ (33,477)	\$ (54,957)	\$1,930	\$ 7,816	\$5,274,176
Net income for the year ended December 31, 2013			285,370		285,370						285,370
Cash dividends			(116,856)		(116,856)						(116,856)
Purchases of treasury stock				(1,200)	(1,200)						(1,200)
Disposal of treasury stock		(13)		303	290						290
Net changes during the year						34,899	168,339	203,239	978	3,101	207,318
Balance at December 31, 2013	\$253,747	\$4,860,798	\$ 625,130	\$(252,683)	\$5,486,992	\$ 13,419	\$134,861	\$148,281	\$2,908	\$10,917	\$5,649,100

Consolidated Statements of Cash Flows

Kyowa Hakko Kirin and its consolidated subsidiaries For the years ended December 31, 2013 and 2012

	Millions	of ven	Thousands of U.S. dollars (Note 2
	2013	2012	2013
Cash Flows from Operating Activities:		-	
Income before income taxes and minority interests	¥ 49,773	¥ 45,025	\$ 472,231
Adjustments to reconcile income before income taxes and			
minority interests to net cash provided by operating activities:			
Depreciation and amortization	21,592	20,904	204,861
Impairment loss	207	1,341	1,967
Amortization of goodwill	11,577	12,026	109,840
Increase (decrease) in provision for retirement benefits	(274)	(1,173)	(2,602)
Decrease (increase) in prepaid pension costs	(1,157)	(450)	(10,985)
Increase (decrease) in provision for bonuses	52	59	501
Interest and dividend income	(1,445)	(1,598)	(13,718)
Interest expenses	259	205	2,466
Equity in (earnings) losses of affiliates	4,163	4,861	39,505
Loss (gain) on sales and retirement of property, plant and equipment	(685)	248	(6,499)
Loss (gain) on sales of investment securities	(556)	321	(5,275)
Loss (gain) on sale of affiliates' stock	(3,214)	(0)	(30,494)
Loss (gain) on valuation of investment securities	0	1,007	5
Decrease (increase) in notes and accounts receivable	5,955	(708)	56,503
Decrease (increase) in inventories	(8,708)	(2,647)	(82,627)
Increase (decrease) in notes and accounts payable	(2,915)	(2,522)	(27,656)
Other	3,802	(3,545)	36,079
Sub-total	78,428	73,354	744,102
Interest and dividend income received	1,874	1,844	17,785
Interest expenses paid	(242)	(122)	(2,304)
Income taxes paid	(23,175)	(15,942)	(219,879)
Net Cash Provided by Operating Activities	56,884	59,134	539,704
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(21,599)	(17,587)	(204,931)
Proceeds from sales of property, plant and equipment	1,748	446	16,589
Purchase of intangible assets	(13,126)	(9,339)	(124,543)
Purchase of investment securities	(1)	(10)	(15)
Proceeds from sales and redemption of investment securities	3,957	2,466	37,544
Proceeds from sales of affiliates' stock	3,747	0	35,550
Purchase of investments in consolidated subsidiaries	—	(111)	_
Purchase of investments in capital of subsidiaries	(2,721)	-	(25,818)
Purchase of the affiliates corporate bond	(3,800)	(6,450)	(36,053)
Decrease (increase) in short-term loans receivable	(43,000)	(66,998)	(407,969)
Payments into time deposits	(4,251)	(3,224)	(40,332)
Proceeds from withdrawal of time deposits	2,922	3,051	27,731
Other	(1,038)	(1,015)	(9,849)
Net Cash Provided by (Used in) Investing Activities	(77,163)	(98,772)	(732,097)
Cash Flows from Financing Activities:		(07.0)	
Net increase (decrease) in short-term loans payable	12	(374)	119
Repayment of long-term loans payable	-	(100)	-
Purchase of treasury stock	(126)	(7,511)	(1,200)
Cash dividends paid	(12,310)	(11,029)	(116,795)
Cash dividends paid to minority shareholders		(44)	-
Other	(155)	(128)	(1,472)
Net Cash Used in Financing Activities	(12,579)	(19,189)	(119,349)
Effect of Exchange Rate Change on Cash and Cash Equivalents Net Increase (Decrease) in Cash and Cash Equivalents	1,765	1,606	16,753
	(31,091)	(57,221)	(294,988)
Cash and Cash Equivalents at the Beginning of the Period Cash and Cash Equivalents at the End of Period	50,334	107,555 ¥ 50,334	477,552 \$ 182 564
עמטו מויע שמטו בעטיעופוונג מו נוופ בווע טו רפווטע	¥ 19,242	∓ UU,334	\$ 182,564
Reconciliation between cash and cash oquivalents at year and			
Reconciliation between cash and cash equivalents at year end and the accounts booked in the consolidated balance sheets			
	V 00 100	V 01 577	¢ 101 504
Cash and deposits	¥ 20,190	¥ 21,577	\$ 191,564
Time deposits whose maturity periods exceed 3 months	(3,448)	(2,433)	(32,718)
Short-term loans receivable from parent company not exceeding three months	3,133	31,189	29,726
Current loans payable as negative cash equivalents (short-term loans payable) Cash and Cash Equivalents	(633) ¥ 19,242	¥ 50,334	(6,007) \$ 182,564

Kyowa Hakko Kirin and its consolidated subsidiaries

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Kyowa Hakko Kirin Co., Ltd. (the "Company") and its consolidated subsidiaries (hereinafter collectively referred to as the "Companies"). The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Financial Instruments and Exchange Act and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards (hereinafter "IFRS").

Effective April 1, 2008, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 (hereinafter "PITF No. 18"), issued by the Accounting Standards Board of Japan (hereinafter "ASBJ")). In accordance with the new accounting standard, the accompanying consolidated financial statements for the year ended December 31, 2013, have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

2 U.S. Dollar Amounts

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥105.40=U.S.\$1, the approximate exchange rate at December 31, 2013. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts can be converted into dollars at ¥105.40=U.S.\$1 or at any other rate.

Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses and production cost for the years ended December 31, 2013 and 2012 totaled ¥43,682 million (\$414,446 thousand) and ¥44,808 million, respectively.

4 Related Party Transactions

Significant transactions and balances with related parties as of and for the years ended December 31, 2013 and 2012 are as follows:

1. Parent Company

Kirin Holdings Co., Ltd. is listed on the first section of the Tokyo, Nagoya, Fukuoka and Sapporo Stock Exchanges.

Year ended December 31, 2013

	Capital	Ratio of voting	Amounts			Amounts		
Name	Millions of yen	rights owning (owned)	Transactions	Millions of yen	Thousands of U.S. dollars	Closing balances	Millions of yen	Thousands of U.S. dollars
Kirin Holdings Company, Limited	¥102,045	Directly (53.2%)	Loan of funds*	¥101,661	\$964,528	Short-term loans receivable	¥113,133	\$1,073,369

Year ended December 31, 2012

	Capital	Ratio of voting Amounts			Amounts		
Name	Millions of yen	rights owning (owned)	Transactions	Millions of yen	Closing balances	Millions of yen	
Kirin Holdings Company, Limited	¥102,045	Directly (53.2%)	Loan of funds*	¥85,004	Short-term loans receivable	¥98,189	

* A "Cash Management System" offered by Kirin Holdings is used to calculate transaction amounts, which are the average amounts of every month. The interest rate on loans is reasonably decided in consideration of a market interest rate.

2. Financial summary of the significant corporate affiliate

FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd is a significant corporate affiliate. The financial summary for the years ended December 31, 2013 and 2012 are as follows:

	Million	s of yen	Thousands of U.S. dollars
	2013	2012	2013
Current assets:	¥ 2,073	¥ 3,334	\$ 19,669
Noncurrent assets	1,129	1,166	10,716
Current liabilities	832	1,368	7,895
Noncurrent liabilities	20,500	12,900	194,497
Net assets	(18,129)	(9,767)	(172,007)
Sales	—	—	—
Loss before income taxes	(8,361)	(9,866)	(79,329)
Net loss	(8,362)	(9,867)	(79,338)

5 Segment Information

The reportable segments for the Companies are based on the financial data available for discrete operating units and for the purpose of periodic review by the Board of Directors in regard to the decision-making on proper allocation of business resources and the evaluation of business performance.

The Companies are made up of business groups formed on the basis of similarities in the products and services handled by each company. A core company in each business group, serving as the headquarters of that individual business, formulates comprehensive strategies for domestic and overseas markets and develops business activities in accordance with such strategies. Therefore, the Companies have two reportable segments: "Pharmaceuticals Division" and "Bio-Chemicals Division". The Pharmaceuticals Division manufactures and sells ethical pharmaceuticals, diagnostic reagents and others. The Bio-Chemicals Division manufactures and sells raw materials for pharmaceutical and industrial use, primarily amino acids, nucleotides and related compounds, healthcare products and others.

The classification of Kyowa Hakko Kirin Group affiliated companies was reviewed this fiscal year, and as a result, affiliated companies previously included in the Other segment are included in the Pharmaceuticals segment and the Other segment is abolished. Segment information of the previous fiscal year reflects this change.

Segment information for the year ended December 31, 2013

1. Information on sales and income (loss), identifiable assets/liabilities and other items by reportable segment The accounting method for reportable segments is based on the accounting method and information provided in "Summary of Significant Accounting Policies".

Segment income is based on operating income.

Intersegment sales are mainly based on transaction prices with third parties.

			Millions of yen		
		Reportable segment		_	Consolidated
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments*	total
Sales					
Sales to outside customers	¥259,584	¥ 81,026	¥340,611	¥ —	¥340,611
Intersegment sales and transfers	1,423	1,892	3,315	(3,315)	-
Net sales	261,007	82,919	343,927	(3,315)	340,611
Segment income	46,135	5,667	51,803	(29)	51,773
Segment assets	460,732	158,404	619,136	100,120	719,257
Other items					
Depreciation and amortization	¥ 14,966	¥ 6,627	¥ 21,593	¥ (1)	¥ 21,592
Amortization of goodwill	10,951	625	11,577	_	11,577
Investment in equity method affiliates	2,426	_	2,426	_	2,426
Increase of property, plant and equipment and intangible assets	22,921	12,261	35,183	_	35,183

		The	ousands of U.S. dol	lars	
		Reportable segmen	t		Consolidated
	Pharmaceuticals	Bio-Chemicals	Total	- Adjustments*	total
Sales					
Sales to outside customers	\$2,462,849	\$ 768,756	\$3,231,606	\$	\$3,231,606
Intersegment sales and transfers	13,502	17,956	31,459	(31,459)	_
Net sales	2,476,352	786,713	3,263,065	(31,459)	3,231,606
Segment income	437,716	53,775	491,491	(282)	491,209
Segment assets	4,371,273	1,502,888	5,874,162	949,908	6,824,070
Other items					
Depreciation and amortization	\$ 141,995	\$ 62,879	\$ 204,874	\$ (13)	\$ 204,861
Amortization of goodwill	103,904	5,936	109,840	_	109,840
Investment in equity method affiliates	23,017	_	23,017	_	23,017
Increase of property, plant and equipment and intangible assets	217,472	116,332	333,804	_	333,804

* (a) Segment income included in "Adjustments" consisted of the elimination of the intersegment transactions.

(b) Segment assets included in "Adjustments" consisted of the elimination of the intersegment transactions and corporate assets that is not allocated to each reportable segment.

The amounts are as follows.

Elimination of the intersegment transactions: ¥(16,983) million

Corporate assets: ¥117,103 million

Corporate assets consist of surplus operating funds (cash, deposits and short-term loans receivable) and long-term investments (investment securities).

2. Related information

(1) Information on sales by product and service

As information on sales by product and service is the same as segment information, it was omitted.

(2) Geographical information

(a) Net sales

The classification of overseas sales is as follows:

Classification	Area
America	North America, Latin America
Europe	All of Europe
Asia	All of Asia
Other areas	Oceania, Africa

Millions of yen						
Japan	America	Europe	Asia	Other areas	Total	
¥254,085	¥23,948	¥37,226	¥24,420	¥931	¥340,611	

Thousands of U.S. dollars						
Japan	America	Europe	Asia	Other areas	Total	
\$2,410,675	\$227,216	\$353,189	\$231,689	\$8,835	\$3,231,606	

(Note) Net sales information above is classified by country or region based on the locations of customers.

(b) Property, plant and equipment

		Millions of yen		
Japan	America	Europe	Asia	Total
¥121,862	¥9,160	¥212	¥6,684	¥137,919

		Thousands of U.S. dollars		
Japan	America	Europe	Asia	Total
\$1,156,193	\$86,912	\$2,015	\$63,415	\$1,308,537

3. Information by major customer

Impairment losses

Millions of yen					
Customer name	Net sales	Related segment name			
Alfresa Corporation	¥45,352	Pharmaceuticals			
	Thousands of U.S. dollars				
Customer name	Net sales	Related segment name			
Alfresa Corporation	\$430,285	Pharmaceuticals			

4. Information regarding impairment losses on fixed assets by reportable segment

\$1,387

	Millions of yen				
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated total
Impairment losses	¥146	¥61	¥207	¥ —	¥207
		TI	nousands of U.S. dolla	ars	
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated total

5. Information regarding amount of amortization of goodwill and unamortized balance by reportable segment

\$579

\$1,967

\$ –

\$1,967

	Millions of yen				
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated total
Amortization of goodwill	¥ 10,951	¥ 625	¥ 11,577	¥ —	¥ 11,577
Unamortized balance	¥154,798	¥8,915	¥163,713	¥ —	¥163,713

	Thousands of U.S. dollars				
	Pharmaceuticals Bio-Chemicals Total Adjustments Consolidated tota				
Amortization of goodwill	\$ 103,904	\$ 5,936	\$ 109,840	\$ —	\$ 109,840
Unamortized balance	\$1,468,671	\$84,588	\$1,553,259	\$ —	\$1,553,259

6. Information regarding gain on recognition of negative goodwill by reportable segment No relevant items.

Segment information for the year ended December 31, 2012

1. Information on sales and income (loss), identifiable assets/liabilities and other items by business segment Reportable segment information for the year ended December 31, 2012 was as follows:

	Millions of yen				
	Reportable segment				Consolidated
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments*	total
Sales					
Sales to outside customers	¥258,025	¥ 75,133	¥333,158	¥ —	¥333,158
Intersegment sales and transfers	1,339	1,833	3,172	(3,172)	_
Net sales	259,365	76,966	336,331	(3,172)	333,158
Segment income	50,749	2,127	52,876	28	52,905
Segment assets	442,476	141,864	584,341	95,000	679,342
Other items					
Depreciation and amortization	¥ 14,625	¥ 6,280	¥ 20,905	¥ (1)	¥ 20,904
Amortization of goodwill	11,400	625	12,026	_	12,026
Investment in equity method affiliates	2,805	_	2,805	_	2,805
Increase of property, plant and equipment and intangible assets	18,357	9,454	27,812	(3)	27,808

* (a) Segment income included in "Adjustments" consisted of the elimination of the intersegment transactions.

(b) Segment assets included in "Adjustments" consisted of the elimination of the intersegment transactions and corporate assets that is not allocated to each reportable segment.

The amounts were as follows.

Elimination of the intersegment transactions: ¥(11,134) million

Corporate assets: ¥106,135 million

Corporate assets consist of surplus operating funds (cash, deposits and short-term loans receivable) and long-term investments (investment securities).

2. Related information

(1) Information on sales by product and service

As information on sales by product and service is the same as segment information, it was omitted.

(2) Geographical information

(a) Net sales

The classification of overseas sales is as follows:

Classification	Area
America	North America, Latin America
Europe	All of Europe
Asia	All of Asia
Other areas	Oceania, Africa

Millions of yen						
Japan	America	Europe	Asia	Other areas	Total	
¥260,524	¥21,207	¥30,997	¥19,880	¥548	¥333,158	

(Note) Net sales information above is classified by country or region based on the locations of customers.

(b) Property, plant and equipment

As the balances of property, plant and equipment located in Japan accounted for more than 90% the balances of property, plant and equipment recognized in the consolidated balance sheet at December 31, 2012, information on property, plant and equipment at December 31, 2012 was omitted.

3. Information by major customer

	Millions of yen	
Customer name	Net sales	Related segment name
Alfresa Corporation	¥45,741	Pharmaceuticals

4. Information regarding impairment losses on fixed assets by reportable segment

			Millions of yen		
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated total
Impairment losses	¥1,316	¥25	¥1,341	¥ —	¥1,341

5. Information regarding amount of amortization of goodwill and unamortized balance by reportable segment

			Millions of yen		
	Pharmaceuticals	Bio-Chemicals	Total	Adjustments	Consolidated total
Amortization of goodwill	¥ 11,400	¥ 625	¥ 12,026	¥ —	¥ 12,026
Unamortized balance	¥159,309	¥9,541	¥168,850	¥ —	¥168,850

6. Information regarding gain on recognition of negative goodwill by reportable segment No relevant items.

6 Per Share Data

	Yen		U.S. dollars
	2013	2012	2013
Net assets	¥1,085.2	¥1,013.6	\$10.295
Net income-basic	54.9	44.1	0.521
Net income-diluted	54.9	44.1	0.520

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of share subscription rights.

Net assets per share are computed based on the net assets excluding stock subscription rights and minority interests and the amount of common stock outstanding at the year end.

The financial data used in the computation of basic net income per share for the years ended December 31, 2013 and 2012 in the above table is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net income-basic			
Net income used in the calculation of net income per share	¥30,078	¥24,199	\$285,370
Weighted average number of shares of common stock outstanding (Number of shares)	547,391,705	548,449,701	-
Net income-diluted			
Increasing number of common stock (Number of shares) attributable to:	359,114	288,656	_
Stock subscription rights (Number of shares)	359,114	288,656	_

The financial data used in the computation of net assets per share at December 31, 2013 and 2012 in the above table is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2013	2012	2013	
Total net assets	¥595,415	¥555,898	\$5,649,100	
Amounts deducted from total net assets attributable to	1,457	1,027	13,826	
Stock subscription rights	306	203	2,908	
Minority interests	1,150	823	10,917	
Net assets used in the calculation of net assets per share	¥593,957	¥554,870	\$5,635,273	
Number of shares used in the calculation of net assets per share (Number of shares)	547,340,042	547,420,925	_	

Term	Description	Page No.
Antibody-Dependent Cellular Cytotoxicity (ADCC)	This mechanism is one of the human immune functions that permits white blood cells such as natural killer cells and monocytes to kill cancer cells via antibodies.	55
Biopharmaceuticals	Pharmaceuticals expected to be highly effective with few adverse effects through the use of proteins and other biomolecules that have a complex structure and deliver pharmacological effects that were not possible to achieve with chemical synthesis.	4, 12, 31, 36, 55, 57, 69, 71
Companion Diagnostic	An <i>in vitro</i> diagnostic reagent used for personalized medicine. Already used in the treatment of specific cancers, companion diagnostics identify genes and biomarkers (blood test data and other objective, quantitative diagnostic indicators of changes in the body) in advance so that physicians can prescribe highly effective treatment for each patient with fewer adverse drug reactions and choose the best treatment and therapeutic agents.	4, 26, 58, 71
Good Clinical Practice (GCP)	A set of guidelines for ethically and scientifically valid clinical trials involving humans that enhance data reliability and comply with pharmaceutical laws and regulations.	
Good Distribution Practice (GDP)	Multifaceted standards for the pharmaceutical distribution process to ensure pharmaceutical quality and identity.	
Good Laboratory Practice (GLP)	A set of guidelines for evaluating the safety and efficacy of pharmaceuticals particularly designed to enhance the reliability of safety data from various types of non-clinical animal studies.	
Good Manufacturing Practice (GMP)	A set of international guidelines for controlling pharmaceutical manufacturing and quality. The World Health Organization adopted the first draft text on GMP in 1968, and most countries have incorporated GMP into their regulatory regimes.	34, 56
ICH Q10 (Pharmaceutical Quality System)	ICH is an acronym for the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use conducted by regulatory authorities from Japan, the United States and the European Union. Its component Q10 is one of the guidelines for pharmaceutical quality that presents a phamaceutical quality system model and includes the GMP guidelines for controlling pharmaceutical manufacturing and quality.	33
KM Mouse: A Mouse That Produces Human Antibodies	Kyowa Hakko Kirin conceptualized Human Artificial Chromosome (HAC) technology, which is a technique for transferring a fragment of a human chromosome containing a very large cluster of genes into a mouse, and then fused it with the technology of Medarex Inc. (currently Bristol-Myers Squibb Company) to create the KM Mouse, which can produce a diverse array of fully human antibodies. This broadened the pharmaceutical potential for therapeutic antibodies in ways such as enabling continued antibody dosings.	21, 24, 55

Term	Description	Page No.
Medical Representative (MR)	A person whose main work includes visiting health care providers and collecting and providing safety management information to contribute to the appropriate use of drugs.	25, 27, 36, 37, 39, 40, 46, 60
Natural Killer (NK) Cells	NK cells protect the body primarily by attacking cancer cells and cells infected with viruses.	23
Nurturing Drugs	A process of nurturing drugs after their launch using information obtained from actual treatment to help enhance patient treatment. Approaches include enhancing efficacy and safety, improving usage, and expanding indications.	21, 34, 39, 58, 70
Open Innovation	The creation of innovative new drugs by fusing internal and external knowledge and technologies.	21, 22, 35, 36, 56, 70
Orphan Drugs (Pharmaceuticals for Treating Rare Diseases)	Drugs for intractable diseases that affect fewer patients and have inadequate or no treatment options. The environment for these drugs features various measures to make them available to patients more quickly, such as a fast-track approval process.	11, 20
Pharmaceutical Inspection Cooperation Scheme (PIC/S)	An organization active since 1995 with the voluntary participation of pharmaceutical industry regulatory authorities, primarily from European countries, that creates and ensures consistency among standards for controlling the manufacture and quality of pharmaceuticals and promotes mutual inspections. In 2013, 43 countries participated. Japan's March 2012 application for membership is now under review.	33
POTELLIGENT®	Kyowa Hakko Kirin's unique technology to produce antibodies with enhanced ADCC activity. This technique allows production of antibodies with reduced fucose in their carbohydrate structure. Non-clinical animal studies have confirmed that antibodies produced by this technology killed the target cells much more efficiently than existing antibodies and exhibited stronger antitumor effects.	21, 24, 55
Therapeutic Antibody	A biopharmaceutical composed mainly of the antibodies that are central to the human immune system. These therapies employ the unique ability of specific antibodies to recognize only specific antigen targets.	11, 12, 19, 20, 22, 36, 55, 56, 70
Translational Research	Research that bridges drug discovery technologies elucidated through basic research and applied research, conducted with universities and other research organizations to accelerate forecasts for clinical trial results.	21, 22, 36, 56, 70
Unmet Health Economics Needs	Refers to unresolved demands and priorities associated with the economics of health.	12, 19, 57
Unmet Medical Needs	Medical requirements that remain unfulfilled. The desire for breakthrough new drugs is urgent in representative areas such as AIDS and cancer where treatment is unsatisfactory or unavailable.	11, 19, 21, 25, 55, 70

Network (As of December 31, 2013)

791011

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16 15 14 33

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 Kyowa Hakko Kirin Co., Ltd.

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	Percentage Owned Directly or Indirectly by	Capital ²	2338
Name of Company ¹	the Company	(Thousand)	Principal Business
PHARMACEUTICALS			
1 Kyowa Medex Co., Ltd.	100.0%	¥450,000	Manufacturing and sales of diagnostic reagents
2 Kyowa Medical Promotion Co., Ltd.	100.0%	¥50,000	Promotion and sales of pharmaceuticals
3 Kyowa Hakko Kirin America, Inc.	100.0%	\$76,300	Holding company for administration and management of subsidiaries (U.S.A.)
4 BioWa, Inc.	100.0%	\$10,000	Out-licensing of anti-body technology and research alliance (U.S.A.)
(5) Kyowa Hakko Kirin Pharma, Inc.	100.0%	\$100	Development of outsourced pharmaceutical products (U.S.A.)
6 Kyowa Hakko Kirin California, Inc.	100.0%	\$100	Generate new candidate substances and develop pharmaceuticals (U.S.A.)
ProStrakan Group plc	100.0%	£10,771	Supervision and management of special companies (UK)
8 ProStrakan Inc.	100.0%	\$235	Sales of pharmaceuticals (U.S.A.)
9 Strakan International S.a r.l.	100.0%	\$112,826	Sales, licensing-in and licensing-out of pharmaceuticals (UK)
10 Strakan Pharmaceuticals Limited	100.0%	£501	Development of pharmaceuticals (UK)
11 ProStrakan Limited	100.0%	£6,951	Sales of pharmaceuticals (UK)
12 ProStrakan Pharma S.A.S	100.0%	€1,139	Sales of pharmaceuticals (France)
13 ProStrakan Farmaceutica SLU	100.0%	€216	Sales of pharmaceuticals (Spain)
14 ProStrakan Pharma GmbH	100.0%	€51.2	Sales of pharmaceuticals (Germany)
15 ProStrakan Holdings B.V.	100.0%	€110.771	Holding company for special companies (Netherlands)
16 ProStrakan Pharma B.V.	100.0%	€18	Sales of pharmaceuticals (Netherlands)
17 ProStrakan S.r.I.	100.0%	€10.4	Sales of pharmaceuticals (Italy)
18 ProStrakan AB	100.0%	SEK 200	Sales of pharmaceuticals (Sweden)
(9) Kyowa Hakko Kirin China Pharmaceutical Co., Ltd.	100.0%	CNY 246,794	Manufacturing and sales of pharmaceuticals (China)
20 Kyowa Hakko Kirin Korea Co., Ltd.	100.0%	KRW 2,200,000	Sales of pharmaceuticals (Korea)
 Kyowa Hakko Kirin (Taiwan) Co., Ltd. 	100.0%	NT \$12,450	Sales of pharmaceuticals (Taiwan)
22 Kyowa Hakko Kirin (Hong Kong) Co., Ltd.	100.0%	HK \$6,000	Sales of pharmaceuticals (Hong Kong)
23 Kyowa Hakko Kirin (Singapore) Pte. Ltd.	100.0%	S \$1,000	Sales of pharmaceuticals and research (Singapore)
🥺 FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd.	50.0%	¥100,000	Development, manufacturing and sales of biosimilar pharmaceuticals
😕 Chiyoda Kaihatsu Co., Ltd.	100.0%	¥112,500	Insurance, wholesale and retail
36 Japan Synthetic Alcohol Co., Ltd.	33.3%	¥480,000	Manufacturing and sales of industrial use alcohol

64

30 32 (

8)(3)

Name of Company ¹	Percentage Owned Directly or Indirectly by the Company	Capital ² (Thousand)	Principal Business
BIO-CHEMICALS			
(2) KYOWA HAKKO BIO CO., LTD.	100.0%	¥10,000,000	Manufacturing and sales of pharmaceutical and industrial raw materials, and health care products
8 Daiichi Fine Chemical Co., Ltd.	100.0%	¥6,276,000	Manufacturing and sales of active pharmaceutical ingredients and pharmaceutical intermediates
8 Kyowa Engineering Co., Ltd.	100.0%	¥70,000	Design and installation of plant facilities and equipment
30 BioKyowa Inc.	100.0%	\$20,000	Manufacturing and sales of amino acids (U.S.A.)
🖲 Kyowa Hakko U.S.A., Inc.	100.0%	\$1,000	Sales of fine chemicals including amino acids (U.S.A.)
39 Kyowa Hakko Bio U.S. Holdings, Inc.	100.0%	\$1	Holding company for administration and management of US special companies (U.S.A.)
33 Kyowa Hakko Europe GmbH	100.0%	€1,030	Sales of fine chemicals including amino acids (Germany)
34 Kyowa Hakko Bio Italia S.r.I.	100.0%	€700	Sales of fine chemicals including amino acids (Italy)
3 Shanghai Kyowa Amino Acid Co., Ltd.	70.0%	CNY 156,436	Manufacturing and sales of amino acids (China)
36 Thai Kyowa Biotechnologies Co., Ltd.	100.0%	THB 2,000,000	Manufacturing and sales of amino acids (Thailand)
🕖 Kyowa Hakko (H.K.) Co., Ltd.	100.0%	HK \$1,200	Sales of fine chemicals including amino acids (Hong Kong)
198 Kyowa Hakko Bio Singapore Pte. Ltd.	100.0%	\$4,000	Sales of fine chemicals including amino acids (Singapore)

1. All of the companies listed are consolidated subsidiaries except FUJIFILM KYOWA KIRIN BIOLOGICS Co., Ltd. and Japan Synthetic Alcohol Co., Ltd., which are equity-method affiliates.

2. The unit for capital for all companies listed is thousands regardless of currency, except ProStrakan Inc.

Kyowa Hakko Kirin Co., Ltd.

Head Office 1-6-1, Ohtemachi, Chiyoda-ku, Tokyo 100-8185, Japan Tel : 81-3-3282-0007 Fax : 81-3-3284-1968 URL: http://www.kyowa-kirin.com/index.html

Number of Employees

4,185 (Consolidated: 7,152)

Date of Foundation July 1, 1949

Paid-in Capital ¥26,745 million

Principal Plants

Domestic

Pharmaceuticals Takasaki Plant Fuji Plant Sakai Plant Ube Plant Kyowa Medex Co., Ltd. Fuji Plant

Bio-Chemicals

Yamaguchi Production Center (Hofu, Ube) Healthcare Plant (Tsuchiura)

Overseas

Pharmaceuticals Kyowa Hakko Kirin China Pharmaceutical Co., Ltd.

Bio-Chemicals

BioKyowa Inc. (U.S.A.) Shanghai Kyowa Amino Acid Co., Ltd.

R&D Network Domestic

Pharmaceuticals

Tokyo Research Park Fuji Research Park Bio Process Research and Development Laboratories Chemical Process Research and Development Laboratories Drug Formulation Research and Development Laboratories Kyowa Medex Co., Ltd. Research Laboratories

Bio-Chemicals

Healthcare Product Development Center Bioprocess Development Center Technical Research Laboratories

Overseas

Pharmaceuticals

Kyowa Hakko Kirin Pharma, Inc. (U.S.A.) Kyowa Hakko Kirin California, Inc. (U.S.A.) ProStrakan Group plc (UK) Kyowa Hakko Kirin China Pharmaceutical Co., Ltd. Kyowa Hakko Kirin Korea Co., Ltd. Kyowa Hakko Kirin (Taiwan) Co., Ltd.

Board Members

Executive Director of the Board President and Chief Executive Officer Nobuo Hanai, Ph.D.

Executive Director of the Board Executive Vice President Hiroyuki Kawai, Ph.D.

Directors of the Board Managing Executive Officers Kazuyoshi Tachibana

Fumihiro Nishino Vice President Head Sales & Marketing Division

Toshifumi Mikayama, Ph.D. Director Overseas Business Department

Directors of the Board

Hajime Nakajima¹ Koichiro Nishikawa¹

Company Auditors

Full time Company Auditors Hiroaki Nagai² Takahiro Kobayashi² Nobuhisa Yamazaki

Company Auditors

Hiroyuki Takahashi² Kazuyoshi Suzusyo²

Outside director
 Outside company auditor

Executive Officers

Managing Executive Officers

Yoichi Sato Vice President Head R&D Division Head Development Function Unit

Yutaka Ouchi Director Human Resources Department

Executive Officers

Shigeru Morotomi Director Corporate Communications Department

Hiroshi Sugitani Director Strategic Product Portfolio Department

Masafumi Inoue Director Tokyo Branch Sales & Marketing Division

Hiroshi Okazaki, Ph.D. Vice President Head R&D Division Head Research Function Unit

Kazuyoshi Adachi Vice President Head Pharmacovigilance and Quality Assurance Division

Kenya Shitara, Ph.D. ^{Director}

Legal and Intellectual Property Department

Masashi Miyamoto, Ph.D. Director Regulatory Affairs Department Pharmacovigilance and Quality Assurance Division Takashi Oishi Director Sales Department Sales & Marketing Division

Satoshi Nakanishi, Ph.D. Director R&D Planning Department R&D Division

Niro Sakamoto Director

Corporate Strategy & Planning Department Tamao Watanabe

Director Business Development Department

Yutaka Osawa Vice President Head Production Division

Wataru Murata Director General Affairs & External Relations Department

Yukihiro Noda Director Osaka Branch Sales & Marketing Division

Stock Listing

Tokyo

Securities Code 4151

Transfer Agent of Common Stock

Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Number of Shares of Common Stock Authorized: 987,900,000

Issued: 576,483,555

Number of Shareholders 38,624

Principal Shareholders

	Held (Thousands)	Shares Issued (%)
Kirin Holdings Company, Limited	288,819	50.10
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,111	4.01
Japan Trustee Services Bank, Ltd. (Trust Account)	12,197	2.12
The Norinchukin Bank	10,706	1.86
Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for Mizuho Bank, Ltd.) ¹	6,809	1.18
Nomura Securities Co., Ltd.	5,499	0.95
Deutsche Securities Inc.	5,188	0.90
The Nomura Trust and Banking Co., Ltd. (Trust Account)	4,004	0.69
State Street Bank West Client-Treaty (Standing Proxy: Mizuho, Ltd., Settlement & Clearing Services Division)	3,792	0.66
BNP Paribas Securities Limited	3,707	0.64

1. The 6,809 thousand shares held by Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for Mizuho Bank, Ltd.) are the trust assets entrusted by Mizuho Bank for its retirement benefit trust, and voting rights for the shares are retained by Mizuho Bank.

2. The 29,143,513 shares (5.06%) held by the Company as treasury stock are excluded from the above because treasury stock has no voting rights.

Stock Price and Trading Volume



Shareholding by Type of Investor (Number)



Number of Shares Percentage of Total

As a representative director of Kyowa Hakko Kirin Co., Ltd., I hereby state that this report was produced according to the following approaches and conforms to the extent possible to the latest Integrated Reporting Framework announced by the International Integrated Reporting Council in December 2013.

- This report covers all of the business activities of Kyowa Hakko Kirin Co., Ltd., its consolidated subsidiaries, and its equity-method affiliates (the "Kyowa Hakko Kirin Group").
- In producing this report, we ensured that reporting uses an interdivisional perspective within the Kyowa Hakko Kirin Group.
- Forecasts of results presented in this report are predicated on the information available to the Kyowa Hakko Kirin Group at the time and reasonable estimates, and may differ significantly from actual results due to a range of factors.

April 1, 2014

Executive Director of the Board President and Chief Executive Officer

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Kyowa Hakko Kirin Co., Ltd.

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