KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary (IFRS)
Fiscal 2019 First Quarter

(January 1, 2019 – March 31, 2019)

This document is an English translation of parts of the Japanese-language original.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS) for Three Months Ended March 31, 2019

May 8, 2019

Company Name:	Kyowa Hakko Kirin Co., Ltd.	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of submission of Quarterly Securities Report: May 8, 2019
Scheduled start date of dividend payment: -
Appendix materials to accompany the quarterly financial report: Yes
Quarterly results presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded off)

1. Consolidated Financial Results for the Three Months Ended March 31, 2019

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2019	75,835	14.1	17,334	20.4	12,257	(57.1)	8,114	(63.1)
March 31, 2018	66,487	–	14,391	–	28,601	–	22,005	83.1

Total comprehensive income: Three months ended March 31, 2019: ¥11,195 million; (40.0)%
Three months ended March 31, 2018: ¥18,668 million; 89.5%

Notes: 1. Core operating profit was calculated by deducting “selling, general and administrative expenses” and “research and development expenses” from “gross profit,” and adding “share of profit (loss) of investments accounted for using equity method” to the amount.

2. Following the conclusion of an agreement on February 5, 2019, in which the Company agreed to transfer 95% of the shares of its consolidated subsidiary Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited, the Bio-Chemicals business is categorized as a discontinued operation, effective the three months ended March 31, 2019. Accordingly, revenue, core operating profit, and profit before tax show figures for continuing operations and exclude discontinued operations. In addition, the consolidated financial statements for the corresponding period of the previous year have been restated to reflect the change, and accordingly year-on-year changes are not stated for the items of that period.

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Three months ended	Millions of yen	%	Yen	Yen
March 31, 2019	8,114	(63.1)	14.97	14.95
March 31, 2018	22,005	83.1	40.20	40.16

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
As of	Millions of yen	Millions of yen	Millions of yen	%
March 31, 2019	741,191	626,876	626,876	84.6
December 31, 2018	741,982	649,621	649,621	87.6

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	–	15.00	–	20.00	35.00
Fiscal year ending December 31, 2019	–				
Fiscal year ending December 31, 2019 (Forecast)		20.00	–	20.00	40.00

Note: Revisions to the dividend forecast most recently announced: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	305,000	–	53,000	–	47,000	–	68,000	25.0	68,000	25.0	126.30

Note: Changes to the earnings forecasts most recently announced: None

The Company categorizes the Bio-Chemicals business as a discontinued operation, effective the three months ended March 31, 2019. Accordingly, in the Consolidated Earnings Forecasts for the Fiscal Year Ending December 31 2019, revenue, core operating profit, and profit before tax show figures for continuing operations and exclude discontinued operations and year-on-year changes are not stated.

* Notes

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

(2) Changes in accounting policies, and accounting estimates:

a. Changes in accounting policies required by IFRS: Yes

b. Changes in accounting policies other than a. above: No

c. Changes in accounting estimates: No

Note: See page 17, "2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to Condensed Quarterly Consolidated Financial Statements, *Significant accounting policies*."

(3) Number of shares issued (ordinary shares)

a. Number of shares issued (including treasury shares)

As of March 31, 2019	540,000,000 shares
As of December 31, 2018	576,483,555 shares

b. Number of treasury shares

As of March 31, 2019	3,107,607 shares
As of December 31, 2018	29,042,650 shares

c. Average number of shares during the period

Three months ended March 31, 2019	542,128,457 shares
Three months ended March 31, 2018	547,341,265 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Notice regarding the appropriate use of the earnings forecasts and other special comments

The forward-looking statements, including earnings forecasts, contained in these materials are based on the information currently available to the Company and on certain assumptions deemed to be reasonable by management. As such, they do not constitute guarantees by the Company of future performance. Actual results may differ materially from these projections for a wide variety of reasons.

Attachment Index

1. Operating Results and Financial Statements 5
 (1) Summary of Consolidated Business Performance 5
 (2) Summary of Consolidated Financial Position 7
 (3) Summary of Consolidated Cash Flows 8
 (4) Research and Development Activities 8
 (5) Summary of Consolidated Earnings Forecasts and Other Forward-looking Statements 9
2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto 10
 (1) Condensed Quarterly Consolidated Statement of Financial Position 10
 (2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income 12
 (3) Condensed Quarterly Consolidated Statement of Changes in Equity 14
 (4) Condensed Quarterly Consolidated Statement of Cash Flows 16
 (5) Notes to Condensed Quarterly Consolidated Financial Statements 17
  Notes on going concern assumption 17
  Significant accounting policies 17
  Segment information 19
  Significant subsequent events 19

1. Operating Results and Financial Statements

Since applying IFRS, the Group adopts “core operating profit” as a level of profit that shows the recurring profitability from operating activities. Core operating profit is calculated by deducting “selling, general and administrative expenses” and “research and development expenses” from “gross profit,” and adding “share of profit (loss) of investments accounted for using equity method” to the amount.

At a meeting held on February 5, 2019, the Board of Directors resolved that the Company would transfer 95% of its shareholdings in its consolidated subsidiary, Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited and concluded a share transfer agreement with Kirin Holdings Company, Limited on the same date, with the intention of maximizing shareholder value by concentrating management resources. In accordance with this agreement, the Company completed the transfer of the aforementioned shares on April 24, 2019.
As the Company effectively forfeited control over Kyowa Hakko Bio Co., Ltd. with the conclusion the share transfer agreement, the Bio-Chemicals business is categorized as a discontinued operation effective from the three months ended March 31, 2019. As a result, the profit from discontinued operations is presented separately from continuing operations on the condensed quarterly consolidated financial statement of profit or loss. Accordingly, the amounts presented for revenue, core operating profit and profit before tax are amounts from continuing operations from which discontinued operations have been excluded. Note that the results for the three months ended March 31, 2018 have been restated to reflect the same presentation as the period under review so that comparative analysis can be performed.
In addition, the Group did have two reportable segments of “Pharmaceuticals business” and “Bio-Chemicals business.” However, following the conclusion of the share transfer agreement, the “Bio-Chemicals business” was categorized as a discontinued operation and effective from the three months ended March 31, 2019, the Group now only has the one reportable segment of the “Pharmaceuticals business.”

(1) Summary of Consolidated Business Performance

1) Overview of results

(Billions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2018	Year-on-year change	Year-on-year (%)
Revenue	75.8	66.5	9.3	14.1%
Core operating profit	17.3	14.4	2.9	20.4%
Profit before tax	12.3	28.6	(16.3)	(57.1)%
Profit from continuing operations	9.3	20.9	(11.6)	(55.5)%
Profit (loss) from discontinued operations	(1.2)	1.1	(2.3)	–%
Profit attributable to owners of parent	8.1	22.0	(13.9)	(63.1)%

For the three months ended March 31, 2019 (January 1, 2019 to March 31, 2019), revenue was ¥75.8 billion (up 14.1% compared to the same period of the previous fiscal year), core operating profit was ¥17.3 billion (up 20.4%), and profit attributable to owners of parent was ¥8.1 billion (down 63.1%).

- The increase in revenue was partly the result of steady penetration of the market by new products launched in Europe, the U.S. and Japan last year, despite the decline in licensing revenue and the impact of reductions in drug price standards implemented in April last year in Japan. The increase in core operating profit was partly the result of an increase in revenue of global strategic products, which were launched in Europe and the U.S. last year, despite increases in selling, general and administrative expenses and research and development expenses.
- The decrease in profit attributable to owners of parent was due to the business restructuring expenses incurred in this quarter while there were a gain on sale of investments in subsidiaries and a reversal of impairment losses recorded in the same period of the previous fiscal year.

2) Revenue by geographic region

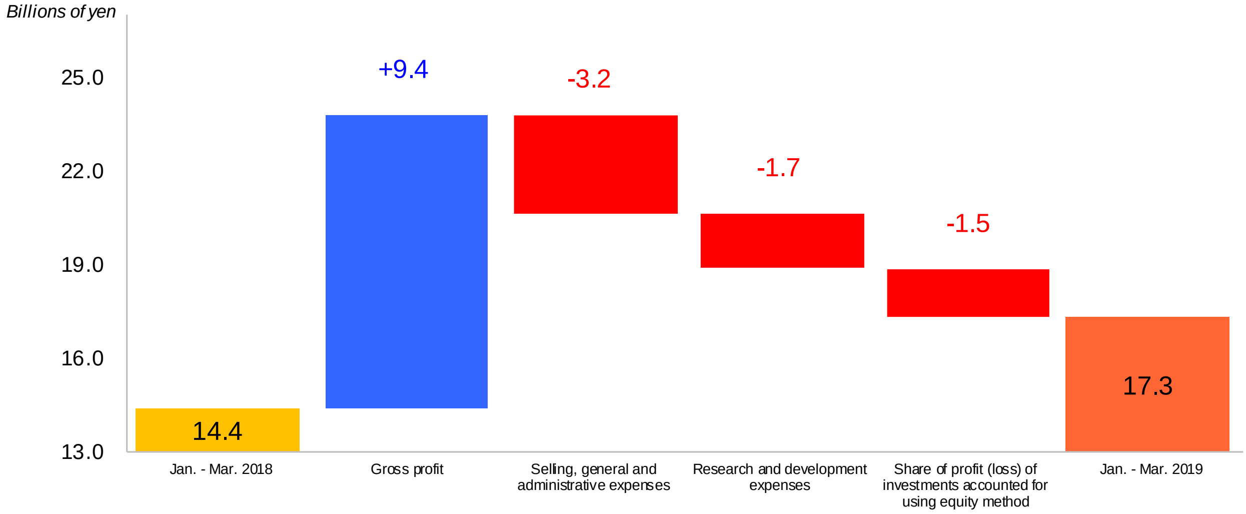
(Billions of yen)

		Three months ended March 31, 2019	Percentage of consolidated revenue (%)	Three months ended March 31, 2018	Percentage of consolidated revenue (%)	Year-on-year change
Japan		48.8	64.3%	45.7	68.8%	3.0
International		27.1	35.7%	20.8	31.2%	6.3
	Americas	8.9	11.7%	4.2	6.3%	4.7
	Europe	11.8	15.6%	11.5	17.2%	0.4
	Asia	6.3	8.4%	4.9	7.4%	1.4
	Others	0.0	0.1%	0.2	0.3%	(0.1)
Total consolidated revenue		75.8	100.0%	66.5	100.0%	9.3

*Revenue is classified by region or country based on location of customer.

- Revenue in Japan increased from the same period of the previous fiscal year due mainly to the growth in sale of new products, despite the impact of the reductions in drug price standards implemented in April last year, and the impacts of generics and rival products.
  - Revenue of core product NESP®, a renal anemia treatment drug, decreased compared to the same period of the previous fiscal year, due to the impact of reductions in drug price standards and other factors.
  - Revenue from long term NHI products such as ALLELOCK®, an anti-allergy agent, CONIEL®, a hypertension and angina pectoris drug, and Depakene®, an anti-epileptic drug, decreased compared to the same period of the previous fiscal year due mainly to the impact of the market penetration of generics.
  - Revenue from REGPARA®, a treatment for secondary hyperparathyroidism, decreased due mainly to the impact of rival products, while revenue from new product ORKEDIA®, a treatment for secondary hyperparathyroidism, which was launched in May last year, increased.
  - Revenue from Patanol®, anti-allergy eye drops increased year on year due to the effects of airborne pollen, while firm growth in revenue was also realized for G-Lasta®, an agent for decreasing the incidence of febrile neutropenia, Dovobet®, a topical combination drug for psoriasis vulgaris, NOURIAST®, an antiparkinsonian agent, and LUMICEF®, a treatment for psoriasis, among others.
  - Rituximab BS [KHK], an anticancer agent, launched in January last year, has achieved market penetration and sales growth as planned.
- Revenue from international business increased year on year due to the steady growth of new products that were launched globally last year.
  - In the Americas and Europe, Crysvita®, a treatment for X-linked hypophosphatemia whose sales commenced in the U.S. and Europe in April last year, continued to perform solidly, and the number of patients receiving the drug grew steadily. Furthermore, POTELIGEO®, an anticancer agent which was launched in the U.S. in October last year, has also been penetrating the market favorably.
  - Revenue from Asia increased from the same period of the previous fiscal year, due in part to the growth of REGPARA® for the treatment of secondary hyperparathyroidism particularly in China and South Korea as well as the start of sales of Neulasta (product name in Japan: G-Lasta®), an agent for decreasing the incidence of febrile neutropenia, and other products, from January this year in the Middle East.
  - Licensing revenue decreased from the same period of the previous fiscal year as an increase in royalties revenue from AstraZeneca in relation to benralizumab was outweighed by a decline in milestone revenue for the same drug.

3) Core operating profit



- Core operating profit increased from the same period of the previous fiscal year, mainly due to a large increase in gross profit due to strong sales of global strategic products, namely Crysvita®, a treatment for X-linked hypophosphatemia, and POTELIGEO®, an anticancer agent, whose sales were launched in Europe and the U.S. last year, despite an increase in selling, general and administrative expenses accompanying the launch of those global strategic products as well as research and development expenses.

(2) Summary of Consolidated Financial Position

(Billions of yen)

	As of March 31, 2019	As of December 31, 2018	Change
Assets	741.2	742.0	(0.8)
Non-current assets	313.1	356.1	(43.1)
Current assets	428.1	385.8	42.3
Liabilities	114.3	92.4	22.0
Equity	626.9	649.6	(22.7)
Ratio of equity attributable to owners of parent to total assets (%)	84.6%	87.6%	(3.0)%

- Assets as of March 31, 2019 were ¥741.2 billion, a decrease of ¥0.8 billion compared to the end of the previous fiscal year. During the first quarter of fiscal 2019, the Company concluded an agreement to transfer a part of shareholdings in its consolidated subsidiary Kyowa Hakko Bio Co., Ltd. Accordingly, assets in the Bio-Chemicals business, amounting to ¥122.8 billion, were categorized as assets held for sale.
  - Non-current assets declined from the end of the previous fiscal year by ¥43.1 billion to ¥313.1 billion, due mainly to a decrease resulting from the transfer of assets held for sale to current assets, despite an increase in property, plant and equipment resulting from the application of IFRS 16, etc.
  - Current assets increased from the end of the previous fiscal year by ¥42.3 billion to ¥428.1 billion due mainly to an increase resulting from the transfer of assets held for sale from non-current assets, despite a decrease in loans receivable from parent as fund management, etc.
- Liabilities as of March 31, 2019, were ¥114.3 billion, an increase of ¥22.0 billion compared to the end of the previous fiscal year, due mainly to an increase in other financial liabilities resulting from the application of IFRS 16, despite a decrease in income taxes payable, etc.

  Also, liabilities in the Bio-Chemicals business amounting to ¥25.4 billion, were categorized as liabilities directly associated with assets held for sale.

- Equity as of March 31, 2019, was ¥626.9 billion, a decrease of ¥22.7 billion compared to the end of the previous fiscal year, due to a payment of dividends as well as implementation of shareholder return measures such as repurchase and cancellation of treasury shares, despite an increase due to the recording of profit attributable to owners of parent.
  As a result, the ratio of equity attributable to owners of parent to total assets as of the end of the first quarter was 84.6%, a decrease of 3.0 percentage points compared to the end of the previous fiscal year.

(3) Summary of Consolidated Cash Flows

(Billions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2018	Year-on-year change
Net cash provided by (used in) operating activities	9.2	19.5	(10.3)
Net cash provided by (used in) investing activities	29.3	(14.5)	43.8
Net cash provided by (used in) financing activities	(34.5)	(8.3)	(26.1)
Cash and cash equivalents at beginning of period	15.9	14.7	1.2
Cash and cash equivalents at end of period	15.9	12.3	3.6

Cash and cash equivalents as of March 31, 2019, were ¥15.9 billion, nearly flat compared with the balance as of December 31, 2018, due to a decrease of ¥3.6 billion in transfer to assets held for sale, despite an increase of ¥3.7 billion in “Net increase in cash and cash equivalents” for the three months ended March 31, 2019.
The main contributing factors affecting cash flow during the three months ended March 31, 2019 were as follows:

- Net cash provided by operating activities was ¥9.2 billion (down 52.7% compared to the same period of the previous fiscal year). Major inflows included profit before tax from continuing operations of ¥12.3 billion and net cash provided by operating activities from discontinued operations of ¥6.3 billion. Major outflows included income taxes paid of ¥13.8 billion.
- Net cash provided by investing activities was ¥29.3 billion (¥14.5 billion was used in the same period of the previous fiscal year). Major inflows included a net decrease of ¥36.7 billion in loans receivable from parent. Major outflows included ¥3.4 billion for purchase of intangible assets.
- Net cash used in financing activities was ¥34.5 billion (up 313.0% compared to the same period of the previous fiscal year). The main outflows included ¥22.6 billion for purchase of treasury shares and dividends paid of ¥10.9 billion.

(4) Research and Development Activities

Using cutting-edge biotechnology centered on antibody technology, we have made nephrology, oncology, immunology/allergy and CNS the focus of research and development, and by investing resources efficiently, we aim to further speed up the creation of new medical value and drug creation.
The development statuses of our main late-stage development products in the three months ended March 31, 2019 are as follows.

Nephrology

- In Japan, we are implementing a phase III clinical study for calcium receptor agonist KHK7580 (product name in Japan: ORKEDIA®) targeting hypercalcemia in patients with parathyroid carcinoma and patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or relapse after parathyroidectomy.
- In Japan, we are implementing a phase III clinical study for RTA 402 (generic name: bardoxolone methyl) targeting diabetic kidney disease.

- In China, in February we reapplied for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in patients receiving dialysis.
- In Japan, in February we started phase II clinical study for NHE 3 inhibitor KHK7791 (generic name: Tenapanor) targeting hyperphosphatemia patients receiving hemodialysis.

Immunology and allergy

- We are currently conducting a phase III clinical study targeting axial spondyloarthritis in Japan, South Korea, etc. for the anti-IL-17 receptor A fully human antibody KHK4827 (product name in Japan: LUMICEF®). Also, we have applied for approval of its indication for treatment of psoriasis in South Korea (application filed in July 2018).
- In Japan, the U.S., Canada and Europe, we are currently conducting a phase II clinical study for the anti-OX40 fully human antibody KHK4083 targeting atopic dermatitis.

CNS

- In the U.S., in February we submitted a reapplication of adenosine A_{2A} receptor antagonist KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson's disease.
- In Japan, we are currently conducting a phase III clinical study targeting HTLV-1 associated myelopathy for the anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®).
- In Japan, we are currently conducting a phase II clinical study targeting Parkinson's disease for adenosine A_{2A} receptor antagonist KW-6356.

Other

- For the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 (product name in U.S. and Europe: Crysvita®), we are currently conducting a multi-regional phase III clinical study in the U.S., Canada, Europe, Japan and South Korea, targeting X-linked hypophosphatemia in adult patients, and a multi-regional phase III clinical study in the U.S., Canada, Europe, Australia, Japan and South Korea, targeting X-linked hypophosphatemia in pediatric patients. Also, we are currently conducting a phase II clinical study in the U.S., Japan and South Korea, targeting tumor induced osteomalacia and epidermal nevus syndrome. Furthermore, we applied for approval of its indication for treatment of FGF23 associated hypophosphatemic rickets and osteomalcia in Japan in January.
- In China, we are currently conducting a phase III clinical study of thrombopoietin receptor agonist AMG531 (product name in Japan: ROMIPLATE®) targeting chronic idiopathic (immune) thrombocytopenic purpura. Also, we are currently conducting a phase II/III clinical study in aplastic anemia in South Korea. Additionally, we have applied for approval of its indication for treatment of aplastic anemia in Japan (application filed in July 2018).

(5) Summary of Consolidated Earnings Forecasts and Other Forward-looking Statements

No revisions have been made to the consolidated earnings forecasts announced on February 5, 2019.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of December 31, 2018
Assets		
Non-current assets		
Property, plant and equipment	74,713	103,153
Goodwill	133,913	140,061
Intangible assets	59,890	58,234
Investments accounted for using equity method	8,406	8,887
Other financial assets	14,433	15,452
Retirement benefit asset	5,874	7,846
Deferred tax assets	15,209	21,543
Other non-current assets	630	963
Total non-current assets	313,070	356,138
Current assets		
Inventories	42,516	77,221
Trade and other receivables	95,199	104,443
Loans receivable from parent	144,600	181,300
Other financial assets	712	736
Other current assets	6,322	6,277
Cash and cash equivalents	15,941	15,867
Subtotal	305,290	385,844
Assets held for sale	122,832	–
Total current assets	428,122	385,844
Total assets	741,191	741,982

(1) Condensed Quarterly Consolidated Statement of Financial Position (continued)

(Millions of yen)

	As of March 31, 2019	As of December 31, 2018
Equity		
Share capital	26,745	26,745
Capital surplus	463,899	509,161
Treasury shares	(3,855)	(26,705)
Retained earnings	148,428	151,760
Other components of equity	(7,433)	(11,341)
Other components of equity related to disposal group held for sale	(908)	–
Total equity attributable to owners of parent	626,876	649,621
Total equity	626,876	649,621
Liabilities		
Non-current liabilities		
Retirement benefit liability	327	511
Provisions	389	3,419
Deferred tax liabilities	19	181
Other financial liabilities	14,936	2,377
Other non-current liabilities	3,668	5,414
Total non-current liabilities	19,340	11,902
Current liabilities		
Trade and other payables	49,609	49,400
Other financial liabilities	2,891	2,209
Income taxes payable	894	10,562
Other current liabilities	16,147	18,289
Subtotal	69,541	80,459
Liabilities directly associated with assets held for sale	25,435	–
Total current liabilities	94,976	80,459
Total liabilities	114,315	92,362
Total equity and liabilities	741,191	741,982

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

(Millions of yen)

	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Continuing operations		
Revenue	75,835	66,487
Cost of sales	(19,751)	(19,783)
Gross profit	56,084	46,704
Selling, general and administrative expenses	(26,672)	(23,519)
Research and development expenses	(11,918)	(10,181)
Share of profit (loss) of investments accounted for using equity method	(161)	1,388
Other income	87	14,411
Other expenses	(5,305)	(88)
Finance income	332	168
Finance costs	(190)	(281)
Profit before tax	12,257	28,601
Income tax expense	(2,953)	(7,716)
Profit from continuing operations	9,304	20,885
Discontinued operations		
Profit (loss) from discontinued operations	(1,190)	1,120
Profit	8,114	22,005
Profit attributable to		
Owners of parent	8,114	22,005
Earnings (loss) per share		
Basic earnings per share (Yen)	14.97	40.20
Continuing operations	17.16	38.16
Discontinued operations	(2.20)	2.05
Diluted earnings per share (Yen)	14.95	40.16
Continuing operations	17.14	38.12
Discontinued operations	(2.19)	2.04

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Profit	8,114	22,005
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	805	(113)
Remeasurements of defined benefit plans	–	(561)
Share of other comprehensive income of investments accounted for using equity method	(42)	(5)
Total of items that will not be reclassified to profit or loss	762	(679)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,321	(2,569)
Share of other comprehensive income of investments accounted for using equity method	(2)	(90)
Total of items that may be reclassified to profit or loss	2,319	(2,658)
Other comprehensive income	3,081	(3,338)
Comprehensive income	11,195	18,668
Comprehensive income attributable to		
Owners of parent	11,195	18,668

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

January 1, 2019 to March 31, 2019

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2019	26,745	509,161	(26,705)	151,760	787	(16,402)
Changes in accounting policies	–	–	–	(454)	–	–
Balance after restatement	26,745	509,161	(26,705)	151,306	787	(16,402)
Profit	–	–	–	8,114	–	–
Other comprehensive income	–	–	–	–	–	2,319
Total comprehensive income	–	–	–	8,114	–	2,319
Dividends of surplus	–	–	–	(10,949)	–	–
Purchase of treasury shares	–	–	(22,591)	–	–	–
Disposal of treasury shares	–	(12)	190	–	–	–
Cancellation of treasury shares	–	(45,251)	45,251	–	–	–
Share-based remuneration transactions	–	–	–	–	(124)	–
Transfer from other components of equity to retained earnings	–	–	–	(42)	–	–
Transfer to other components of equity related to disposal group held for sale	–	–	–	–	–	1,092
Total transactions with owners	–	(45,263)	22,850	(10,991)	(124)	1,092
Balance at March 31, 2019	26,745	463,899	(3,855)	148,428	663	(12,991)

	Equity attributable to owners of parent					Total equity
	Other components of equity					
	Financial assets measured at fair value through other comprehensive income	Remeasure-ments of defined benefit plans	Total	Other components of equity related to disposal group held for sale	Total	
Balance at January 1, 2019	4,275	–	(11,341)	–	649,621	649,621
Changes in accounting policies	–	–	–	–	(454)	(454)
Balance after restatement	4,275	–	(11,341)	–	649,166	649,166
Profit	–	–	–	–	8,114	8,114
Other comprehensive income	804	(42)	3,081	–	3,081	3,081
Total comprehensive income	804	(42)	3,081	–	11,195	11,195
Dividends of surplus	–	–	–	–	(10,949)	(10,949)
Purchase of treasury shares	–	–	–	–	(22,591)	(22,591)
Disposal of treasury shares	–	–	–	–	178	178
Cancellation of treasury shares	–	–	–	–	–	–
Share-based remuneration transactions	–	–	(124)	–	(124)	(124)
Transfer from other components of equity to retained earnings	–	42	42	–	–	–
Transfer to other components of equity related to disposal group held for sale	(185)	–	908	(908)	–	–
Total transactions with owners	(185)	42	826	(908)	(33,485)	(33,485)
Balance at March 31, 2019	4,895	–	(7,433)	(908)	626,876	626,876

(3) Condensed Quarterly Consolidated Statement of Changes in Equity (continued)

January 1, 2018 to March 31, 2018

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2018	26,745	509,145	(26,820)	113,504	698	(10,985)
Profit	–	–	–	22,005	–	–
Other comprehensive income	–	–	–	–	–	(2,658)
Total comprehensive income	–	–	–	22,005	–	(2,658)
Dividends of surplus	–	–	–	(7,936)	–	–
Purchase of treasury shares	–	–	(4)	–	–	–
Disposal of treasury shares	–	17	129	–	–	–
Share-based remuneration transactions	–	–	–	–	(87)	–
Transfer from other components of equity to retained earnings	–	–	–	(551)	–	–
Total transactions with owners	–	17	125	(8,487)	(87)	–
Balance at March 31, 2018	26,745	509,162	(26,695)	127,023	611	(13,644)

	Equity attributable to owners of parent				Total equity
	Other components of equity				
	Financial assets measured at fair value through other comprehensive income	Remeasure-ments of defined benefit plans	Total	Total	
Balance at January 1, 2018	3,741	–	(6,546)	616,028	616,028
Profit	–	–	–	22,005	22,005
Other comprehensive income	(113)	(567)	(3,338)	(3,338)	(3,338)
Total comprehensive income	(113)	(567)	(3,338)	18,668	18,668
Dividends of surplus	–	–	–	(7,936)	(7,936)
Purchase of treasury shares	–	–	–	(4)	(4)
Disposal of treasury shares	–	–	–	145	145
Share-based remuneration transactions	–	–	(87)	(87)	(87)
Transfer from other components of equity to retained earnings	(16)	567	551	–	–
Total transactions with owners	(16)	567	464	(7,881)	(7,881)
Balance at March 31, 2018	3,613	–	(9,420)	626,815	626,815

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	January 1, 2019 to March 31, 2019	January 1, 2018 to March 31, 2018
Cash flows from operating activities		
Profit before tax from continuing operations	12,257	28,601
Depreciation and amortization	4,732	3,751
Impairment losses (reversal of impairment losses)	116	(3,360)
Share of loss (profit) of investments accounted for using equity method	161	(1,388)
Gain on sale of investments in subsidiaries	–	(10,968)
Decrease (increase) in inventories	(2,904)	(2,214)
Decrease (increase) in trade receivables	(6,354)	5,233
Increase (decrease) in trade payables	4,531	6,105
Income taxes paid	(13,766)	(3,656)
Other	4,136	(4,237)
Net cash provided by (used in) operating activities from discontinued operations	6,297	1,608
Net cash provided by (used in) operating activities	9,206	19,475
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,793)	(1,064)
Purchase of intangible assets	(3,400)	(99)
Purchase of investments accounted for using equity method	–	(1,000)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	–	9,087
Collection of loans receivable	–	5,800
Net decrease (increase) in loans receivable from parent	36,700	(24,800)
Other	(259)	(66)
Net cash provided by (used in) investing activities from discontinued operations	(1,900)	(2,337)
Net cash provided by (used in) investing activities	29,349	(14,479)
Cash flows from financing activities		
Repayments of lease liabilities	(904)	–
Purchase of treasury shares	(22,591)	(4)
Dividends paid	(10,949)	(7,936)
Other	9	(81)
Net cash provided by (used in) financing activities from discontinued operations	(19)	(322)
Net cash provided by (used in) financing activities	(34,455)	(8,343)
Effect of exchange rate changes on cash and cash equivalents	(409)	(105)
Net increase (decrease) in cash and cash equivalents	3,691	(3,453)
Cash and cash equivalents at beginning of period (Amount on the consolidated statement of financial position)	15,867	14,685
Reversing from assets held for sale	–	1,074
Cash and cash equivalents at beginning of period	15,867	15,759
Cash and cash equivalents at end of period	19,557	12,306
Transfer to assets held for sale	(3,617)	–
Cash and cash equivalents at end of period (Amount on the condensed quarterly consolidated statement of financial position)	15,941	12,306

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Notes on going concern assumption

No applicable items.

Significant accounting policies

Significant accounting policies applied in these condensed quarterly consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year, except for the application of IFRS 16 "Leases" and the segregation of discontinued operations as mentioned below.
Income tax expense for the three months ended March 31, 2019, was calculated based on the estimated annual effective tax rate.

Application of IFRS 16 "Leases"

The Group has applied IFRS 16 "Leases" ("IFRS 16") from the first quarter of fiscal 2019.

(1) Policies applied from the date of initial application

At inception of a contract, the Group determines whether the contract is, or contains, a lease. The lease liabilities for leases are measured at the present value of the remaining of total lease payments at the commencement date of lease, discounted using the lessee's incremental borrowing rate. The cost of the right-of-use asset is initially measured at the amount of the initial measurement of lease liabilities, adjusted by any initial direct costs and any lease incentives received plus costs such as restoration obligation required under the contract. The Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term on a straight-line basis. In measuring lease liabilities, the Group has elected not to separate a lease component and a related non-lease component, and to recognize them as a single lease component.
The Group presents in the consolidated statement of financial position, right-of-use assets in "property, plant and equipment" and lease liabilities in "other financial liabilities."
The Group has elected not to recognize right-of-use assets and lease liabilities in accordance with the recognition exemption provisions in IFRS 16 for short-term leases for which the lease term ends within 12 months and low-value leases. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(2) Impact of application of IFRS 16

The Group has retrospectively applied IFRS 16 to its leases using the modified retrospective approach and recognized the cumulative effect of initially applying the standard as the adjustment of the beginning balance of retained earnings for the first quarter of fiscal 2019. In the transition to IFRS 16, the Group chose the practical expedient mentioned in IFRS 16 to reassess whether a contract is, or contains, a lease, and continues the determination under IAS 17 "Leases" ("IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a Lease." The definition of a lease under IFRS 16 is applied only to contracts entered into or changed on or after the date of initial application.
At the date of initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities for leases previously classified as operating leases applying IAS 17. The lease liabilities were measured at the present value of the remaining lease payments as of the date of initial application, discounted using the lessee's incremental borrowing rate at the date of initial application. The right-of-use assets were measured by either of the following methods, applying the first one for leases of significant importance in terms of value and the second one for other leases.

- Measure the value at the amount after depreciation until the date of initial application, of the present value of the remaining of total lease payments at the commencement date of lease, discounted using the lessee's incremental borrowing rate at the date of initial application, adjusted by prepaid lease payments and others
- Measure the value at the measurement of lease liabilities at the date of initial application, adjusted by prepaid lease payments and others

Right-of-use assets and lease liabilities for leases classified as finance leases applying IAS 17 were measured at the carrying amounts of leased assets and lease liabilities at the end of the previous fiscal year.
The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position at the date of initial application was 1.1 percent.

Furthermore, the Group uses the following practical expedients in the application of IFRS 16.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases

The conciliation between the operating lease contracts disclosed at the end of the previous fiscal year applying IAS 17 and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows:

(Millions of yen)

Operating lease contracts disclosed at end of the previous fiscal year	16,242
Amount discounted using incremental borrowing rate at the date of initial application	13,748
Finance lease liabilities recognized at end of the previous fiscal year	1,525
Present discounted value of cancelable operating lease contracts	2,770
Recognition exemption rules	
Short-term leases	(36)
Leases of low-value assets	(48)
Lease liabilities at the date of initial application	17,958

By applying IFRS 16, compared with the case that the previous standard was applied, right-of-use assets at the beginning of the first quarter of fiscal 2019, were up ¥15,085 million, lease liabilities were up ¥16,433 million, and retained earnings were down ¥454 million.

Discontinued operations

A discontinued operation is recognized if the operation includes a component of an entity that either has been disposed of or is classified as held for sale, represents a separate line of business of the Group or geographical area of operations, and is part of a plan to dispose of a separate line of business of the Group or geographical area of operations.

Segment information

Outline of reportable segments

The Group's reportable segments, which are components of the Group about which separate financial information is available, are chosen based on business segments for which the Board of Directors can evaluate regularly to decide the resource allocation and assess performance.
Although the Group previously had two reportable segments comprising the Pharmaceuticals business and the Bio-Chemicals business, effective the three months ended March 31, 2019, the Group now has only the one reportable segment, which is the Pharmaceuticals business.
This change is the outcome of the Company entering into an agreement on February 5, 2019 to transfer 95% of the shares of Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited as of April 24, 2019. As a result, the Bio-Chemicals business is categorized as a discontinued operation.

Significant subsequent events

Transfer of subsidiary's shares
The Company transferred 95% of its shareholdings in its consolidated subsidiary, Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited on April 24, 2019, with the intention of maximizing shareholder value by concentrating the management resources. As a result, the Company's ownership interests in the aforementioned company was reduced to 5% and the Company forfeited its control over the aforementioned company.
The consideration of the share transfer is currently being calculated. The Company plans to record a gain on sale of investments in subsidiaries, in combination with a gain on revaluation of the remaining equity stake in Kyowa Hakko Bio Co., Ltd. on the fair value as of the time control was forfeited, and the post-tax total of approximately ¥30.0 billion in "profit from discontinued operations" in the condensed quarterly consolidated statement of profit or loss for the first six months of the fiscal year ending December 31, 2019.