

FINANCIAL SECTION

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ELEVEN-YEAR SELECTED FINANCIAL DATA

Kyowa Hakko Kirin Co., Ltd. and its consolidated subsidiaries
For the nine months ended December 31, 2009 and years ended March 31

	2009/12	2009/3	2008/3	2007/3
For the Year:				
Net sales	¥309,112	¥460,184	¥392,120	¥354,274
Gross profit	139,740	200,298	144,918	131,425
Selling, general and administrative expenses	111,496	154,911	105,528	100,726
Operating income	28,244	45,387	39,390	30,699
Net income	8,797	11,727	23,477	12,694
Capital expenditures	25,135	18,523	14,796	14,498
Depreciation and amortization	17,003	18,780	14,347	10,006
R&D expenses	34,980	48,389	34,110	33,342
Cash Flows:				
Net cash provided by operating activities	24,204	41,069	30,714	23,381
Net cash (used in) provided by investing activities	(13,247)	(3,981)	(9,492)	(8,494)
Net cash used in financing activities	(16,906)	(20,978)	(13,500)	(24,417)
Cash and cash equivalents at the end of the year	63,745	69,287	44,119	36,614
At Year-End:				
Total current assets	276,588	279,476	232,661	214,352
Total assets	695,268	699,041	394,081	378,871
Total current liabilities	110,081	108,522	111,744	106,566
Interest-bearing debt	13,229	13,540	12,790	13,137
Total net assets	540,344	543,070	256,758	244,082
Total shareholders' equity ²	539,304	547,203	239,329	220,427
Number of employees	7,436	7,256	6,073	5,756
Per Share Data:				
Net income-basic ³	¥ 15.4	¥ 20.4	¥ 59.0	¥ 31.3
Net assets	940.8	938.4	639.7	607.5
Cash dividends	15.0	20.0	10.0	10.0
Common Stock Price Range (Per share):				
High	1,178	1,235	1,430	1,154
Low	793	586	933	722
Stock Information (Thousands of shares):				
Number of common stock issued	576,484	576,484	399,244	399,244
Weighted average number of common stock issued	570,936	574,083	397,717	405,270
Financial Ratios:				
Return on assets (ROA)	1.26	1.62	6.07	3.33
Operating return on assets	4.05	6.26	10.19	8.04
Return on equity (ROE)	1.64	2.17	9.47	5.10
Equity ratio	77.07	77.04	64.53	63.80
Debt/equity ratio	2.47	2.51	5.03	5.43

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥92.10=U.S.\$1, the approximate exchange rate at December 31, 2009.

2. Due to a change in accounting standards, figures for total shareholders' equity in the years ended March 31, 2007 and 2006 have been restated.

3. 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.

Millions of Yen							Thousands of U.S. Dollars ¹
2006/3	2005/3	2004/3	2003/3	2002/3	2001/3	2000/3	2009/12
¥353,440	¥358,963	¥348,838	¥359,285	¥378,668	¥375,610	¥374,910	\$3,356,261
126,983	132,113	129,507	126,328	128,744	123,945	126,872	1,517,263
101,448	98,606	102,671	110,239	108,387	106,233	105,216	1,210,598
25,535	33,507	26,836	16,089	20,357	17,712	21,656	306,665
16,273	17,932	10,017	8,485	5,535	9,395	11,274	95,520
10,859	7,647	9,041	11,791	11,454	17,092	21,053	272,911
9,789	10,565	11,358	14,768	17,819	18,502	19,153	184,617
32,876	28,762	29,206	31,438	29,294	28,921	25,888	379,800
14,303	30,104	34,264	18,193	16,955	28,789	32,737	262,798
(1,796)	(8,104)	10,477	2,586	8,377	(1,991)	23,422	(143,832)
(5,139)	(9,116)	(44,226)	(38,748)	(16,843)	(20,871)	(50,077)	(183,565)
45,820	37,818	24,911	24,588	41,908	32,600	26,215	692,129
212,985	210,341	194,062	195,878	244,410	237,852	223,353	3,003,123
384,381	374,493	361,096	368,772	430,113	431,410	433,958	7,549,056
94,148	103,489	98,914	95,046	162,508	169,821	158,542	1,195,233
12,216	12,193	13,358	51,969	74,354	87,624	102,870	143,629
257,491	—	—	—	—	—	—	5,866,925
232,621	235,439	225,042	219,047	211,652	194,692	195,039	5,855,640
5,800	5,960	6,294	6,749	7,299	7,766	7,866	
Yen							U.S. Dollars ¹
¥ 38.4	¥ 41.7	¥ 23.0	¥ 19.4	¥ 12.7	¥ 21.6	¥ 26.0	\$ 0.167
604.9	556.3	522.6	505.4	487.5	448.3	449.1	10.215
10.0	10.0	7.5	7.5	7.5	7.5	10.0	0.163
946	864	719	780	899	1,225	1,581	12.790
656	661	495	411	587	701	610	8.610
434,244	434,244	434,244	434,244	434,244	434,244	434,244	
422,920	427,636	431,497	433,748	434,244	434,244	434,244	
%							
4.29	4.88	2.74	2.12	1.28	2.17	2.47	
6.73	9.11	7.35	4.03	4.73	4.09	4.75	
6.63	7.79	4.51	3.94	2.72	4.82	5.92	
66.55	62.87	62.32	59.40	49.21	45.13	44.94	
4.78	5.18	5.94	23.73	35.13	45.01	52.74	

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGE OF FISCAL YEAR-END

The Company has changed its fiscal year-end from March 31 to December 31. This change was made to bring the Company's fiscal year-end into line with that of its parent company, Kirin Holdings Company, Limited. Accompanying this change, the fiscal period under review in this annual report is the nine-month period from April 1, 2009, to December 31, 2009, and comparisons (when not stated otherwise) are made with the corresponding period of the previous year, the nine-month period from April 1, 2008, to December 31, 2008.

PROFIT AND LOSS

Sales

Consolidated net sales in the nine-month period ended December 31, 2009, decreased 14.7% from the corresponding period of the previous year, to ¥309.1 billion. This decline was primarily attributable to the removal of the Food segment from the scope of consolidation and, in the core Pharmaceuticals segment, to the absence of the large up-front payment that accompanied an out-licensing agreement that was recorded in the corresponding period of the previous year. While the Bio-Chemicals segment recorded higher sales, the Chemicals segment recorded lower sales due to the economic recession.

Cost of Sales and SG&A Expenses

Cost of sales was down 16.3%, to ¥169.4 billion. Gross profit registered a 12.6% decrease, to ¥139.7 billion. As a result, the gross margin was up 1.1 percentage points, from 44.1% a year earlier to 45.2%. Selling, general and administrative (SG&A) expenses decreased 4.8%, to ¥111.5 billion. This total includes ¥7.0 billion in amortization of goodwill that resulted from the business integration with Kirin Pharma Company, Limited. The ratio of SG&A expenses to net sales increased 3.8 percentage points, from 32.3% to 36.1%.

Operating Income

Operating income decreased 33.8%, to ¥28.2 billion, and the operating margin fell 2.7 percentage points, from 11.8% to 9.1%. The operating margin before amortization of goodwill was 11.4%.

Other Revenue (Expenses)

Other expenses, net, decreased substantially, to ¥7.6 billion from ¥13.4 billion in the corresponding period of the previous year. Extraordinary depreciation of fixed assets was up ¥2.5 billion, loss on impairment of fixed assets increased ¥0.7 billion, and loss on dilution of equity interest in subsidiary was ¥1.4 billion. However, these factors were offset by a ¥4.7 billion decrease in loss on revaluation of investments in securities combined with the absence of ¥4.1 billion in expenses related to business integration under the Strategic Alliance with the Kirin Group, and ¥1.9 billion in compensation for damages that were recorded in the previous period. Consequently, income before income taxes and minority interests was down 29.6%, to ¥20.6 billion.

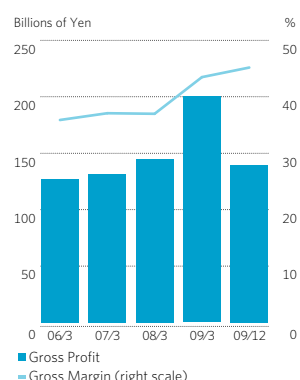
Income Taxes

Income taxes in the fiscal period under review totaled ¥11.6 billion, a decrease of 36.6%. As a percentage of pretax income, the effective tax rate was 56.4%, a decrease from 62.7% in the corresponding period of the previous year.

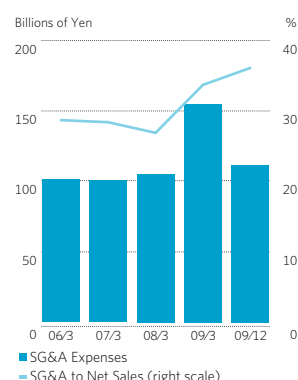
Net Income

Consequently, net income for the nine-month period ended December 31, 2009, declined 16.1%, to ¥8.8 billion, and the net margin fell 0.1 percentage point, to 2.8%.

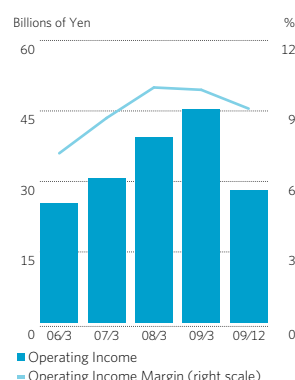
GROSS PROFIT



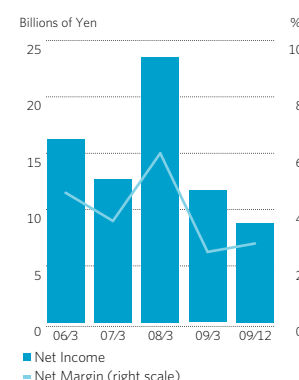
SG&A EXPENSES



OPERATING INCOME



NET INCOME



PERFORMANCE BY INDUSTRY SEGMENT

Sales, operating expenses, and operating income by industry segment are shown in the table below. Segment performance figures include intersegment transactions.

Pharmaceuticals

This segment, Kyowa Hakko Kirin's core business, recorded a 1.9% loss in sales in the nine-month period ended December 31, 2009, to ¥158.3 billion, contributing 48.0% of total sales. Operating expenses remained about the same at ¥131.6 billion, but due to the decrease in sales, operating income fell 10.1%, to ¥26.7 billion. Domestic sales of ethical drugs increased, including mainstay products Nesp® and Espo®. Nonetheless, due to the absence of the large up-front payment that accompanied the out-licensing agreement of KW-0761 to Amgen, Inc., in the corresponding period of the previous year, sales and operating income were down overall.

Bio-Chemicals

Sales from Bio-Chemicals operations increased 3.3%, to ¥69.8 billion, accounting for 21.1% of total sales. Operating expenses rose 10.9%, to ¥66.7 billion, while operating income fell 58.9%, to ¥3.0 billion. Solid demand contributed to increased sales of health care products, but sales of amino acids, nucleic acids, and related compounds declined due to the significant adverse effect of the strong yen. Consequently, this segment recorded higher sales but lower operating income.

Chemicals

Sales were down 32.3%, to ¥52.3 billion, with Chemicals operations contributing 15.9% of total sales. Operating expenses decreased 26.4%, to ¥54.3 billion, but the substantial decrease in sales led to an operating loss of ¥2.0 billion, compared with operating income of ¥3.5 billion in the corresponding period of the previous year. The decrease in sales and the recording of a loss were due to reduced demand resulting from the global recession and to the substantial worsening of international market conditions.

Food

At the beginning of the nine-month period ended December 31, 2009, the consolidated subsidiary that was responsible for Food operations, Kyowa Hakko Food Specialties Co., Ltd., was integrated with Kirin Food-Tech Company, Limited, to form Kirin Kyowa Foods Company, Limited. As a result, the Company now holds a 35% share of the new company, which has become an equity-method affiliate. Accordingly, the Food segment has been removed from the scope of consolidation, and consequently net sales and operating income for the Food business for the period under review have not been recorded.

Other

In the Other segment, sales were down 9.2%, to ¥49.5 billion, with the segment accounting for 15.0% of total sales. Operating expenses decreased 8.1%, to ¥49.1 billion, and operating income fell 62.2%, to ¥0.4 billion. The Other segment includes wholesale and transportation operations at subsidiaries.

	Millions of Yen						Thousands of U.S. Dollars ¹
	2009/12	2009/3	2008/3	2007/3	2006/3	2005/3	2009/12
Sales by Industry Segment:							
Pharmaceuticals.....	¥158,274	¥210,449	¥138,377	¥131,526	¥148,939	¥156,426	\$1,718,497
Bio-Chemicals	69,752	88,465	86,820	67,120	63,241	57,767	757,348
Chemicals.....	52,326	89,204	108,007	98,650	85,835	77,983	568,145
Food ²	—	42,469	43,324	42,589	42,440	44,500	—
Other.....	49,500	68,733	49,000	48,480	45,950	57,784	537,463
Corporate, elimination and other	(20,740)	(39,136)	(33,408)	(34,091)	(32,965)	(35,497)	(225,192)
Total	¥309,112	¥460,184	¥392,120	¥354,274	¥353,440	¥358,963	\$3,356,261
Operating Income (Loss) by Industry Segment:							
Pharmaceuticals.....	¥26,658	¥34,832	¥19,962	¥15,746	¥14,268	¥18,100	\$289,446
Bio-Chemicals	3,049	8,342	9,688	4,112	4,341	6,887	33,097
Chemicals.....	(1,985)	(47)	7,169	7,974	4,501	5,339	(21,547)
Food ²	—	1,087	1,577	1,832	1,602	1,662	—
Other.....	400	1,094	839	968	711	1,634	4,350
Corporate, elimination and other	122	79	155	67	112	(115)	1,319
Total	¥28,244	¥45,387	¥39,390	¥30,699	¥25,535	¥33,507	\$306,665

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥92.10=U.S.\$1, the approximate exchange rate at December 31, 2009.

2. Due to the reclassification of the Other Segment effective from fiscal 2007, segment information for the Pharmaceuticals, Bio-Chemicals, and Other segments for fiscal 2006 has been restated. However, segment information for years prior to fiscal 2006 has not been restated.

PERFORMANCE BY GEOGRAPHIC SEGMENT

Japan

In Japan, net sales decreased 16.6%, to ¥291.7 billion, accounting for 87.8% of total sales. Operating expenses declined 14.1%, to ¥267.3 billion, and operating income was down 37.2%, to ¥24.5 billion. Major factors in this decrease included the removal of the Food segment from the scope of consolidation and a decline in sales in Chemicals operations due to lower selling prices.

Other

Net sales in Other regions rose 8.7%, to ¥40.6 billion, accounting for 12.2% of total sales. Operating expenses increased 13.0%, to ¥37.2 billion, and operating income decreased 23.7%, to ¥3.4 billion. While the overseas sales of Pharmaceuticals operations and Bio-Chemicals operations were strong for the most part on a local currency basis, the appreciation of the yen had an adverse influence on these results when stated in yen, which was the major factor behind the declines.

CASH FLOWS

The balance of cash and cash equivalents as of December 31, 2009, was down ¥5.5 billion, to ¥63.7 billion, from ¥69.3 billion as of March 31, 2009. Cash flow during the period under review was as follows.

Net cash provided by operating activities was ¥24.2 billion, a decrease of 5.0%. Inflows included income before income taxes and minority interests of ¥20.6 billion, depreciation and amortization of ¥17.0 billion, and amortization of goodwill of ¥7.2 billion. Major outflows included income taxes paid of ¥21.7 billion.

Net cash used in investing activities was ¥13.2 billion, down 14.3%. Major outflows included ¥19.8 billion for the acquisition of property, plant and equipment. Major inflows included a net decrease in short-term debt of ¥4.7 billion.

Net cash used in financing activities was ¥16.9 billion, down 23.1%. The principal factors included dividends paid of ¥11.4 billion and acquisition of treasury stock of ¥4.6 billion.

Quarterly Information by Industry Segment

	2009/3					2009/12					Percent Change
	1st Quarter	2nd Quarter	3rd Quarter	Nine Months	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	Nine Months		
Segment Sales:											
Pharmaceuticals	¥ 59,190	¥ 49,529	¥ 52,618	¥161,337	¥ 49,111	¥ 52,211	¥ 51,757	¥ 54,306	¥158,274	98.1%	
Bio-Chemicals	22,944	22,767	21,834	67,545	20,919	21,145	20,272	28,335	69,752	103.3	
Chemicals	25,135	32,069	20,118	77,322	11,882	15,034	17,820	19,472	52,326	67.7	
Food.....	10,393	10,411	12,030	32,834	9,634	—	—	—	—	—	
Other.....	17,892	18,680	17,930	54,502	14,231	14,195	14,732	20,573	49,500	90.8	
Total	135,554	133,456	124,530	393,540	105,777	102,585	104,581	122,686	329,852	83.8	
Eliminations	(10,120)	(11,121)	(10,023)	(31,264)	(7,871)	(5,770)	(7,002)	(7,968)	(20,740)	(66.3)	
Consolidated	¥125,435	¥122,334	¥114,509	¥362,278	¥ 97,905	¥ 96,816	¥ 97,579	¥114,717	¥309,112	85.3%	
Operating Income (Loss):											
Pharmaceuticals	¥ 12,851	¥ 6,848	¥ 9,963	¥ 29,662	¥ 5,170	¥ 11,570	¥ 9,793	¥ 5,295	¥ 26,658	89.9%	
Bio-Chemicals	2,972	2,244	2,209	7,425	917	1,277	388	1,384	3,049	41.1	
Chemicals	509	2,451	572	3,532	(3,579)	(2,073)	(413)	501	(1,985)	(56.2)	
Food.....	396	169	434	999	87	—	—	—	—	—	
Other.....	273	414	373	1,060	34	184	(14)	230	400	37.7	
Total	17,001	12,126	13,551	42,678	2,629	10,958	9,754	7,410	28,122	65.9	
Eliminations	69	(34)	(20)	15	63	81	(14)	55	122	806.7	
Consolidated	¥ 17,072	¥ 12,092	¥ 13,532	¥ 42,696	¥ 2,691	¥ 11,041	¥ 9,738	¥ 7,465	¥ 28,244	55.2%	

FINANCIAL POSITION

Assets

Total assets at the end of the period under review were down 0.5%, or ¥3.8 billion, from the end of the previous fiscal year, ended March 31, 2009, to ¥695.3 billion.

Total current assets were down 1.0%, or ¥2.9 billion, to ¥276.6 billion. Accounts and notes receivable increased 8.6%, to ¥125.0 billion, but cash and bank deposits fell 8.5%, to ¥30.2 billion, and short-term loans receivable declined 14.6%, to ¥40.3 billion, resulting in the decline in total current assets. Short-term loans receivable includes short-term loans of ¥40.2 billion to Kirin Holdings.

Total property, plant and equipment, net, increased 1.3%, or ¥2.2 billion, to ¥162.6 billion. Factors that led to this included an increase in construction in progress due to higher capital expenditures and a decrease in buildings and structures due to the recording of extraordinary depreciation of fixed assets and losses on impairment of fixed assets.

Total investments and other assets (including intangible fixed assets) fell 1.2%, or ¥3.0 billion, to ¥256.1 billion. Included in this total is goodwill of ¥169.8 billion due to reverse acquisition. Investments in securities increased due to higher prices for stocks held by the Company, but the decrease in goodwill due to amortization resulted in the overall decline in total investments and other assets.

Liabilities

Total liabilities were down 0.7%, or ¥1.0 billion, from the end of the previous fiscal year, to ¥154.9 billion.

Total current liabilities increased 1.4%, to ¥110.1 billion. While there were substantial decreases in income taxes payable and accrued bonuses, the increase in accounts and notes payable resulted in the increase in total current liabilities.

Total long-term liabilities fell 5.5%, or ¥2.6 billion, to ¥44.8 billion. This decrease was primarily due to a decline in deferred tax liabilities.

Interest-bearing debt at the end of the period was down 2.3%, to ¥13.2 billion, while cash and bank deposits remained considerably higher than borrowings.

Net Assets

Total net assets at the end of the period under review were down 0.5%, or ¥2.7 billion, from the end of the previous fiscal year, to ¥540.3 billion.

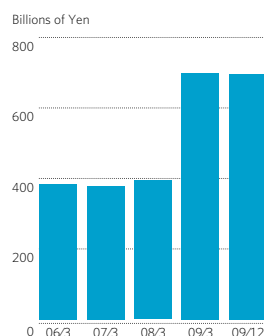
Total shareholders' equity was ¥539.3 billion at the end of the period, a decrease of 1.4%, or ¥7.9 billion. Valuation, translation adjustments and others increased due to a rise in valuation difference on other marketable securities, but this increase was offset by dividends paid and the acquisition of treasury stock.

As a result, the equity ratio¹ rose 0.1 percentage point, to 77.1%. A high level of stability was maintained, with the debt/equity ratio² remaining level at 2.5%.

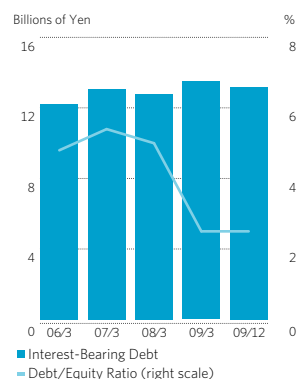
1. Equity ratio = (Total shareholders' equity + Total valuation, translation adjustments and others) / Total assets × 100

2. Debt/equity ratio = Interest-bearing debt (Short-term borrowings + Current portion of long-term debt + Long-term debt) / (Total shareholders' equity + Total valuation, translation adjustments and others) × 100

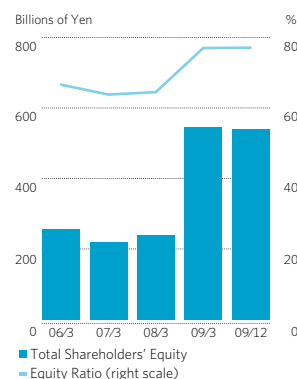
TOTAL ASSETS



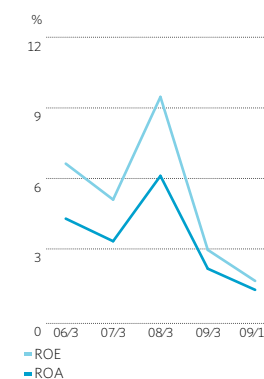
INTEREST-BEARING DEBT



TOTAL SHAREHOLDERS' EQUITY



ROE AND ROA



MANAGEMENT INDEXES

Both return on equity (ROE) and return on assets (ROA) fell substantially from the end of previous fiscal year, from 2.17% to 1.64% and from 1.62% to 1.26%, respectively. The primary factor in these declines was the decrease in net income. Operating return on assets also fell, from 6.26% to 4.05%.

Return on invested capital (ROIC)³ was 9.2%, down from 12.1% from the corresponding period of the previous year. This is primarily due to a decrease in operating income. Because the business integration generated goodwill, ROIC was calculated excluding goodwill and the amortization of goodwill. Earnings before income tax, interest, depreciation, and amortization (EBITDA)⁴ for the period decreased 14.0%, to ¥37.9 billion.

3. ROIC = Operating income / Total fixed assets + (Accounts receivable + Inventories - Trade payables)

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

CAPITAL EXPENDITURES

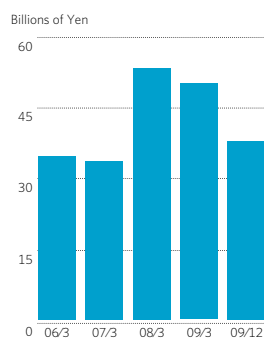
Capital expenditures increased 93.9%, to ¥25.1 billion. In the period under review, this mainly related to investing in expanding production facilities for clinical trial-use antibodies and the construction of new research buildings in Pharmaceuticals operations. Depreciation and amortization increased 18.3%, to ¥17.0 billion. Capital expenditures were greater than depreciation and amortization but were covered by net cash provided by operating activities.

Our policy for capital expenditures is to invest strategically with consideration for the balance between capital expenditures and depreciation and amortization. However, we have positioned our investment during the period under review as aggressive investment for future growth that was implemented in consideration of the business integration, operational efficiency, and expanding leading-edge facilities.

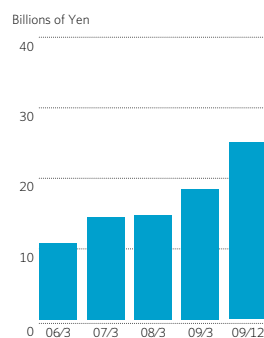
The breakdown of capital expenditures and depreciation and amortization are shown in the following table.

	Millions of Yen					
	Capital Expenditures			Depreciation and Amortization		
	2009/12	2009/3	2008/3	2009/12	2009/3	2008/3
Pharmaceuticals.....	¥16,508	¥ 9,641	¥ 4,233	¥ 9,212	¥ 8,394	¥ 3,947
Bio-Chemicals	5,000	5,376	4,192	4,322	5,027	5,540
Chemicals.....	3,583	4,359	4,345	3,358	4,218	3,772
Food	—	566	1,955	—	998	978
Other	45	103	71	113	150	120
Corporate, elimination and other	(1)	(1,522)	—	(2)	(7)	(10)
Consolidated Total	¥25,135	¥18,523	¥14,796	¥17,003	¥18,780	¥14,347

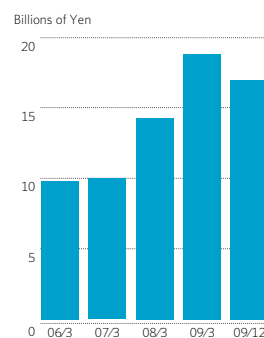
EBITDA



CAPITAL EXPENDITURES



DEPRECIATION AND AMORTIZATION



R&D EXPENSES

R&D expenses, which are accounted for under production expenses and SG&A expenses, declined 5.3%, to ¥35.0 billion. This represented 11.3% of consolidated net sales for the nine-month period ended December 31, 2009, an increase of 1.1 percentage points from the level of 10.2% in the corresponding period of the previous year.

R&D expenses in Pharmaceuticals operations of ¥31.6 billion constituted 90.5% of total R&D expenses. This represented 20.0% of Pharmaceuticals operations sales, a decline of 0.3 percentage point. Future plans for R&D expenses in Pharmaceuticals call for 20% of Pharmaceuticals operations sales to be invested in the development of new drugs.

PER SHARE DATA

Net income per share-basic in the nine-month period ended December 31, 2009, fell to ¥15.41 from ¥18.26. Net income per share before the amortization of goodwill was ¥27.63. Net assets per share at the end of the period grew to ¥940.79 from ¥938.42 at the end of the corresponding period of the previous year.

DISTRIBUTION OF PROFITS

Kyowa Hakko Kirin considers returns to shareholders to be one of its most important management principles.

Its dividend policy balances the need to augment retained earnings as a foundation for future business growth with the desire to make stable and consistent dividend payments after giving thorough consideration of each fiscal period's consolidated business results, the dividend payout ratio, and the yield of net assets.

Internal reserves, including retained earnings, are used to supplement the investments that will help us achieve our next growth stage, including R&D and capital expenditures that will contribute to future increases in corporate value. In accordance with this policy, and in consideration of the fact that the period under review is a nine-month period as a result of the change in the fiscal year-end, dividends for the period under review were ¥15.0 per share, which was in line with our plans.

Under the Medium-Term Management Plan-2010 to 2012, we will continue to target a consolidated dividend payout ratio of over 30% (calculated on the basis of net income before the amortization of goodwill). Currently, we plan dividends of ¥20 per share (¥10 interim dividend, ¥10 final dividend) for the year ending December 31, 2010.

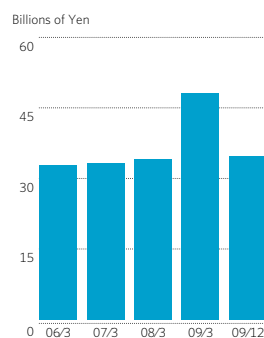
GOODWILL

Accompanying the share exchange due to the business combination with Kirin Pharma as the acquirer, the acquisition cost of the acquiree, the Company, exceeded the market value of the Company's net assets at the time the business combination occurred, and consequently the excess amount was recognized as goodwill.

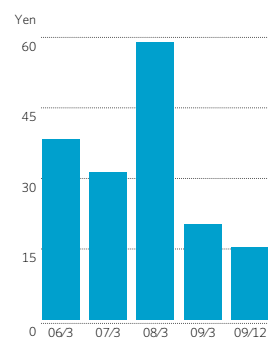
- Total goodwill generated: ¥191.9 billion
- Amortization method: Straight-line method
- Amortization period: 20 years (from March 2009 period)

Amortization of goodwill in the period under review was ¥7.0 billion, compared with ¥9.6 billion in the 12-month period ended March 31, 2009.

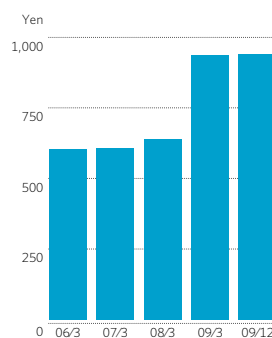
R&D EXPENSES



NET INCOME PER SHARE-BASIC



NET ASSETS PER SHARE



RISK FACTORS

In the analysis of Kyowa Hakko Kirin's future business performance and financial position, the major risks that could have a significant influence on the judgment of investors include those outlined below. The Group recognizes that these risk events may occur and uses a risk management system to prevent the occurrence of risk events that it is able to control. At the same time, the Company will do its utmost to respond to risk events if and when they were to occur. Matters in this section dealing with future events represent the judgment of the Kyowa Hakko Kirin Group as of December 31, 2010, the end of the fiscal period under review.

Risks Inherent in the Domestic Pharmaceutical Industry's Operating Environment

The Company's mainstay Pharmaceuticals operations face periodic reductions to the official prices of the majority of ethical drugs under the domestic public drug pricing system. As a result, the Company is unable to avoid reductions in the selling prices of its drugs.

Risks of Non-Recovery of Substantial R&D Investments

The Company makes substantial R&D investments in the course of its development of new products and technologies, the improvement of existing products, and the development of new applications for existing products. However, there is no guarantee that all these investments will successfully bear fruit. For example, the development of new ethical drugs requires long periods of time and substantial R&D expenditures. Therefore, there may be instances in which the Company is unable to recover R&D investments for reasons including the cancellation of development if the expected efficacy is not recognized, lackluster sales after a product is launched, or the termination of sales because of the appearance of serious side effects.

Risks Related to Intellectual Property Rights

In the event that legal proceedings are instituted against the Company alleging that the Company's products or technologies infringe upon the intellectual property rights of another party, the Company could be forced to suspend product sales or pay compensation or settlement fees, which could adversely affect its business activities, business performance, and financial position.

Conversely, if the Company's intellectual property rights are infringed upon by products that compete with the products that are either produced by the Company or out-licensed by the Company, the Company's product sales or technology licensing fees could decrease faster than anticipated, which could also adversely affect the Company's business performance and financial position.

Legal Risks

In the course of carrying out operations in Japan and overseas, statutory regulations must be observed. To ensure that it does not violate relevant statutory regulations in the course of its operations, the Company emphasizes compliance and works to bolster internal control functions through programs that include administrative oversight. However, the possibility that the Company could inadvertently fail to comply with relevant statutory regulations cannot be entirely eliminated, and the failure to comply with such statutory regulations could lead to a loss of public trust in the Company.

Risks Related to Defective Products

Kyowa Hakko Kirin manufactures a variety of products at plants in the countries in which it operates, in compliance with locally recognized quality control and other standards. Furthermore, the Company requires that the products it purchases for sale conform to the same quality and standards required of Kyowa Hakko Kirin products. However, there is no guarantee that all products will be free of defects. Therefore, the possibility of product defects leading to large-scale product recalls or product liability claims cannot be ruled out.

Risks Related to Disasters and Accidents

To minimize the negative effects of interruptions in manufacturing line activities, the Company conducts regular disaster prevention tests and inspections of all its production facilities. Nevertheless, there is no guarantee that the Company will be able to completely prevent risk events at its production facilities that interrupt production, including accidents, such as earthquakes and fires, electrical outages, and boiler stoppages. Furthermore, at its headquarters, sales bases, and distribution bases, in the event of an accident that exceeds expectations, operating activities could be affected. In addition, the Company handles substances that are subject to an array of statutory regulations and guidelines. The handling of these materials is strictly controlled, but if a fire, natural disaster, or some other risk event were to occur, for any reason, surrounding areas could suffer damage. Moreover, in the event of the emergence of social disorder due to the spread of an infectious disease, such as H1N1 influenza, in the regions or countries where the Group conducts business, the Group's operating activities could be restricted. These types of accidents or disasters could not only result in large payments for damages but also adversely affect the public's trust in the Group.

Risks Related to the Strengthening of Environmental Regulations on Production Activities

The Company processes and disposes of waste fluid generated from its fermentation production processes in accordance with

the environmental regulations of the countries in which its plants are situated. Furthermore, the Company is endeavoring to shift to raw materials that minimize the toll on the environment and improve its waste fluid treatment technology. However, given the trend of environmental regulations becoming more stringent each year, it is possible that regulatory changes could lead to restrictions on the Company's production activities or increased production costs.

Risks Inherent in Overseas Business Activities

The Company operates in the United States and various countries throughout Europe and Asia. The development of operations in overseas markets entails a number of potential risks, which are outlined below.

- Unforeseeable laws and regulations or disadvantageous changes in tax systems
- The occurrence of disadvantageous political or economic factors
- Difficulty in recruiting and maintaining personnel
- Social unrest resulting from terrorism, war, or other factors

The occurrence of one or more of these potential risk events could prevent the Company from operating effectively in the affected country.

Risks of Drops in Product Prices from Fluctuations in the Supply-Demand Balance

Market prices for some of the Company's products, including solvents and raw materials for plasticizers in its Chemicals operations, fluctuate significantly in response to the worldwide balance of supply and demand. It is therefore possible that a situation of excess supply could result in substantial declines in sales prices for these products.

Risks of Declines in Profitability from Major Fluctuations in Crude Oil Prices

The primary raw materials for the products of the Company's Chemicals operations include ethylene and propylene, which are made from naphtha, refined from crude oil. The prices of these raw materials are significantly affected by fluctuations in the price of crude oil, which can be triggered by a variety of unpredictable factors, including the worldwide balance of supply and demand, weather conditions, war, and terrorism. In some cases, the Company may not be able to factor fluctuations in raw materials prices into product prices, or offset fluctuations through cost reductions, in a timely manner.

Risks Related to Fluctuations in Currency Exchange Rates

The Company conducts transactions denominated in foreign currencies, such as product sales and income received from overseas companies for out-licensed technology, or the purchase of raw materials from international suppliers. Rapid fluctuations

in currency exchange rates may have a significantly adverse effect on the Company's financial position or management performance. In addition, as the Company sells its products in the same markets as its overseas competitors, fluctuations in currency exchange rates may impact the relative price competitiveness of the Company's products. Further, in order to prepare consolidated financial statements in Japan, the financial statements of overseas subsidiaries denominated in local currencies are converted into Japanese yen. Consequently, currency exchange rates when the conversions are made may impact values when converted to yen.

Risks Related to Fluctuations in the Price of Shares and Other Marketable Securities

The Company owns marketable securities with market value. A major decline in the market value of shares may result in the Company having to record a valuation loss on the marketable securities it owns. This may have a material impact on the Company's financial position and management performance. Also, some of the assets the Company manages for its corporate pension are marketable securities with market value. Therefore, fluctuations in the market value may change actuarial calculations carried out within accounting for retirement benefits. This may have an adverse impact on the Company's financial position or management performance.

Risks Related to the Impairment of Fixed Assets

Regarding fixed assets owned by the Company, in the event there is a significant deterioration in its operating environment that results in a fall in profits, or if there is a major decline in the market value of the fixed assets, then, in accordance with the principles of accounting for the impairment of fixed assets, the Company may have to record a loss on impairment. This may have an adverse impact on the Company's financial position or management performance.

Risks Related to the Procurement of Raw Materials

For some of the raw materials it procures, the Company may encounter difficulties if it is required to switch suppliers, to find replacement raw materials, or to procure raw materials from a limited number of specified suppliers. The Company implements measures to secure sufficient levels of those raw materials that are particularly important to manufacturing to ensure there are no interruptions in production, including maintaining stock at certain levels across a designated period. However, if unforeseeable events occur and the Company is unable to procure important raw materials that cannot be replaced with an alternative, then product manufacturing may have to be suspended. This could have a major impact on the Company's management performance.