KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary (IFRS)
Fiscal 2018

(January 1, 2018 – December 31, 2018)

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

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
for Fiscal Year Ended December 31, 2018

(The twelve-month period from January 1, 2018 to December 31, 2018)

February 5, 2019

Company Name:	Kyowa Hakko Kirin Co., Ltd.	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
Stock Code:	4151	President and Chief Operating Officer:	Masashi Miyamoto
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Scheduled date of Ordinary General Meeting of Shareholders: March 20, 2019
Scheduled start date of dividend payment: March 22, 2019
Scheduled date of submission of Annual Securities Report: March 14, 2019
Appendix materials to accompany the annual financial report: Yes
FY2018 earnings presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded off)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2018	346,531	(1.9)	58,694	1.7	73,438	31.5	54,414	26.8
December 31, 2017	353,380	1.6	57,731	47.6	55,849	30.3	42,899	40.9

Total comprehensive income: Fiscal year ended December 31, 2018: ¥49,520 million; (5.6)%
Fiscal year ended December 31, 2017: ¥52,476 million; 309.2%

Note: 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.

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share	Return on equity attributable to owners of parent	Profit before tax to total assets ratio
Fiscal year ended	Millions of yen	%	Yen	Yen	%	%
December 31, 2018	54,414	26.8	99.40	99.30	8.6	10.1
December 31, 2017	42,899	40.9	78.38	78.30	7.2	8.0

(Reference) Share of profit (loss) of investments accounted for using equity method:
Fiscal year ended December 31, 2018: (¥97) million;
Fiscal year ended December 31, 2017: (¥4,478) million

(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	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2018	741,982	649,621	649,621	87.6	1,186.65
December 31, 2017	708,295	616,028	616,028	87.0	1,125.56

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2018	56,181	(39,929)	(16,501)	15,867
December 31, 2017	64,902	(45,265)	(18,287)	14,685

2. Dividends

	Dividends per share					Total dividend amount	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of parent (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2017	–	12.50	–	14.50	27.00	14,777	34.4	2.5
Fiscal year ended December 31, 2018	–	15.00	–	20.00	35.00	19,160	35.2	3.0
Fiscal year ending December 31, 2019 (Forecast)	–	20.00	–	20.00	40.00		31.7	

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: As announced in the news release “Notice Concerning Share Transfer Associated with Change in a Consolidated Company and (Expected) Gain on Transfer” dated February 5, 2019, the Company resolved to transfer 95% of the shares of its consolidated subsidiary Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited, and on the same day concluded a share transfer agreement with Kirin Holdings Company, Limited. As a result of the decision to implement the share transfer, from the first quarter of fiscal 2019 the Bio-Chemicals business is scheduled to be categorized as a discontinued operation. Accordingly in the Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019) the percentage values that indicate year-on-year changes have been omitted because revenue, core operating profit, and profit before tax show figures for continuing operations, and which exclude discontinued operations. For more information, please see page 11 of the attachment, “(4) Outlook for Fiscal 2019” in “1. Summary of Business Performance and Financial Position.”

Note that profit attributable to owners of parent and basic earnings per share on a continuing operations basis are as follows.

- Profit attributable to owners of parent: ¥37,000 million
- Basic earnings per share: ¥68.72

*** Notes**

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

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

a. Changes in accounting policies required by IFRS: No

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

c. Changes in accounting estimates: No

(3) Number of shares issued (ordinary shares)

a. Number of shares issued (including treasury shares)

As of December 31, 2018	576,483,555 shares
As of December 31, 2017	576,483,555 shares

b. Number of treasury shares

As of December 31, 2018	29,042,650 shares
As of December 31, 2017	29,176,451 shares

c. Average number of shares during the period

FY ended December 31, 2018	547,411,756 shares
FY ended December 31, 2017	547,289,787 shares

(Reference)
Non-Consolidated Results for the Fiscal Year Ended December 31, 2018 (Japanese GAAP)
(from January 1, 2018 to December 31, 2018)

(1) Non-consolidated operating results *(Percentages indicate year-on-year changes.)*

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2018	215,154	2.2	42,230	9.3	46,660	(6.2)	47,860	11.1
December 31, 2017	210,616	3.0	38,635	21.8	49,740	21.9	43,087	253.8

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
December 31, 2018	87.43	87.34
December 31, 2017	78.73	78.65

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2018	569,900	502,413	88.0	916.31
December 31, 2017	531,901	476,609	89.5	869.55

(Reference) Equity: As of December 31, 2018: ¥501,626 million; As of December 31, 2017: ¥475,911 million

* These financial results reports are exempt from audit 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. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 11 of the attachment, "(4) Outlook for Fiscal 2019" in "1. Summary of Business Performance and Financial Position."

Attachment Index

1. Summary of Business Performance and Financial Position

The Group is globally developing its business in the U.S., Europe, Asian regions as well as Japan. Given its global operations, the Group has decided to adopt the International Financial Reporting Standards (“IFRS”) from the previous fiscal year to enhance the international comparability of its financial reporting for the capital market, and unify the process of the Group’s accounting.

The Group uses “core operating profit” (Japanese GAAP) as an indicator of sustainable growth in the five-year Mid-term Business Plan for FY2016 to 2020. After the adoption of IFRS, the Group adopts “core operating profit” (IFRS) as an indicator showing recurring profitability from operating activities. “Core operating profit” (IFRS) 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.

(1) Summary of Business Performance in Fiscal 2018

1) Business performance in Fiscal 2018

(Billions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Revenue	346.5	353.4	(6.8)
Core operating profit	58.7	57.7	1.0
Profit before tax	73.4	55.8	17.6
Profit attributable to owners of parent	54.4	42.9	11.5

- Consolidated revenue decreased and core operating profit increased for the current fiscal year mainly due to the launch or growth-in-sales of global strategic products in the European and U.S. markets, and improved share of profit (loss) of investments accounted for using equity method, in addition to the exclusion of Kyowa Medex Co., Ltd. from the scope of consolidation and the impact of reductions in drug price standards in Japan, etc.
- Profit before tax and profit attributable to owners of parent respectively increased due mainly to the recording of a gain on sale of investments in subsidiaries in association with the partial transfer of shares of Kyowa Medex Co., Ltd. and a gain on sale of non-current assets.
- In Japan, although the business environment grew more severe mainly due to the reductions in drug price standards, market penetration of generics and other factors, solid growth was shown for sales of G-Lasta®, an agent for decreasing the incidence of febrile neutropenia, NOURIAST®, an antiparkinsonian agent, Dovobet®, a topical combination drug for psoriasis vulgaris, as well as the new product ORKEDIA®, a treatment for secondary hyperparathyroidism, and Rituximab BS [KHK], an anticancer agent. In Europe and the U.S., results were led by strong sales of the global strategic product Crysvita®, a new product for treatment of X-linked hypophosphatemia (XLH), and POTELIGEO®, an anticancer agent, while revenues from core products such as Abstral®, a treatment for cancer pain, were also robust. Furthermore, in addition to steady financial results in Asia, benralizumab, which was discovered by the Company using POTELLIGENT® technology, was approved in the U.S. and subsequently received approval in Japan, Europe, Canada, and Australia, contributing to licensing revenue such as milestone and royalties revenue from AstraZeneca.
  In research and development overseas, burosumab (product name in U.S. and Europe: Crysvita®), which is being jointly developed with Ultragenyx Pharmaceutical Inc., received drug marketing approval from the U.S. Food and Drug Administration (FDA) and the European Commission (EC). Moreover, mogamulizumab (product name in U.S. and Europe: POTELIGEO®) also received the same drug marketing approval. Burosumab received conditional drug marketing approval as a treatment for XLH in pediatric and adolescent patients from the EC in February, and drug marketing

approval as a treatment for XLH in pediatric and adult patients from the FDA in April. Mogamulizumab received drug marketing approval as a treatment for mycosis fungoides and Sézary syndrome from the FDA in August and from the EC in November. Note that the FDA carried out priority reviews of both products after designating them as innovative new drugs. With these approvals, we have started sales of burosumab in Europe and the U.S., and started sales of mogamulizumab in the U.S. in addition to Japan. Through these initiatives, we have started to contribute powerfully to the health and well-being of people around the world.

In Japan, we enjoyed a year of steady progress in the research and development of a pipeline that is important for the entire Group, which included obtaining manufacturing and marketing approval for ORKEDIA® in March, a treatment for secondary hyperparathyroidism, in Nephrology.

In the Bio-Chemicals business, we continued to shift to a structure that is robust with regard to operational risks such as exchange rate volatility and to upgrade the production platform with the aim of bolstering our product supply framework. At the same time, we worked to increase the added value of existing products amid rising health consciousness and growing interest in product quality. In the pharmaceutical and industrial use fields, sales of pharmaceutical raw materials proceeded robustly in Japan and overseas, while in the healthcare field, sales in the domestic business grew steadily, mainly due to growth in mail-order sales of Arginine EX and Citrulline.

In the reorganization of the Yamaguchi Production Center, an initiative started in 2010, we have completed relocation and consolidation as planned following the termination of production at the Ube Plant. At our overseas production sites, we completed expansion of manufacturing facilities for amino acids at Thai Kyowa Biotechnologies Co., Ltd., and we have proceeded with preparations to start commercial operation of the new production facility at Shanghai Kyowa Amino Acid Co., Ltd.

Furthermore, on January 4, 2018, the Company transferred 66.6% of its shares of the diagnostics business company Kyowa Medex Co., Ltd. to Hitachi Chemical Co., Ltd. As a result, the Company's ownership percentage of Kyowa Medex Co., Ltd. became 33.4% and Kyowa Medex Co., Ltd. changed from a consolidated subsidiary to an entity accounted for using the equity method of the Company.

Performance by segment is as follows.

<u>Pharmaceuticals business</u>

(Billions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Revenue	271.5	275.8	(4.3)
Core operating profit	50.3	50.5	(0.2)

- Revenue in Japan decreased from the previous fiscal year due to the impact of excluding Kyowa Medex Co., Ltd. from the scope of consolidation, the impact of the reductions in drug price standards implemented in April, and the impacts of generics and rival products.
  - Revenue of core product NESP®, a renal anemia treatment drug, decreased compared to 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, ASACOL®, an ulcerative colitis treatment drug, and Depakene®, an anti-epileptic drug, decreased due to the impacts of the market penetration of generics, etc.
  - Revenue from REGPARA®, a treatment for secondary hyperparathyroidism, decreased due to the impact of rival products, while sales of new product ORKEDIA®, also a treatment for secondary hyperparathyroidism, commenced in May.
  - Firm growth in revenue was also realized for G-Lasta®, an agent for decreasing the incidence of

febrile neutropenia, LUMICEF®, a treatment for psoriasis, and NOURIAST®, an antiparkinsonian agent, among others. Concerning Dovobet®, a topical combination drug for psoriasis vulgaris, sales of Dovobet Gel®, a new form of the treatment, began in June.

· Rituximab BS [KHK], an anticancer agent, whose sales commenced in January, has achieved market penetration and sales growth as planned.

- Revenue from international business increased compared to the previous fiscal year due to the launch of new global strategic products.
  · In the Americas and Europe, the market penetration of Crysvita®, a treatment for X-linked hypophosphatemia whose sales commenced in the U.S. and Germany in April, performed solidly, and the number of patients grew steadily. Furthermore, sales of POTELIGEO®, an anticancer agent, commenced in the U.S. in October and it has begun penetrating the market as planned. In addition, revenue from products such as Abstral®, a treatment for cancer pain, also grew robustly.
  · Revenue in Asia increased compared to the previous fiscal year with steady growth in revenue being achieved for REGPARA®, a treatment for secondary hyperparathyroidism, among others, particularly in China and South Korea.
  · With respect to licensing revenue, royalties revenue increased despite the decline in milestone revenue from AstraZeneca in relation to benralizumab.
- Core operating profit was broadly unchanged from the previous fiscal year, mainly due to an increase in selling expenses accompanying the launch in the U.S. and European markets of global strategic products; despite an increase in gross profit due to strong sales of Crysvita®, a treatment for X-linked hypophosphatemia, and POTELIGEO®, an anticancer agent; global strategic products launched in Europe and the U.S.; and improved share of profit (loss) of investments accounted for using equity method.

R&D activities in the Pharmaceuticals business:

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

Nephrology

· In Japan, in March we obtained approval of indication of calcium receptor agonist KHK7580 (product name in Japan: ORKEDIA®) for the treatment of secondary hyperparathyroidism in maintenance dialysis patients. Also, we are implementing a phase III clinical study, targeting hypercalcemia in patients with parathyroid carcinoma and patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or relapse after parathyroidectomy.

· In Japan, in May we started a phase III clinical study for RTA 402 (generic name: bardoxolone methyl) targeting diabetic kidney disease.

· In China, we are currently preparing to reapply 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.

Oncology

· Regarding anti-CCR4 humanized monoclonal antibody KW-0761 (product name in U.S. and Europe: POTELIGEO®), in August we obtained both approval of its indication for treatment of relapsed or refractory mycosis fungoides and Sézary syndrome in adult patients who have a history of systemic therapy in the U.S., and a partial change approval regarding treatment, dosage and administration targeting relapsed or refractory cutaneous T-cell lymphoma in Japan. In addition, in November we obtained approval of its indication for treatment of mycosis fungoides and Sézary syndrome in adult patients who have a history of systemic therapy in Europe.

Immunology and allergy

- AstraZeneca, our licensing partner for the anti-IL-5 receptor humanized monoclonal antibody KHK4563 (generic name: benralizumab), obtained approval of indication for treatment of bronchial asthma for KHK4563 in Japan, in January. Also, as part of the multi-regional clinical study being conducted by said company, we are currently conducting a phase III clinical study in Japan, targeting patients with chronic obstructive pulmonary disease.
- 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®). We also applied for approval of its indication for treatment of psoriasis in South Korea in July.
- In Japan, the U.S., Canada and Germany, in October we started a phase II clinical study for the anti-OX40 fully human antibody KHK4083 targeting atopic dermatitis.

CNS

- We are currently preparing to submit a reapplication for approval of adenosine A_{2A} receptor antagonist KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson’s disease in the U.S.
- 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.
- In Japan, in October we started a phase II clinical study for adenosine A_{2A} receptor antagonist KW-6356 targeting Parkinson’s disease.

Other

- For the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 (product name in U.S. and Europe: Crysvita®), we obtained marketing approval of indication with conditions on sale for treatment of X-linked hypophosphatemia in pediatric patients in Europe, in February. Also, in the U.S. and Canada, we obtained marketing approval of indication for treatment of X-linked hypophosphatemia in both adult and pediatric patients in April and December, respectively. Furthermore, 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. In addition, 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.
- 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 applied for approval of its indication for treatment of aplastic anemia in Japan in July.

Bio-Chemicals business

(Billions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Revenue	78.2	81.1	(2.9)
Core operating profit	8.1	7.2	0.9

- Revenue in Japan decreased compared to the previous fiscal year due mainly to the effect of the sale of the plant growth regulators business.
  - Revenue from active pharmaceutical and health food ingredients business decreased compared to the previous fiscal year due to the effect of the adjustment to part of the merchandise lineup.
  - In the mail-order business, revenue from Arginine EX, Citrulline and others boosted, and revenue increased compared to the previous fiscal year.
- Revenue from international business decreased compared to the previous fiscal year.
  - In the Americas and Europe, revenue decreased compared to the previous fiscal year due to the effect of intensified competition regarding some products.
  - In Asia, revenue was broadly unchanged from the previous fiscal year.
- Core operating profit increased compared to the previous fiscal year due partly to cost savings achieved by shifting production to overseas plants.

R&D activities in the Bio-Chemicals business:

- We are continuing to focus on research and development into resource-saving and efficient fermentation production processes for amino acids, and high value added products such as nucleic acids and peptides.
- We have been increasing the added value of our products through efforts that involve exploring functions of nutritional physiology with respect to amino acids and other products of fermentation, and developing applications in that regard, on the basis of functionality and safety data obtained through joint research with Japanese and overseas universities and research institutes.
- Through collaboration within the Kirin Group, we are drawing on our knowledge of material development to develop new materials to follow on the lactococcus lactis strain Plasma.
- We are conducting research and development of human milk oligosaccharides as a proprietary material nearing commercialization.

(2) Summary of Consolidated Financial Position for Fiscal 2018

Assets, liabilities and equity

(Billions of yen)

	As of December 31, 2018	As of December 31, 2017	Change
Assets	742.0	708.3	33.7
Non-current assets	356.1	360.1	(4.0)
Current assets	385.8	348.1	37.7
Liabilities	92.4	92.3	0.1
Equity	649.6	616.0	33.6
Ratio of equity attributable to owners of parent to total assets	87.6%	87.0%	0.6%

- Assets as of December 31, 2018 were ¥742.0 billion, an increase of ¥33.7 billion compared to the end of the previous fiscal year.
  - Non-current assets declined by ¥4.0 billion to ¥356.1 billion, due mainly to decreases in property, plant and equipment.

· Current assets increased by ¥37.7 billion to ¥385.8 billion, due mainly to an increase in loans receivable from parent as fund management.

- Liabilities as of December 31, 2018 were ¥92.4 billion, the same level as at the end of the previous fiscal year.
- Equity as of December 31, 2018 was ¥649.6 billion, an increase of ¥33.6 billion compared to the end of the previous fiscal year, due to the booking of profit attributable to owners of parent and others, despite a decline because of payment of dividends. As a result, the ratio of equity attributable to owners of parent to total assets was 87.6%, an increase of 0.6 percentage points compared to the end of the previous fiscal year.

(3) Cash Flow Summary for Fiscal 2018

(Billions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Change
Net cash provided by (used in) operating activities	56.2	64.9	(8.7)
Net cash provided by (used in) investing activities	(39.9)	(45.3)	5.3
Net cash provided by (used in) financing activities	(16.5)	(18.3)	1.8
Cash and cash equivalents at end of period	15.9	14.7	1.2

- Cash and cash equivalents as of December 31, 2018 were ¥15.9 billion, an increase of ¥1.2 billion compared to the balance of ¥14.7 billion as of December 31, 2017.

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

- Net cash provided by operating activities was ¥56.2 billion, a 13.4% decrease compared to the previous fiscal year. The main factors included profit before tax of ¥73.4 billion, depreciation and amortization of ¥22.2 billion, despite income taxes paid of ¥14.2 billion, etc.
- Net cash used in investing activities was ¥39.9 billion, a 11.8% decrease compared to the previous fiscal year. Major outflows included a net increase of ¥38.1 billion in loans receivable from parent, ¥10.5 billion for purchase of property, plant and equipment, and ¥9.6 billion for purchase of intangible assets. Major inflows included ¥9.1 billion in proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation, ¥6.2 billion in proceeds from sales of property, plant and equipment, and ¥5.8 billion in collection of loans receivable.
- Net cash used in financing activities was ¥16.5 billion, a 9.8% decrease compared to the previous fiscal year. The main outflows included dividends paid of ¥16.1 billion.

(4) Outlook for Fiscal 2019

(Billions of yen)

	FORECAST* Fiscal year ending December 31, 2019	Change compared to Fiscal year ended December 31, 2018	% Change compared to Fiscal year ended December 31, 2018
Revenue	305.0	–	–%
Core operating profit	53.0	–	–%
Profit before tax	47.0	–	–%
Profit (loss) from continuing operations	37.0	–	–%
Profit (loss) from discontinued operations	31.0	–	–%
Profit attributable to owners of parent	68.0	13.6	25.0%

These forecasts assume average exchange rates of ¥110/US$, ¥130/euro and ¥145/British pound.

- As a result of the Company's decision to transfer the shares of Kyowa Hakko Bio., Ltd., the Company plans to categorize the Bio-Chemicals business as a discontinued operation from the first quarter of fiscal 2019 (January 1, 2019 to March 31, 2019). Accordingly, profit from discontinued operations is planned to be presented separately from the continuing operations. Revenue, core operating profit, and profit before tax in the Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019) show figures for continuing operations, and which exclude discontinued operations. Also effective the first quarter of fiscal 2019, the "Pharmaceuticals business" is planned to be the sole reportable segment of the Group.
- Consolidated financial earnings forecasts for fiscal 2019 are for revenue of ¥305.0 billion, core operating profit of ¥53.0 billion, profit before tax of ¥47.0 billion, and profit attributable to owners of parent of ¥68.0 billion. Note that the locations indicating the changes compared to the fiscal 2018 (January 1, 2018 to December 31, 2018) for the Outlook for Fiscal 2019 are indicated by "-" because the amounts for revenue, core operating profit, and profit before tax for fiscal 2018 include the discontinued operations (Bio-Chemicals business). Revenue, core operating profit, and profit before tax from the continuing operations (Pharmaceuticals business) for fiscal 2018 were ¥271.5 billion, ¥50.3 billion, and ¥67.0 billion, respectively, and if compared the forecasts to these amounts from the continuing operations, the changes compared to the fiscal 2018 are forecasted to be up 12.3%, up 5.4%, and down 29.9%, respectively.
- In the Pharmaceuticals business, although we expect impacts such as a reduction in drug price standards in Japan, revenues are expected to increase compared to the current fiscal year due to growth in the global strategic products Crysvita® and POTELIGEO®, which were launched in the U.S. and Europe in 2018. Moreover, although we expect increases in selling expenses for expanding revenues and maximizing the value of global strategic products and in research and development expenses, core operating profit is expected to increase due to growth in overseas revenue.
- A year-on-year decline is forecasted for profit before tax as a result of a decline in other revenues despite the year-on-year increase forecasted for core operating profit.
- A year-on-year increase is forecasted for profit attributable to owners of parent because the gain on sale of investments in subsidiaries from the transfer of shares of Kyowa Hakko Bio., Ltd. (post-tax) will be recorded in profit from discontinued operations.
- Concerning cash flows from operating activities, net cash provided is expected to be lower in the next fiscal year than the current fiscal year as profit before tax is expected to be lower compared to the current fiscal year.
- Concerning cash flows from investing activities, the Company expects an increase in net cash provided compared to the current fiscal year because of the expected increase in cash flows provided by investing activities from discontinued operations in association with sales of investments in subsidiaries, despite an expected increase in cash used by the purchase of property, plant, and equipment, and intangible assets.
- Concerning cash flows from financing activities, the Company expects an increase in net cash used compared to the current fiscal year because of expected increases in payments for purchase of treasury shares and dividends paid. As regards the purchase of treasury shares and the sourcing of funds, we will continue to remain flexible and act as appropriate for the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2019 are expected to be at the same level as at the end of fiscal 2018.

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

(5) Basic Policy on Profit Distribution: Fiscal 2018 and Fiscal 2019 Dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key management priorities.
Our basic policy on profit distribution is to deliver stable dividends, while maintaining fully adequate internal reserves for future business expansion and other developments, and considering factors such as our consolidated results for the respective fiscal years and the dividend payout ratio. We plan to improve our capital efficiency by acting rapidly with regards to purchase of treasury shares. Kyowa Hakko Kirin intends to use internal reserve funds for investments required to drive new growth, such as those in research and development, capital expenditures, and our development pipeline’s expansion that are expected to contribute to the improvement of our future corporate value.

With respect to the dividend policy, we will aim to achieve a stable and continuous increase in the level of dividend payment according to growth in profits, guided by the consolidated dividend payout ratio of 40% stated in the FY2016-2020 Mid-term Business Plan.

In accordance with the above-mentioned policy, the Board of Directors has resolved to pay a year-end dividend for fiscal 2018 of ¥20 per share. As a result, we expect to increase dividends for the second year in a row. The annual dividend is expected to be ¥35, an increase of ¥8 compared to the previous fiscal year, including an interim dividend of ¥15. With respect to the year-end dividend, we plan to submit a proposal at the 96th Ordinary General Meeting of Shareholders to be held on March 20, 2019.

Dividends of Surplus

	Details of resolution (February 5, 2019)	Dividend forecast most recently announced (Announced on February 8, 2018)	Fiscal 2017 (Fiscal year ended December 31, 2017)
Record date	December 31, 2018	Same as left	December 31, 2017
Dividend per share (Yen)	20.00	15.00	14.50
Total dividend amount (Millions of yen)	10,949	–	7,936
Effective date	March 22, 2019	–	March 26, 2018
Dividend resource	Retained earnings	–	Retained earnings

(Reference) Breakdown of Dividends per Share

(Yen)

	Fiscal 2018 (Fiscal year ended December 31, 2018)	Dividend forecast most recently announced (Announced on February 8, 2018)	Fiscal 2017 (Fiscal year ended December 31, 2017)
[Second quarter-end]	[15.00]	[15.00]	[12.50]
Fiscal year-end	20.00 (Note)	15.00	14.50
Dividends per share	35.00	30.00	27.00

Note: The fiscal year-end dividend (¥20.00) for the current term (fiscal year ended December 31, 2018) is based on the assumption that it will be approved at the 96th Ordinary General Meeting of Shareholders scheduled to be held on March 20, 2019.

For the fiscal year ending December 31, 2019, we expect to pay an annual dividend of ¥40 per share, an increase of ¥5 compared to the current fiscal year, consisting of an interim dividend of ¥20 and a year-end dividend of ¥20. Furthermore, a meeting of the Board of Directors held today passed a resolution regarding a purchase of treasury shares with an upper limit of 10,700,000 shares.

2. Basic Rationale for Selection of Accounting Standards

The Kyowa Hakko Kirin Group has applied IFRS from fiscal 2017 to enhance the international comparability of its financial information in the capital markets, and unify the process of the Group's accounting.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2018	As of December 31, 2017
Assets		
Non-current assets		
Property, plant and equipment	103,153	109,578
Goodwill	140,061	142,837
Intangible assets	58,234	57,599
Investments accounted for using equity method	8,887	1,857
Other financial assets	15,452	14,890
Retirement benefit asset	7,846	8,582
Deferred tax assets	21,543	22,856
Other non-current assets	963	1,945
Total non-current assets	356,138	360,145
Current assets		
Inventories	77,221	71,222
Trade and other receivables	104,443	100,925
Loans receivable from parent	181,300	143,200
Other financial assets	736	517
Other current assets	6,277	3,346
Cash and cash equivalents	15,867	14,685
Subtotal	385,844	333,895
Assets held for sale	–	14,255
Total current assets	385,844	348,150
Total assets	741,982	708,295

(1) Consolidated Statement of Financial Position (continued)

(Millions of yen)

	As of December 31, 2018	As of December 31, 2017
Equity		
Share capital	26,745	26,745
Capital surplus	509,161	509,145
Treasury shares	(26,705)	(26,820)
Retained earnings	151,760	113,504
Other components of equity	(11,341)	(6,546)
Total equity attributable to owners of parent	649,621	616,028
Total equity	649,621	616,028
Liabilities		
Non-current liabilities		
Retirement benefit liability	511	668
Provisions	3,419	3,558
Deferred tax liabilities	181	192
Other financial liabilities	2,377	2,121
Other non-current liabilities	5,414	7,320
Total non-current liabilities	11,902	13,858
Current liabilities		
Trade and other payables	49,400	44,907
Other financial liabilities	2,209	2,963
Income taxes payable	10,562	6,425
Other current liabilities	18,289	20,004
Subtotal	80,459	74,298
Liabilities directly associated with assets held for sale	–	4,111
Total current liabilities	80,459	78,409
Total liabilities	92,362	92,267
Total equity and liabilities	741,982	708,295

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

Consolidated Statement of Profit or Loss

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Revenue	346,531	353,380
Cost of sales	(119,342)	(129,059)
Gross profit	227,189	224,321
Selling, general and administrative expenses	(119,807)	(112,957)
Research and development expenses	(48,591)	(49,155)
Share of profit (loss) of investments accounted for using equity method	(97)	(4,478)
Other income	19,042	6,632
Other expenses	(3,543)	(8,389)
Finance income	839	806
Finance costs	(1,594)	(931)
Profit before tax	73,438	55,849
Income tax expense	(19,025)	(12,950)
Profit	54,414	42,899
Profit attributable to		
Owners of parent	54,414	42,899
Earnings per share		
Basic earnings per share (Yen)	99.40	78.38
Diluted earnings per share (Yen)	99.30	78.30

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Profit	54,414	42,899
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	550	1,532
Remeasurements of defined benefit plans	(99)	4,337
Share of other comprehensive income of investments accounted for using equity method	72	–
Total of items that will not be reclassified to profit or loss	523	5,868
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(5,381)	3,768
Share of other comprehensive income of investments accounted for using equity method	(35)	(60)
Total of items that may be reclassified to profit or loss	(5,416)	3,708
Other comprehensive income	(4,893)	9,577
Comprehensive income	49,520	52,476
Comprehensive income attributable to		
Owners of parent	49,520	52,476

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 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	–	–	–	54,414	–	–
Other comprehensive income	–	–	–	–	–	(5,416)
Total comprehensive income	–	–	–	54,414	–	(5,416)
Dividends of surplus	–	–	–	(16,148)	–	–
Purchase of treasury shares	–	–	(14)	–	–	–
Disposal of treasury shares	–	16	129	–	–	–
Share-based payment transactions	–	–	–	–	89	–
Transfer from other components of equity to retained earnings	–	–	–	(10)	–	–
Other increase (decrease)	–	–	–	–	–	–
Total transactions with owners	–	16	115	(16,158)	89	–
Balance at December 31, 2018	26,745	509,161	(26,705)	151,760	787	(16,402)

	Equity attributable to owners of parent				Total equity
	Other components of equity			Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
Balance at January 1, 2018	3,741	–	(6,546)	616,028	616,028
Profit	–	–	–	54,414	54,414
Other comprehensive income	549	(26)	(4,893)	(4,893)	(4,893)
Total comprehensive income	549	(26)	(4,893)	49,520	49,520
Dividends of surplus	–	–	–	(16,148)	(16,148)
Purchase of treasury shares	–	–	–	(14)	(14)
Disposal of treasury shares	–	–	–	145	145
Share-based payment transactions	–	–	89	89	89
Transfer from other components of equity to retained earnings	(15)	26	10	–	–
Other increase (decrease)	–	–	–	–	–
Total transactions with owners	(15)	26	99	(15,928)	(15,928)
Balance at December 31, 2018	4,275	–	(11,341)	649,621	649,621

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

Fiscal year ended December 31, 2017

(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, 2017	26,745	509,128	(26,890)	79,655	563	(14,694)
Profit	–	–	–	42,899	–	–
Other comprehensive income	–	–	–	–	–	3,708
Total comprehensive income	–	–	–	42,899	–	3,708
Dividends of surplus	–	–	–	(13,682)	–	–
Purchase of treasury shares	–	–	(16)	–	–	–
Disposal of treasury shares	–	17	86	–	–	–
Share-based payment transactions	–	–	–	–	135	–
Transfer from other components of equity to retained earnings	–	–	–	4,655	–	–
Other increase (decrease)	–	–	–	(24)	–	–
Total transactions with owners	–	17	70	(9,050)	135	–
Balance at December 31, 2017	26,745	509,145	(26,820)	113,504	698	(10,985)

	Equity attributable to owners of parent				Total equity
	Other components of equity			Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
Balance at January 1, 2017	2,528	–	(11,603)	577,036	577,036
Profit	–	–	–	42,899	42,899
Other comprehensive income	1,532	4,337	9,577	9,577	9,577
Total comprehensive income	1,532	4,337	9,577	52,476	52,476
Dividends of surplus	–	–	–	(13,682)	(13,682)
Purchase of treasury shares	–	–	–	(16)	(16)
Disposal of treasury shares	–	–	–	103	103
Share-based payment transactions	–	–	135	135	135
Transfer from other components of equity to retained earnings	(319)	(4,337)	(4,655)	–	–
Other increase (decrease)	–	–	–	(24)	(24)
Total transactions with owners	(319)	(4,337)	(4,520)	(13,483)	(13,483)
Balance at December 31, 2017	3,741	–	(6,546)	616,028	616,028

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Cash flows from operating activities		
Profit before tax	73,438	55,849
Depreciation and amortization	22,221	22,032
Impairment losses (reversal of impairment losses)	(1,993)	7,228
Share of loss (profit) of investments accounted for using equity method	97	4,478
Gain on sale of businesses	–	(5,163)
Gain on sale of investments in subsidiaries	(10,968)	–
Decrease (increase) in inventories	(7,063)	2,109
Decrease (increase) in trade receivables	(3,497)	1,399
Increase (decrease) in trade payables	1,978	(1,364)
Income taxes paid	(14,170)	(16,920)
Other	(3,862)	(4,745)
Net cash provided by (used in) operating activities	56,181	64,902
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,522)	(14,765)
Proceeds from sale of property, plant and equipment	6,238	2,184
Purchase of intangible assets	(9,620)	(7,569)
Purchase of investments accounted for using equity method	(2,500)	(3,450)
Proceeds from sale of businesses	–	6,136
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	(38,100)	(28,700)
Other	(312)	898
Net cash provided by (used in) investing activities	(39,929)	(45,265)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(196)	(4,169)
Dividends paid	(16,148)	(13,682)
Other	(158)	(436)
Net cash provided by (used in) financing activities	(16,501)	(18,287)
Effect of exchange rate changes on cash and cash equivalents	357	1,334
Net increase (decrease) in cash and cash equivalents	108	2,683
Net increase (decrease) in cash and cash equivalents due to transfer to assets held for sale	1,074	(1,074)
Cash and cash equivalents at beginning of period	14,685	13,076
Cash and cash equivalents at end of period	15,867	14,685

(5) Notes to Consolidated Financial Statements

Notes on going concern assumption

No applicable items.

Segment information, etc.

(1) Outline of reportable segments

The Group has two reportable segments, Pharmaceuticals and Bio-Chemicals. These 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.

The Group's foundation is operating companies and it comprises two business groups, Pharmaceuticals and Bio-Chemicals, formed on the basis of the products and services handled by each company. The Pharmaceuticals business conducts research, development, manufacturing and sales of ethical pharmaceuticals and others. The Bio-Chemicals business conducts research, development, manufacturing and sales of raw materials for pharmaceutical and industrial use, primarily amino acids, nucleic acids and related compounds, healthcare products and others.

A core company in each business group is in charge of formulating a comprehensive domestic and overseas strategy and developing business operations.

The method of accounting for reportable segments is identical to the method employed for the preparation of the consolidated financial statements. Inter-segment revenue is mainly based on prices in arm's length transactions.

The Group uses "core operating profit" as an indicator showing recurring profitability from operating activities for performance management and others. Therefore, "core operating profit," which 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, is presented as segment profit.

(2) Information on reportable segments

Fiscal year ended December 31, 2018

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	270,438	76,093	346,531	–	346,531
Inter-segment revenue	1,072	2,112	3,184	(3,184)	–
Total	271,510	78,204	349,715	(3,184)	346,531
Segment profit (Core operating profit)	50,306	8,128	58,434	261	58,694
			Other income		19,042
			Other expenses		(3,543)
			Finance income		839
			Finance costs		(1,594)
			Profit before tax		73,438

(Millions of yen)

Other material items	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Asset items					
Segment assets	446,097	130,847	576,944	165,038	741,982
Investments accounted for using equity method	8,889	–	8,889	(2)	8,887
Increase in property, plant and equipment and intangible assets	13,487	6,542	20,029	–	20,029
Profit or loss items					
Research and development expenses	45,659	3,004	48,662	(16)	48,647
Depreciation and amortization	16,243	5,982	22,225	(4)	22,221
Share of loss (profit) of investments accounted for using equity method	98	–	98	(1)	97
Impairment losses	952	415	1,367	–	1,367
Reversal of impairment losses	(3,360)	–	(3,360)	–	(3,360)

Note: Adjustments are as follows:
(1) The ¥261 million for adjustments of segment profit is due to elimination of inter-segment transactions.
(2) The ¥165,038 million for adjustments of segment assets includes elimination of inter-segment transactions of negative ¥24,689 million and corporate assets unallocated to each reportable segment of ¥189,727 million.
Corporate assets are primarily surplus operating cash (loans receivable from parent, cash and cash equivalents).

Fiscal year ended December 31, 2017

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	274,776	78,605	353,380	–	353,380
Inter-segment revenue	990	2,531	3,521	(3,521)	–
Total	275,766	81,136	356,902	(3,521)	353,380
Segment profit (Core operating profit)	50,530	7,189	57,720	11	57,731
			Other income		6,632
			Other expenses		(8,389)
			Finance income		806
			Finance costs		(931)
			Profit before tax		55,849

(Millions of yen)

Other material items	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Asset items					
Segment assets	453,270	130,024	583,294	125,001	708,295
Investments accounted for using equity method	1,857	–	1,857	–	1,857
Increase in property, plant and equipment and intangible assets	12,932	7,782	20,715	(1)	20,714
Profit or loss items					
Research and development expenses	46,138	3,120	49,258	(41)	49,216
Depreciation and amortization	15,287	6,749	22,036	(4)	22,032
Share of loss (profit) of investments accounted for using equity method	4,478	–	4,478	–	4,478
Impairment losses	2,232	5,047	7,279	–	7,279
Reversal of impairment losses	–	(51)	(51)	–	(51)

Note: Adjustments are as follows:

(1) The ¥11 million for adjustments of segment profit is due to elimination of inter-segment transactions.

(2) The ¥125,001 million for adjustments of segment assets includes elimination of inter-segment transactions of negative ¥25,779 million and corporate assets unallocated to each reportable segment of ¥150,780 million. Corporate assets are primarily surplus operating cash (loans receivable from parent, cash and cash equivalents).

(3) Information about products and services

This information is omitted because the classification of products and services is the same as the classification of reportable segments.

(4) Information about geographical areas

i. Revenue

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Japan	224,387	240,855
Americas	31,867	24,695
Europe	56,104	55,979
Asia	33,444	30,230
Other	729	1,621
Total	346,531	353,380

Note: Revenue is classified by country or region based on customer location.

ii. Non-current assets

(Millions of yen)

	As of December 31, 2018	As of December 31, 2017
Japan	223,153	223,416
Americas	3,145	3,334
Europe	56,475	65,656
Asia	19,639	19,554
Total	302,411	311,959

Note: Non-current assets are classified based on the location of assets, and do not include investments accounted for using the equity method, financial instruments, retirement benefit asset and deferred tax assets.

(5) Information about major customers

The customer that accounts for 10% or more of revenue in the consolidated statement of profit or loss is as follows:

(Millions of yen)

Customer	Related segment	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Alfresa Pharma Corporation	Pharmaceuticals	44,592	48,291

Per share information

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017
Profit attributable to ordinary equity holders of parent		
Profit attributable to owners of parent *(Millions of yen)*	54,414	42,899
Profit not attributable to ordinary equity holders of parent *(Millions of yen)*	–	–
Profit used for calculation of earnings per share *(Millions of yen)*	54,414	42,899
Average number of ordinary shares outstanding during period *(Shares)*	547,411,756	547,289,787
Increase in number of ordinary shares		
Share acquisition rights *(Shares)*	564,705	573,438
Average number of diluted ordinary shares outstanding during period *(Shares)*	547,976,461	547,863,225
Earnings per share		
Basic earnings per share *(Yen)*	99.40	78.38
Diluted earnings per share *(Yen)*	99.30	78.30

Significant subsequent events

(1) Transfer of subsidiary's shares

At a meeting held on February 5, 2019, the Board of Directors resolved that the Company will transfer 95% of its shareholdings in its consolidated subsidiary, Kyowa Hakko Bio Co., Ltd. ("Kyowa Hakko Bio") to Kirin Holdings Company, Limited ("Kirin Holdings") and concluded a share transfer agreement with Kirin Holdings on the same date, with the intention of maximizing shareholder value by concentrating management resources. The share transfer is expected to be executed on April 24, 2019.

As a result of the decision to implement the share transfer, from the first quarter of fiscal 2019 the Bio-Chemicals business is scheduled to be categorized as a discontinued operation. As a result, profits from the discontinued operations will be presented in the consolidated statement of profit or loss separately from the section for continuing operations.

The transfer price has not been finalized at this time, but is expected to be approximately ¥128.0 billion (Note). A gain on sale of investments in subsidiaries in the second quarter of fiscal 2019 stemming from the execution of the share transfer, in combination with a gain on revaluation of the remaining equity stake in Kyowa Hakko Bio based on the fair value as of the date on which the Company ceases to be the controlling shareholder, is expected to result in post-tax profits of around ¥30.0 billion being posted to the condensed quarterly consolidated statement of profit or loss, as profit from discontinued operations.

Concerning the remaining 5% of Kyowa Hakko Bio's shares that the Company will continue to hold, the Company holds the right to sell said shares on the day that three years have elapsed since the date of the share transfer (provided, however, that if the Company and Kirin Holdings agree to a different date in a separate document, then the new agreed date will apply) or later.

Currently, the Group has the two reportable segments of "Pharmaceuticals business" and "Bio-Chemicals business." However, as a result of the above-mentioned decision to transfer shares, the "Bio-Chemicals business" is planned to be categorized as a discontinued operation. Accordingly, effective the first quarter of fiscal 2019 (January 1, 2019 to March 31, 2019), the "Pharmaceuticals business" is planned to be the sole reportable segment of the Group.

Note: The transfer price will be adjusted in accordance with the dividends of surplus paid to the Company by Kyowa Hakko Bio up to the date on which the share transfer is executed, and in accordance with the status of Kyowa Hakko Bio's amount of consolidated net assets assuming a reference date of the last day of the month preceding the month of the date on which the share transfer is executed.

(2) Repurchase of own shares and cancellation of treasury shares

At a meeting held on February 5, 2019, the Board of Directors resolved to repurchase the Company's own shares pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act, it resolved the specific method of repurchase, and it resolved to cancel treasury shares pursuant to the provisions of Article 178 of the Companies Act.

1) Reasons for repurchase and cancellation of treasury shares:

The agile repurchase of own shares will be made in view of improvement of capital efficiency and further enhancement of returns to shareholders, and cancellation of treasury shares will be made for the purpose of dispelling the concern of future dilution.

2) Details of repurchase:

(i)	Class of shares to be repurchased	Ordinary shares
(ii)	Total number of shares to be repurchased	Up to 10,700,000 shares (represents 1.95% of total number of shares issued, excluding treasury shares)
(iii)	Total amount for acquisition of shares	Up to ¥27,000 million
(iv)	Date of repurchase	February 6, 2019
(v)	Method of repurchase	Purchase of shares through Trading Network system for Off-Auction Own Shares Repurchase Trading (ToSTNeT-3) The Company will place a purchase order for its own shares using the Tokyo Stock Exchange Trading Network system for Off-Auction Own Shares Repurchase Trading (ToSTNeT-3) for the 8:45 a.m. session on February 6, 2019, at ¥2,111, the closing price (including the final special quote) of February 5, 2019.

3) Details of cancellation:

(i)	Class of shares to be cancelled	Ordinary shares
(ii)	Total number of shares to be cancelled	All of the own shares acquired in accordance with item 2) above and 25,783,555 shares (Treasury shares owned other than above 2))
(iii)	Scheduled date of cancellation	February 19, 2019

(3) Offer of voluntary early retirement

At a meeting held on February 5, 2019, the Board of Directors resolved to make a voluntary early retirement offer.

1) Reasons for voluntary early retirement offer:

The Company strives to contribute to the health and well-being of people around the world, and has accordingly been promoting greater selection and concentration of its businesses in order to achieve its business vision of becoming a Japan-based global specialty pharmaceutical company. In so doing, we are further accelerating initiatives that involve rapidly shifting to a global business model, strengthening our domestic business platform, as well as recruiting and cultivating employees who are capable of autonomously taking on the challenge of reform. As such, at this turning-point we are seeking employees who would like to volunteer for early retirement with the aim of providing the utmost support to those wishing to embark on new paths in terms of broadening their options for career development and accordingly seeking other opportunities outside the Company.

2) Overview of voluntary early retirement offer:

(i) Eligibility:	Employees of the Company who are at least 45 years of age with no less than five years of service as of April 1, 2019 (however, this offer is not available to those employed in the Production Division as of February 5, 2019)
(ii) Target number of applicants:	Not specified
(iii) Application period:	From March 11, 2019 to March 28, 2019
(iv) Retirement date:	June 30, 2019
(v) Incentives:	A severance benefit premium will be paid in addition to the ordinary severance benefit. Also, outplacement assistance will be provided to those requesting it.

3) Impact on performance:

The special severance benefit payment and expenses for outplacement assistance arising in connection with the early retirement offer will be recorded under “other expenses” in the fiscal 2019. A certain amount of these expenses has been factored into the consolidated earnings forecasts for the fiscal year ending December 31, 2019. Meanwhile, because details such as the number of employees applying for voluntary early retirement and the total amount of special severance benefit payments have yet to be determined, the effects on the earnings outlook will be announced immediately after they become available.