1. Operating Results and Financial Position

I. Summary of Operating Results

1) Operating results for the fiscal period ended December 31, 2009

Billions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2008*	Change
Net sales	309.1	362.2	(53.1)
Operating income	28.2	42.6	(14.4)
Recurring income	29.4	43.2	(13.7)
Net income	8.7	10.4	(1.6)

*Due to the 9-month fiscal period resulting from the change in the financial year-end to December 31, figures for the 9-month period to December 31, 2008 (April 1, 2008 to December 31, 2008) have been provided for reference.

During the consolidated 9-month fiscal period under review (April 1, 2009 to December 31, 2009), signs of a partial recovery in the domestic economy were seen, however, amid depressed conditions worldwide domestic and international demand did not fully recover, severe employment conditions continued and the outlook for the real economy remained uncertain.

In the Group's operating environment, conditions in the Pharmaceuticals business remained challenging due to the promotion of generic pharmaceuticals as a part of the National Health reimbursement policy in the domestic market, increased competition from European and American drug manufacturers and major domestic pharmaceutical companies, and intensifying competition from new drug development internationally. The Bio-Chemicals business was affected by a declining price trend due to the entrance of Chinese manufacturers into amino acids for the health food market as well as the effects of the rapid appreciation of the yen. In the Chemicals business, challenges remain due to reduced demand resulting from the global economic downturn and a sluggish product markets, although the worst seems to be behind us. Against this background the Kyowa Hakko Kirin Group actively invested business resources in our core businesses, the Pharmaceuticals and Bio-Chemicals businesses with the aim of further strengthening profitability and growth. We also undertook ongoing initiatives including the use of external resources to reform our operations and strengthen our competitiveness through improved R&D efficiency and strengthened operations.

In the fiscal period ended December 31, 2009 results were affected by the removal of the Food business segment from consolidation and other factors, and consolidated net sales were ¥309.1 billion, a decrease of 14.7% and operating income was ¥28.2 billion, a decrease of 33.8%. Recurring income was ¥29.4 billion, a decrease of 31.9%; and net income was ¥8.7 billion, a decrease of 16.1%, due to recording an extraordinary loss of ¥8.8 billion for the extraordinary depreciation of fixed assets, impairment losses and other items.

At the 86th Regular Shareholders' Meeting held on June 25, 2009, the decision was made to change the fiscal year-end of Kyowa Hakko Kirin from March 31 to December 31 in order to improve the efficiency of business administration by matching our fiscal year to that of our parent company Kirin Holdings. As a result, the fiscal year of Kyowa Hakko Kirin has changed to the period January 1 to December 31, resulting in an irregular 9-month fiscal period in 2009, and comparisons to the previous fiscal period are made with the 9-month period from April 1, 2008 to December 31, 2008.

2) Segmental Review

Pharmaceuticals

Billions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
Net sales	158.2	161.3	(3.0)
Operating income	26.6	29.6	(3.0)

In the Pharmaceuticals business, consolidated net sales decreased 1.9% to ¥158.2 billion and operating income decreased 10.1% to ¥26.6 billion, compared to the nine months ended December 31, 2008. Domestic sales of pharmaceutical products increased supported by steady growth, primarily of core products. By product, anemia treatments Nesp and Espo, Regpara tablets, a treatment for secondary hyperthyroidism during dialysis therapy, Allelock, an antiallergic agent, and Patanol, an antiallergic ophthalmic solution, each increased sales. Further, in December we launched sales of Asacol, an ulcerative colitis treatment through our joint marketing agreement with Zeria Pharmaceutical Co., Ltd.

In the licensing-out of technologies and export of pharmaceutical products, revenues were significantly lower compared to the same nine-month period of the previous year, which benefited from a one-off contract payment for the out-licensing of KW-0761, an anti-CCR4 humanized monoclonal antibody.

At subsidiary Kyowa Medex, which is responsible for the manufacture and sale of diagnostic reagents, sales were higher than in the comparable fiscal period, due to growth in exports and other factors.

In new drug development in Japan, we have filed applications for additional indications for Nesp, a treatment for anemia, and we are preparing to file new drug applications for KW-2246, an analgesic for cancer pain, after having received results from Phase III clinical trials, as well as for AMG 531, a treatment for thrombocytopenia. Meanwhile, Phase III clinical trials for anti-Parkinson’s disease treatments KW-6002 and KW-6500, began in August and October respectively. Phase II clinical trials for KRN125, a treatment for neutropenia are progressing and KW-0761, a blood cancer treatment (an antibody pharmaceutical) commenced Phase II trials in June. Further, Phase I clinical trials for KW-3357, an agent for inhibiting blood coagulation and ARQ 197, an anticancer agent are progressing, and Phase I clinical trials for KRN951, an anticancer agent, began in September.

Overseas, in the U.S. Phase I/IIa clinical trials are progressing for anticancer agents KW-2449, KRN330 (an antibody pharmaceutical) and BIW-8962 (an antibody pharmaceutical), while antibody pharmaceutical KRN-23, a hypophosphatemic rickets treatment, is in Phase I trials. Meanwhile Phase I clinical trials for KW-2450, an anticancer agent, began in June, and in July, KW-0761, a blood cancer treatment (an antibody pharmaceutical) began Phase I/IIa trials. In Europe, Phase I trials are progressing for anticancer agent KW-2478, and in August, Phase I trials for KW-3357, an agent for inhibiting blood coagulation commenced. In China, we have filed applications for approval of Allelock, an antiallergic agent, and Phase II trials are progressing for Nesp, a treatment for anemia.

Bio-Chemicals

Billions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
Net sales	69.7	67.5	2.2
Operating income	3.0	7.4	(4.3)

In the Bio-Chemicals business, compared to the nine months ended December 31, 2008, sales increased 3.3% to ¥69.7 billion and operating income decreased 58.9% to ¥3.0 billion. Sales for pharmaceutical and industrial use raw materials, primarily amino acids, nucleic acids and related compounds, were lower due to the considerable impact of a stronger yen and despite efforts to expand sales, particularly those of pharmaceuticals and intravenous liquids.

In healthcare products, sales were higher due to factors such as strong growth in sales to regular customers of the *Remake* series.

In agrochemicals and products for the livestock and fisheries industry, sales decreased due to intensifying competition in agrochemicals in overseas markets and sluggish sales in the livestock and fisheries industries in the domestic market.

In alcohol, sales were considerably higher due to a sharp increase in demand for industrial use alcohol due to the prevalence of influenza and proactive efforts to acquire new customers, and despite sales of beverage use alcohol trending lower.

Sales of Daiichi Fine Chemical were lower due to sluggish vitamin markets and other factors.

In R&D, at our technical research laboratory and Bioprocess Development Center we focused research on raising the efficiency of fermentation production aimed at cost reductions in the production of amino acids and related compounds, while at Daiichi Fine Chemical we continued our synthesis process research while also focusing on the research and development of new products. In the Healthcare Products Development Center we continued the development of applications and the search for functionalities in all types of amino acids.

Chemicals

Billions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
Net sales	52.3	77.3	(24.9)
Operating income	(1.9)	3.5	(5.5)

In the Chemicals business, compared to the nine months ended December 31, 2008, sales declined 32.3% to ¥52.3 billion, while an operating loss of ¥1.9 billion was recorded compared to operating income of ¥3.5 billion in the same nine-month period of the previous fiscal year. Although there have been indications of a recovery in certain parts of the domestic economy, the effect of the slump in demand in the first six months of the period under review was significant, and both sales volumes and sales were below the level of those in the same nine-month period of the previous year. Regarding exports, sales volumes grew due to growth in demand from China and other factors, but the large decline in global markets led to a decline in sales.

By category, both domestic and export sales volumes of functional products were higher than in the same nine-month period of the previous fiscal year and sales volumes of solvents and plasticizer raw materials in the third quarter were also higher than in the third quarter of the previous year. However, despite a recovery trend in these two areas, sales were lower than in the previous nine-month period due to a decrease in sales prices.

Food

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
			Billions of yen
Net sales	--	32.8	(32.8)
Operating income	--	0.9	(0.9)

Following the partial sale of shares held in consolidated subsidiary Kyowa Hakko Food Specialties (now Kirin Kyowa Foods) and its three consolidated subsidiaries (Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Kyowa Hifoods Co., Ltd.) they became equity-accounted affiliates as of the end of the previous fiscal year. Accordingly, as of this consolidated fiscal period there are no consolidated subsidiaries in the Food business and the Food segment has been eliminated. As a result, net sales and operating income for the Food business in respect of the period under review have not been recorded. In the same nine-month period of the previous fiscal year consolidated net sales in the Food business was ¥32.8 billion and operating income was ¥0.9 billion.

Other

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
			Billions of yen
Net sales	49.5	54.5	(5.0)
Operating income	0.4	1.0	(0.6)

In the Other segment, net sales decreased 9.2% to ¥49.5 billion and operating income decreased 62.2% to ¥0.4 billion.

Segments by region

Japan

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
			Billions of yen
Net sales	291.7	349.9	(58.2)
Operating income	24.4	38.9	(14.5)

In the Japan segment, net sales decreased 16.6% to ¥291.7 billion and operating income decreased 37.2% to ¥24.4 billion. Results were affected by reduced sales from the Chemicals business due to a drop in sales prices, and by the removal of the Food business from consolidation.

Other regions

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
			Billions of yen
Net sales	40.6	37.3	3.2
Operating income	3.3	4.4	(1.0)

In the Other regions segment, net sales increased 8.7% to ¥40.6 billion and operating income decreased 23.7% to ¥3.3 billion. Overseas sales of subsidiaries in the Pharmaceuticals and Bio-chemicals businesses were generally quite strong on a local currency basis but were affected by currency translation.

3) Outlook for Fiscal 2010

	FORECAST Fiscal period ending December 31, 2010	*Billions of yen* Change compared to the 12 month period ended December 31, 2009 (Amount)	% Change compared to the 12 month period ended December 31, 2009 (%)
Net sales	400.0	(7.0)	(1.7%)
Operating income	36.0	5.0	16.4%
Recurring income	37.5	4.8	14.9%
Net income	20.0	9.9	99.2%

1. These figures assume an average exchange rate of ¥91 to the U.S. dollar and ¥133 to the Euro
2. The change to the consolidated fiscal year-end during fiscal 2009 resulted in a nine-month fiscal period, and therefore forecasts for the following fiscal year (the 12-month period from January 1, 2010 to December 31, 2010) have been made with reference to the 12-month period from January 1, 2009 to December 31, 2009 consisting of the consolidated fourth quarter of fiscal 2008 (the 3-month period from January 1, 2009 to March 31, 2009) and the consolidated fiscal period 2009 (the 9-month period from April 1, 2009 to December 31, 2009).

We expect the domestic economy to continue on an upward trend, however the future continues to remain very uncertain with economic risks such as the continued worsening of the employment situation, concerns of downside risks in the outlook for overseas economies, and the impact of deflation and changes to the capital markets.

In this environment, in fiscal 2010, the first year of our three year medium-term business plan, the Kyowa Hakko Kirin Group will focus its resources on its core businesses—the Pharmaceuticals and Bio-Chemicals businesses, endeavor to strengthen profitability by providing new value through differentiated products and services that address diverse customer needs, implement cost reforms, and promote group internationalization.

Our consolidated financial results forecasts for fiscal 2010 (the twelve-month period from January 1, 2010 to December 31, 2010) are for net sales of ¥400.0 billion, a decrease of 1.7%, operating income of ¥36.0 billion, up 16.4% and recurring income of ¥37.5 billion, up 14.9%. As extraordinary losses are expected to decline significantly, net income is forecast to increase 99.2% to ¥20.0 billion.

In the Pharmaceuticals business, we forecast growth in sales volume of core products including anemia products Nesp and Espo, Regpara tablets, a treatment for secondary hyperthyroidism during dialysis therapy, and *Patanol*, an antiallergic ophthalmic solution, in addition to contributions from sales of new products such as *Asacol,* an ulcerative colitis treatment launched in December 2009. However, due to the anticipated large impact from the effects of price revisions scheduled for April 2010, we expect sales and profits to decrease compared to the previous twelve-month period.

In the Bio-Chemicals business, we expect that sales will be lower but that operating income will remain largely unchanged. We are anticipating growth in sales volumes, primarily in core amino acids, nucleic acids and related compounds, however we are also forecasting a decreasing trend in sales prices due to the emergence of Chinese manufacturers primarily in the health foods market, and results will also be affected by the transfer of the alcohol business, scheduled for July 2010, and the transfer of the domestic sales operations related to products for the livestock and fisheries industry, scheduled for April 2010.

In the Chemicals business we are forecasting a large rise in both sales and operating income due to anticipated growth in sales volumes and product price revisions against a background of an improved oil and naphtha market, and improvements in the domestic and overseas economies. Please also note that from fiscal 2010, the results of chemical product wholesaling subsidiaries Miyako Kagaku Co., Ltd., and Kashiwagi Corporation, will be reported under the Chemicals segment rather than Other.

*The above forecasts are based on information available and assumptions made at the time of release of this document about a number of uncertain factors that can affect results in the future. It is possible that actual results are materially different for a wide variety of reasons.

II. Summary of Financial Position

1) Assets, Liabilities, and Net Assets

Total assets as of December 31, 2009 were ¥695.2 billion, a decrease of ¥3.7 billion compared to the end of the previous fiscal year. Current assets decreased by ¥2.8 billion compared to the end of the previous consolidated fiscal year to ¥276.5 billion as a result of decreases in short-term loans, cash and time deposits and others items, and despite increases in accounts and notes receivable and other items.
Fixed assets decreased by ¥0.8 billion to ¥418.6 billion due to declines in buildings and structures due to recording extraordinary depreciation and impairment losses and the amortization of goodwill, and despite increases in items such as construction in progress due to an increase in investments in facilities and investment securities due to a rise in the market price of equity holdings account.

Liabilities decreased by ¥1.0 billion compared to the end of the previous fiscal year to ¥154.9 billion as although accounts and notes payable, and accrued expenses increased, but deferred tax liabilities and reserve for bonuses decreased.

Net assets at the end of the period were ¥540.3 billion, down ¥2.7 billion. Factors increasing net assets included increases in valuation differences on other marketable securities due to a rise in the market price of equity holdings and from recording a net profit for the period. Factors decreasing net assets included payments for dividends and for the purchase of treasury shares.

As a result, the shareholders' equity ratio as of the end of the fiscal period was 77.1%, an increase of 0.1 percentage points compared to the end of the previous fiscal year.

2) Cash Flow Summary

Billions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2008	Change
Cash flows from operating activities	24.2	25.4	(1.2)
Cash flows from investing activities	(13.2)	(15.4)	2.2
Cash flows from financing activities	(16.9)	(21.9)	5.0

Cash and cash equivalents as of December 31, 2009 were ¥63.7 billion, a decrease of ¥5.5 billion compared to a balance of ¥69.2 billion in cash and cash equivalents as of March 31, 2008. The main contributing factors affecting cash flow during the none-month period were as follows:

Net cash provided by operating activities decreased 5.0% compared to the comparable nine-month period of the previous fiscal year to ¥24.2 billion. The main inflows included net income before income taxes of ¥20.6 billion, deprecation expenses of ¥17.0 billion, and goodwill amortization of ¥7.1 billion. The main outflows included corporate, etc. tax payments of ¥21.6 billion.

Net cash used in investing activities was ¥13.2 billion 14.3% less than in the comparable period. The main outflows included payments of ¥19.7 billion for the acquisition of tangible fixed assets. The main inflows included a ¥4.6 billion net decrease in short-term loans.

Net cash used in financing activities was ¥16.9 billion 23.1% lower than in the comparable period. This was primarily due to outflows of a ¥11.3 billion for payment of dividends and a ¥4.6 billion payment for the acquisition of treasury shares.

Key Shareholders’ Equity and Cash Flow Indicators

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Shareholders’ equity ratio (%)	66.6%	63.8%	64.5%	77.0%	77.1%
Shareholders’ equity (market price base) ratio (%)	94.6%	114.5%	96.0%	67.9%	80.7%
Cash flow / Interest bearing debt ratio (years)	0.9	0.6	0.4	0.3	0.5
Interest coverage ratio (times)	84.8	106.3	100.3	82.9	93.6

Notes:
Shareholders’ equity ratio = Shareholders' equity / Total assets
Shareholders’ equity (market price base) ratio = Market capitalization / Total assets
Cash flow/ Interest bearing debt ratio = Operating cash flow/ Interest-bearing debt
Interest coverage ratio = Operating cash flow / Interest payments

*1. All ratios based on consolidated figures.
*2. Market capitalization is based on the number of shares issued and outstanding at the end of the period (excluding treasury stock).
*3. Operating cash flow is the figure for cash flows from operating activities in the consolidated statements of cash flows.
*4. Of the liabilities on the consolidated balance sheet, interest-bearing debt includes short-term, corporate bonds and long-term borrowings.
*5. For interest payments, the interest paid figure in the consolidated statements of cash flows is used.
*6. The change to the consolidated fiscal year-end during fiscal 2009 resulted in a nine-month fiscal period, and therefore 9-month figures for the Cash flow / Interest bearing debt ratio (years) and Interest coverage ratio (times) have been used.

3) Fiscal 2010 Outlook for Financial Position

Cash flows from operating activities: Operating cash flows are expected to increase compared to the comparable fiscal period since we expect a decrease in corporate, etc., tax payments and an increase in net income before income taxes.

Cash flows from investing activities: Cash used in investing activities is expected to increase compared to the comparable fiscal period due to an expected increase in payments for the acquisition of tangible fixed assets and other items.

Cash flows from financing activities: The amount of dividend paid is expected to decrease compared to the comparable fiscal period. We will remain flexible and act in consideration of the economic and funding environment in regards to financing, such as fund procurement and loan repayment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2010 are expected to be at a similar level to the end of fiscal 2009.

Note: The above financial position outlook is based on information available to management at the time of writing. The actual financial position may differ significantly from projections.

III. Basic Policy on Profit Distribution: Fiscal 2008 and Fiscal 2009 Dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy, while maintaining fully adequate internal reserves, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders’ equity. Kyowa Hakko Kirin aims to retain sufficient reserves to make the investments in facilities and research and development that are required to fund new growth.

In accordance with this basic policy, and in consideration of the 9-month fiscal period resulting from a change in year-end, we expect to pay a final dividend for fiscal 2009 of ¥5 per share. As a result, in addition to the interim dividend payment of ¥10 per share, the dividend per share for fiscal 2009 is expected to be ¥15 per share.

The 2010 to 2012 Medium-term Business Plan will continue to target a consolidated dividend payout ratio of 30% on a prior to amortization of goodwill basis. For the fiscal year ending December 2010, we expect to pay an annual dividend of ¥20 yen per share consisting of an interim dividend of ¥10 and a year-end dividend of ¥10.

IV. Business Risks and Other Risks

With respect to Kyowa Hakko Kirin Group’s business performance and financial position, the major risks that may significantly affect investors’ judgments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the judgment of the Group as of December 31, 2009.

1) Risks associated with the operating environment in the domestic pharmaceutical industry

In the Group’s core Pharmaceuticals operations, under the domestic public pharmaceutical price system, the official prices for the majority of ethical pharmaceuticals are periodically reduced. As a result, the Group is unable to avoid reductions in selling prices of its existing drugs. In cases where a price reduction cannot be compensated for by an increase in volumes, the Group’s business performance and financial position could be adversely affected.

In addition, the Kyowa Hakko Kirin Group’s business performance and financial position could also be affected by factors including future trends in the reform of Japan’s system of medical treatment aimed at promoting the use of generic drugs, intensified competition from European and American pharmaceutical companies, and the strategies of major specialist companies

2) Risks that substantial R&D investment will not be recovered.

Kyowa Hakko Kirin Group invests significantly in the development of new products, technologies, improving existing products and developing applications, etc. For example, in the Group’s main Pharmaceutical business, the importance of future growth being based upon the success of ground-breaking new drugs cannot be exaggerated. In ethical drug operations, the development of new drugs requires long periods of time and substantial R&D expenditures. The process of development and sales of new pharmaceuticals is inherently complicated and uncertain. In the long-term development of new drugs, there may be cases where the expected efficacy is not confirmed and R&D will be halted, or cases where successfully launched products may not result in the expected level of sales. There may also be cases where serious unpredicted side effects result in sales being suspended after the product is launched. As a result of various factors such as these, it may not be possible for the Group to recover its investment in R&D.

In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies that are expected to differentiate the Group from its competitors by making use of key technologies, such as its core fermentation technologies and biotechnologies. There is no guarantee these investments will produce results. As stated above, in cases where expected R&D results are not realized, the Group’s future growth and profitability may decline and our business performance and financial position may also be adversely affected.

3) Risks related to Intellectual Property Assets

In cases where the Group is subject to litigation as a result of our products or technology being in violation of intellectual property rights, the Group may be required to cease such activities, and pay compensation and/or settlement, and our business activities, business performance and financial position may be adversely affected. Conversely, in cases where the Group’s intellectual property rights are infringed upon by competitive products to the Group’s products or out-licensed products, sales of the Group’s products or revenues from technology could decline earlier than forecast and similarly, the Group’s business performance and financial position could be adversely affected.

4) Legal regulation risk

In the course of carrying out its operations in Japan and overseas, the Group must strictly comply with legal regulations. For example, in the Pharmaceuticals business, in Japan and overseas the Group is subject to pharmaceutical-related regulations in all countries at each stage, from new drug development to drug manufacturing, importing and exporting, sales, distribution, and use. The Group must comply with a large number of laws and business practices, and in addition there are a variety of approval and permission systems as well as monitoring systems. The Group emphasizes compliance to try to ensure that it does not violate the laws to which it is subject, and the Group is working to bolster internal control functions through such means as administrative oversight. However, there is no guarantee that the Group will be able to completely eliminate the possibility of committing a violation of these legal regulations. If, because we are unable to observe these legal regulations, new product development is delayed or stopped, or manufacturing or sales activities are restricted, the Group’s credibility could be damaged.
In such cases, the Group’s business performance and financial position could be negatively impacted. Furthermore, in the future, if laws and regulations that must be observed in Japan and overseas change, the Group’s business performance and financial position could be adversely affected.

5) Risk of defective products

The Group manufactures a variety of products at plants in countries where it operates in line with locally recognized quality control and other standards. The Group also requires that companies whose merchandize we purchase and sell conform to the necessary quality and standards applied to the products. However, this is not a guarantee that all products will be free of defects, and the possibility of product recalls cannot be ruled out. The Group has taken out product liability insurance, but there is no guarantee this will provide enough coverage against liability claims that the Group may be forced to bear. It should also be pointed out that the Group may not be able to maintain insurance coverage at conditions acceptable to us. For example, in instances of large-scale product recalls or product defects that lead to claims, including severe side effects in ethical pharmaceuticals and drug induced diseases, that could heavily impact the Group’s social credibility resulting in large expenses or losses or declines in sales that may adversely affect the Group’s business performance and financial position.

6) Disaster-related and accident-related risks

To minimize the negative effects of halting manufacturing line activities, the Group conducts periodic disaster prevention tests and facility maintenance for all of its production line facilities. However, there is no guarantee that the Group will be able to completely prevent events such as earthquakes or fires that interrupt production, such as accidents, electricity outages, and boiler stoppages. Further, operating activities could be negatively affected if damage from a disaster to our head office, sales or distribution facilities goes beyond the scope anticipated by our disaster management systems and each system is unable to perform its function.

The Group handles substances that are subject to various legal regulations and guidelines. Despite the fact that these substances in the factories and research facilities are strictly managed in accordance with specifications, as a result of natural disasters etc. these substances could enter the external environment and cause damage to the surrounding area.

Further, should an infectious disease such as a new form of influenza spread throughout the society in countries or regions where the Group is developing its businesses, the Group’s operating activity could be limited.

Should an event or accident as described above occur it might result in significant damage and negatively impact the Group's position of trust in society. Additionally, the Group's business performance and financial position could be adversely affected.

7) Impact on production activities as a result of a tightening in environmental restrictions

The Group engages in the manufacture of amino acid products using fermentation technology. Sugars, and other nutrient sources are also used in the fermentation production process, which generates waste fluid. This fermentation waste is processed and disposed of in accordance with the environmental regulations of the countries in which the Group engages in manufacturing activities, but both domestically and overseas there is a trend for these environmental regulations to be made more severe each year. The Group is making efforts to utilize materials with low environmental burdens as raw materials and improve our wastewater treatment technology, but in the future it is possible that our manufacturing activities will be limited as a result of alterations in the contents of environmental restrictions, leading to increased manufacturing costs, which as a result may adversely impact the Group's business performance and financial position.

The Chemicals business is currently facing issues such as restrictions on volatile organic compounds (VOC) and is moving to meet these issues with appropriate responses, but the Group's business performance and financial position could be adversely affected by the future content of environmental safety restrictions.

8) Potential risks for overseas business activities

The Group maintains business activities in the North America, Europe and Asia. Business development into overseas markets encapsulates a number of risks, examples of which are outlined below:

1. Unanticipated laws, restrictions and tax systems that exert an adverse impact on the company.
2. Adverse political and/or economic factors.
3. Issues regarding hiring and maintaining personnel.
4. Social unrest as a result of acts of terror, wars or other factors.

In instances where the Group is unable to effectively develop its business overseas as a result of such potential risks manifesting themselves, there is the possibility that the Group's business performance and financial position could be adversely affected.

9) Risk of declines in product sales prices as a result of fluctuations in the supply/demand balance

Products in the Chemicals business include those likely to be impacted by global supply/demand balances and where the underlying markets experience major fluctuations, including solvents and raw materials for plasticizers. Our competitors may strengthen their production capabilities or demand could rapidly decline for these products, both in Japan and overseas, sales prices may fall drastically in cases of over-supply, and the Group's business performance and financial position could be adversely impacted in instances where we are unable to offset this by expanding sales volumes.

10) Risk of crude oil price fluctuations on profit margin

In the Chemicals business the main raw materials of its products are derived from refined crude oil products such as naphtha-derived ethylene and propylene that are highly sensitive to crude oil price fluctuations. Global demand and supply and unpredictable factors such as changes in weather conditions, war and terrorism have caused large fluctuations in the price of crude oil and should be expected to do so in the future. In the Bio-Chemicals business, the increase in the price of raw materials has become a significant issues caused by an increase in the price of fuel, the increased demand from developing countries, the expanding demand of ethanol and a poor agricultural harvest due to unseasonable weather. If the rise of raw materials prices cannot be reflected in the selling price of products in a timely manner, or cannot be absorbed though cost reduction measures, the Group’s business performance and financial position could be adversely affected.

11) Risk of changes to foreign exchange rate

The Group conducts foreign currency denominated transactions such as receiving income from overseas sales and licensing-out of technologies overseas acquiring raw materials overseas and therefore any sudden change in exchange rates could adversely affect the Group’s business performance and financial position. Fluctuations to the foreign exchange rate could also affect our ability to be price competitive on products sold in markets shared with overseas competitors.

The gains and losses, and assets and liabilities of overseas-consolidated subsidiaries denominated in local currencies are translated into yen for the preparation of the consolidated financial report. The exchange rate at the time of translation could have an effect on values following currency translation.

12) Risk of changes to share prices

The Group owns marketable securities of its business partners, financial institutions and others and in cases where market valuations drop significantly an appraisal loss on our holdings would be incurred and the Group’s business performance and financial position could be adversely affected. Further, a portion of the Company’s corporate pension assets comprise marketable securities and actuarial accounting differences in retirement benefit accounting could result from changes to the market value of these and the Group’s business performance and financial position could be adversely affected.

13) Risk of impairment of fixed assets

As regards the Group’s fixed assets, in cases where there is as a decline in business profitability due to a marked deterioration of the operating environment, or a significant drop in market prices, the application of fixed asset impairment accounting could result in an impairment loss and the Group’s business performance and financial position could be adversely affected.

14) Risk concerning procurement of necessary raw materials

For certain raw materials procured by the Group, changing suppliers and substituting raw materials can be very difficult and they may only be available through a small number of specialized suppliers. Although we have taken measures to store enough a sufficient supply of important raw materials to ensure production for a certain period of time, we cannot rule out the unexpected. Therefore, if procuring important resources for which there is no substitute becomes extremely difficult, product manufacturing may be suspended and the Group’s business performance and financial position could be adversely affected.