KYOWA HAKKO KOGYO CO., LTD. Annual Report 2003

KYOWA

A NEW FORMULA FOR GROWTH

KYOWA HAKKO

Annual Report 2003

Year ended March 31, 2003

Kyowa Hakko Kogyo Co., Ltd., is a research-based company with special strengths in biotechnology. The Company is dedicated to the creation of new value in the life sciences, especially pharmaceuticals, and strives to contribute to the health and well-being of people around the world.

Following its founding in 1949, Kyowa Hakko contributed to the eradication of tuberculosis in Japan by mass-producing streptomycin. The Company has since developed numerous drugs, including anticancer agent Mitomycin C, which is now a leading chemotherapy agent in markets around the world. In addition to anticancer agents, Kyowa Hakko is actively engaged in the R&D, production, and sale of pharmaceuticals that address a wide range of other medical needs, including agents to treat hypertension, allergies, and neurological disorders. Kyowa Hakko's Pharmaceuticals operations are now the Company's core business field.

Kyowa Hakko is focusing its R&D resources on allergies, cancer, and key technologies, such as antibody technologies. And the Company is bolstering its overseas development capabilities and aggressively promoting its Pharmaceuticals operations in global markets.

The Company has also worked to apply its advanced biotechnology capabilities to mass-produce various types of amino and nucleic acids, including glutamic acid and lysine. Kyowa Hakko applies these capabilities to other areas as well, with a focus on its Food and Bio-Chemicals operations. In Chemicals operations, which grew out of the Company's original acetone and butyl alcohol fermentation operations, Kyowa Hakko is reinforcing its position as a world leader in the production of oxo alcohol.

Note to Performance Forecasts

Forecasts contained in the *Annual Report 2003* represent judgments based on information available as of June 27, 2003. It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations.

CONTENTS

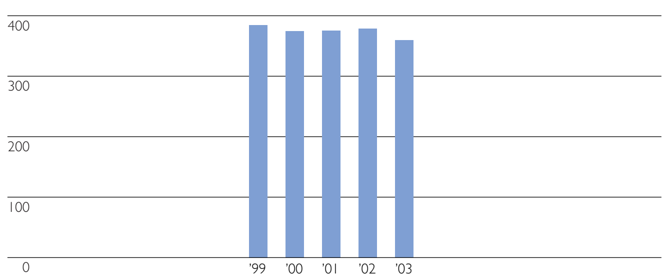
FINANCIAL HIGHLIGHTS

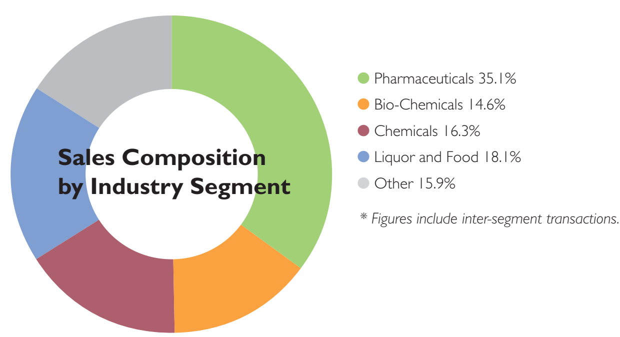
KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	**2003**
For the Year:				
Net sales	**¥359,285**	¥378,668	¥375,610	**$2,989,060**
Operating income	**16,089**	20,357	17,712	**133,852**
Net income	**8,485**	5,535	9,395	**70,591**
Capital expenditures	**11,791**	11,454	17,092	**98,095**
Depreciation and amortization	**14,768**	17,819	18,502	**122,862**
R&D expenses	**31,438**	29,294	28,921	**261,547**
At Year-End:				
Total assets	**368,772**	430,113	431,410	**3,067,987**
Interest-bearing debt	**51,969**	74,354	87,624	**432,355**
Total shareholders' equity	**219,047**	211,652	194,692	**1,882,354**
	Yen			U.S. Dollars (Note 1)
Per Share Data:				
Net income—basic (Note 2)	**¥ 19.4**	¥ 12.7	¥ 21.6	**$0.161**
Total shareholders' equity	**505.4**	487.5	448.3	**4.205**
Cash dividends	**7.5**	7.5	7.5	**0.062**
	%			
Ratios:				
Return on assets	**2.12**	1.28	2.17	
Return on equity	**3.94**	2.72	4.82	

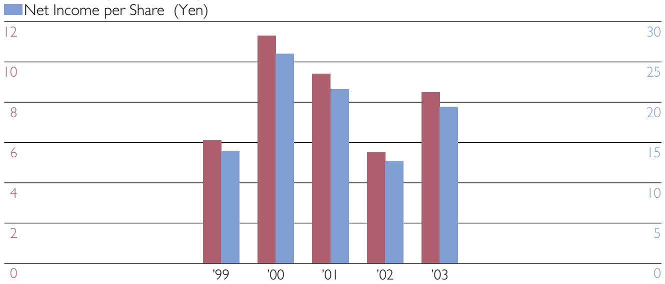
Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.20=US$1, the approximate exchange rate at March 31, 2003.
2. Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.

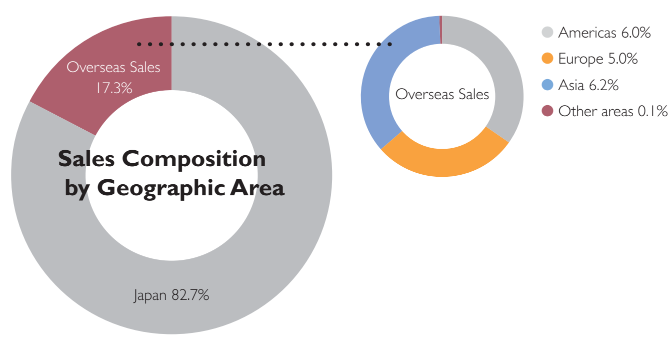
Net Sales
(Billions of Yen)





Net Income / Net Income per Share
Net Income (Billions of Yen)
Net Income per Share (Yen)





AT A GLANCE

Segment | **Profile** | **Main Products**

Pharmaceuticals

The Pharmaceuticals Segment conducts R&D, production, and sales of ethical pharmaceuticals, principally in the fields of cancer, allergies, and hypertension, and of diagnostic reagents. In ethical pharmaceuticals, targeting growth in overseas markets, in Europe and North America we are moving ahead with the clinical development of new drugs and biopharmaceuticals based on our original strong-acting antibody technology.

Ethical Drugs
- Coniel® (Hypertension and angina pectoris)
- Celtect® (Antiallergic agent)
- Allelock® (Antiallergic agent)
- Itrizole® (Antimycological agent)
- Depakene® (Antiepileptic agent)
- 5-FU (Anticancer agent)
- Durotep® Patch (Transdermal analgesic agent)

Diagnostic Reagents
- Determiner® series (clinical chemistry diagnostic reagents)

Bio-Chemicals

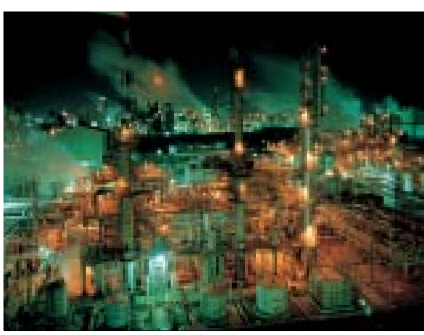
In Japan and overseas, the Bio-Chemicals Segment produces and markets amino acids, nucleic acids, and related compounds, which have high growth potential. These products are used as raw materials for pharmaceuticals, health foods and dietary supplements, cosmetics, and pharmaceutical intermediates. The Bio-Chemicals Segment also supplies agrochemicals and animal health products to the livestock and fishing industries.

Fine Chemicals
- Amino acids, nucleic acids, and related compounds

Agrochemicals
- Plant growth regulators

Animal Health Products

Chemicals



The Chemicals Segment's operations comprise basic chemicals, which include solvents used in dyes and inks, plasticizers used as additives in PVC products, and raw materials for plasticizers; and specialty chemicals, which include environmentally friendly products and products used in advanced technologies.

Solvents
- Butyl alcohol, ethyl acetate, butyl acetate

Raw Materials for Plasticizers
- Di-2-ethylhexyl alcohol, Oxocol® 900

Environmentally Friendly Products
- Polyvinyl ether, 2-ethyl hexanoic acid, isononanoic acid (refrigeration lubricant raw materials used as CFC substitutes)

Products for Advanced Technologies
- Squaric acid and its derivatives (raw materials for recording media)

Liquor and Food

In September 2002, alcoholic beverage operations, with the exception of raw material alcohol, were sold to Asahi Breweries, Ltd. The Food Company develops, produces, and markets seasonings, principally natural seasonings made from meat, vegetables, and fish; bakery products and ingredients, such as yeast and bread improvers; and health food products.

Seasonings
- Natural seasonings

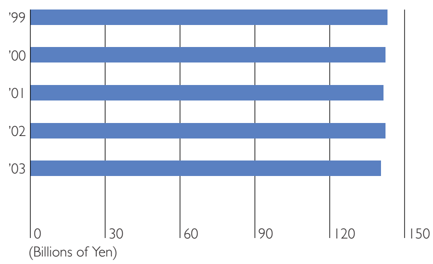
Bakery Products
- Baker's yeast, premixes, baking improvers

Health Food Products
- Vitamins, minerals, carotenoids, peptides, Remake series

Freeze-Dried Products
- Instant egg-drop soup

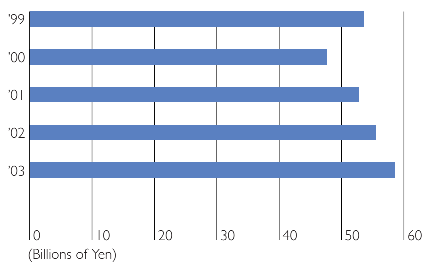
Raw Material Alcohol
- For use in refined sake
- For use in food preservatives and disinfectants

Segment Sales (Including inter-segment transactions)	**Fiscal 2003 Topics**



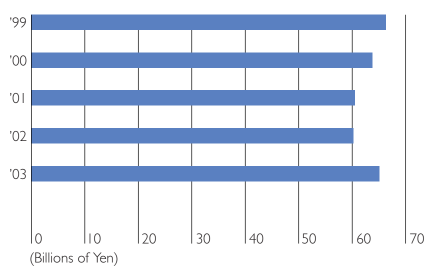
Fiscal 2003
Net sales*: ¥140.6 billion (35.1%)
Operating income: ¥11.0 billion
** Figure in parentheses indicate percent of consolidated total.*

- Phase IIa clinical trials began in Europe for asthma treatment KW-4490 (April 2002).
- Phase IIa clinical trials began in Europe and the United States for urinary incontinence agent KW-7158 (May 2002).
- Phase I/IIa clinical trials began in the United States for KW-2871, a biopharmaceutical for the treatment of malignant melanoma (June 2002).
- BioWa, Inc., established in the United States to promote Kyowa Hakko's biopharmaceutical business (February 2003).
- Subsidiary Kyowa Medex Co., Ltd., began sales of highly sensitive brain natriuretic peptide (BNP) diagnostic reagents for use in diagnosing heart disease (April 2003).



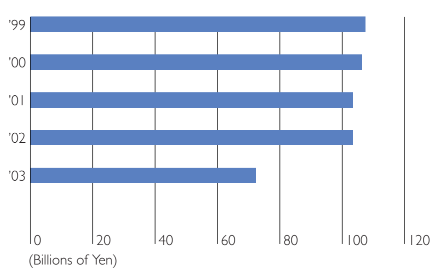
Fiscal 2003
Net sales*: ¥58.5 billion (14.6%)
Operating income: ¥2.0 billion
** Figure in parentheses indicate percent of consolidated total.*

- Domestically, demand expanded, especially for beverages containing amino acids, and sales of amino acids increased.
- U.S. subsidiary Biokyowa Inc. ceased the production of feed-grade lysine and converted to the production of high-value-added amino acids (December 2002).



Fiscal 2003
Net sales*: ¥65.2 billion (16.3%)
Operating income: ¥1.1 billion
** Figure in parentheses indicate percent of consolidated total.*

- Sales of functional chemical products to customers in the environmental conservation and advanced technologies fields increased.
- The Chemicals Segment was profitable in the year ended March 2003.
- Kyowa Hakko agreed to establish a joint venture with Showa Denko K.K. for the production of ethyl acetate (April 2003).



Fiscal 2003
Net sales*: ¥72.3 billion (18.1%)
Operating loss: ¥0.4 billion
** Figure in parentheses indicate percent of consolidated total.*

- In the Liquor and Food Segment, sales declined by a large margin due to the sale to Asahi Breweries of alcoholic beverage operations (September 2002).
- The Food Company began sales of *Kokumi* seasoning CP-200 to processed food manufacturers (June 2003).

MESSAGE TO SHAREHOLDERS

Operating Environment and Business Performance

—Higher Net Income on Lower Revenues—

In fiscal 2003, ended March 31, 2003, Kyowa Hakko continued to face difficult operating conditions. In the Company's core Pharmaceuticals operations, the National Health Insurance (NHI) reimbursement prices for ethical drugs in Japan were lowered in April 2002, resulting in an average reduction of 6.1% for Kyowa Hakko. In addition, foreign pharmaceutical companies continued to make inroads in the domestic market, and international R&D competition intensified in such areas as genome-based drug discovery. In Bio-Chemicals, demand was strong for amino acids used in health food and beverages, but we faced intensified price competition in our overseas feed-grade amino acid operations. In our Chemicals operations, raw materials prices increased, but conditions in overseas markets, especially in Asia, remained favorable. In Liquor and Food, weak consumer spending and downward pressure on prices adversely affected our operations.

In this operating environment, guided by our Eighth Medium-Term Management Plan, Kyowa Bio-Innovator, we followed the principles of selection and concentration as we implemented operational restructuring measures, including the structural reform of our overseas feed-grade amino acid operations and the sale of our alcoholic beverage operations to Asahi Breweries, Ltd. We also implemented aggressive marketing activities, strove to cut costs, and worked to develop new products.

In fiscal 2003, consolidated net sales declined 5.1% from the previous year, to ¥359.3 billion, and operating income was down 21.0%, to ¥16.1 billion. Although we recorded extraordinary losses, such as a loss from the restructuring of overseas feed-grade amino acid operations, we also recorded extraordinary gains from the sale of alcoholic beverage operations and the return of the substitutional portion of the pension fund managed on behalf of the government. As a result, net income was up 53.3%, to ¥8.5 billion. Net income per share was ¥19.4, compared with ¥12.7 in the previous year, and cash dividends per share were unchanged at ¥7.5.

Tadashi Hirata (*left*), Chairman and Chief Executive Officer, and Yuzuru Matsuda, President and Chief Operating Officer

Restructuring of Operations

Business Operations	*Month/Year*	*Action*
Withdrawals		
Generic drugs	Jan. 2002	Transferred to Merck Hoei Ltd.
Detergent raw material	May 2002	Withdrew
Alcoholic beverages	Sept. 2002	Transferred to Asahi Breweries, Ltd.
Alliance		
Plasticizers	Apr. 2000	Commenced operations at joint venture J-PLUS Co., Ltd., with Mitsubishi Chemical Corporation
Ethyl acetate	Apr. 2003	Agreed to establish joint venture with Showa Denko K.K.
Reform		
Overseas feed-grade amino acid	Late 2002	Completed transition for production of high-value-added amino acids (Biokyowa Inc., a U.S. subsidiary)

Fundamental Management Policies

—Increasing the Enterprise Value of the Kyowa Hakko Group—

Guided by our corporate philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advancements of life science and technology," we have established a management policy of increasing the enterprise value of the Kyowa Hakko Group. In accordance with this policy, as an R&D-based company with a strong foundation of original, innovative research and technology, we strive to develop our operations on a global scale. We also seek to improve profitability and management efficiency by reevaluating our operational structure and cutting costs.

In operational activities, we will emphasize customer satisfaction and provide products, information, and services with consistently superior quality and functionality. At the same time, we will aim for fair and transparent management and will implement the timely disclosure of information regarding corporate activities. In quality assurance, environmental safety, and corporate ethics, we will fulfill our social responsibilities with high ethical standards and work aggressively to contribute to the regions and societies where we conduct business.

Strong Results in the First Year of the Eighth Medium-Term Management Plan, Kyowa Bio-Innovator

—Earning a Profit at All In-House Companies—

Under the Eighth Medium-Term Management Plan, Kyowa Bio-Innovator, which covers the three-year period ending March 2005, we are accelerating management reforms, such as applying selection and concentration to our operations and implementing a range of restructuring measures. At the same time, we are aiming to be an international company that utilizes progress in the field of life sciences to contribute to the health and well-being of people around the world.

We have positioned Pharmaceuticals as our core business and are focusing our investment of management resources on those operations to establish a solid base on which to increase revenues. In Bio-Chemicals, we have positioned bio-products, which include amino acids, nucleic acids, and other fermentation-related compounds, as a growth field in which we will work to expand revenues. In Chemicals and Food, meanwhile, we will work to bolster our competitiveness and secure stable sources of profits that allow independent operations.

Quantitative targets for the fiscal year ending March 2005, the final year of the plan, call for consolidated net sales of ¥370.0 billion, operating income of ¥34.0 billion, and operating return on assets of 8.0%. We are doing our utmost to achieve these goals, including the introduction of a system to monitor the progress of action plans for the medium-term management plan.

In the fiscal year ended March 2003, the first year of the Eighth Medium-Term Management Plan, the Pharmaceuticals, Bio-Chemicals, Chemicals, and Food companies* were all profitable. One reason for this performance was the integration of R&D and marketing, which facilitated stronger sales capabilities and the development of new markets. Other factors included the application of selection and concentration to promote restructuring and to reevaluate unprofitable operations as well as the implementation of cost reductions to improve profitability.

** The Liquor and Food segment was the only one of Kyowa Hakko's business segments that did not earn an operating profit. Excluding alcoholic beverage operations, which were sold in September 2002, Food operations were profitable.*

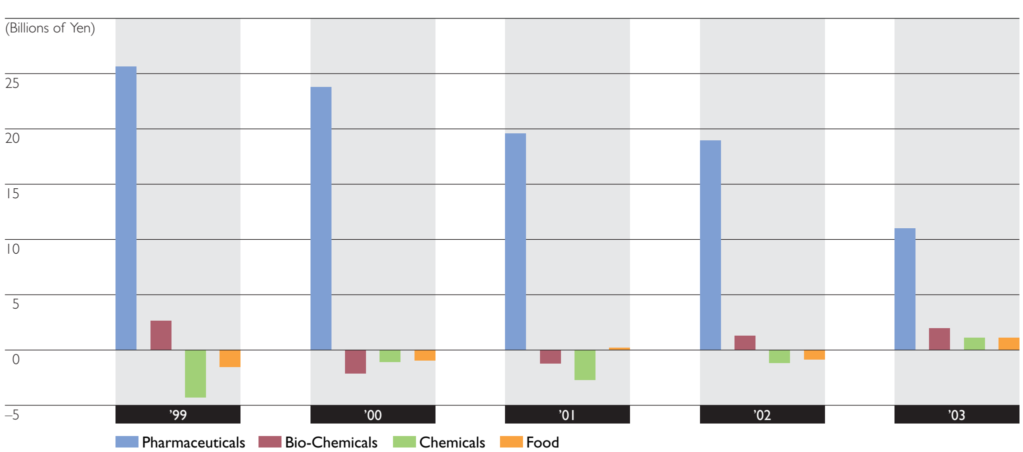
Growth Strategies for Each Company under the Eighth Medium-Term Management Plan

Pharmaceuticals Company

The Pharmaceuticals Company aims to provide innovative pharmaceuticals that offer higher levels of safety and efficacy than currently available. Using the latest genome information, we are focusing our resources on research and development in the fields of cancer, allergies, and therapeutic antibodies.

To drive our expansion in overseas markets, clinical development is under way in

Operating Income by In-House Company



the United States and Europe for KW-6002, a treatment for Parkinson's disease; KW-7158, a treatment for urinary incontinence; KW-4490, a treatment for asthma; KW-2170, an anticancer agent; and KW-2871, a therapeutic antibody for the treatment of melanoma. We are progressing with business development projects designed to launch these pipeline compounds as soon as possible and to maximize their value. For several of these promising development candidates, the clinical trial results, which determine the future course of development, are expected to be available in the current fiscal year. In accordance with such factors as marketability and development costs, we are considering various options for these products, including in-house development and marketing and alliances, such as co-development, co-promotion/marketing, and out-licensing. In addition, we will work to aggressively expand our operations in the biopharmaceutical market, which is expected to grow, by leveraging the Potelligent™ high ADCC antibody production technology developed in-house and using BioWa, Inc., a new company in the United States, as an operational base.

In domestic markets, we are implementing reforms to facilitate systematic marketing based on objective data and are taking steps to bolster the quantity and quality of domestic marketing activities. These steps include expanding our medical representative (MR) team by 100 people, to 900, and reinforcing our relationships with distributors.

Consolidated subsidiary Kyowa Medex Co., Ltd., which provides in vitro diagnostic medical devices, is complementing its strengths in clinical chemistry diagnostic reagents by enhancing its lineup of immunological reagents and developing instruments for specific reagents. In addition, Kyowa Medex is expanding into non-medical fields, such as mycotoxin testing.

Bio-Chemicals Company

As the global leader in fermented bulk products, such as amino acids, nucleic acids, and related compounds, the Bio-Chemicals Company strives to contribute to the health and well-being of people around the world. We have restructured unprofitable operations and positioned the bio-products business, which includes products of the fermentation process, as a growth field. We are bolstering our production and quality assurance systems in line with growing demand, particularly in amino acids for use in dietary supplements and pharmaceutical intermediates, and developing new applications for amino acids and other bio-products to expand their markets.

Chemicals Company

As restructuring continues in the petrochemical industry, we are working to increase the profitability of our basic chemicals operations and expand our specialty chemicals operations.

In basic chemicals, we continue to move forward with operational restructuring through strategic alliances and with cost cutting, thereby bolstering our market position and improving our profitability.

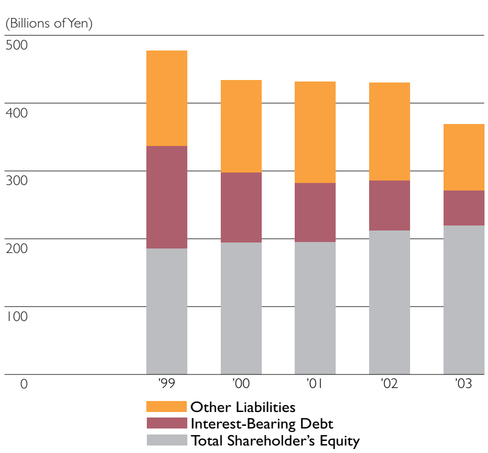
In specialty chemicals, a key theme will be expanding our presence in the fields of environmentally friendly products and advanced materials, such as electro-optical and new functional materials. In the future, we will take aggressive steps to boost sales overseas, particularly in China.

Food Company

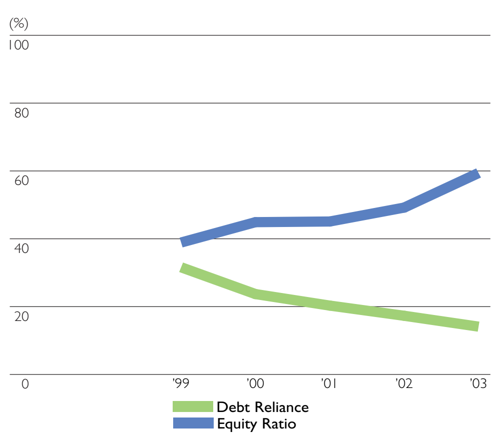
The mission of the Food Company is to provide products of consistently high quality that help customers to improve their health and diet and contribute to a more balanced lifestyle. We are focusing on the development of unique food materials that draw on our distinctive technologies, such as fermentation, centered on natural seasonings and supplements.

Overseas, we operate production bases in China and will implement marketing activities to cultivate new Asian markets, centered on China.

Total Assets Composition



Financial Position



Bolstering Our Financial Position by Reducing Interest-Bearing Debt and Improving the Profit Structure

Over the past five years, the Kyowa Hakko Group has worked to improve its profitability and to sell idle assets. The Group has significantly strengthened its financial position, lowering interest-bearing debt by about ¥100.0 billion. As a result, our reliance on debt has been reduced from 31.7% at the end of fiscal 1999 to 14.1% at the end of fiscal 2003, and the shareholders' equity ratio has been increased to nearly 60%.

To improve our profit structure, we are implementing a Companywide, low-cost management project and taking steps to reduce administrative costs. We will raise profitability by implementing laborsaving measures and further reducing operational costs, procurement and purchasing costs, and distribution expenses through restructuring measures.

Goals for the Year Ending March 2004

—More Profitable Operations at All In-House Companies—

Due to the long-term, severe deflationary trend and the bad debt problem in the financial services industry, conditions in the domestic economy are expected to remain difficult and a full-fledged economic recovery is not likely in the short term.

Kyowa Hakko has positioned the fiscal year ending March 2004, the second year of its Eighth Medium-Term Management Plan, as a period of preparation for becoming a Bio-Innovator. We will continue to implement selection and concentration in our operations and take decisive steps to expand sales and cut costs. In Pharmaceuticals, we expect aggressive marketing activities to lead to growth in unit sales, and we anticipate higher sales and operating income than in the year ended March 2003. In Bio-Chemicals, we expect growth in sales of amino acids for use in pharmaceuticals, food, and industrial applications and progress in restructuring the operations of overseas subsidiaries, resulting in higher sales and operating income. In Chemicals, we anticipate growth in unit sales, but sales will likely decline slightly due to lower prices. Nonetheless, we expect higher operating income than in the previous fiscal year. In Liquor and Food, sales will likely decrease, due in part to the sale of our alcoholic beverage operations, but in our Food operations we expect to record higher operating income through measures to expand sales and reduce costs.

In the fiscal year ending March 2004, consolidated net sales are projected to decline 4.3%, to ¥344.0 billion, due to the sale of our alcoholic beverage operations. With higher profits at all in-house companies, we forecast operating income of ¥24.0 billion, an increase of 49.2%, and net income of ¥10.0 billion, up 17.9%.

Maximizing Shareholder Value by Becoming a Bio-Innovator

The Kyowa Hakko Group aims to be a Bio-Innovator that is known for advanced science and ethical behavior and trusted by society. In Pharmaceuticals, Bio-Chemicals, Chemicals, and Food, we must strive to be competitive in our markets, to expand our operations, and to enhance the enterprise value of the Kyowa Hakko Group. To those ends, we believe that our mission entails the creation of a new formula for growth.

As one facet of management reform to raise enterprise value, in the Eighth Medium-Term Management Plan we have spelled out the goal of transitioning from our current system of in-house companies to a holding company system centered on Pharmaceuticals operations. As a unique organization that uses biotechnology to differentiate itself from its competitors, the Kyowa Hakko Group will continue to adapt and grow.

As a Bio-Innovator, the mission of the Kyowa Hakko Group is to contribute to the health and well-being of people around the world. In that way, we will continue to earn the trust of our shareholders and maximize shareholder value.

In closing, at the meeting of the board of directors held on June 27, 2003, it was decided that Tadashi Hirata would become Chairman and Chief Executive Officer and Yuzuru Matsuda would become President and Chief Operating Officer. We would like to thank our shareholders and other stakeholders for their support and to ask for their continued understanding and trust in the years ahead.

Tadashi Hirata
Chairman and Chief Executive Officer

Yuzuru Matsuda
President and Chief Operating Officer

CORPORATE GOVERNANCE

Clarifying Operational Responsibilities and Streamlining the Decision-Making Process

In July 1999, Kyowa Hakko introduced a corporate executive officer system and reduced the number of members of the board of directors from 24 to 9 to clarify operational responsibilities and streamline the decision-making process. At the same time, as competition was intensifying and management tasks were becoming more diverse and complex, Kyowa Hakko introduced the in-house company system, delegated more authority to each in-house company, and established management meetings consisting of the board of directors and each in-house company president. These steps established a decision-making structure capable of operating accurately and effectively from the viewpoint of management strategy in accordance with the details of issues being considered.

In addition, as one facet of management reforms, Kyowa Hakko plans to transition from its current in-house company system to a holding company system, centered on Pharmaceuticals operations, by April 2005.

In addition, in July 2003 we formed an advisory committee, which includes four outside advisors, to incorporate outside opinions into our management process.

Heightening Management Transparency

We are focusing on raising management transparency through information disclosure, including such measures as the timely disclosure of the Kyowa Hakko Group's management information and an enhanced web site. In the future, we will strive to better serve our investors and other stakeholders by further improving the speed, quality, quantity, and methods of information disclosure.

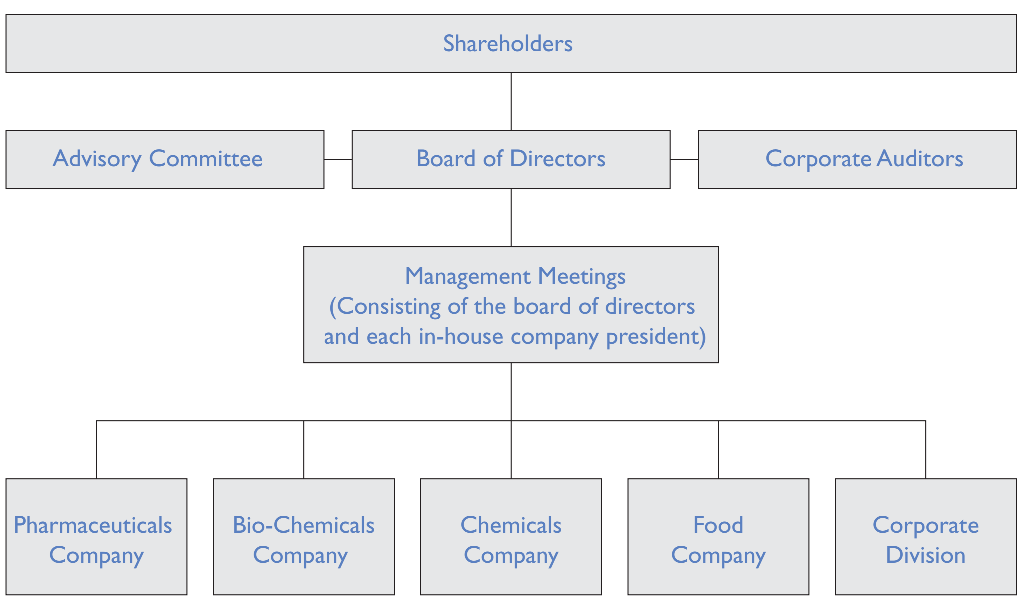
Corporate Ethics

We have established Kyowa Hakko ethics principles and employee ethics action standards, and we have formed the corporate ethics committee. Everyone at Kyowa Hakko is working to prevent conduct that is not in accord with laws and internal regulations.

Strengthening Management Auditing

Based on our recognition of the importance of auditing management activities, we have four auditors, including three outside auditors. We are strengthening the management auditing function through the operation of the board of directors. Two outside auditors are employed full-time and one is a qualified lawyer.

Organization



Kyowa Hakko believes that steady growth requires continual change and adaptation. To that end, we are implementing Groupwide structural reforms, and in our core Pharmaceuticals operations we are making notable progress, principally in Europe and North America, with the development of the new drugs that will support our growth in the years ahead. In the near future, we will begin the full-scale development of our overseas operations in the U.S. and other markets. Moreover, in addition to developing biopharmaceuticals, we are establishing a presence in the biopharmaceutical business with a proprietary platform technology that can maximize the clinical value of therapeutic antibodies. Kyowa Hakko will use these strengths to achieve new growth as an R&D-based global company.

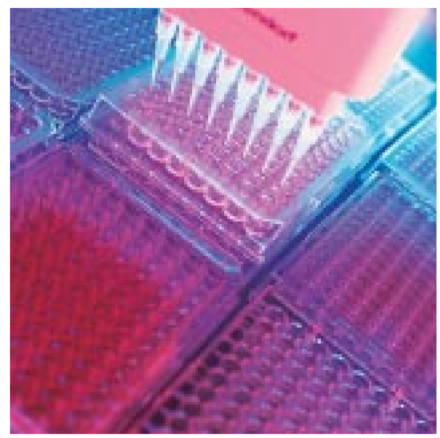
A NEW FORMULA FOR GROWTH

OVERSEAS PHARMACEUTICALS OPERATIONS

Overview

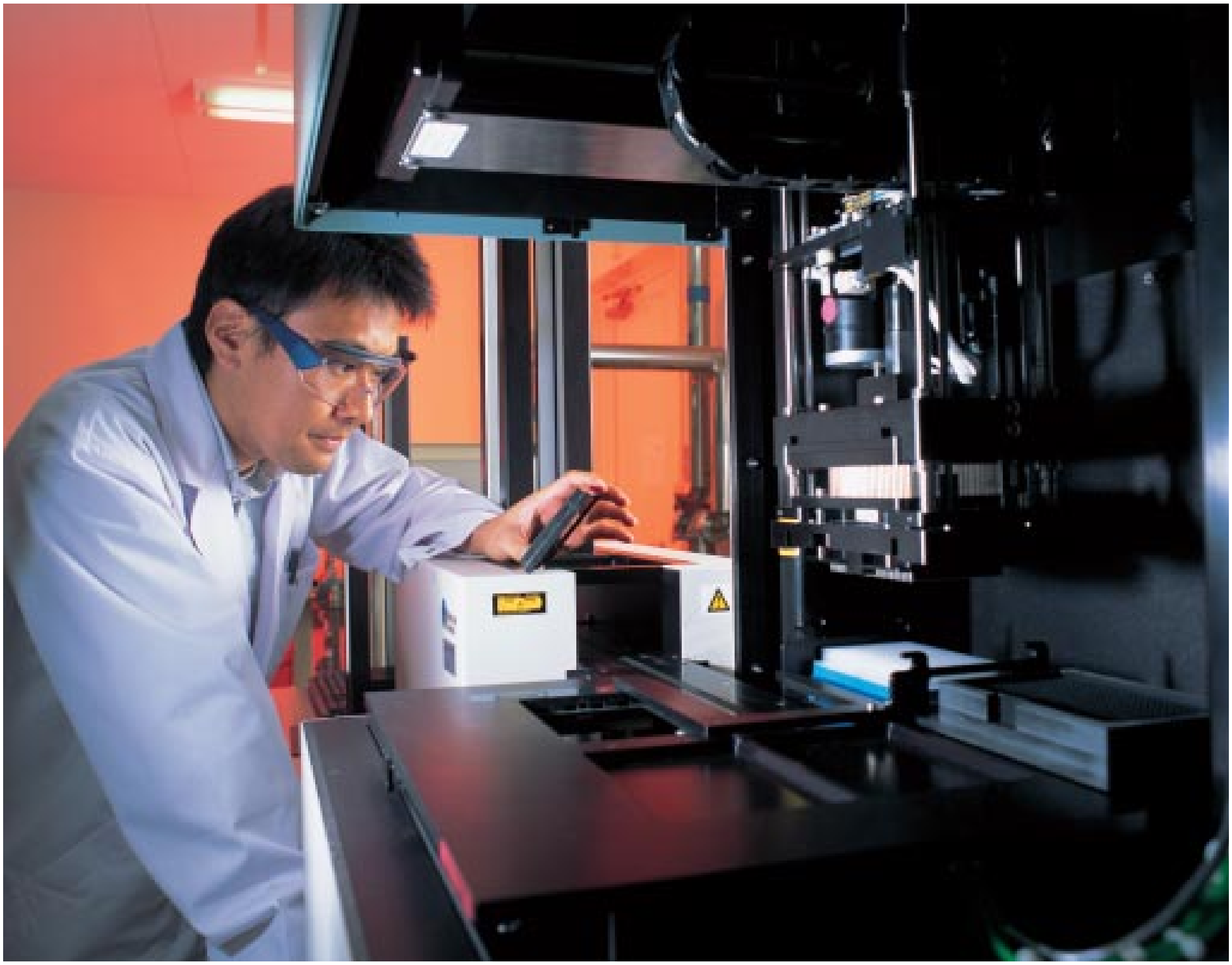
Although its main base is in the domestic market, the Pharmaceuticals Company is also conducting marketing activities overseas, principally for anticancer agents Mitomycin C and Leunase®. Development is conducted overseas first, and we generally handle the development on our own to phase IIa, where efficacy is confirmed. Subsequently, in deciding whether to file an NDA based on our own development, to license out the drug, or to conduct joint development, we emphasize maximizing portfolio value.

In accordance with this policy, we have established two clinical development subsidiaries: Kyowa Pharmaceutical, Inc. (KPI), which is located in New Jersey, in the United States, and Kyowa Hakko U.K. Ltd., which is situated near London, in the United Kingdom. To ensure strong workforces in such areas as clinical pharmacology, biostatistics, regulatory compliance, and clinical trial monitoring, we are in the process of expanding to 50 employees at KPI and to 15 at Kyowa Hakko U.K. The results of our efforts can be seen in the favorable progress of our clinical development activities for five candidate drugs. KW-6002 is in phase IIb trials and KW-7158, KW-4490, and KW-2170 are in phase IIa, while KW-2871 is in phase I/IIa.

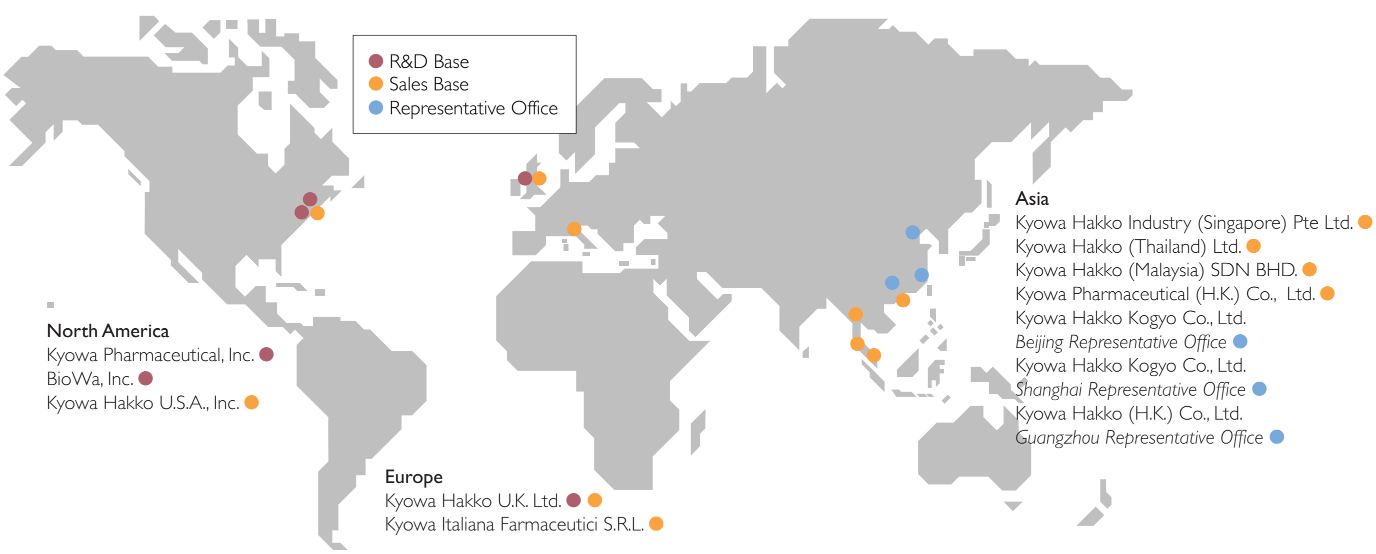


For Parkinson's Disease: KW-6002

KW-6002 is the world's first selective adenosine A2A receptor antagonist shown to be effective against Parkinson's disease. Drugs with this mechanism of action are expected to provide a new method of treatment for Parkinson's disease and make a substantial contribution to patients' quality of life. By the end of 2003, phase IIb trials will be completed, and plans call for the start of phase III large-scale clinical trials in 2004. We have reached the point where we can now plan the schedule for NDA filing in the United States and the launch of the drug. We have already begun preparations for marketing in the United States, and we are investigating the possibility of additional indications to maximize value.



Overseas Pharmaceutical Network



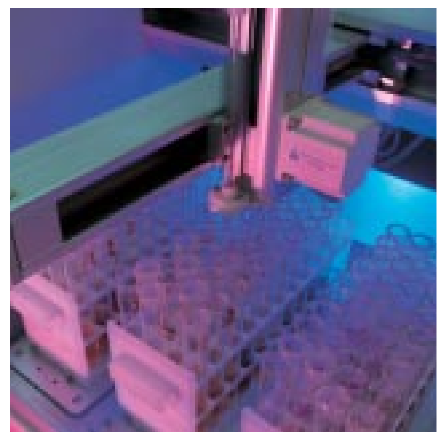
For Urinary Incontinence: KW-7158/ For Asthma: KW-4490

KW-7158, a urinary incontinence treatment, and KW-4490, an antiasthmatic, are both in phase IIa clinical trials. Because these therapeutic fields have large latent markets characterized by intense competition among powerful companies, our future overseas development and operations will likely be based on alliances.

For Cancer: KW-2170 and KW-2871

In cancer, one of our core fields, we will conduct further overseas operational development. We are already marketing products, principally anticancer agent Mitomycin C, through subsidiaries in the United Kingdom; Italy; Singapore, where we have had a base for more than 20 years; Malaysia; and Thailand. In China, we are developing our operations through Kyowa Pharmaceutical (H.K.) Co., Ltd.

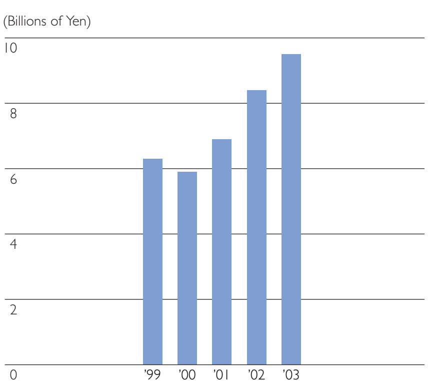
In phase IIa, KW-2170 is under development for five types of cancer, with a special focus on prostate cancer, and KW-2871 is under development for malignant melanoma in phase I/IIa. In the future, while utilizing the sales infrastructure that we are developing overseas, we will conduct development and sales on our own or through alliances with regional companies in accordance with the scale of the potential market and the competitive situation.



Operations in China

In November 2002, China became a full member of the World Trade Organization, a development that will lead to further market growth. In addition, the protection of patents will increase opportunities to expand operations. For the past two years, we have been developing Coniel® as an antihypertensive, and we plan to file an NDA with China's State Food and Drug Administration in the current year, obtain regulatory approval next year, and begin marketing thereafter. Further, Allelock®, an antiallergic agent, is recording steady sales growth in Japan and is highly evaluated by doctors. Accordingly, we are considering the development and launch of Allelock® in China.

Pharmaceutical Export and Licensing Revenues (Nonconsolidated basis)



Trends in Export and Licensing Revenues

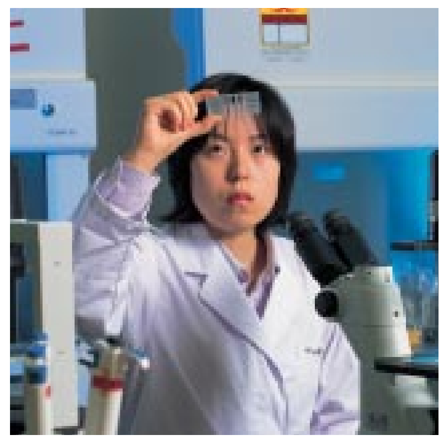
- Steady exports of pharmaceuticals, such as anticancer agents Mitomycin C and Leunase®.
- Increased licensing revenues and higher exports of bulk olopatadine hydrochloride*, the principle ingredient in Patanol®, due to favorable sales of Patanol® ophthalmic solution by Alcon Laboratories, Inc., of the United States.

** Generic name of Kyowa Hakko's Allelock®, antiallergic agent.*

ANTIBODY BUSINESS DEVELOPMENT

A Leader in Antibody Technology

The global antibody market, currently several hundred billion yen per year, is expected to expand to several trillion yen per year by 2010, with the United States being the largest single market. The Kyowa Hakko Group is well situated to take advantage of this remarkable growing field. For over 20 years, we have successfully invested in antibody R&D. Over that period, we have discovered promising antibody development candidates for our antibody pipeline. These candidates include KW-2871, currently in clinical development in the United States for malignant melanoma. In response to the needs of patients and doctors for the development of a second-generation therapeutic antibody with strong clinical efficacy and a high degree of safety, our researchers developed Potelligent™, a high ADCC* antibody production technology that can increase by more than 100 times the efficacy of therapeutic antibodies. In February 2003, we established BioWa, Inc., in the United States with the mission of globally licensing both our antibody pipeline and Potelligent™ technology.

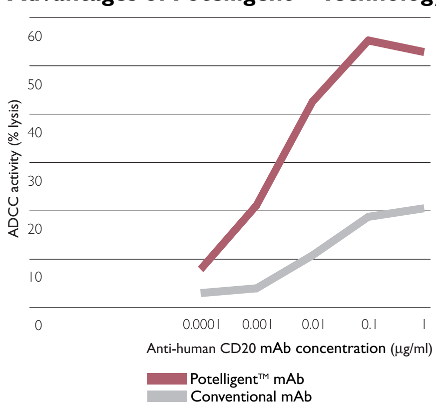


Potelligent™ Technology

Because it uses one of the body's own immune mechanisms, this new technology has the distinctive feature of offering dramatically higher safety compared to conventional methods that boost clinical efficacy by labeling antibodies with toxins or radioactive substances. In addition, Potelligent™ technology utilizes the same production methods and equipment as conventional biopharmaceuticals. Importantly, biopharmaceuticals manufactured using Potelligent™ technology show high levels of efficacy at low dosages. As a result, a significant contribution to lower production costs and other economic factors can be expected. Kyowa Hakko has already applied for more than 10 patents based on the technology. With the aim of commercializing Potelligent™ technology, BioWa is working with Kyowa Hakko and other partners to apply the technology to a wide variety of biopharmaceuticals as a competitive asset as it works to strategically develop its business.

** ADCC (antibody dependent cell-mediated cytotoxicity) activation is one of the human body's immune mechanisms. The cytotoxic effects of natural killer cells and white blood cells, such as monocytes, are activated through antibodies and directed at cancer and other target cells.*

Advantages of Potelligent™ Technology



Potelligent™ technology will:

- maximize ADCC activity that is critical for target-cell lysis,
- improve safety and medical economics by reducing dosages,
- promote the development of new indications and open up new segments based on its high potency and efficacy,
- retain the advantages of therapeutic antibodies in terms of specificity, pharmacokinetics, and safety,
- be manufactured using the same process as conventional antibodies, and
- make possible the downsizing of production scale.

BioWa's offices are located in Princeton, New Jersey, in the office building of Kyowa Pharmaceutical, Inc. (KPI), which is our U.S. clinical development base. Drawing on their knowledge and experience in antibody R&D, BioWa's President Nobuo Hanai, the chief technology officer, the chief financial officer, and KPI's business development/legal group are working closely together. This team is actively conducting negotiations with clients and initiating other business activities. Some of BioWa's major promotional and information activities are listed below.

1. Selected to be presenter and sponsor at the 2003 Antibody World Summit (San Diego, February 2003)
2. Chosen to be a featured business presenter at BIO 2003 (Washington, D.C., June 2003)
3. Selected to be speaker and sponsor at the Anti-Cancer Drug Discovery & Development Summit (Philadelphia, July 2003)
4. Invited to be speaker at IBC's 7th International Conference—Production and Economics of Biopharmaceuticals (San Diego, October 2003)

Antibody Pipeline

Category	Code Name	Target	Indications	Stage
Anticancer	KW-2871[1]	Ganglioside GD3	Malignant melanoma	Phase I/IIa
	KM2550[1]	VEGF-R/FLT-1	Breast and colon cancers	Preclinical
	Undisclosed	FGF8	Prostate, breast, and ovary cancers	Preclinical
	Undisclosed	Cytokine	Solid tumor	Preclinical
	Undisclosed[1]	Tumor antigen	Hematolologic and solid tumors	Preclinical
	Potelligent™-GM2[1,2]	Ganglioside GM2	Lung cancer, glioblastoma	Preclinical
	Potelligent™-GD2[1,2]	Ganglioside GD2	Solid tumor	Preclinical
Antiallergic	Potelligent™-IL5R[1]	IL-5 Receptor	Asthma	Preclinical
	Potelligent™-T Cell[1]	T-Cell	Asthma	Preclinical

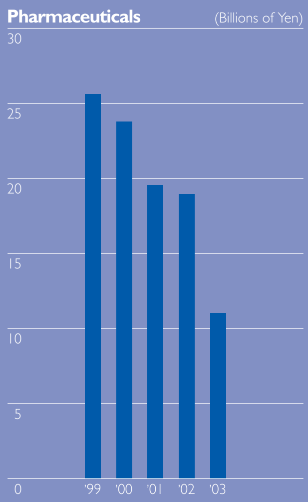
Notes: 1. Potelligent™ technology applied
2. Product rights transferred to BioWa

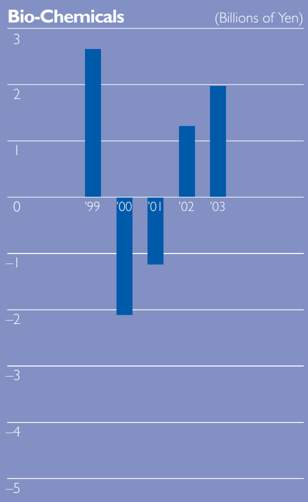
R&D PIPELINE

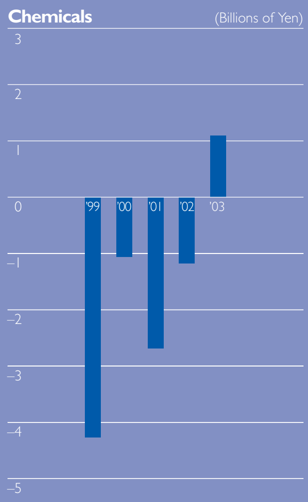
Category Code Name *Generic Name*	In-house/Licensed From *Indication*	Stage in Japan	Stage Overseas (Country)	Remarks
Anticancer				
KW-2307[1] *Vinorelbine*	Pierre Fabre *Breast cancer*	Filed		Product name: Navelbine® Original indication: Non-small-cell lung cancer
KW-2307[1] *Vinorelbine*	Pierre Fabre *Multiple myeloma*	Phase II		Same as above
KW-2170	In-house *Malignant tumor*	Phase I (completed)	Phase IIa (U.S. and others)	
KW-2401 (UCN-01)	In-house *Malignant tumor*	Phase I (completed)	Phase I (U.S.)	
KW-2871	In-house *Malignant melanoma*		Phase I (completed) (Australia) Phase I/IIa (U.S.)	Chimeric monoclonal antibody
KW-2246 *Fentanyl citrate*	Diabact *Cancer pain*	Phase I		
KT5555	*Pancreatic cancer/* *Acute myeloid leukemia*		Phase II (U.S.)	Developed by Cephalon
Antiallergic				
KW-4490	In-house *Antiasthmatic*		Phase IIa (Europe)	
Central Nervous System				
KW-6485 *Topiramate*	Cilag *Antiepileptic*	Phase III		
KW-6002	In-house *Parkinson's disease*	Phase I	Phase IIb (U.S. and Canada)	Discontinued for antidepressant development
KT7515	*Parkinson's disease*		Phase II/III (Europe)	Developed by Cephalon
Cardiovascular, Urology				
Inovan Inj. Syringe[2] *Dopamine*	In-house *Cardiogenic shock*	Launched (December 2002)		Original formulation: injection
Desmopressin Spray[1] *Desmopressin*	Ferring A.B. *Nocturnal enuresis*	Launched (June 2003)		Original indication: Central diabetes insipidus
KW-3049 *Benidipine*	In-house *Hypertension*		Phase III (China)	Product name: Coniel® (Launched in Japan)
GMK-527[1] *Alteplase*	Genentech *Acute ischemic stroke*	Phase III		Jointly developed with Mitsubishi Pharma Original indication: Acute myocardial infarction Product name: Activacin®
KW-7158	In-house *Urinary incontinence*		Phase IIa (Europe and U.S.)	
Other				
MM-Q01	Meiji Dairies *Contrast medium for MRI*	Filed (March 2003)		Jointly developed with Meiji Dairies

Notes: 1. For additional indication
2. For new formulation

Segment Operating Income (Loss)





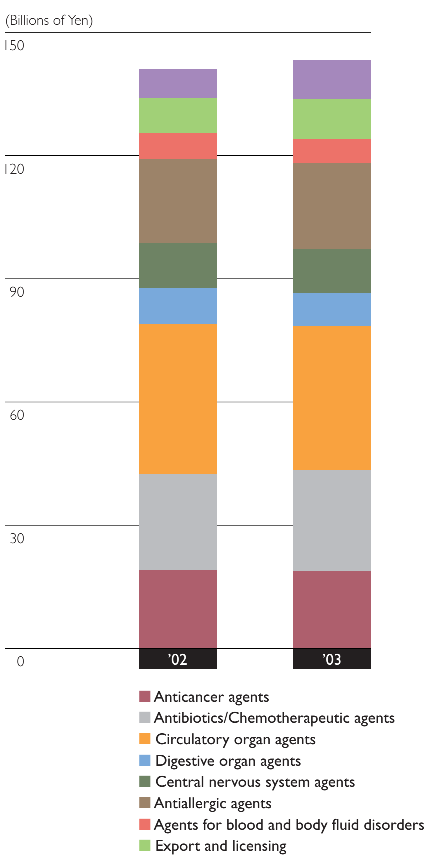


REVIEW OF OPERATIONS

PHARMACEUTICALS

Company President
Toru Doiuchi,
Senior Managing Director

Fiscal 2003 Sales Breakdown
(Nonconsolidated basis)



INDUSTRY OUTLOOK

Against a background of trends toward fewer children per family, an aging population, and changing public thinking about health care, the reform of Japan's health care system is moving toward patient-centered medicine, with an emphasis on facilitating the provision of medical information, enhancing the quality and efficiency of the health care system, and promoting standardization. Through genome-based drug discovery and research, Kyowa Hakko will develop innovative new drugs in fields with high levels of unmet needs, such as cancer and allergies. At the same time, we will accumulate a broad range of clinical trial data and work to ensure proper drug usage, thereby contributing to the spread of evidence-based medicine.

OPERATIONAL STRATEGY

The key strategic objectives for the Pharmaceuticals Company are the generation of cash flow through the strengthening of domestic marketing capabilities for ethical drugs and the use of a portion of those funds to drive active development of overseas operations.

In Japan, we have implemented marketing reforms under the name SMART (Sales and Marketing Transformation) Project (Note 1) and transitioned to systematic aggressive marketing. For the antihypertensive and angina treatment Coniel®, one of our core products, in accordance with our focus on safety and evidence-based medicine, we have commenced a special investigation with 10,000 participants (Note 2) and large-scale clinical trials with 3,000 participants (Note 3).

In addition, we will expand our MR workforce by 100, to 900 people, and, through stronger relationships with distributors, we will pursue a focused distribution strategy. We will also aggressively undertake the in-licensing and out-licensing of new products and joint marketing for products on the market. At the same time, we will work to obtain new indications for existing drugs.

Overseas, we are implementing an operational development project under which we will strive to rapidly launch products under development and maximize their value, centered on KW-6002, KW-7158, KW-4490, KW-2871, and KW-2170.

Also, we will use our original Potelligent™ strong-acting monoclonal antibody technology to aggressively expand our operations. To that end, we established BioWa, Inc., a new biopharmaceutical company in the United States.

Notes: 1. SMART is a project involving the quantitative analysis of the effectiveness of the allocation of sales and marketing resources, the optimal reallocation of resources, and the improvement of productivity from the viewpoints of expected return by product, effective marketing methods that match medical needs, and effective sales activities.

2. The special investigation will evaluate the efficacy and safety of the long-term administration (1 year) of Coniel® to about 10,000 older patients with hypertension.

3. The large-scale clinical trial is a joint research project with Yamaguchi University under the name Combination Therapy of Hypertension to Prevent Cardiovascular Events Trial. The standard medication is a calcium channel blocker (Coniel®), which is being administered concomitantly with one of three types of antihypertensive agents—angiotensin II receptor blockers, beta blockers, and antihypertensive diuretics—over a three-year period. The effectiveness and safety of the three combination regimens will be compared and evaluated. This is a large-scale clinical trial involving 3,000 patients, 1,000 for each arm.

Overview

In fiscal 2003, the Pharmaceuticals Company was able to offset the influence of the April 2002 drug price reductions through higher sales of new and existing products. Nonetheless, net sales declined 1.2%, to ¥140.6 billion, in part because of the sale of a consolidated subsidiary. Operating income was down 41.9%, to ¥11.0 billion, due primarily to the drug price reductions and higher R&D expenses.

Ethical Drugs

In ethical drugs, higher sales were recorded by Allelock®, an antiallergic agent; Itrizole®, an oral antimycological agent; Navelbine®, an anticancer agent; and Durotep® Patch, an analgesic for persistent cancer pain launched in March 2002. Growth in unit sales was recorded by Coniel®, an agent for treating hypertension and angina pectoris, and Depakene®, an antiepileptic. In December 2002, Depakene® was approved for the treatment of manic disorders and the manic phase of bipolar disorder. The Company launched two treatments for acute circulatory failure: Inovan® in a pre-filled syringe formulation in December 2002 and Dobupum™ in January 2003.

In exports and technology out-licensing, sales increased from the previous year due to favorable sales of olopatadine hydrochloride, an antiallergic agent licensed out to Alcon Laboratories, Inc., of the United States. In Japan, Desmopressin Spray 10 Kyowa, a nocturnal enuresis treatment, was approved in January 2003. In addition, the Company has applied for an additional indication for Navelbine®, for breast cancer, and filed an NDA for MM-Q01, an MRI contrast medium for the gastrointestinal tract. Moreover, clinical trials for antiepileptic KW-6485 are continuing.

Overseas, clinical trials are under way for the anti-Parkinson's drug KW-6002 in the United States and Canada and for the urinary incontinence treatment KW-7158 in Europe and the United States. Also, in the United States, trials are under way for the anticancer drug KW-2170 as well as the antibody drug KW-2871 for use as an anti-melanoma agent. The antiasthmatic KW-4490 is in trials in Europe, and Coniel® is in phase III clinical trials in China.

Inovan® Inj. Syringe, a treatment for acute circulatory failure

Coniel®, an agent for hypertension and angina pectoris

Allelock®, an antiallergic agent

Diagnostic Reagents

Kyowa Medex Co., Ltd., a subsidiary that provides in vitro diagnostic medical devices, recorded slightly lower sales. Kyowa Medex acquired importation rights from Nichols Institute Diagnostics, of the United States, in November 2002 and began sales of parathyroid hormone reagents, which made a contribution to sales. Immunological diagnostic reagents also sold well. However, sales of clinical chemistry diagnostic reagents declined due to greater competition.

Kyowa Pharmaceutical, Inc., of the United States

Principal Drug Sales (Nonconsolidated basis)

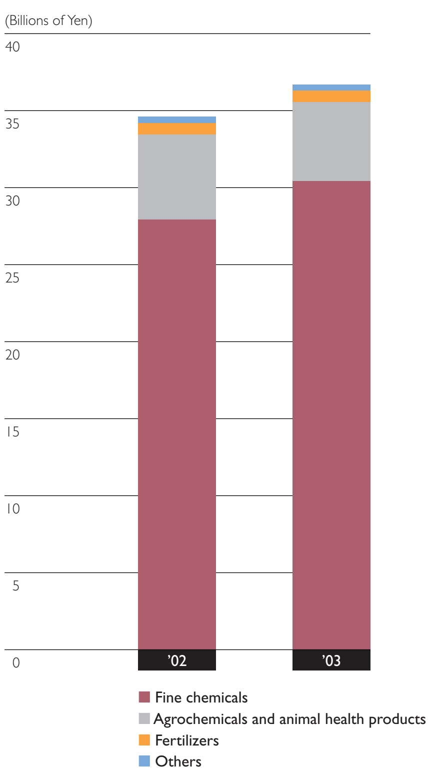
	Billions of Yen		
	2003	2002	2001
Coniel	**¥28.8**	¥29.9	¥30.1
Allelock	**11.8**	8.7	1.7
Celtect	**8.9**	11.8	15.6
Itrizole	**23.2**	22.0	17.7
Depakene	**9.6**	9.6	9.5
Adriacin + Farmorubicin	**7.9**	7.1	6.8
Nauzelin	**7.5**	8.2	8.4
5-FU	**5.2**	5.9	7.1
Neu-up	**5.0**	5.2	5.9
Durotep	**4.7**	0.1	-
Export and licensing	**9.5**	8.4	6.9

Allegro Lite, a fully automated immunochemiluminescent system

B I O - C H E M I C A L S

Company President
Tomonori Yuji,
Managing Director

Fiscal 2003 Sales Breakdown
(Nonconsolidated basis)



INDUSTRY OUTLOOK

Amino acids play an extremely important role in nutrition as a building block of proteins, and in the past several years that function of amino acids has received growing attention. In Japan, beverages containing amino acids have become best-selling products, and demand for amino acids has expanded significantly. In addition to beverages, many other health food products containing amino acids are now available. And overseas, especially in the United States, amino acid products have already earned solid market positions as dietary supplements and functional foods. This field is expected to record strong growth in the years ahead. Another source of growing demand for amino acids is the pharmaceuticals field. The number of drugs that contain amino acids as a fundamental structure has begun to increase, and demand for amino acids for use as pharmaceutical intermediates is expanding each year.

OPERATIONAL STRATEGY

The Bio-Chemicals Company's core business is the production and marketing of bio-products, or fermented bulk products, such as amino acids, nucleic acids, and related compounds. As the industry leader, the Bio-Chemicals Company supplies these products to customers around the world. Applications for amino acids, excluding feed-grade products, include their use as raw materials for pharmaceuticals, such as infusions and anti-ulcer agents; health foods and dietary supplements; and pharmaceutical intermediates. In all of these areas, customers require a stable supply of high-quality, competitively priced products, and accordingly the Company is strengthening its production and quality assurance systems to meet market needs. In late 2002, Biokyowa Inc., in the United States, converted from the production of feed-grade amino acids to the production of high-value-added amino acids. As a result, we have heightened our market supply capacity, and, in conjunction with our domestic plants and our joint venture in China, we are using our three-part system—with facilities in Japan, North America, and China—to conduct optimal production activities. And to expand our operations in the field of health foods and dietary supplements, in which demand has been growing in recent years, we are working to collect useful data related to the role of amino acids in promoting health, principally at the Tsukuba Research Laboratories. Based on this functional data, we are aggressively moving ahead with the development of new products and applications. In feed-grade amino acid operations, which are in a restructuring phase, we will promote operational structure reforms, such as alliances, and work to achieve further reductions in production costs.

Overview

Amino acids, nucleic acids, and other fermented bulk products, especially amino acids used in health foods and dietary supplements, recorded continued growth in the domestic market, which offset declines in sales of agrochemicals and animal health products. The Bio-Chemicals Company's net sales rose 5.5%, to ¥58.5 billion. Consolidated subsidiary Biokyowa, of the United States, earned a profit in the year under review following the switch from the production of feed-grade amino acids to high-value-added amino acids. The Bio-Chemicals Company's operating income was up 55.8%, to ¥2.0 billion.

Fine Chemicals

As a result of efforts to expand applications and increase sales of fermented bulk products, principally amino acids, nucleic acids, and related compounds, sales of fine chemicals increased. In Japan, sales of amino acids, centered on those for use in health foods and beverages, continued to rise, and pharmaceutical bulk products also recorded a strong performance, and as a result domestic sales increased. Overseas, demand for amino acids was higher in all regions, but sales prices declined due to intensified competition, and sales were level with the previous year.

In R&D, we are working to develop applications, principally at the Tsukuba Research Laboratories, for the use of amino acids, nucleic acids, and related compounds in health foods and dietary supplements. We will also strive to create applications for high-growth-potential oligosaccharides and sugar nucleotides and to develop them into a major product line. In addition, we are improving processes and taking other steps to achieve further cost reductions. We are also working to improve our total production capability by enhancing fundamental technologies for fermentation-based production.

Agrochemicals, Animal Health Products, and Fertilizers

Domestic and overseas sales of agrochemicals declined. Sales of products for the livestock industry increased, while sales of products for the fisheries industry declined due to sluggish market conditions.

Feed-Grade Amino Acids

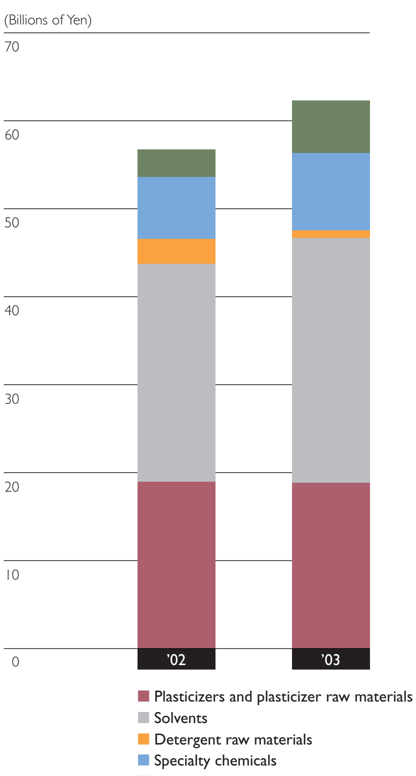
Intensified competition led to challenging market conditions, and as a result sales of feed-grade amino acids declined. Overseas subsidiaries Fermentaciones Mexicanas S.A. de C.V. (Fermex) and Agroferm Hungarian-Japanese Fermentation Industries Ltd. (Agroferm) faced difficult operating environments.

Biokyowa Inc., located in Missouri, in the United States

C H E M I C A L S

Company President
Shoji Hari,
Executive Officer

Fiscal 2003 Sales Breakdown
(Nonconsolidated basis)



INDUSTRY OUTLOOK

Crude oil and naphtha prices remained high throughout the year under review. The reasons for the rising price trend included concern about the situation in Iraq, low inventories of crude oil and naphtha, sustained cooperation among OPEC members, and, in the second half of the fiscal year, a general strike in Venezuela and the growing likelihood of war in Iraq. However, demand in Asia, especially China, was very strong, and in Southeast Asia market conditions for petrochemical products improved. In Japan, prices of petrochemical products rose. Competition in the petrochemical industry continued to intensify, especially in Asia, but the strong demand in China helped to offset the adverse affects of the severe market conditions.

OPERATIONAL STRATEGY

The operating environment in the petrochemical industry continues to be marked by restructuring, and the Chemicals Company is giving high priority to active operational development. As one facet of operational structure reforms targeting a system that facilitates continued growth, we will further clarify the principles of selection and concentration. In basic chemicals, in regard to oxo alcohol and its derivatives, plasticizers, and solvents, we will thoroughly reduce costs and, in certain cases, pursue alliances with other companies as we strive to strengthen our market position. Examples include integrating our plasticizer operations with those of Mitsubishi Chemical Corporation and establishing an ethyl acetate joint venture with Showa Denko K. K. In the year under review, we withdrew from the market for alkyl benzene, a raw material for detergents. In fine chemicals, such as functional chemical products and high-purity solvents, we are working to expand into the fields of environmentally friendly products and advanced materials, and we will strive to increase the percentage of sales accounted for by high-value-added products by expanding sales of new products. In sales, until now basic chemical products have accounted for the majority of exports to China, but in the future we will commence the full-scale development of our operations in the Chinese market, including functional products.

Overview

Although our withdrawal from the alkyl benzene business had the effect of reducing sales, domestic and export sales were both favorable. Prices of naphtha and other key raw materials remained high throughout the year, and in response we raised our product prices and worked to further reduce manufacturing costs and distribution expenses. As a result, the Chemicals Company's net sales rose 7.9%, to ¥65.2 billion, and operating income was ¥1.1 billion, compared with an operating loss of ¥1.2 billion in the previous year.

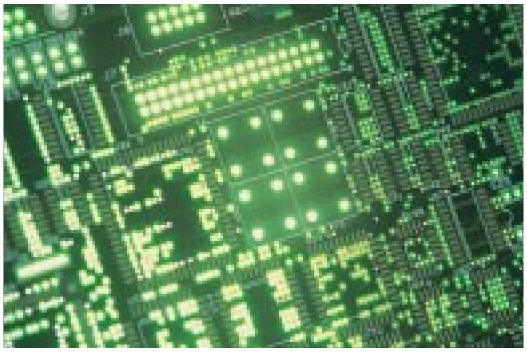
Basic Chemicals

The decline in sales stemming from our withdrawal from the alkyl benzene business was offset by higher sales of products in other fields, and both domestic and export sales increased in terms of volume and value. In particular, conditions in overseas markets turned around, and exports rose sharply. Overall, sales of basic chemical products, including high-purity solvents, increased substantially.

Specialty Chemicals

Higher sales of refrigeration lubricant raw materials used as CFC substitutes, which contribute to environmental conservation, and of squaric acid and its derivatives, which are raw materials for functional dyes for recording media, resulted in increased sales of specialty chemicals in both volume and value.


Landfill liner for waste-disposal sites


High-purity solvents for the IT industry

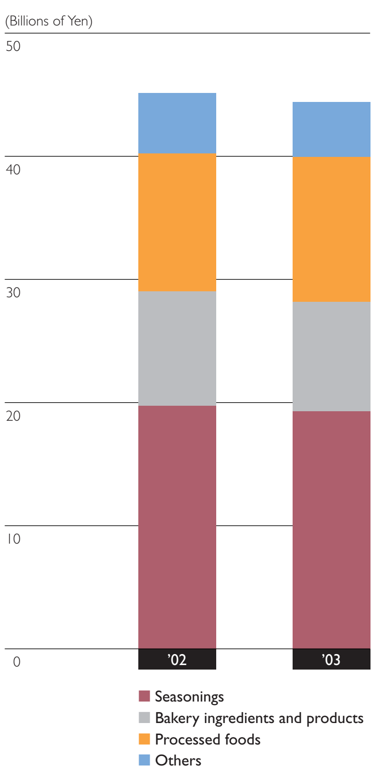

Kyowa Yuka's Yokkaichi Plant


Distillation tower at Kyowa Yuka's Yokkaichi Plant

LIQUOR AND FOOD*

Company President *(Food)*
Tadayasu Furukawa,
Senior Executive Officer

Fiscal 2003 Sales Breakdown (Food)
(Nonconsolidated basis)



* *Since the sale of alcoholic beverage operations, the Liquor and Food Segment consists of the Food Company and the Raw Material Alcohol Division.*

INDUSTRY OUTLOOK

The domestic processed food and food service industries have been adversely affected not only by the lengthening slump in consumer spending and deflation but also by a series of incidents that have shaken the public's trust in the safety of food supply, such as unapproved additives, residual pesticides, and labeling violations. Except for companies that have been recording solid performances, such as convenience stores and growth companies, demand for seasonings and bakery products and ingredients has been sluggish. Over the medium to long term, we expect steady growth in the processed food, take-out food, and food service industries. We also anticipate that demand for seasonings and bakery products and ingredients will focus not only on flavor but also increasingly on safety and price. The development of cutting-edge new products and the establishment of quality assurance systems are critical requirements for every company in the industry.

Due to the aging of the population and the reform of the medical system, the market for health foods continues to expand, albeit modestly. Accompanying the enactment of the Health Promotion Act and a growing understanding of the importance of health care, the market for functional foods, such as FOSHU (Food for Specified Health Use) products, is expected to record strong growth.

OPERATIONAL STRATEGY

The Food Company considers its mission to be the provision of safe, high-quality products that contribute to improving the health and diets of consumers, who are increasingly focused on low prices as deflation continues. We are developing food materials that will earn distinctive market positions by using our fermentation and other original technologies.

The Food Company is focusing on the fields of natural seasonings and supplements. By establishing a new marketing system that unifies R&D and sales activities and strengthening its quality assurance system, the Food Company will apply solution-based marketing to develop the markets for distinctive new products.

Overseas, we operate plants for the manufacture of natural seasonings and freeze-dried food materials in China. In addition to these production bases, we will bolster our marketing capabilities in China and other Asian countries to develop new markets.

Overview

Operating conditions were challenging in the year under review, as consumer spending weakened and the focus on lower prices strengthened. In this setting, the Food Company worked to expand sales of core products and to launch new products; however, sales declined slightly from the previous year. In addition, because we sold our alcoholic beverage operations to Asahi Breweries, Ltd., in September 2002, segment sales decreased by a substantial margin and ended the year down 30.1%, to ¥72.3 billion. Operating performance improved, but nonetheless a loss of ¥0.4 billion was recorded in the Liquor and Food Segment. The Food Company, however, recorded an operating profit.

Seasonings

In natural seasonings, sales of *Kokumi* seasonings and new products, such as Asep.-chicken, were favorable, but certain existing products faced difficult market conditions, and sales declined from the previous year. Sales prices of *Umami* seasonings decreased but sales volume rose, and as a result sales of these products increased. Overall, sales of seasonings declined from the previous year.

Bakery Products and Ingredients

Although sales of bread improvers increased, sales of yeast products, premixes, and flavor enhancers decreased. Overall, sales of bakery products and ingredients were down from the previous year.

Health Foods

We worked to expand sales of Remake Choleste-block, a FOSHU product, and Remake CSPHP tablets. In addition, sales of raw materials for health foods rose. As a result, sales in this category increased from the previous year.

Processed Foods

Although sales of freeze-dried soups increased, overall sales of processed foods were level with the previous year, due in part to the transfer of sales of some processed foods to a subsidiary.

Raw Material Alcohol Division

Sales of alcohol for the refined sake industry declined due to sluggish consumption of refined sake and to a trend toward the consumption of sake made without added alcohol or sugar. Sales of alcohol to Asahi-Kyowa Liquor Manufacturing Co., Ltd., a joint venture with Asahi Breweries, and sales of industrial alcohol increased, and as a result the division recorded higher sales.

Remake series of health food products

Freeze-dried soup products

Bakery products ranging from yeast products and bread improvers to premixes.

Yantai Kyowa Foods Co., Ltd., a freeze-dried food manufacturing subsidiary in China

SOCIAL RESPONSIBILITIES

Environmental and Safety Issues

Based on its management policies, the Company formulated its Declaration of Basic Policies for Health, Safety, the Environment, and Product Safety. In accordance with this declaration, Kyowa Hakko works to implement responsible care (RC) practices, which encompass a wide range of environmental and safety-related activities, and to implement quality assurance with an emphasis on consumer safety throughout its daily business activities.

Our environment and safety management system includes an Occupational Safety and Health Management System (OSHMS) that was established to complement ISO 14001. This system provides the base from which all employees implement RC practices under the direction of management. Internally, we have implemented the Kyowa Eco Project, which is centered on energy-saving and recycling activities and is under way at all production facilities, and the Green Office Plan, which has been instituted at all our offices. Externally, we are moving forward with such programs as Green Procurement, which involves our suppliers. In addition to these activities, all workplaces are striving to achieve their own targets for reducing the environmental burden of their operations, including reductions in chemical substances released to the environment and lower burdens on air and water resources. Moreover, we have further enhanced the quality of our environmental activities by adding such new methodologies as environmental accounting and life cycle assessment (LCA).

The following is an outline of our environmental and safety-related activities.

Environment and Safety Management System

The environment, safety, and health are management priorities of the highest importance, and we are implementing activities in these areas under the direction of senior management based on our environment and safety management system. The scope of these activities is expanding each year from Kyowa Hakko Kogyo Co., Ltd., and principal subsidiaries Kyowa Yuka Co., Ltd., and Kyowa Medex Co., Ltd., to major consolidated affiliates. A diverse range of activities is being implemented, from global environmental issues to daily office activities.

Compliance

In environmental and safety-related activities, we strictly follow all relevant standards, including not only those set by national and municipal governments and by industrial organizations but also our own stricter standards. The compliance with these standards are audited by Head Office staff. Also, we are aggressively implementing environmental and safety information activities to bolster accountability. In addition to our *Health, Safety, and the Environment/Sustainability Report*, our web site includes information from our workplaces. We will make an effort to further improve communication with customers in the years ahead.

Performance

In fiscal 2003, we continued striving to make progress toward our goal of zero waste generation, and the volume of waste disposal at landfill sites was down 33% from the previous year (Note 1). In energy-saving activities, production volume increased, but the increase in CO_2 emissions was held to 0.2% (Note 1). Due to a major change in our organizational structure—the sale of our alcoholic beverage operations—unit energy consumption rose 28% (Note 2).

As a result of our efforts to reduce the consumption of resources and energy, we have reduced expenses by ¥0.5 billion a year. In fiscal 2003, our emissions of substances identified as hazardous air pollutants by the OECD were down 49% from fiscal 2002, a performance that exceeds industry targets.

In fiscal 2003, there were no lost-time accidents at Kyowa Hakko, Kyowa Yuka, or Kyowa Medex. The Fuji Plant has recorded 11.5 million hours of accident-free operation, while Kyowa Yuka's Yokkaichi Plant has recorded 20.6 million hours of accident-free operation, and we continue to record improvements. We have maintained a level of safety performance that places us in the top rank in the industry. We also had no incidents of fires or leaks.

Notes: 1. Total for three principal companies: Kyowa Hakko, Kyowa Yuka, and Kyowa Medex.
2. Total for Kyowa Hakko and Kyowa Medex.

Assessment

In new product and new technology development, we are taking steps to effectively use our safety and environmental assessment system and bolster self-initiated inspections based on new risk assessment. These steps include enhancing our forecasting and evaluation systems and our change management capabilities.

R&D for Environmentally Friendly Products and Technologies

We are aggressively developing environmentally friendly products and technologies, including energy-saving technologies. In particular, we have achieved significant improvements in productivity through the development of bioprocesses that utilize microorganism genome information in the production processes for amino acids and pharmaceuticals. We are strengthening our emphasis on the development of manufacturing methods with low environmental burdens. We are also implementing ISO 14001-based management in R&D divisions as one facet of our commitment to addressing environmental and safety-related issues from the R&D stage.

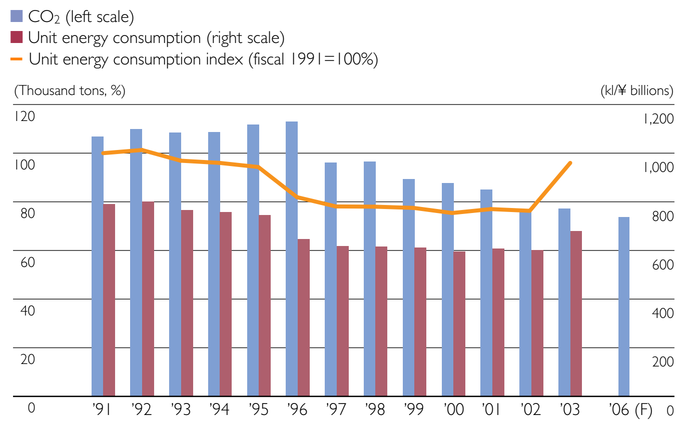
Product Efficacy and Safety

A basic tenet of our operations is that all of our products must be useful, and this applies to pharmaceuticals as well as to all of our other products. A good example is how we develop new applications for amino acids.

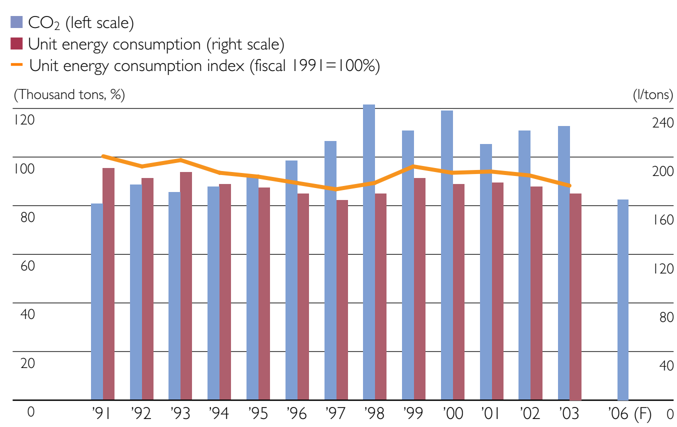
In product safety, we are conducting strict safety testing of pharmaceuticals in accordance with Japan's Pharmaceutical Affairs Law. We are also implementing strict quality checks for other products through such venues as new product development review meetings. At the same time, when we change raw materials and manufacturing methods, we conduct rigorous quality assessment and change management procedures covering the environment, safety, and quality.

On a base of these activities, to increase the transparency of environmental and safety-related activities, including those of consolidated subsidiaries and affiliates, we will continue working to raise the quality of information disclosure.

Yearly Changes in Unit Energy Consumption (Kyowa Hakko and Kyowa Medex)*

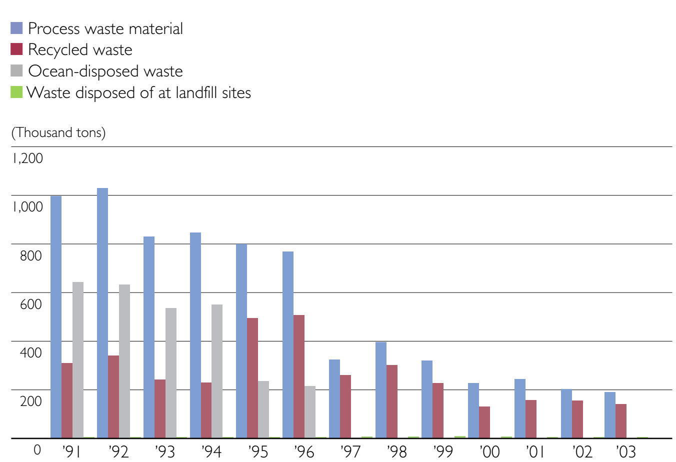


Yearly Changes in Unit Energy Consumption (Kyowa Yuka)*



* *Energy consumption per unit of production is expressed on a crude-oil-conversion basis. It is not possible to make a uniform comparison of the amount of basic energy units used by Kyowa Hakko and Kyowa Medex, which engages in the small-volume production of pharmaceuticals and other products, and Kyowa Yuka, which is involved in the production of chemical products. Therefore, the amounts of unit energy consumption by Kyowa Hakko and Kyowa Medex and by Kyowa Yuka are presented separately. Because the energy consumption of the alcoholic beverage operations was lower than the average energy consumption for the Company as a whole, the transfer had the effect of worsening the Company's energy consumption numbers.*

Yearly Changes in Volume of Industrial Waste



Corporate Citizenship

As a management policy, we take measures to ensure that our management is open to society and to aggressively introduce international standards into our management practices. We work to achieve even closer communication with local communities and, through corporate citizenship activities, to earn society's understanding and trust.

"Science for a Happier 21st Century" Essay Competition

In recent years, young people in Japan have grown increasingly distanced from science, and in response Kyowa Hakko has introduced an essay competition designed to encourage young people—who will play key roles in society in the 21st century—to think about and develop an interest in science. The national competition for junior and senior high school students is based on the theme of "Science for a Happier 21st Century." The fifth annual competition will be held in 2003. Other sponsors and supporters include the Mainichi Newspapers Co. and the Ministry of Education, Culture, Sports, Science and Technology.

Mobile Science Experiment Classroom

We also offer a mobile science experiment classroom that supports science education. Staff at the Tokyo Research Laboratories have installed microscopes and other experimental equipment onto a vehicle that is taken to elementary, junior high, and high schools, where Kyowa Hakko researchers serve as instructors. In addition, we are offering science classrooms at the Pharmaceutical Research Institute for local elementary school students and at the Ube Plant for elementary and junior high school students during summer vacations.

Asahi Young Session

Every year since 1987, the Company has sponsored the Asahi Young Session, an annual lecture series that provides an opportunity for leaders from various fields to deliver inspirational messages to young people about their future directions, dreams, and hopes. Mr. Akira Senju, who is active internationally as a music composer, arranger, and producer, was invited for the 15th session in 2002. For those who were unable to attend the lecture, Mr. Senju's address is available in printed form. Other sponsors and supporters included Asahi Shimbun and the Ministry of Education, Culture, Sports, Science and Technology.

Kato Memorial Bioscience Foundation

The Kato Memorial Bioscience Foundation, established by Kyowa Hakko in honor of the Company's founder, Dr. Benzaburo Kato, provides financial support for researchers for innovative work in the field of bioscience. The foundation also sponsors an annual public symposium that focuses on bioscience-related themes.

Quality Assurance

Kyowa Hakko aims not only to provide products and services with quality superior to those from other companies but also to earn the satisfaction and trust of its customers. To raise customer satisfaction, we are working to build a framework extending across all departments, from R&D to production, distribution, and sales, that will enable us to more accurately understand customer needs and problems, to share and utilize customer information with related divisions in the Company, and to engage the entire Company in providing a rapid response to customers.

To further enhance quality assurance in products and services, we continue to improve our international standard quality assurance systems, such as GMP, ISO 9000s, and HACCP, at all plants in accordance with product attributes. We will also continue striving to bolster production control and quality control systems. We have already received ISO 9000s certification at the Hofu and Ube plants as well as at the Kyowa Yuka's Chiba and Yokkaichi plants and at the Kyowa Medex's Fuji Plant. And we are making progress toward the acquisition of ISO 9001 certification (2000 version).

CONTENTS

FINANCIAL SECTION

ELEVEN-YEAR SELECTED FINANCIAL DATA

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002, 2001, 2000, 1999, 1998 and 1997; the three-month period ended March 31, 1996; and the years ended December 31, 1995, 1994 and 1993

	2003	2002	2001	2000
For the Year:				
Net sales	**¥359,285**	¥378,668	¥375,610	¥374,910
Gross profit	**126,328**	128,744	123,945	126,872
Selling, general and administrative expenses	**110,239**	108,387	106,233	105,216
Operating income	**16,089**	20,357	17,712	21,656
Net income	**8,485**	5,535	9,395	11,274
Capital expenditures	**11,791**	11,454	17,092	21,053
Depreciation and amortization	**14,768**	17,819	18,502	19,153
R&D expenses	**31,438**	29,294	28,921	25,888
Cash Flows:				
Net cash provided by operating activities	**18,193**	16,955	28,789	32,737
Net cash provided by/(used in) investing activities	**2,586**	8,377	(1,991)	23,422
Net cash used in financing activities	**(38,748)**	(16,843)	(20,871)	(50,077)
Cash and cash equivalents at the end of the year	**24,588**	41,908	32,600	26,215
At Year-End:				
Current assets	**195,878**	244,410	237,852	223,353
Total assets	**368,772**	430,113	431,410	433,958
Current liabilities	**95,046**	162,508	169,821	158,542
Interest-bearing debt	**51,969**	74,354	87,624	102,870
Total shareholders' equity	**219,047**	211,652	194,692	195,039
Number of employees	**6,749**	7,299	7,766	7,866
Per Share Data:				
Net income—basic (Note 2)	**¥ 19.4**	¥ 12.7	¥ 21.6	¥ 26.0
Total shareholders' equity	**505.4**	487.5	448.3	449.1
Cash dividends	**7.5**	7.5	7.5	10.0
Common Stock Price Range (Per share):				
High	**780**	899	1,225	1,581
Low	**411**	587	701	610
Stock Information (Thousands of shares):				
Number of common stock issued	**434,244**	434,244	434,244	434,244
Weighted average number of common stock issued	**433,748**	434,244	434,244	434,244
Financial Ratios:				
Return on assets	**2.12**	1.28	2.17	2.47
Operating return on assets	**4.03**	4.73	4.09	4.75
Return on equity	**3.94**	2.72	4.82	5.92
Equity ratio	**59.40**	49.21	45.13	44.94
Debt/equity ratio	**23.73**	35.13	45.01	52.74

Notes: 1. *U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.20=US$1, the approximate exchange rate at March 31, 2003.*
2. *Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent free distributions of common stock.*
3. *As a result of a change in the Company's fiscal year-end from December 31 to March 31, fiscal 1996 was the three-month period ended March 31, 1996.*
4. *Only nonconsolidated figures are available.*

Millions of Yen							Thousands of U.S. Dollars (Note 1)
1999	1998	1997	1996 (Note 3)	1995	1994	1993	**2003**
¥384,671	¥397,361	¥397,629	¥82,990	¥374,978	¥341,545	¥323,239	**$2,989,060**
127,864	144,191	144,248	31,645	149,050	130,853	119,406	**1,050,982**
104,407	109,448	110,320	24,959	105,425	98,302	95,571	**917,130**
23,457	34,743	33,928	6,686	43,625	32,551	23,835	**133,852**
6,143	13,528	12,339	1,296	15,615	10,646	6,281	**70,591**
24,408	24,555	19,132	4,317	11,428 (Note 4)	9,416 (Note 4)	11,100 (Note 4)	**98,095**
17,673	17,113	16,701	3,926	10,341 (Note 4)	10,532 (Note 4)	10,502 (Note 4)	**122,862**
24,083	25,358	22,882	5,026	20,658	18,949	17,865 (Note 4)	**261,547**
—	—	—	—	—	—	—	**151,356**
—	—	—	—	—	—	—	**21,514**
—	—	—	—	—	—	—	**(322,363)**
—	—	—	—	—	—	—	**204,559**
270,499	235,697	236,337	228,298	241,871	230,148	217,763	**1,629,601**
477,729	437,271	431,774	418,956	432,500	408,977	398,005	**3,067,987**
211,376	181,554	182,648	175,389	186,209	178,734	166,115	**790,732**
151,489	98,282	97,786	98,195	99,656	102,924	109,093	**432,355**
185,766	188,645	180,391	174,294	174,943	158,857	151,447	**1,882,354**
5,044 (Note 4)	5,134 (Note 4)	5,174 (Note 4)	5,172 (Note 4)	5,298 (Note 4)	5,361 (Note 4)	5,319 (Note 4)	
Yen							U.S. Dollars (Note 1)
¥ 13.9	¥ 30.3	¥ 27.6	¥ 2.9	¥ 35.0	¥ 23.9	¥ 14.1	**$0.161**
427.8	422.6	404.2	390.5	391.9	355.9	339.3	**4.205**
7.5	7.5	7.5	1.9	7.5	7.0	7.0	**0.062**
694	888	1,080	1,030	1,010	1,050	1,190	**6.489**
485	492	720	914	799	905	896	**3.419**
434,244	446,343	446,343	446,343	446,343	446,343	446,343	
441,906	446,343	446,343	446,343	446,343	446,343	446,343	
%							
1.34	3.11	2.90	0.30	3.71	2.64	1.60	
5.13	8.00	7.98	1.57	10.37	8.07	6.06	
3.28	7.33	6.96	0.74	9.36	6.86	4.19	
38.89	43.14	41.78	41.60	40.45	38.84	38.05	
81.55	52.10	54.21	56.34	56.96	64.79	72.03	

Business Performance

In fiscal 2003, ended March 31, 2003, the Company's consolidated net sales declined 5.1%, to ¥359.3 billion. As a result of efforts to further reduce costs, the cost of sales was down 6.8%, to ¥233.0 billion. Gross profit decreased 1.9%, to ¥126.3 billion, and the gross profit margin increased 1.2 percentage points, to 35.2%.

Selling, general and administrative (SG&A) expenses rose 1.7%, to ¥110.2 billion, principally as a result of higher retirement benefits expenses and R&D expenses. SG&A expenses as a percentage of net sales increased 2.1 percentage points, to 30.7%.

Operating income was down 21.0%, to ¥16.1 billion. The operating income margin declined 0.9 percentage points, to 4.5%.

Net other revenue was ¥0.9 billion in the year under review, a substantial improvement from net other expenses of ¥7.9 billion in the previous year. Major items in the previous year included loss on restructuring of certain subsidiaries and affiliates of ¥21.1 billion. Principal items in the year under review included gain on the transfer of the alcoholic beverage operations of ¥3.2 billion, gain on the transfer of the substitutional portion of the contributory pension plan of ¥2.9 billion, and gain on sale of property, plant and equipment of ¥3.5 billion. Interest expenses fell to ¥1.7 billion, from ¥3.1 billion in the previous year, due to a significant decrease in interest-bearing debt, which is discussed in more detail on page 37.

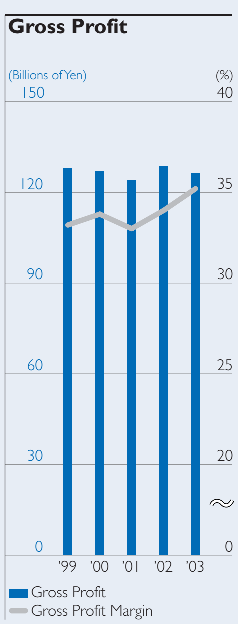
Income before income taxes and minority interests increased 36.4%, to ¥17.0 billion, and net income was up 53.3%, to ¥8.5 billion. The net income margin increased 0.9 percentage points, to 2.4%, due, as in the previous year, to the special factors mentioned above.

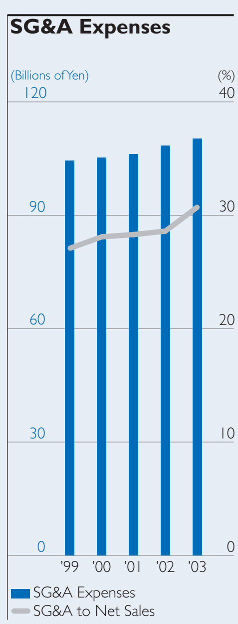
Performance by Segment

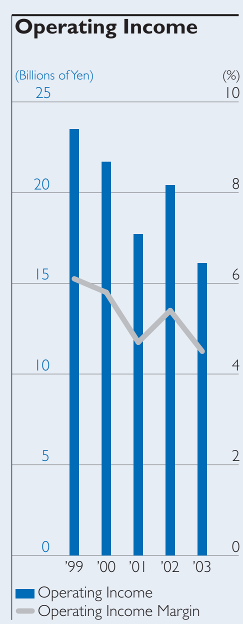
Sales, operating expenses, and operating income (loss) for each Kyowa Hakko Group business segment are outlined below. The figures include inter-segment transactions.

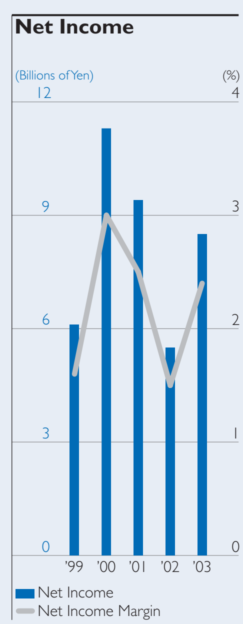
Pharmaceuticals

Sales in the Pharmaceuticals Segment, the Kyowa Hakko Group's core line of business, declined 1.2% from the previous year, to ¥140.6 billion, accounting for 35.1% of total sales.









	Millions of Yen						Thousands of U.S. Dollars (Note 1)
	2003	2002	2001	2000	1999	1998 (Note 2)	**2003**
Sales by Industry Segment:							
Pharmaceuticals	**¥140,594**	¥142,297	¥141,450	¥142,338	¥143,216	N/A	**$1,169,667**
Bio-Chemicals	**58,525**	55,496	52,720	47,657	53,617	N/A	**486,897**
Chemicals	**65,158**	60,410	60,659	63,893	66,359	N/A	**542,080**
Liquor and Food	**72,322**	103,531	103,353	106,320	107,428	N/A	**601,681**
Other	**63,485**	59,777	57,627	55,166	54,330	N/A	**528,161**
Corporate, elimination and other	**(40,799)**	(42,843)	(40,199)	(40,464)	(40,279)	N/A	**(339,426)**
Total	**¥359,285**	¥378,668	¥375,610	¥374,910	¥384,671	¥397,361	**$2,989,060**
Operating Income (Loss) by Industry Segment:							
Pharmaceuticals	**¥11,014**	¥18,959	¥19,574	¥23,799	¥25,618	N/A	**$ 91,631**
Bio-Chemicals	**1,975**	1,268	(1,191)	(2,096)	2,635	N/A	**16,431**
Chemicals	**1,100**	(1,174)	(2,684)	(1,064)	(4,264)	N/A	**9,151**
Liquor and Food	**(368)**	(440)	919	(1,110)	(2,430)	N/A	**(3,062)**
Other	**2,597**	1,756	1,141	1,390	1,719	N/A	**21,606**
Corporate, elimination and other	**(229)**	(12)	(47)	737	179	N/A	**(1,905)**
Total	**¥16,089**	¥20,357	¥17,712	¥21,656	¥23,457	¥34,743	**$133,852**

Notes: 1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.20=US$1, the approximate exchange rate at March 31, 2003.
2. Due to a change in the Company's industry segments, figures for the current segments prior to fiscal 1999 are not available (N/A).

Operating expenses rose 5.1%, to ¥129.6 billion, and operating income was down 41.9%, to ¥11.0 billion.

Bio-Chemicals

Sales in the Bio-Chemicals Segment increased 5.5% from the previous year, to ¥58.5 billion, accounting for 14.6% of total sales. Operating expenses rose 4.3%, to ¥56.6 billion. Operating income was up 55.8%, to ¥2.0 billion.

Chemicals

Sales in the Chemicals Segment increased 7.9% from the previous year, to ¥65.2 billion, accounting for 16.3% of total sales. Operating expenses rose 4.0%, to ¥64.1 billion, and operating income was ¥1.1 billion, a significant improvement from the operating loss of ¥1.2 billion recorded in the previous year.

Liquor and Food

Sales in the Liquor and Food Segment declined 30.1%, to ¥72.3 billion, accounting for 18.1% of total sales. Operating expenses were down 30.1%, to ¥72.7 billion, and the operating loss decreased 16.4%, to ¥0.4 billion. The September 2002 transfer of our alcoholic beverage operations (excluding *mirin* sweet sake seasoning) to Asahi Breweries, Ltd., was a major factor in the segment's performance.

Other

Sales in the other Segment rose 6.2%, to ¥63.5 billion, accounting for 15.9% of total sales. The Kyowa Hakko Group's other businesses include the operations of subsidiaries engaged in transportation, warehousing, and sales of industrial apparatus. Operating expenses increased 4.9%, to ¥60.9 billion, and operating income was up 47.9%, to ¥2.6 billion.

Overseas Sales

In fiscal 2003, the Kyowa Hakko Group's overseas net sales rose 10.4% from the previous fiscal year, to ¥62.3 billion. Net sales by region were as follows:

	Billions of Yen (percentage of net sales)					
	2003		2002		2001	
Americas	**¥21.7**	**(6.0%)**	¥21.6	(5.7%)	¥22.1	(5.9%)
Europe	**18.1**	**(5.0%)**	15.2	(4.0%)	13.2	(3.5%)
Asia	**22.2**	**(6.2%)**	19.4	(5.1%)	16.5	(4.4%)
Other Areas	**0.3**	**(0.1%)**	0.2	(0.1%)	0.7	(0.2%)
Total	**¥62.3**	**(17.3%)**	¥56.4	(14.9%)	¥52.5	(14.0%)

Cash Flows

Net cash provided by operating activities in fiscal 2003 amounted to ¥18.2 billion, a rise of ¥1.2 billion from the previous fiscal year. Although income taxes paid increased, declines in trade receivables and inventories led to the increase in cash flow.

Net cash provided by investing activities was ¥2.6 billion. Acquisition of property, plant and equipment amounted to ¥12.8 billion, and acquisition of investments in securities totaled ¥5.3 billion. Proceeds from transfer of alcoholic beverage operations were ¥13.1 billion, proceeds from sale of property, plant and equipment were ¥4.2 billion, proceeds from sale of investments in securities were ¥2.6 billion, and decrease in long-term loans receivable was ¥1.1 billion. In comparison with the previous year, net cash flows from investing activities decreased ¥5.8 billion, due primarily to a decline in proceeds from sale of investments in securities that offset proceeds from transfer of alcoholic beverage operations.

Net cash used in financing activities was ¥38.7 billion. Major items included payment of employees' savings deposits for transferring to bank of ¥13.4 billion, net proceeds from short-term debt of ¥11.0 billion, redemption for bonds of ¥10.0 billion, and dividends paid of ¥3.3 billion. The year-on-year increase of ¥21.9 billion in net cash used in financing activities was attributable to payment of employees' savings deposits for transferring to bank and redemption for bonds.

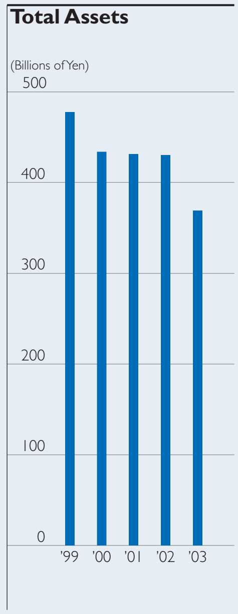
As a result of the preceding activities, cash and cash equivalents at fiscal year-end were down ¥17.3 billion, to ¥24.6 billion.

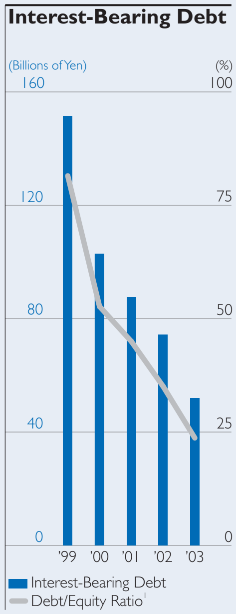
Financial Position

Assets

At the end of fiscal 2003, total current assets were ¥195.9 billion, a decrease of 19.9% from the previous year-end. The Company recorded decreases of ¥17.6 billion in cash, ¥21.8 billion in accounts and notes receivable, and ¥7.8 billion in inventories. Total current assets decreased ¥48.5 billion from the previous fiscal year-end.

At year-end, fixed assets were ¥172.9 billion, a decline of 6.9% from the end of the previous fiscal year. Investments and advances rose 3.1%, to ¥67.3 billion, due primarily to an





increase of ¥3.7 billion in investments in and advances to unconsolidated subsidiaries and affiliates. Property, plant and equipment decreased 9.9%, to ¥102.1 billion, due principally to declines in buildings and structures of ¥3.4 billion and in machinery and equipment of ¥12.4 billion. Deferred tax assets were ¥1.5 billion, compared with ¥4.3 billion at the previous year-end. Overall, fixed assets decreased ¥12.8 billion.

As a result, total assets declined 14.3% from the previous fiscal year-end, to ¥368.8 billion.

Liabilities

Total current liabilities were down 41.5%, to ¥95.0 billion at fiscal year-end. This decrease was attributable to a decline of ¥11.6 billion in short-term borrowings and current portion of long-term debt following the redemption of ¥10.0 billion in unsecured convertible bonds in June 2002. Accounts and notes payable decreased ¥17.3 billion, and income taxes payable was down ¥12.6 billion. Employees' savings deposits, which were ¥13.1 billion at the previous year-end, were transferred to a bank during the year under review, and there was no balance remaining at the end of the year. As a result, current liabilities were down ¥67.5 billion, and the current ratio was up significantly, to 206.1%, compared with 150.4% at the previous fiscal year-end.

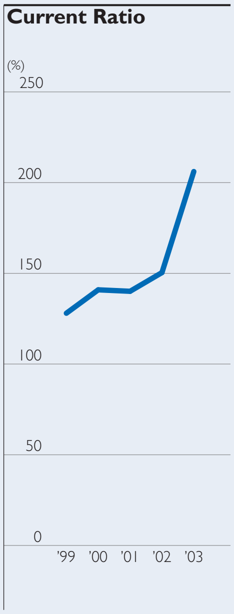
At year-end, long-term debt, including corporate bonds, totaled ¥34.1 billion, a decrease of 2.3%. The primary reason for this decline was a decrease of ¥0.8 billion in long-term borrowings. As a result, interest-bearing debt fell 30.1%, or ¥22.4 billion, from the previous fiscal year-end, to ¥52.0 billion. This represents a decline of ¥99.5 billion from the end of March 1999, when interest-bearing debt totaled ¥151.5 billion.

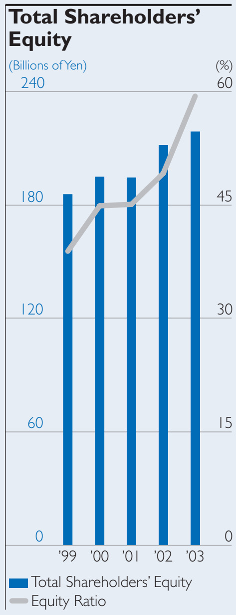
Shareholders' Equity

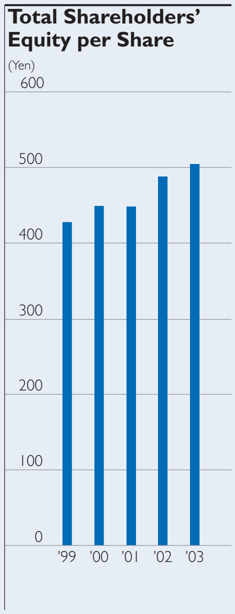
Total shareholders' equity was up 3.5% from the previous year-end, to ¥219.0 billion. Due to the reduction in total assets, the equity ratio rose 10.2 percentage points, to 59.4%. The debt/equity ratio[1] declined substantially, from 35.1% at the previous fiscal year-end to 23.7%. In this way, the Company has further reinforced its stability and bolstered its financial position.

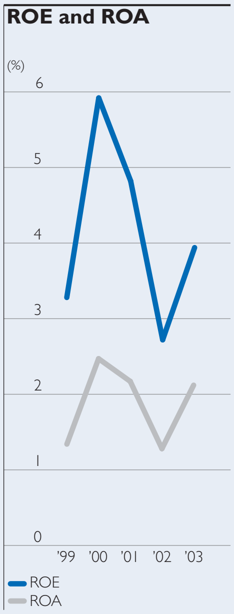
Per Share Data

In the fiscal year under review, net income per share was ¥19.4, up from ¥12.7 in the previous year. Total shareholders' equity per share increased from ¥487.5 to ¥505.4. Cash dividends per share for fiscal 2003 were unchanged at ¥7.50, comprising interim and year-end per-share dividends of ¥3.75 each.









Note 1: Debt/equity ratio = Interest-bearing debt (short-term borrowings + current portion of long-term debt + long-term debt) / total shareholders' equity

Management Indices

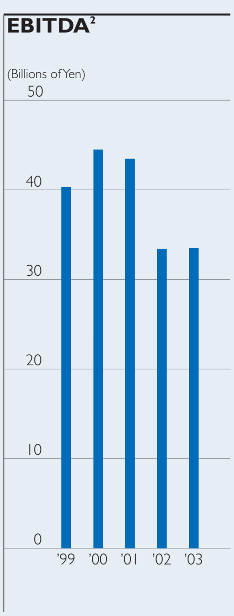
Return on shareholders' equity (ROE) increased to 3.94%, from 2.72% in the previous fiscal year, and return on assets (ROA) rose from 1.28% to 2.12%. However, operating return on assets was 4.03%, down from 4.73% in the previous year. Under our eighth medium-term management plan, we have set an operating return on assets target of 8.0%. Although we are working to further reduce interest-bearing debt, to streamline our balance sheet, and to establish a profit generating structure, operating income declined in the year under review. In the future, we will continue taking steps to improve our profit structure by reducing administrative costs throughout the Company by promoting low-cost management. EBITDA[2] was ¥33.5 billion, an increase of 0.2% from ¥33.4 billion in the previous year.

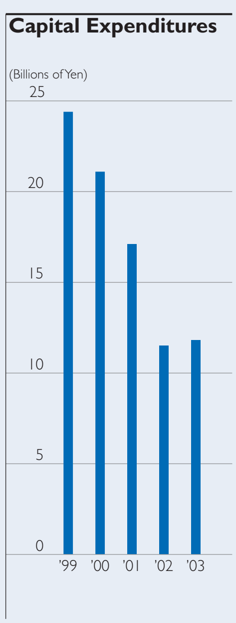
Capital Expenditures

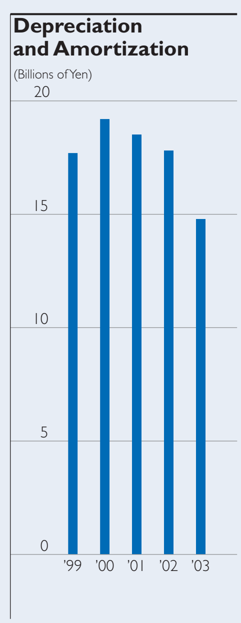
The Kyowa Hakko Group is investing continuously with the goals of enhancing and rationalizing production facilities and promoting R&D activities. Capital expenditures during fiscal 2003 increased 2.9% from the previous fiscal year, to ¥11.8 billion, and depreciation and amortization decreased 17.1%, to ¥14.8 billion. Accordingly, capital expenditures remained within the range of depreciation and amortization and we were able to fund those expenditures internally. A breakdown of capital expenditures and depreciation and amortization by business segment is as follows:

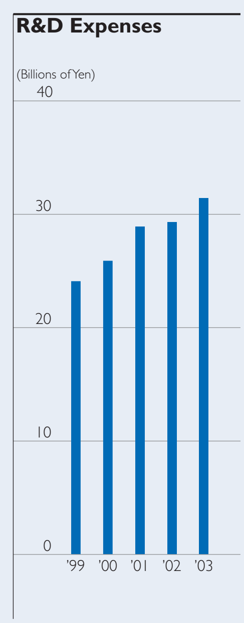
Billions of Yen

	Capital Expenditures			Depreciation and Amortization		
	2003	2002	2001	**2003**	2002	2001
Pharmaceuticals	**¥ 4.2**	¥ 4.5	¥ 4.4	**¥ 5.1**	¥ 5.4	¥ 5.3
Bio-Chemicals	**3.7**	2.6	4.1	**3.9**	4.9	4.9
Chemicals	**2.2**	1.7	4.2	**3.6**	4.1	4.8
Liquor and Food	**1.4**	2.2	3.8	**1.7**	2.9	2.6
Other	**0.1**	0.2	0.2	**0.1**	0.1	0.2
Corporate, elimination and other	**0.3**	0.2	0.4	**0.4**	0.4	0.8
Total	**¥11.8**	¥11.5	¥17.1	**¥14.8**	¥17.8	¥18.5









Note 2: EBITDA = Income before income taxes and minority interests + interest expenses + depreciation and amortization

Retirement Benefit Obligations

At the end of the year under review, projected pension benefit obligations totaled ¥73.3 billion at a discount rate of 2.5%, the same rate as in the previous year. The market value of pension fund assets at year-end was ¥23.2 billion, resulting in unfunded pension benefit obligations of ¥50.1 billion. Subtracting the unrecognized actuarial differences of ¥33.3 billion and adding the unrecognized prior service costs of ¥0.8 billion that arose in the year under review leaves ¥17.6 billion, which was recorded in the consolidated balance sheets as reserve for retirement benefits. The unrecognized actuarial differences will be amortized over a 10-year period starting with fiscal 2004 using the straight-line method. The unrecognized prior service costs will be amortized over a 5-year period starting with the year under review using the straight-line method.

Retirement Benefit Expense

Expected return on plan assets (calculated at 3.6%) of ¥2.3 billion and amortization of unrecognized prior service costs of ¥1.0 billion were subtracted from the total of service cost of ¥5.0 billion, interest cost of ¥3.0 billion, and amortization of unrecognized actuarial differences of ¥4.9 billion to determine the retirement benefit expense for the year under review, which amounted to ¥9.7 billion. From this was subtracted the gain on the transfer of the substitutional portion of contributory pension plan of ¥2.9 billion, resulting in a total of ¥6.9 billion that was recorded as an expense in the consolidated statements of income.

R&D Expenses

R&D expenses, which are included in production expenses and in selling, general and administrative expenses, rose 7.3% from the previous fiscal year, to ¥31.4 billion, or 8.8% of consolidated net sales. R&D expenses in Pharmaceuticals amounted to ¥27.1 billion, accounting for 86.1% of total R&D expenses and 19.2% of Pharmaceuticals segment sales.

Statement on the Fine Imposed by the European Commission

On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within the EEA (European Economic Area) prior to June 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of the fine. In the consolidated balance sheets, 1,120 thousand Euro (¥145 million) was recognized under "accounts payable" based on the calculation method of the fine which the European Commission had previously adopted.

Transfer of Alcoholic Beverage Operations

In September 2002, the Company transferred its alcoholic beverage operations to Asahi Breweries, Ltd. The gain of the transfer of the alcoholic beverage operations (net amount) of ¥3.2 billion was recorded as other revenue in the consolidated statements of income.

Restructuring of Overseas Operations

To improve profitability, the Company has implemented a restructuring of its overseas feed-grade amino acid operations and nucleotide-based seasoning operations. In August 2002, the liquidation of Kyowa Foods Inc. (U.S.A.), a subsidiary that produced nucleotide-based seasonings, was completed. BioKyowa Inc. (U.S.A.) ceased the production of feed-grade lysine and converted to the production of high-value-added amino acids. Accompanying the reforms, which included overseas subsidiaries, a loss on restructuring of certain subsidiaries and affiliates was recorded as other expense of ¥21.1 billion in the year ended March 2002 and ¥6.0 billion in the year ended March 2003. To raise enterprise value, we will continue to implement restructuring measures in the future.

Establishment of Limits for Acquisition of Treasury Stock

At the general shareholders' meeting held on June 27, 2003, limits for the acquisition of treasury stock were approved. As a result, the Company has the option of acquiring treasury stock to facilitate the provision of a return to shareholders and an active capital policy. The upper limits were set at acquisition of 20 million shares at a total cost of ¥12.0 billion.

CONSOLIDATED BALANCE SHEETS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
As at March 31, 2003 and 2002

ASSETS	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 4) 2003
Current Assets:			
Cash	**¥ 17,611**	¥ 35,245	**$ 146,514**
Time deposits	**7,539**	3,658	**62,720**
Accounts and notes receivable:			
Trade	**101,569**	124,871	**845,000**
Unconsolidated subsidiaries and affiliates	**8,588**	7,305	**71,448**
Other	**2,961**	2,782	**24,634**
	113,118	134,958	**941,082**
Inventories	**51,573**	59,336	**429,060**
Deferred tax assets (Note 8)	**3,877**	5,041	**32,255**
Other current assets	**2,373**	6,487	**19,742**
Less: allowance for doubtful accounts	**(213)**	(315)	**(1,772)**
Total current assets	**195,878**	244,410	**1,629,601**
Investments and Advances:			
Investments in securities (Note 5)	**43,668**	43,976	**363,295**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	**18,000**	14,317	**149,750**
Long-term loans to employees, mostly for housing	**75**	106	**624**
Long-term loans and other investments	**6,688**	7,950	**55,640**
Less: reserve for write-down of investments in securities	**(170)**	(125)	**(1,414)**
Less: allowance for doubtful accounts	**(968)**	(978)	**(8,053)**
	67,293	65,246	**559,842**
Property, Plant and Equipment (Note 7)**:**			
Buildings and structures	**128,018**	131,436	**1,065,042**
Machinery and equipment	**236,118**	248,511	**1,964,376**
	364,136	379,947	**3,029,418**
Less: accumulated depreciation	**(285,205)**	(291,951)	**(2,372,754)**
	78,931	87,996	**656,664**
Land	**21,663**	23,092	**180,225**
Construction in progress	**1,502**	2,283	**12,495**
	102,096	113,371	**849,384**
Deferred Tax Assets (Note 8)	**1,459**	4,318	**12,138**
Other Assets	**2,046**	2,768	**17,022**
	¥ 368,772	¥ 430,113	**$ 3,067,987**

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Thousands of U.S. Dollars (Note 4)
	2003	2002	**2003**
Current Liabilities:			
Short-term borrowings (Note 6)	**¥ 17,891**	¥ 29,459	**$ 148,844**
Current portion of long-term debt (Note 6)	**—**	9,997	**—**
Accounts and notes payable:			
Trade (Note 5)	**41,918**	49,890	**348,735**
Unconsolidated subsidiaries and affiliates	**4,499**	3,932	**37,429**
Construction and acquisition of properties	**2,133**	3,198	**17,745**
Other	**14,812**	23,659	**123,229**
	63,362	80,679	**527,138**
Income taxes payable	**2,135**	14,765	**17,762**
Employees' savings deposits	**—**	13,082	**—**
Reserve for accrued sales returns	**124**	187	**1,032**
Reserve for accrued sales rebates	**932**	1,118	**7,754**
Reserve for accrued sales promotion expenses	**530**	500	**4,409**
Guarantee deposits from customers	**7,948**	8,786	**66,123**
Other current liabilities	**2,124**	3,935	**17,670**
Total current liabilities	**95,046**	162,508	**790,732**
Long-Term Debt (Note 6)	**34,078**	34,898	**283,511**
Deferred Tax Liabilities (Note 8)	**330**	503	**2,745**
Reserve for Retirement Benefits:			
Employees (Note 9)	**17,601**	17,304	**146,431**
Directors and corporate auditors	**813**	790	**6,764**
Other Non-Current Liabilities	**406**	1,012	**3,378**
Minority Interests in Consolidated Subsidiaries	**1,451**	1,446	**12,072**
Commitments and Contingent Liabilities (Notes 7 and 12)			
Shareholders' Equity:			
Common stock:			
Authorized: 987,900,000 shares at March 31, 2003 and 2002			
Issued: 434,243,555 shares at March 31, 2003 and 2002	**26,745**	26,745	**222,504**
Additional paid-in capital	**43,180**	43,180	**359,235**
Retained earnings (Note 17)	**138,226**	131,897	**1,149,967**
	208,151	201,822	**1,731,706**
Unrealized Gains on Available-for-Sale Securities (Note 5)	**13,485**	14,946	**112,188**
Translation Adjustments	**(2,051)**	(5,061)	**(17,064)**
Treasury Stock, at Cost, 1,030,482 shares at March 31, 2003	**(538)**	(55)	**(4,476)**
Total shareholders' equity	**219,047**	211,652	**1,822,354**
	¥368,772	¥430,113	**$3,067,987**

CONSOLIDATED STATEMENTS OF INCOME

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2003	2002	2001	**2003**
Net Sales (Note 15)	**¥359,285**	¥378,668	¥375,610	**$2,989,060**
Cost of Sales (Notes 7, 9 and 13)	**232,957**	249,924	251,665	**1,938,078**
Gross profit	**126,328**	128,744	123,945	**1,050,982**
Selling, General and Administrative Expenses (Notes 7, 9 and 11)	**110,239**	108,387	106,233	**917,130**
Operating income (Note 15)	**16,089**	20,357	17,712	**133,852**
Other Revenue (Expenses):				
Interest and dividend income	**778**	827	1,208	**6,473**
Interest expenses	**(1,717)**	(3,114)	(3,134)	**(14,285)**
Write-down of investments in securities	**(306)**	(119)	(137)	**(2,546)**
Gain on sale of investments in securities	**1,688**	12,726	12,201	**14,044**
Foreign exchange (loss) gain	**(2,350)**	916	588	**(19,551)**
Insurance premium received	**340**	458	432	**2,828**
Gain on sale of property, plant and equipment	**3,489**	1,819	92	**29,027**
Loss from transition adjustment of pension accounting	**—**	—	(24,729)	**—**
Equity in earnings of affiliates	**221**	1,223	748	**1,839**
Gain from contribution of securities to pension fund	**—**	—	18,127	**—**
Loss on restructuring of certain subsidiaries and affiliates (Note 11)	**(6,047)**	(21,081)	—	**(50,308)**
Gain on the transfer of the alcoholic beverage operations (Note 11)	**3,247**	—	—	**27,013**
Gain on the transfer of the substitutional portion of contributory pension plan (Note 9)	**2,873**	—	—	**23,902**
Other, net	**(1,312)**	(1,550)	(1,237)	**(10,915)**
	904	(7,895)	4,159	**7,521**
Income before income taxes and minority interests	**16,993**	12,462	21,871	**141,373**
Income Taxes (Note 8)**:**				
Current	**3,227**	16,514	16,162	**26,847**
Deferred	**5,253**	(9,525)	(3,424)	**43,702**
	8,480	6,989	12,738	**70,549**
	8,513	5,473	9,133	**70,824**
Minority Interests in (Earnings) Losses of Consolidated Subsidiaries	**(28)**	62	262	**(233)**
Net income	**¥ 8,485**	¥ 5,535	¥ 9,395	**$ 70,591**
	Yen			U.S. Dollars (Note 4)
Per Share Data (Note 16)**:**				
Net income—basic	**¥19.4**	¥12.7	¥21.6	**$0.161**
Net income—diluted (*)	**—**	—	21.6	**—**
Cash dividends	**7.5**	7.5	7.5	**0.062**
Weighted Average Number of Shares (Thousands of shares)	**433,748**	434,244	434,244	

* 1. *Diluted net income per share for fiscal 2002 is not disclosed because there were anti-dilutive effects.*
2. *Diluted net income per share for fiscal 2003 is not disclosed because there were no warrants.*

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Number of shares of common stock (thousands)	Millions of Yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2000	434,244	¥26,745	¥43,180	¥125,114
Net income for the year ended March 31, 2001	—	—	—	9,395
Cash dividends	—	—	—	(2,714)
Directors' and corporate auditors' bonuses	—	—	—	(82)
Interim cash dividends	—	—	—	(1,628)
Increase due to additional application of equity method	—	—	—	42
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	213
Decrease due to cumulative effect of deferred tax accounting adopted by Mexican subsidiary	—	—	—	(643)
Other	—	—	—	(3)
Balance at March 31, 2001	434,244	26,745	43,180	129,694
Net income for the year ended March 31, 2002	—	—	—	5,535
Cash dividends	—	—	—	(1,628)
Directors' and corporate auditors' bonuses	—	—	—	(80)
Interim cash dividends	—	—	—	(1,628)
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	—	—	—	6
Other	—	—	—	(2)
Balance at March 31, 2002	434,244	26,745	43,180	131,897
Net income for the year ended March 31, 2003	**—**	**—**	**—**	**8,485**
Cash dividends	**—**	**—**	**—**	**(1,627)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(75)**
Interim cash dividends	**—**	**—**	**—**	**(1,628)**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**119**
Increase due to additional unconsolidated subsidiaries	**—**	**—**	**—**	**1,018**
Increase due to merger	**—**	**—**	**—**	**39**
Other	**—**	**—**	**—**	**(2)**
Balance at March 31, 2003	**434,244**	**¥26,745**	**¥43,180**	**¥138,226**

	Number of shares of common stock (thousands)	Thousands of U.S. Dollars (Note 4)		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 2002	**434,244**	**$222,504**	**$359,235**	**$1,097,313**
Net income for the year ended March 31, 2003	**—**	**—**	**—**	**70,591**
Cash dividends	**—**	**—**	**—**	**(13,536)**
Directors' and corporate auditors' bonuses	**—**	**—**	**—**	**(624)**
Interim cash dividends	**—**	**—**	**—**	**(13,544)**
Increase due to application of inflation accounting to the accounts of Mexican subsidiary	**—**	**—**	**—**	**990**
Increase due to additional unconsolidated subsidiaries	**—**	**—**	**—**	**8,470**
Increase due to merger	**—**	**—**	**—**	**324**
Other	**—**	**—**	**—**	**(17)**
Balance at March 31, 2003	**434,244**	**$222,504**	**$359,235**	**$1,149,967**

The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2003	2002	2001	**2003**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	**¥ 16,993**	¥ 12,462	¥ 21,871	**$ 141,373**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**14,768**	17,819	18,502	**122,862**
Equity in earnings of affiliates	**(221)**	(1,223)	(748)	**(1,839)**
Write-down of investments in securities	**306**	119	137	**2,546**
Increase in reserve for retirement benefits	**1,212**	766	25,329	**10,083**
Gain from contribution of securities to pension fund	**—**	—	(18,127)	**—**
Increase (Decrease) in reserve for retirement benefits to directors and corporate auditors	**27**	(152)	(44)	**225**
(Increase) Decrease in allowance for doubtful accounts	**(470)**	3	(202)	**(3,910)**
Gain on sale of securities	**(1,687)**	(12,726)	(12,201)	**(14,035)**
(Gain) Loss on sale/disposal of property, plant and equipment	**(2,748)**	(1,335)	423	**(22,862)**
Gain on the transfer of the alcoholic beverage operations	**(3,247)**	—	—	**(27,013)**
Loss on restructuring of certain subsidiaries and affiliates	**6,047**	21,081	—	**50,308**
Interest and dividend income	**(778)**	(827)	(1,208)	**(6,473)**
Interest expenses	**1,717**	3,114	3,134	**14,285**
Decrease (Increase) in trade receivables	**15,895**	2,843	(6,190)	**132,238**
Decrease (Increase) in inventories	**4,184**	(477)	3,061	**34,809**
(Decrease) Increase in trade payables	**(6,466)**	(8,081)	7,910	**(53,794)**
Payment of bonuses to directors and corporate auditors	**(81)**	(86)	(90)	**(674)**
(Decrease) Increase in consumption tax payables	**(1,060)**	302	134	**(8,819)**
Others	**(8,467)**	(2,218)	1,565	**(70,441)**
	35,924	31,384	43,256	**298,869**
Interest and dividend received	**815**	1,058	1,345	**6,780**
Interest expenses paid	**(1,878)**	(3,241)	(3,297)	**(15,624)**
Income taxes paid	**(16,668)**	(12,246)	(12,515)	**(138,669)**
Net cash provided by operating activities	**18,193**	16,955	28,789	**151,356**
Cash Fows of Investing Activities:				
Increase in time deposits	**(436)**	(434)	(538)	**(3,627)**
Decrease in time deposits	**456**	564	989	**3,794**
Acquisition of property, plant and equipment	**(12,783)**	(11,831)	(17,327)	**(106,348)**
Proceeds from sale of property, plant and equipment	**4,151**	2,785	1,137	**34,534**
Acquisition of investments in securities	**(5,256)**	(1,349)	(863)	**(43,727)**
Proceeds from sale of investments in securities	**2,573**	18,798	17,323	**21,406**
Additional investments in consolidated subsidiaries	**—**	(1,096)	(186)	**—**
Net decrease (increase) in short-term loans receivable	**767**	799	(2,190)	**6,380**
Increase in long-term loans receivable	**(82)**	(185)	(222)	**(682)**
Decrease in long-term loans receivable	**1,101**	339	730	**9,160**
Proceeds from transfer of alcoholic beverage operations	**13,073**	—	—	**108,760**
Others	**(978)**	(13)	(844)	**(8,136)**
Net cash provided by/(used in) investing activities	**2,586**	8,377	(1,991)	**21,514**
Cash Flows of Financing Activities:				
Net proceeds from short-term debt	**(11,036)**	(13,106)	(1,606)	**(91,814)**
Proceeds from long-term debt	**—**	150	—	**—**
Repayment of long-term debt	**(568)**	(570)	(2,929)	**(4,725)**
Redemption for bonds (Note 6)	**(9,997)**	—	(12,000)	**(83,170)**
Payment of employees' savings deposits for transferring to bank	**(13,449)**	—	—	**(111,889)**
Dividends paid	**(3,250)**	(3,251)	(4,330)	**(27,038)**
Dividends paid to minority	**(10)**	(11)	(11)	**(83)**
Others	**(438)**	(55)	5	**(3,644)**
Net cash used in financing activities	**(38,748)**	(16,843)	(20,871)	**(322,363)**
Effect of Exchanges on Cash and Cash Equivalents	**731**	819	437	**6,082**
(Decrease) Increase in Cash and Cash Equivalents	**(17,238)**	9,308	6,364	**(143,411)**
Cash and Cash Equivalents at the Beginning of the Year	**41,908**	32,600	26,215	**348,653**
Cash and Cash Equivalents at the Beginning of the Year Acquired from a Newly Consolidated Subsidiary	**—**	—	21	**—**
Decrease in Cash and Cash Equivalents Due to Deconsolidation of Certain Subsidiary	**(127)**	—	—	**(1,057)**
Increase in Cash and Cash Equivalents Due to Merger	**45**	—	—	**374**
Cash and Cash Equivalents at the End of the Year	**¥ 24,588**	¥ 41,908	¥ 32,600	**$ 204,559**

Relation between cash and cash equivalents at year-end and the account booked in the balance sheets

	Millions of Yen			Thousands of U.S. Dollars (Note 4)
	2003	2002	2001	**2003**
Cash and time deposits	**¥25,150**	¥38,903	¥31,073	**$209,234**
Time deposits whose maturity periods exceed three months	**(562)**	(341)	(472)	**(4,675)**
Investments in accounts receivable securitization	**—**	3,346	—	**—**
Marketable securities with original maturities of three months or less	**—**	—	1,999	**—**
	¥24,588	¥41,908	¥32,600	**$204,559**

The accompanying notes are an integral part of the statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KYOWA HAKKO KOGYO CO., LTD. and Its Consolidated Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by KYOWA HAKKO KOGYO CO., LTD. (the "Company") and its consolidated subsidiaries (hereinafter referred to in total as the "Companies"). The Company and its domestic consolidated subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan. The consolidated financial statements are not intended to present the consolidated financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company's fiscal year is from April 1 to March 31. Therefore, "fiscal 2003" begins on April 1, 2002 and ends on March 31, 2003.

2. ACCOUNTING CHANGE

(1) Treasury Stock and Reduction of Legal Reserves

Effective from fiscal 2003, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards No. 1 "Financial Accounting Standards for Treasury Stock and Reduction of Legal Reserves." As a result of adoption of the new regulation, there was no effect on the operating results for fiscal 2003.

(2) Per Share Information

Effective from fiscal 2003, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards No. 2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings per Share".

See Note 16 for the effect of this accounting change.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

The Company had 49 subsidiaries as at March 31, 2003 (53 as at March 31, 2002). The consolidated financial statements include the accounts of the Company and 24 subsidiaries in fiscal 2003 (28 for fiscal 2002).

As of March 31, 2003, Sainte Neige Wine Co., Ltd., Toyama Co., Ltd. and Takinogawa Sangyo Co., Ltd. were not consolidated, since investments in Sainte Neige Wine Co., Ltd. and Toyama Co., Ltd. were sold and total assets, retained earnings, net sales and net income of Takinogawa Sangyo Co., Ltd. were not significant.

Also Kyowa Foods INC. was excluded from consolidation because of liquidation, but statements of income during the period from April 1, 2002 to August 31, 2003 (liquidation date) was consolidated.

Major subsidiaries are listed on the next page.

The remaining 25 (25 as at March 31, 2002) subsidiaries, whose combined total assets, net sales, net income and retained earnings are not significant in relation to those of the consolidated financial statements of the Companies, have been excluded from consolidation.

The accounts of 9 (10 as at March 31, 2002) overseas consolidated subsidiaries, Biokyowa Inc., Kyowa Hakko U.S.A., Inc., and Kyowa America, Inc. (all incorporated in the U.S.A.), Kyowa Hakko Europe GmbH (incorporated in Germany), Fermentaciones Mexicanas, S.A. de C.V. (incorporated in Mexico and hereinafter referred to as "Fermex"), Agroferm Hungarian-Japanese Fermentation Industry Ltd. (incorporated in Hungary and referred to as "Agroferm"), Kyowa Hakko (H.K.) Co., Ltd. and Kyowa Foods (H.K.) Co., Ltd. (incorporated in China) and Kyowa Italiana Farmaceutici S.R.L. (incorporated in Italy), are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in their respective countries. Although certain differences exist in the accounting principles adopted by the overseas subsidiaries, essentially no adjustments have been made to their accounts in order to conform to Japanese accounting principles in the accompanying consolidated financial statements, as allowed under accounting principles and practices generally accepted in Japan.

The accounts of Fermex are based on inflation accounting as generally accepted in Mexico. Such inflation accounting includes the revaluation of fixed assets and the restatement of shareholders' equity adjusted by the National Consumer Price Index growth factor and the recognition of the effect of inflation on monetary assets and liabilities.

Financial statements of all overseas subsidiaries are prepared on a calendar year basis. For all domestic consolidated subsidiaries, they adopt a March 31 fiscal year-end basis.

Significant transactions that occurred between January 1 and March 31 are reflected in the accompanying consolidated financial statements.

Name of company	Direct and indirect equity ownership percentage	Capital stock (Millions)
Domestic subsidiaries:		
Kyowa Yuka Co., Ltd.	100.0%	¥5,300
Kyowa Medex Co., Ltd.	100.0	750
Kyowa F.D. Foods Co., Ltd.	100.0	275
Miyako Kagaku Co., Ltd.	52.9	111
Chiyoda Kaihatsu Co., Ltd.	100.0	113
Overseas subsidiaries:		
Biokyowa Inc. (U.S.A.)	100.0	$20
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)	100.0	N. Peso 31
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)	100.0	HuF 3,506
Kyowa Hakko U.S.A., Inc. (U.S.A)	100.0	$1
Kyowa Hakko Europe GmbH (Germany)	100.0	EURO 1
Kyowa America, Inc. (U.S.A.)	100.0	$53

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, if any at the date of establishment of control, has been amortized using a method which the Company determined based on the specific circumstances of each consolidated subsidiary.

All assets and liabilities of consolidated subsidiaries are revalued to fair market value as of the date of establishment of the control.

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 25 (25 at March 31, 2002) unconsolidated subsidiaries and 25 (27 at March 31, 2002) affiliates. The equity method is applied to the investments in 6 (6 at March 31, 2002) major domestic affiliates since the investments in the remaining unconsolidated subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

The 6 affiliates are accounted for using the equity method. The most significant affiliate is as follows:

Name of company	Equity ownership percentage	Capital stock (Millions of Yen)
J-PLUS Co., Ltd.	50.0%	¥480

Differences, arising from application of the equity method to unconsolidated subsidiaries and affiliates, between the cost of the investment and the amount of the underlying equity in net assets are fully amortized in the year when incurred.

The investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost or less.

(3) Inventories Valuation

Inventories are valued at cost, cost being determined mainly by using the average cost method.

(4) Securities Valuation

Held-to-maturity debt securities are valued at amortized or accumulated cost.

Available-for-sale securities, for which market value is available, are valued at fair market value prevailing at the fiscal year-end.

Available-for-sale securities, for which market value is not available, are valued at cost, cost being determined by the moving average method.

Where fair market value has declined by more than 30%, which is deemed to be "significantly declined in value", the Company measures the recoverability of each security and recognizes a subsequent loss on write-down, if necessary.

See Note 5.

(5) Property, Plant and Equipment

Depreciation is computed mainly using the declining-balance method.

The Company and its domestic consolidated subsidiaries compute depreciation expense for buildings (other than related equipment and leasehold improvements) acquired on and after April 1, 1998 using the straight-line method.

The range of useful lives are principally as follows:

Buildings and structures:	15-50 years
Machinery and equipment:	4-15 years

(6) Reserves and Allowances

Allowance for Doubtful Accounts

An allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured on collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency.

Reserve for Accrued Sales Returns

A reserve for accrued sales returns is provided on the basis of the maximum amount deductible under Japanese income tax laws. The amount of the reserve is determined based on the past years' experience of the Companies.

Reserve for Accrued Sales Rebates

A reserve for accrued sales rebates is provided at an amount determined based on the balance of receivables for pharmaceutical products from the sales agents and distributors at the year-end and the estimated rebate rates to be applied under the agreements.

Reserve for Accrued Sales Promotion Expenses

A reserve for accrued sales promotion expenses is provided at an amount equivalent to probable sales promotion expenses related to pharmaceutical inventories held by distributors. The amount of the reserve is determined based on the balance of inventories at year-end and the Companies' past experience ratio for such expenses.

Reserve for Write-Down of Investments in Securities

A reserve for the write-down of investments in securities is measured on the basis of the financial positions of the investees, such as subsidiaries and other investments, and provided for any decline in value of those investments.

Reserve for Retirement Benefits to Employees

A reserve for retirement benefits to employees is provided at an amount equal to the present value of the projected benefit obligation less fair value of the plan assets at the year-end.

Unrecognized prior service costs are amortized on a straight-line basis over five years from the year they occur.

Unrecognized actuarial differences are amortized on a straight-line basis over ten years from the year after they occur.

(Additional Information)

Following the enactment of the Welfare Pension Insurance Law in Japan, on March 1, 2003, the KYOWA HAKKO KOGYO CO., LTD. Group contributory pension plan obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the contributory pension plan that the Company and its domestic subsidiaries operate on behalf of the Government (the so-called substitutional portion).

The Company and certain of its domestic consolidated subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare.

See Note 9 for the effect of this accounting.

Reserve for Retirement Benefits to Directors and Corporate Auditors

A reserve for retirement benefits to directors, including executive directors, and corporate auditors is provided in accordance with the Company's bylaws.

(7) Foreign Currency Translation

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at the spot rate prevailing at the year-end. Resulting translation gains or losses are charged or credited to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the spot rate prevailing at the respective year-end of overseas subsidiaries, while income and expenses are translated at the annual average rate. Resulting translation adjustments are included in "shareholders' equity".

(8) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

See Note 7.

(9) Accounting for Hedging

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income for the same year during which the gains or losses on the hedged items or transactions are recognized. However, certain foreign currency receivables and payables covered by forward exchange contracts are translated at the contract rate, if applicable.

The derivatives designated as hedging instruments by the Companies are principally currency swap and forward exchange contracts for receivables/payables denominated in foreign currency.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' risk of fluctuation in interest and exchange rates. Therefore, the Companies' purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

See Note 10.

(10) Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements.

See Note 8 for details of deferred tax assets/liabilities.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash on hand, bank deposits, which are able to be withdrawn on demand at any time, and short-term investments with an original maturity of three months or less, which are readily convertible into cash and considered to represent a low risk of market price fluctuation.

(12) Accounting for Consumption Taxes

In Japan, consumption taxes are imposed at a flat rate of 5 per cent. on all domestic consumption of goods and services, with certain exemptions. Consumption taxes imposed on the Companies' domestic sales to customers are withheld by the Companies at the time of sale and are paid to the national government and the local public body subsequently. The consumption tax withheld upon sale and the consumption tax paid by the Company and its domestic consolidated subsidiaries on the purchases of goods and services are not included in the related amounts in the accompanying consolidated statements of income.

(13) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year.

As is customary in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year, which constitutes a part of the appropriation mentioned above.

(14) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding, exclusive of treasury stock, during each year. Cash dividends per share represent dividends declared as applicable to the respective period.

(15) Reclassification

Certain fiscal 2002 and 2001 figures are reclassified to conform to the current year representation.

(16) Additional Information

The fiscal year-end of March 31, 2002 fell on a bank holiday. As a result, notes receivable/payable are not accounted for as settled until the date of exchange. Therefore, the following items were included in the accompanying consolidated balance sheets as of March 31, 2002 and remained unsettled.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Notes receivable	**¥ —**	¥6,095	**$ —**
Notes payable	**—**	3,285	**—**
Notes payable for construction included in "other current liabilities"	**—**	22	**—**

In addition, the following receivable/payable balances, which originally fell due at the fiscal year-end, are included in the accompanying consolidated balance sheets as of March 31, 2002, because those balances are settled in the same way as for notes receivable/payable.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Accounts receivable—trade	**¥ —**	¥4,978	**$ —**
Accounts payable—trade	**—**	4,145	**—**
Accounts payable—other	**—**	1,220	**—**

4. UNITED STATES DOLLAR AMOUNTS

The consolidated financial statements are prepared in Japanese yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥120.20=U.S.$1, the approximate exchange rate at March 31, 2003. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts can be converted into dollars at ¥120.20=U.S.$1 or at any other rate.

5. SECURITIES

a) Available-for-sale securities for which market value is available in 2003 and 2002:

	March 31, 2003		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	**¥8,252**	**¥31,206**	**¥22,954**
Other securities, excluding bonds	**20**	**20**	**0**
Securities with unrealized loss:			
Shares	**1,579**	**1,310**	**(269)**
Other securities, excluding bonds	**—**	**—**	**—**

	March 31, 2003		
	Thousands of U.S. Dollars		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	**$68,652**	**$259,617**	**$190,965**
Other securities, excluding bonds	**166**	**166**	**0**
Securities with unrealized loss:			
Shares	**13,136**	**10,899**	**(2,237)**
Other securities, excluding bonds	**—**	**—**	**—**

	March 31, 2002		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥9,814	¥35,637	¥25,823
Other securities, excluding bonds	—	—	—
Securities with unrealized loss:			
Shares	1,109	960	(149)
Other securities, excluding bonds	20	20	(0)

b) Amount of available-for-sale securities sold in fiscal 2003 and 2002:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Amount sold	**¥2,899**	¥2,377	**$24,118**
Realized gain	**1,834**	1,103	**15,258**
Realized loss	**(12)**	58	**(100)**

c) Details of investments in securities without market quotation in 2003 and 2002:

Description	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars 2003
Available-for-sale securities:			
Unlisted shares (excluding OTC shares)	**¥10,118**	¥6,349	**$84,176**
Other securities	**1,006**	1,007	**8,369**

d) Maturity schedule of available-for-sale securities with scheduled maturity:

	March 31, 2003 Millions of Yen
Less than one year	¥ —
More than one year less than five years	26
More than five years less than ten years	—
Thereafter	—

	March 31, 2003 Thousands of U.S. Dollars
Less than one year	$ —
More than one year less than five years	216
More than five years less than ten years	—
Thereafter	—

e) Assets pledged as collateral and relevant debt:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Investments in securities	**¥124**	¥ 85	**$1,032**
Accounts and notes payable—trade	**278**	450	**2,313**

f) Investments in unconsolidated subsidiaries and affiliates:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Investments in shares	**¥15,961**	¥12,348	**$132,787**
Participations	**1,222**	1,222	**10,166**

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt consists principally of bank overdrafts bearing interest of 0.97% and 0.96%, the weighted average interest rate on outstanding balances as at March 31, 2003 and 2002, respectively. It is normal business custom in Japan for short-term bank loans to be rolled over each year.

Short-term borrowings as at March 31, 2003 and 2002, is summarized as follows:

	March 31		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Short-term bank loans	**¥17,249**	¥28,918	**$143,502**
Current portion of long-term borrowings	**642**	541	**5,342**
	¥17,891	¥29,459	**$148,844**

Long-term debt as at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Loans from banks, other financial institutions, etc., due from 2004 to 2013 with mortgage and collateral (Note 2)	**¥ 1,078**	¥ 1,898	**$ 8,969**
1.50 per cent. convertible bond due 2002 (Note 3)	**—**	9,997	**—**
1.75 per cent. bond due 2003 (Note 4)	**—**	—	**—**
2.55 per cent. bond due 2008	**15,000**	15,000	**124,792**
2.525 per cent. bond due 2008	**15,000**	15,000	**124,792**
1.98 per cent. bond due 2008	**3,000**	3,000	**24,958**
	34,078	44,895	**283,511**
Less: portion due within one year	**—**	(9,997)	**—**
	¥34,078	¥34,898	**$283,511**

Notes: 1. All bonds shown above are unsecured.
2. The interest rate on long-term loans (excluding current portion) from banks was 2.33%, the weighted average interest rate on outstanding balances at the year-end.
3. Holders of the bond are entitled to convert the bond into common stock at a price of ¥1,880 during the period from March 1, 1990 to June 27, 2002, subject to adjustment in certain circumstances.
4. The bond was accounted for as redeemed due to a debt assumption contract. The debt assumption contract requires a counterparty to assume obligations of paying principal and interests on the bond. See Note 12 for underlying obligations of the Company.

Annual maturities of bonds and convertible bond are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ —	$ —
More than one year less than two years	—	—
More than two years less than three years	—	—
More than three years less than four years	—	—
More than four years less than five years	—	—
More than five years	33,000	274,542
	¥33,000	$274,542

Annual maturities of long-term debt, except for bonds and convertible bond, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 642	$ 5,341
More than one year less than two years	723	6,015
More than two years less than three years	258	2,146
More than three years less than four years	32	266
More than four years less than five years	29	241
More than five years	36	300
	¥1,720	$14,309

7. LEASE TRANSACTIONS

(1) Finance Leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to the lessee, as of, and for the years ended March 31, 2003 and 2002, is as follows.

The acquisition cost, accumulated depreciation and net book value of leased assets, at March 31, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Acquisition cost	**¥2,175**	¥2,452	**$18,095**
Accumulated depreciation	**1,094**	1,214	**9,102**
Net book value	**¥1,081**	¥1,238	**$ 8,993**

Lease payments and depreciation for the years ended March 31, 2003 and 2002, amounted to ¥512 million ($4,260 thousand) and ¥561 million, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of March 31, 2003 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 404**	¥ 488	**$3,361**
Due over one year	**677**	750	**5,632**
	¥1,081	¥1,238	**$8,993**

(2) Operating Leases

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 5**	¥ 4	**$ 42**
Due over one year	**12**	10	**100**
	¥17	¥14	**$142**

8. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2003, 2002 and 2001 are as follows:

	March 31, 2003	
Balance sheet item	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Non-deductible portion of reserve for bonuses	¥ 1,063	$ 8,844
Enterprise taxes payable.	216	1,797
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	659	5,483
Non-deductible portion of reserve for retirement benefits to employees	4,319	35,932
Reserve for retirement benefits to directors and corporate auditors	327	2,720
Tax loss carried forward	3,823	31,805
Loss on write-down of investments in securities	855	7,113
Prepaid expense in tax accounting	1,234	10,266
Non-deductible portion of depreciation of property, plant and equipment	1,123	9,343
Loss on write-down of golf membership	489	4,068
Impairment on investments in certain consolidated subsidiaries	6,305	52,454
Loss on write-down of fixed assets held by overseas subsidiaries	1,581	13,153
Others	2,221	18,478
Sub-total	¥ 24,215	$ 201,456
Valuation allowance	(5,608)	(46,656)
Total deferred tax assets	¥ 18,607	$ 154,800
Deferred tax liabilities:		
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,396)	$ (19,933)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,029)	(16,880)
Unrealized gains on available-for-sale securities	(9,129)	(75,948)
Others	(47)	(391)
Total deferred tax liabilities	¥(13,601)	$(113,152)
Deferred tax assets, net	¥ 5,006	$ 41,648

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2003 is as follows:

Balance sheet item		Millions of Yen	Thousands of U.S. Dollars
Current assets	Deferred tax assets	¥3,877	$32,255
Non-current assets	Deferred tax assets	1,459	12,138
Non-current liabilities	Deferred tax liabilities	(330)	(2,745)
		¥5,006	$41,648

	March 31, 2002
	Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for bonuses	¥ 1,002
Enterprise taxes payable.	1,409
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	814
Non-deductible portion of reserve for retirement benefits to employees	5,082
Reserve for retirement benefits to directors and corporate auditors	406
Tax loss carried forward	7,293
Loss on write-down of investments in securities	764
Prepaid expense in tax accounting	861
Non-deductible portion of depreciation of property, plant and equipment	884
Loss on write-down of golf membership	457
Impairment on investments in certain consolidated subsidiaries	10,344
Loss on write-down of fixed assets held by overseas subsidiaries	3,934
Others	3,029
Sub-total	¥ 36,279
Valuation allowance	(11,460)
Total deferred tax assets	¥ 24,819
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,205)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,530)
Unrealized gains on available-for-sale securities	(10,709)
Others	(519)
Total deferred tax liabilities	¥(15,963)
Deferred tax assets, net	¥ 8,856

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2002 is as follows:

		Millions of Yen
Current assets	Deferred tax assets	¥5,041
Non-current assets	Deferred tax assets	4,318
Non-current liabilities	Deferred tax liabilities	(503)
		¥8,856

	March 31, 2001
	Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for bonuses	¥ 736
Enterprise taxes payable.	1,034
Non-deductible portion of reserve for accrued sales rebates, discounts and sales promotion	961
Non-deductible portion of reserve for retirement benefits to employees	4,798
Reserve for retirement benefits to directors and corporate auditors	393
Non-deductible portion of amortization of deferred charges	656
Tax loss carried forward	2,465
Loss on write-down of investments in securities	722
Prepaid expense in tax accounting	682
Non-deductible portion of depreciation of property, plant and equipment	830
Loss on write-down of golf membership	403
Others	2,319
Sub-total	¥15,999
Valuation allowance	(2,900)
Total deferred tax assets	¥13,099
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (1,928)
Special depreciation of property, plant and equipment held by an overseas subsidiary	(2,221)
Others	(419)
Total deferred tax liabilities	¥ (4,568)
Deferred tax assets, net	¥ 8,531

Note: Classification of "Deferred tax assets, net" on the consolidated balance sheet as of March 31, 2001 is as follows:

		Millions of Yen
Current assets	Deferred tax assets	¥3,996
Non-current assets	Deferred tax assets	5,085
Non-current liabilities	Deferred tax liabilities	(550)
		¥8,531

Note: Deferred tax assets relating to operating losses are recorded in accordance with the Japanese accounting standards which require that the benefit of tax loss carryforwards be estimated and recorded as an asset, with the deduction of a valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

Reconciliation between the statutory tax rate and the effective tax rate as at March 31, 2003, 2002 and 2001 is as follows:

	March 31		
	2003	2002	2001
Statutory tax rate	**41.7%**	41.69%	41.69%
Permanent differences:			
Non-deductible expenses such as entertainment expenses	**8.8**	13.51	8.85
Non-taxable income such as dividend income	**(1.2)**	(3.05)	(1.83)
Future tax benefits deemed not to be realized	**(19.3)**	82.52	13.71
Equity in earnings of affiliates	**(0.5)**	(4.09)	(3.68)
Impairment on investments in certain consolidated subsidiaries	**16.2**	(70.14)	—
Adjustment of deferred tax assets due to change in tax rate	**2.3**	—	—
Others	**1.9**	(4.36)	(0.50)
Effective tax rate	**49.9%**	56.08%	58.24%

Due to the change in local tax law during fiscal 2003, the effective tax rate used in the calculation of deferred tax assets and liabilities is reduced from 41.7% to 40.3%. As a result, deferred tax assets, net of deferred tax liabilities, income taxes and unrealized gains on available-for-sale securities increased by ¥56 million ($466 thousand), ¥383 million ($3,186 thousand) and ¥327 million ($2,720 thousand), respectively.

9. RESERVE FOR RETIREMENT BENEFITS TO EMPLOYEES

The Company and its domestic consolidated subsidiaries operate various defined benefit plans, such as a contributory pension plan, a qualified pension plan and a severance payment plan.

Following the enactment of the Welfare Pension Insurance Law in Japan, on March 1, 2003, the KYOWA HAKKO KOGYO CO., LTD. Group contributory pension plan obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the contributory pension plan that the Company and its domestic subsidiaries operate on behalf of the Government (the so-called substitutional portion).

a) The reserve for retirement benefits as of March 31, 2003, 2002 and 2001 is analyzed as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	**2003**
Projected benefit obligations	**¥(73,334)**	¥(124,705)	¥(108,845)	**$(610,099)**
Plan assets	**23,240**	62,191	73,493	**193,344**
Unfunded benefit obligations	**(50,094)**	(62,514)	(35,352)	**(416,755)**
Unrecognized actuarial differences	**33,310**	47,321	18,103	**277,121**
Unrecognized prior service costs (Note 3)	**(817)**	(2,111)	—	**(6,797)**
	¥(17,601)	¥ (17,304)	¥ (17,249)	**$(146,431)**

Notes: 1. The table as of March 31, 2002 and 2001 includes the amounts of the substitutional portion of the contributory pension plan.
2. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under the accounting standard generally accepted in Japan.
3. Unrecognized prior service costs incurred in fiscal 2002, due to a change in the benefit level prescribed by the contributory pension plan and a severance payment plan. Unrecognized prior service costs (reduction of liability) incurred in fiscal 2003, due to a change in the age of eligibility for annuity payments for the basic portion of the contributory pension plan.
4. The Company and certain of its domestic consolidated subsidiaries applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants) and the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned was ¥29,633 million ($246,531 thousand) at the end of fiscal 2003.

b) The net periodic pension expense related to the retirement benefits for fiscal 2003, 2002 and 2001 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	**2003**
Service cost (Notes 1 and 2)	**¥ 5,018**	¥ 3,875	¥ 4,190	**$ 41,746**
Interest cost	**3,029**	3,629	3,592	**25,200**
Expected return on plan assets	**(2,277)**	(2,366)	(2,580)	**(18,943)**
Amortization of transition adjustment	**—**	—	24,729	**—**
Amortization of unrecognized actuarial differences	**4,913**	1,810	—	**40,874**
Amortization of unrecognized prior service costs	**(980)**	(527)	—	**(8,153)**
Special severance payment	**28**	198	—	**233**
	¥ 9,731	¥ 6,619	¥29,931	**$ 80,957**
Gain on the transfer of the substitutional portion of contributory pension plan	**(2,873)**	—	—	**(23,902)**
	¥ 6,858	¥ 6,619	¥29,931	**$ 57,055**

Notes: 1. Excludes employees' contributions made to the contributory pension plan operated by the Company.
2. Includes net periodic pension expense incurred by the subsidiaries which apply the simple method.

c) Assumptions used in calculation of the above information are as follows:

	As of March 31, 2003	As of March 31, 2002	As of March 31, 2001
Method of attributing the projected benefits to periods of services	Benefit/year of service approach	Benefit/year of service approach	Benefit/year of service approach
Discount rate	**2.5%**	2.5%	3.5%
Expected rate of return	**3.6%**	3.1%	Plan assets: 4.00% Pension trust fund: 0.32%
Amortization of transition adjustments	**—**	—	Fully expensed in this fiscal year

10. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign currency swap, foreign exchange contract, and interest rate swap and cap agreements.

All such instruments involve risk, including the credit risk of nonperformance by counterparties. However, at March 31, 2003, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counterparties on these financial instruments, because all counterparties were major financial institutions and securities companies with a high credit rating. Also, the Companies do not use derivative financial instruments for highly leveraged transactions.

(2) Fair Value Information of Derivative Financial Instruments

Under the Japanese Regulation for Consolidated Financial Statements, fair value information is not required about outstanding derivative financial instruments which are hedged for exposing to losses from market volatility. All outstanding derivative financial instruments have been hedged by the Companies.

Therefore, no item was required to be disclosed in this section as of March 31, 2003.

11. SUPPLEMENTARY STATEMENTS OF INCOME

a) The major elements of selling, general and administrative expenses for each of the three years in the period ended March 31, 2003, 2002 and 2001 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	**2003**
Research and development expenses	**¥30,932**	¥28,732	¥28,344	**$257,338**
Salaries	**17,886**	18,915	18,201	**148,802**
Sales promotion	**8,856**	10,347	9,950	**73,677**
Bonuses to employees	**7,326**	7,782	7,720	**60,948**

b) Gain on the transfer of the alcoholic beverage operations consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Gain on transfer of operations	¥5,069	$42,171
Gain on corporate separation	988	8,220
Loss on transition of retirement benefit obligation	(592)	(4,925)
Lump-sum payment of employment transfer and special retirement benefits	(548)	(4,559)
Loss on disposal of inventories	(509)	(4,235)
Loss on disposal of property and equipment	(215)	(1,789)
Other	(946)	(7,870)
	¥3,247	$27,013

c) Loss on restructuring of certain subsidiaries and affiliates consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Loss on write-down of fixed assets	¥3,241	$26,963
Foreign exchange loss	1,350	11,232
Provision for doubtful accounts	388	3,228
Valuation loss on inventories	214	1,780
Provision for loss on write-down of investments	147	1,223
Loss on write-down of investments in affiliates	37	308
Loss on sales of investments in affiliates	5	42
Other	665	5,532
	¥6,047	$50,308

	Millions of Yen
	2002
Loss on write-down of fixed assets	¥19,491
Loss on sales/disposal of fixed assets	555
Loss on sales of investments in affiliates	511
Provision for doubtful accounts	241
Loss on write-down of investments in affiliates	112
Provision for loss on write-down of investments	38
Other	133
	¥21,081

12. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The Companies and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks in the amount of ¥93 million ($774 thousand) at March 31, 2003.

The Company and its consolidated subsidiaries are contingently liable for guarantees of loans borrowed by Sanbo-Brewer Ltd. and others in the amounts of ¥410 million ($3,411 thousand) and ¥424 million ($3,527 thousand), respectively, at March 31, 2003.

(2) Contingent liabilities under a debt assumption agreement were to totaled ¥12,000 million ($99,834 thousand).

(3) On June 7, 2000, the Company and Kyowa Hakko Europe GmbH ("KHEG") had a fine of 13,200 thousand Euro imposed on them by a Decision of the European Commission with allegations that the Company and KHEG had violated EU competition law due to their involvement in a cartel for the sale of amino acid lysine within EEA (European Economic Area) prior to June, 1995. On August 25, 2000, the Company and KHEG lodged an appeal to the Court of First Instance of the European Communities with regard to the amount of fine. The final amount of the fine has not yet been determined. In the consolidated balance sheets, 1,120 thousand Euro (¥145 million; $1,206 thousand) was recognized under "accounts payable" based on the calculation method of the fine which the European Commission had previously adopted.

13. RELATED PARTY TRANSACTIONS

The Company discloses material transactions of the Company with its related companies, representing more than 10 per cent. of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended March 31, 2001 are disclosed by each item.

Also, the Company discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the footnote, represent more than 1 per cent. of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. No such transaction occurred in fiscal 2003 and 2002.

Related party transactions in fiscal 2001 are as follows:

				Millions of Yen			
				Transactions		Resulting account balances	
Name of related company	Paid-in capital (Millions of yen)	Principal business	Direct equity ownership percentage by the Company	Description of transactions	Year ended March 31, 2001	Account	At March 31, 2001
Janssen-Kyowa Co., Ltd.	¥1,000	Development, process, import and wholesale of pharmaceuticals	40%	Purchase of pharmaceuticals	¥20,702	Accounts and notes payable	¥6,757

Material transactions and balances of the Company with its related individuals, including shareholders and directors, representing more than ¥1 million shall be disclosed, but are not applicable for the years ended March 31, 2003, 2002 and 2001.

14. CASH FLOW INFORMATION

(1) Summary of assets and liabilities excluded following the transfer of alcoholic beverage operations:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Current assets	¥14,792	$123,062
Fixed assets	6,132	51,015
Total assets	¥20,924	$174,077
Current liabilities	¥ 4,159	$ 34,601
Non-current liabilities	3,020	25,124
Total liabilities	¥ 7,179	$ 59,725

(2) Significant non-cash transactions are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Acquisition of investments in securities following the corporate separation	¥7,356	$61,198

15. SEGMENT INFORMATION

(1) Industry Segment Information

The Companies operate principally in the following 5 industry segments:

Industry segments:	**Major products:**
(1) Pharmaceuticals Division	Ethical drugs and diagnostic reagents
(2) Bio-Chemicals Division	Bulk pharmaceuticals, animal health products and agrochemicals
(3) Chemicals Division	Solvents, plasticizers and their raw materials and specialty chemicals
(4) Liquor and Food Division	Alcoholic beverages, alcohol, seasonings, confectionery and baking ingredients and processed foods
(5) Other Division	Transportation, warehouse and sales of apparatus for industry

Year ended March 31, 2003	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**¥138,341**	**¥50,921**	**¥60,343**	**¥67,745**	**¥41,935**	**¥359,285**	**¥ —**	**¥ 359,285**
Inter-segment sales/transfers	**2,253**	**7,604**	**4,815**	**4,577**	**21,550**	**40,799**	**(40,799)**	**—**
Total sales	**140,594**	**58,525**	**65,158**	**72,322**	**63,485**	**400,084**	**(40,799)**	**359,285**
Operating expenses	**129,580**	**56,550**	**64,058**	**72,690**	**60,888**	**383,766**	**(40,570)**	**343,196**
Operating income (loss)	**¥ 11,014**	**¥ 1,975**	**¥ 1,100**	**¥ (368)**	**¥ 2,597**	**¥ 16,318**	**¥ (229)**	**¥ 16,089**
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	**¥109,167**	**¥65,085**	**¥68,859**	**¥40,275**	**¥30,501**	**¥313,887**	**¥54,885**	**¥368,772**
Depreciation and amortization	**5,055**	**3,898**	**3,629**	**1,677**	**131**	**14,390**	**378**	**14,768**
Capital expenditures	**4,185**	**3,664**	**2,150**	**1,401**	**130**	**11,530**	**261**	**11,791**

Year ended March 31, 2003	Thousands of U.S. Dollars							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	**$1,150,923**	**$423,636**	**$502,022**	**$563,602**	**$348,877**	**$2,989,060**	**$ —**	**$2,989,060**
Inter-segment sales/transfers	**18,744**	**63,261**	**40,058**	**38,079**	**179,284**	**339,426**	**(339,426)**	**—**
Total sales	**1,169,667**	**486,897**	**542,080**	**601,681**	**528,161**	**3,328,486**	**(339,426)**	**2,989,060**
Operating expenses	**1,078,036**	**470,466**	**532,929**	**604,743**	**506,555**	**3,192,729**	**(337,521)**	**2,855,208**
Operating income (loss)	**$ 91,631**	**$ 16,431**	**$ 9,151**	**$ (3,062)**	**$ 21,606**	**$ 135,757**	**$ (1,905)**	**$ 133,852**
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	**$908,211**	**$541,473**	**$572,870**	**$335,067**	**$253,752**	**$2,611,373**	**$456,614**	**$3,067,987**
Depreciation and amortization	**42,055**	**32,429**	**30,191**	**13,952**	**1,090**	**119,717**	**3,145**	**122,862**
Capital expenditures	**34,816**	**30,483**	**17,887**	**11,656**	**1,082**	**95,924**	**2,171**	**98,095**

Year ended March 31, 2002	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥139,724	¥48,637	¥55,446	¥ 99,261	¥35,600	¥378,668	¥ —	¥378,668
Inter-segment sales/transfers	2,573	6,859	4,964	4,270	24,177	42,843	(42,843)	—
Total sales	142,297	55,496	60,410	103,531	59,777	421,511	(42,843)	378,668
Operating expenses	123,338	54,228	61,584	103,971	58,021	401,142	(42,831)	358,311
Operating income (loss)	¥ 18,959	¥ 1,268	¥ (1,174)	¥ (440)	¥ 1,756	¥ 20,369	¥ (12)	¥ 20,357
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	¥117,196	¥70,794	¥71,162	¥ 72,327	¥30,631	¥362,110	¥ 68,003	¥430,113
Depreciation and amortization	5,368	4,881	4,149	2,860	137	17,395	424	17,819
Capital expenditures	4,523	2,586	1,729	2,243	161	11,242	212	11,454

Year ended March 31, 2001	Millions of Yen							
	Industry segment						Corporate, elimination and other	Consolidated total
	Pharmaceuticals	Bio-Chemicals	Chemicals	Liquor and Food	Other	Total		
I. Sales and Operating Income (Loss):								
Sales:								
Sales to outside customers	¥138,928	¥46,920	¥56,224	¥ 98,718	¥34,820	¥375,610	¥ —	¥375,610
Inter-segment sales/transfers	2,522	5,800	4,435	4,635	22,807	40,199	(40,199)	—
Total sales	141,450	52,720	60,659	103,353	57,627	415,809	(40,199)	375,610
Operating expenses	121,876	53,911	63,343	102,434	56,486	398,050	(40,152)	357,898
Operating income (loss)	¥ 19,574	¥ (1,191)	¥ (2,684)	¥ 919	¥ 1,141	¥ 17,759	¥ (47)	¥ 17,712
II. Assets, Depreciation and amortization and Capital Expenditures:								
Assets	¥123,365	¥83,763	¥67,573	¥ 74,578	¥20,256	¥369,535	¥ 61,875	¥431,410
Depreciation and amortization	5,258	4,915	4,842	2,584	153	17,752	750	18,502
Capital expenditures	4,399	4,102	4,228	3,786	154	16,669	423	17,092

(2) Geographic Segment Information

Areas other than Japan are classified into "Americas", "Europe" and "Asia":

Classification:	**Area:**
(1) Americas	North America, Latin America
(2) Europe	Whole Europe
(3) Asia	Whole Asia

Sales and assets in Americas, Europe and Asia consist of less than 10% of total sales and total assets, respectively, therefore, all are totally referred to as "Other areas".

	Millions of Yen				
	Geographic segment				
Year ended March 31, 2003	Japan	Other areas	Total	Corporate, elimination and other	Consolidated total
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	**¥322,691**	**¥36,594**	**¥359,285**	**¥ —**	**¥ 359,285**
Inter-segment sales/transfers	**17,176**	**6,477**	**23,653**	**(23,653)**	**—**
Total sales	**339,867**	**43,071**	**382,938**	**(23,653)**	**359,285**
Operating expenses	**322,460**	**44,325**	**366,785**	**(23,589)**	**343,196**
Operating income (loss)	**¥ 17,407**	**¥ (1,254)**	**¥ 16,153**	**¥ (64)**	**¥ 16,089**
II. Assets:					
Assets	**¥292,495**	**¥22,921**	**¥315,416**	**¥ 53,356**	**¥368,772**

	Thousands of U.S. Dollars				
	Geographic segment				
Year ended March 31, 2003	Japan	Other areas	Total	Corporate, elimination and other	Consolidated total
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	**$2,684,617**	**$304,443**	**$2,989,060**	**$ —**	**$2,989,060**
Inter-segment sales/transfers	**142,895**	**53,885**	**196,780**	**(196,780)**	**—**
Total sales	**2,827,512**	**358,328**	**3,185,840**	**(196,780)**	**2,989,060**
Operating expenses	**2,682,695**	**368,761**	**3,051,456**	**(196,248)**	**2,855,208**
Operating income (loss)	**$ 144,817**	**$ (10,433)**	**$ 134,384**	**$ (532)**	**$ 133,852**
II. Assets:					
Assets	**$2,433,402**	**$190,691**	**$2,624,093**	**$ 443,894**	**$3,067,987**

Year ended March 31, 2002	Millions of Yen				
	Geographic segment			Corporate, elimination and other	Consolidated total
	Japan	Other areas	Total		
I. Sales and Operating Income (Loss):					
Sales:					
Sales to outside customers	¥343,241	¥35,427	¥378,668	¥ —	¥378,668
Inter-segment sales/transfers	16,972	7,385	24,357	(24,357)	—
Total sales	360,213	42,812	403,025	(24,357)	378,668
Operating expenses	337,831	44,326	382,157	(23,846)	358,311
Operating income (loss)	¥ 22,382	¥ (1,514)	¥ 20,868	¥ (511)	¥ 20,357
II. Assets:					
Assets	¥336,475	¥29,451	¥365,926	¥ 64,187	¥430,113

For comparative figures, the geographic segment information for fiscal 2001 is omitted because over 90 per cent. of total sales and total assets relate to only the domestic segment.

(3) Overseas Sales

The classification of overseas sales is as follows:

Classification:	**Area:**
(1) Americas	North America, Latin America
(2) Europe	Whole Europe
(3) Asia	Whole Asia
(4) Other areas	Oceania, Africa

Year ended March 31, 2003	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**¥21,701**	**¥18,072**	**¥22,167**	**¥322**	**¥ 62,262**
II. Consolidated net sales					**359,285**
III. Ratio of overseas sales to consolidated net sales	**6.0%**	**5.0%**	**6.2%**	**0.1%**	**17.3%**

Year ended March 31, 2003	Thousands of U.S. Dollars				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	**$180,541**	**$150,349**	**$184,418**	**$2,679**	**$ 517,987**
II. Consolidated net sales					**2,989,060**
III. Ratio of overseas sales to consolidated net sales	**6.0%**	**5.0%**	**6.2%**	**0.1%**	**17.3%**

Year ended March 31, 2002	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥21,577	¥15,239	¥19,385	¥192	¥ 56,393
II. Consolidated net sales					378,668
III. Ratio of overseas sales to consolidated net sales	5.7%	4.0%	5.1%	0.1%	14.9%

Year ended March 31, 2001	Millions of Yen				
	Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥22,092	¥13,218	¥16,538	¥687	¥ 52,535
II. Consolidated net sales					375,610
III. Ratio of overseas sales to consolidated net sales	5.9%	3.5%	4.4%	0.2%	14.0%

Note: Overseas sales are sales by the Companies to customers outside of Japan.

16. PER SHARE DATA

	Yen			U.S. Dollars
	2003	2002	2001	**2003**
Net assets per share	**¥505.4**	¥487.5	¥448.3	**$4,204.7**
Net income—basic	**¥19.4**	¥12.7	¥21.6	**$0.161**
Net income—diluted (*)	**—**	—	21.6	**—**

* 1. Diluted net income per share for fiscal 2002 is not disclosed because there were anti-dilutive effects.
2. Diluted net income per share for fiscal 2003 is not disclosed because there were no warrants.

Effective from fiscal 2003, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards No. 2 "Financial Accounting Standards for Earnings per Share" and the Financial Accounting Standards Implementation Guidance No. 4 "Implementation Guidance for Accounting Standards for Earnings per Share".

By applying this method, the amounts of net income per share and net assets per share for fiscal 2002 and 2001 are calculated as follows:

	Yen	
	2002	2001
Net assets per share	¥487.4	¥448.2
Net income—basic	¥12.6	¥21.4
Net income—diluted (*)	—	21.4

* Diluted net income per share for fiscal 2002 is not disclosed because there were anti-dilutive effects.

Basis for the calculation of net income per share data is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Net income	¥8,485	$70,591
Less: Components not pertaining to common shareholders		
Bonuses to directors and corporate auditors	(90)	(749)
Net income pertaining to common shareholders	¥8,395	$69,842

Average outstanding shares to common stock: 433,747,760 shares

17. SUBSEQUENT EVENT

Subsequent to March 31, 2003, the Company's Board of Directors, with the approval by shareholders on June 27, 2003, declared a cash dividend of ¥1,625 million ($13,519 thousand), equal to ¥3.75 ($0.03) per share, which was applicable to earnings of the year ended March 31, 2003 and payable to shareholders on the register on March 31, 2003.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
KYOWA HAKKO KOGYO CO., LTD.

We have audited the accompanying consolidated balance sheets of KYOWA HAKKO KOGYO CO., LTD. and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the three years ended March 31, 2003, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KYOWA HAKKO KOGYO CO., LTD. and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2003

PRINCIPAL SUBSIDIARIES AND AFFILIATES

(As of March 31, 2003)

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
Pharmaceuticals			
Kyowa Medex Co., Ltd.[1]	100.0%	¥750	Manufacture and sale of diagnostic reagents
Shinwa Pharmaceutical Co., Ltd.[1]	100.0	¥95	Manufacture and sale of herbal medicines
Kyowa Medical Promotion Co., Ltd.[1]	100.0	¥50	Sales promotion of pharmaceuticals
Bio-Chemicals			
Kyowa Hakko U.S.A., Inc. (U.S.A.)[1]	100.0	$1	Sale of pharmaceuticals, fine chemicals, foods, and chemicals
Kyowa Hakko Europe GmbH (Germany)[1]	100.0	Euro1	Sale of pharmaceuticals, fine chemicals, feed additives, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)[1]	100.0	Euro1	Sale of pharmaceuticals and fine chemicals
Biokyowa Inc. (U.S.A.)[1]	100.0	$20	Manufacture and sale of fine chemicals
Fermentaciones Mexicanas, S.A. de C.V. (Mexico)[1]	100.0	N.Peso31	Manufacture and sale of feed additives
Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Hungary)[1]	100.0	HuF3,506	Manufacture and sale of feed additives
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)[1]	100.0	HK$1	Sale of pharmaceuticals, feed additives, and foods
Chemicals			
Kyowa Yuka Co., Ltd.[1]	100.0	¥5,300	Manufacture and sale of chemicals
Kurogane Kasei Co., Ltd.[2]	40.0	¥90	Manufacture and sale of chemicals
J-PLUS Co., Ltd.[2]	50.0	¥480	Manufacture and sale of petrochemicals
Liquor and Food			
Riken Kagaku Co., Ltd.[1]	100.0	¥30	Manufacture and sale of pharmaceuticals and chemicals
Kyowa F.D. Foods Co., Ltd.[1]	100.0	¥275	Manufacture and sale of foods
Ohland Foods Co., Ltd.[1]	100.0	¥50	Manufacture of foods
Kyowa Hi Foods Co., Ltd.[1]	100.0	¥60	Manufacture, importation, and sale of foods and household goods
Asahi Foods Products Co., Ltd.[1]	78.0	¥36	Manufacture and sale of foods
Kyushu Kyowa Shokuhin Hanbai Co., Ltd.[1]	100.0	¥50	Wholesale of foods
Kyowa Foods (H.K.) Co., Ltd. (Hong Kong)[1,3]	100.0	HK$2	Sale of foods
Aji-Nihon Co., Ltd.[2]	46.3	¥95	Manufacture of foods and seasonings
Zenmi Foods Inc.[2]	50.0	¥190	Manufacture and sale of foods
Other			
Miyako Kagaku Co., Ltd.[1]	52.9	¥111	Sale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.[1]	100.0	¥113	Transportation, trading, and insurance
Kyowa Engineering Co., Ltd.[1]	100.0	¥70	Design and installation of equipment and facilities and sale of health foods
Kyowa Warehouse & Transportation Co., Ltd.[1]	100.0	¥70	Warehousing and transportation
Seifu Co., Ltd.[1]	100.0	¥40	Office building administration
Kyowa America, Inc. (U.S.A.)[1]	100.0	$53	Coordination and monitoring of subsidiaries in the United States
Japan Synthetic Alcohol Co., Ltd.[2]	33.3	¥480	Manufacture and marketing of various types of alcohol
Musashino Chemical Laboratory, Ltd.[2]	25.0	¥238	Manufacture and marketing of organic synthetic chemicals

Notes: 1. Consolidated subsidiary
2. Affiliate accounted for by the equity method
3. At March 31, 2003, business operations were terminated.

OVERSEAS NETWORK

(As of June 27, 2003)

AMERICAS

Kyowa America, Inc.
767 Third Avenue, 19th Fl,
New York, NY 10017, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283

Biokyowa Inc.
Head Office and Plant
5469 Nash Road, P.O. Box 1550,
Cape Girardeau, MO 63702-1550, U.S.A.
TEL: 1-573-335-4849
FAX: 1-573-335-1466

St. Louis Office
1400 Elbridge Payne Road, Suite 110,
Chesterfield, MO 63017, U.S.A.
TEL: 1-636-532-4070
FAX: 1-636-532-1710

Kyowa Hakko U.S.A., Inc.
767 Third Avenue, 19th Fl,
New York, NY 10017, U.S.A.
TEL: 1-212-319-5353
FAX: 1-212-421-1283

West Coast Office
85 Enterprise, Suite 430,
Aliso Viejo, CA 92656, U.S.A.
TEL: 1-949-425-0707
FAX: 1-949-425-0708

Kyowa Pharmaceutical, Inc.
212 Carnegie Center, Suite 101,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-919-1100
FAX: 1-609-919-1111

BioWa, Inc.
212 Carnegie Center, Suite 101,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-580-7500
FAX: 1-609-919-1108

Select Supplements, Inc.
5800 Newton Drive,
Carlsbad, CA 92008, U.S.A.
TEL: 1-760-431-7509
FAX: 1-760-804-8073

Fermentaciones Mexicanas, S.A. de C.V. (Fermex)
Head Office
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

Orizaba Plant
Domicilio Conocido, Potrerillo,
Ixtaczoquitlan 94453, Veracruz, Mexico
TEL: 52-272-1-0554
FAX: 52-272-1-0090

Kyowa Hakko Kogyo Co., Ltd.
Oficina Informativa en Mexico
Edificio Torre Diamante,
Insurgentes Sur #1685 Piso 14,
Guadalupe Inn 01020, Mexico D.F., Mexico
TEL: 52-5-661-1410
FAX: 52-5-663-1695

EUROPE

Kyowa Hakko Europe GmbH
Immermannstrasse. 3,
D-40210, Düsseldorf, Germany
TEL: 49-211-17-728-0
FAX: 49-211-17-728-41

Kyowa Hakko U.K. Ltd.
258 Bath Road, Slough,
Berkshire SL1 4DX, United Kingdom
TEL: 44-1753-566000
FAX: 44-1753-566010

Kyowa Italiana Farmaceutici S.R.L.
Viale Fulvio Testi 280, 20126, Milano, Italy
TEL: 39-02-644-704-1
FAX: 39-02-644-704-44

Kyowa Hakko Kogyo Co., Ltd.
Hungary Direct Commercial Representative Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Agroferm Hungarian-Japanese Fermentation Industry Ltd. (Agroferm)
Budapest Office
H-1022 Budapest II Bég utca. 3-5,
1st Floor, Hungary
TEL: 36-1-212-0645
FAX: 36-1-212-0644

Kaba Plant
H-4183 Kaba, Nádudvari útfél, Hungary
TEL: 36-54-480-560
FAX: 36-54-480-528

ASIA

Kyowa Hakko Industry (Singapore) Pte Ltd.
260 Orchard Road, #12-04,
The Heeren, Singapore 238855
TEL: 65-733-4948
FAX: 65-733-0819

Kyowa Hakko (Thailand) Ltd.
101/11 Srinakarintra Road,
Suanluang Praves, Bangkok 10250, Thailand
TEL: 66-2-321-9387
FAX: 66-2-321-9389

Kyowa Hakko (Malaysia) SDN BHD.
20, Jalan SS 19/5, 47500 Subang Jaya,
Selangor, Darul Ehsan, Malaysia
TEL: 60-3-7340669, 7340671
FAX: 60-3-7340990

Kyowa Hakko Kogyo Co., Ltd.
Beijing Representative Office
100004, Beijing Fortune Bldg., Room 609,
No. 5, Dong San Huan Bei Lu,
Chao Yang District, Beijing,
People's Republic of China
TEL: 86-10-6590-8515
FAX: 86-10-6590-8517

Kyowa Hakko Kogyo Co., Ltd.
Shanghai Representative Office
1376 Nanjing Road West, Room 704,
Shanghai 200040,
People's Republic of China
TEL: 86-21-6279-8310
FAX: 86-21-6279-8320

Kyowa Hakko (H.K.) Co., Ltd.
Room 2103, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong, People's Republic of China
TEL: 852-2895-6795
FAX: 852-2576-6142, 2576-6191

Guangzhou Representative Office
Room 411, China Hotel Office Tower,
Liu Hua Road, Guangzhou 510015,
People's Republic of China
TEL: 86-20-8667-5381
FAX: 86-20-8667-5472

Shanghai Guan Sheng Yuan Kyowa Amino Acid Co., Ltd.
621 Yun Ling Donglu, Shanghai 200062,
People's Republic of China
TEL: 86-21-5280-1270
FAX: 86-21-5280-3162

Kyowa Pharmaceutical (H.K.) Co., Ltd.
Room 2102, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong, People's Republic of China
TEL: 852-2895-6795
FAX: 852-2576-6142

Wuxi Xiehe Food Co., Ltd.
No. 158 Xu Xiang Lane, Li Yuan,
Wuxi 214072, People's Republic of China
TEL: 86-51-0512-9781
FAX: 86-51-0510-9484

Yantai Kyowa Foods Co., Ltd.
Zhao Wang Zhuang Town, Laiyang City,
Shangdong 265225, People's Republic of China
TEL: 86-535-761-5778
FAX: 86-535-761-1787

PRINCIPAL PRODUCTS

PHARMACEUTICALS

Antibiotics
Pasetocin®, Fortimicin®, Sagamicin®, Minostacin

Anticancer Agents
Mitomycin, 5-FU, Leunase®, Adriacin®, Hysron® H-200, Dacarbazine, Farmorubicin®, Platosin®, Navelbine®

Central Nervous System Agents
Depakene®, EC-Doparl, Doparl®, Benozil®, Neoperidol®

Cardiovascular Agents
Meditrans® tape, Inovan®, Apiracohl®, Activacin®, Coniel®, Neucul®, Pre Dopa®, Dobupum™

Contrast Medium
Imagenil®

Gastrointestinal Agents
Nauzelin®, Glumin®, Glumal®, Navoban®

Antiallergic Agents
Celtect®, Allelock®

Hormones
Desmopressin, Hysron®

Vitamins
Cobamyde®, Vitaroxin®

Other Metabolic Agents
Gludiase®, ATP Kyowa

Agents for Blood and Fluid Disorders
Neu-up®, Emeradole®, Leukoprol®

Ointment
Propaderm®

Antimycological Agent
Itrizole®

Transdermal Analgesic Agent
Durotep® Patch

Diagnostic Medical Devices
Clinical Chemistry Diagnostic Reagents (Determiner® HDL-C), Immunological Reagents (Determiner® HbA1c, Chemilumi series, Allegro Lite series), Controls (Infectrol, Accurun series), Full Auto Micro Plate EIA Analyzer (AP series), Fecal Occult Blood Test Analyzer (HM-JACK® plus), Diabetes Mellitus Test Analyzer (DM-JACK®)

BIO-CHEMICALS

Fine Chemicals for Pharmaceutical and Industrial Use
Amino Acids (L-Alanine, L-Arginine, L-Histidine, L-Isoleucine, L-Ornithine, L-Aspartate, L-Proline, L-Serine, L-Threonine, L-Valine, etc.), Nucleic Acids (ATP, Orotic Acid, etc.), L-Malic Acid, Enzymes, Sodium hyaluronate

Bulk Pharmaceuticals
Citicoline, Dacarbazine, Minocycline HCl, Spiramycin, Ubidecarenone (CoQ10)

Agrochemicals
Plant growth regulators (Gibberellin, Fulmet®)

Animal Health Products
Nanaomycin, Polyup®, Atomolate®, Benesal®, Lysozyme chloride for pisciculture, Fantacin® for pisciculture, Ampicirin for pisciculture

Amino Acids for Feed Use
L-Lysine HCl, L-Tryptophan, L-Threonine

Feeds and Feed Additives for Fish and Animals
Evian® Kyowa, Fry Feed Kyowa, Aminoplus®, Driselase®, Phytase

Pet Care Products
Elendaite®, E&D shampoo and rinse, Green Mussel E, Agari Pet

CHEMICALS

Solvents
Butyl Alcohol, Acetone, Butyl Glycol Ether, Ethyl Acetate, Butyl Acetate

Plasticizers and Their Raw Materials
DOP (Di-2-Ethylhexyl Phthalate), DINP (Di-Isononyl Phthalate), DIDP (Di-Isodecyl Phthalate), 2-Ethylhexyl Alcohol, Oxocol® 900 (Isononyl Alcohol)

Organic Acids
Acetic Acid, 2-Ethyl Hexanoic Acid, Isononanoic Acid

Diols
1-3 Butylene Glycol, 2,4-Di-Ethyl-1,5 Pentanediol, Butyl Ethyl Propanediol

LIQUOR AND FOOD

Natural Seasonings
Hydrolyzed vegetable and animal proteins; Animal, vegetable, fish, shellfish, and yeast extracts; Soup stocks

Umami Seasonings
MSG (Monosodium glutamate), IMP (Sodium 5'-inosinate), WMP (Mix of IMP and Sodium 5'-guanylate)

Bakery Ingredients and Products
Baker's yeast, Prepared mixes, Baking improvers, Activated gluten

Health Foods
Vitamins, Minerals, Carotenoids, Probiotics, Peptides, Remake series

Freeze-Dried Foods
Instant egg-drop soup, Various food materials

Raw Material Alcohol

DIRECTORS AND OFFICERS

(As of June 27, 2003)

BOARD OF DIRECTORS

Chairman and Chief Executive Officer
Tadashi Hirata[1]

President and Chief Operating Officer
Yuzuru Matsuda [1,2]

Senior Managing Directors
Toru Doiuchi [2]
Company President, Pharmaceuticals Company
Yoshito Imai [2]

Managing Directors
Sadao Teshiba [2]
Tomonori Yuji [2]
Company President, Bio-Chemicals Company
Kazuhiko Yamanoe [2]

Directors
Toyokatsu Munakata [2]
Nobuo Kanda [2]

Corporate Auditors
Takeshi Asaoka
Yoshio Ogura
Masahiro Kawaguchi
Kozo Fujita

Notes: 1. Representative Director
2. Also serving as Executive Officer

EXECUTIVE OFFICERS

Senior Executive Officers
Seiga Itoh
Fumio Suzuki
Tadayasu Furukawa
Company President, Food Company
Noriyuki Hina
Hiroyuki Kuniyasu

Executive Officers
Kyozo Tsuchiya
Shinzo Ishii
Shin Kawahara
Toshifumi Asada
Shoji Hari
Company President, Chemicals Company
Yukinobu Kotani
Yutaka Yoshida
Kenichi Fukuhara
Fumio Norimatsu

Corporate Data
(As of March 31, 2003)

KYOWA HAKKO KOGYO CO., LTD.

Head Office
1-6-1, Otemachi, Chiyoda-ku,
Tokyo 100-8185, Japan
TEL: 81-3-3282-0007
FAX: 81-3-3284-1968
URL: http://www.kyowa.co.jp/

Number of Employees
6,749 [Parent Company: 4,447]

Date of Foundation
July 1, 1949

Paid-in Capital
¥26,745 million

Principal Plants
Domestic
Hofu, Ube, Sakai, Fuji, Tsuchiura
Kyowa Yuka (Yokkaichi, Chiba), Kyowa Medex (Fuji)
Overseas
Biokyowa (U.S.A.), Fermex (Mexico), Agroferm (Hungary)

Principal Laboratories
Tokyo Research Laboratories
Pharmaceutical Research Institute
Technical Research Laboratories
Toxicological Research Laboratories
Sakai Research Laboratories
Foods Research Laboratories
Tsukuba Research Laboratories
Aquaculture Research Laboratories
Kyowa Yuka Co., Ltd., Yokkaichi Research Laboratories
Kyowa Medex Co., Ltd., Research Laboratories

Investor Information
(As of March 31, 2003)

Stock Listings
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo

Securities Code Number
4151

Transfer Agent of Common Stock
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

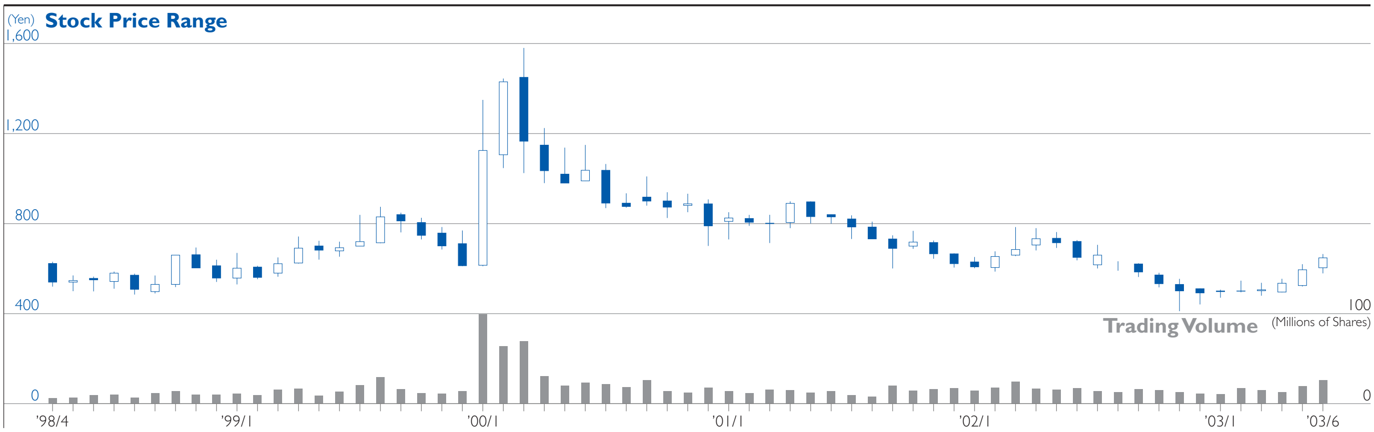
Number of Shares of Common Stock
Authorized: 987,900,000
Issued: 434,243,555

Number of Shareholders
86,404

Principal Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
The Dai-ichi Life Mutual Insurance Co.	35,230	8.11%
Japan Trustee Services Bank, Ltd. (Trust account)	22,671	5.22
The Master Trust Bank of Japan, Ltd. (Trust account)	21,500	4.95
The Norinchukin Bank	18,083	4.16
NIPPONKOA Insurance Company, Limited	8,981	2.06
Resona Bank, Limited.	8,511	1.96
Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for Mizuho Bank, Ltd.)	8,075	1.85
The Chuo Mitsui Trust and Banking Company, Limited	7,650	1.76
Mizuho Bank, Ltd.	7,126	1.64
SOMPO JAPAN INSURANCE INC.	6,496	1.49

Stock Price



KYOWA HAKKO KOGYO CO., LTD.

1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-8185, Japan
TEL: 81-3-3282-0007
FAX: 81-3-3284-1968
URL: http://www.kyowa.co.jp/

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