KYOWA HAKKO
ANNUAL REPORT 2008
Year ended March 31, 2008

About the Company

Kyowa Hakko Kogyo Co., Ltd., is an R&D-based company with special strengths in biotechnology. The Company is dedicated to the creation of new value in the life sciences, especially in its core business segments of Pharmaceuticals and Bio-Chemicals, and strives to contribute to the health and well-being of people around the world. Becoming a member of the Kirin Group on April 1, 2008, Kyowa Hakko is seeking new heights by aggressively promoting its proprietary technologies.

In Pharmaceuticals, the Company has actively engaged in the R&D, production, and sale of pharmaceuticals that address needs in such areas as cancer, allergies, renal anemia, and hypertension. Utilizing leading-edge biotechnologies—particularly antibody technologies—we are aiming to be a global specialty pharma that creates innovative pharmaceuticals.

In Bio-Chemicals, Kyowa Hakko is a global leader in fermented bulk products, such as amino acids and nucleic acids.

In Chemical operations, the Company is expanding lineups of specialty chemicals that contribute to environmental conservation.

In Food operations, the Company draws on its fermentation and other original technologies to distinguish itself from competitors in the development of food ingredients, especially natural seasonings.

NOTE TO PERFORMANCE FORECASTS

Forecasts contained in the Annual Report 2008 represent judgments based on information available as of June 24, 2008.
It should be noted that there is a possibility that actual results could differ significantly due to such factors as exchange rate fluctuations.

KYOWA KIRIN

Marking the new beginning of the Company from October 1, 2008, the corporate logo (above) represents Kyowa Hakko Kirin on the global stage.

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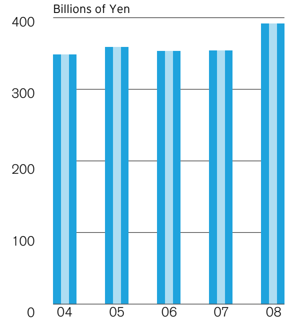
Financial Highlights

KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries
For the years ended March 31, 2008, 2007 and 2006

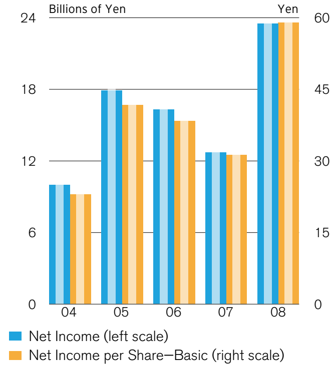
	Millions of Yen			Thousands of U.S. Dollars[1]
	2008	2007	2006	2008
FOR THE YEAR:				
Net sales	¥392,120	¥354,274	¥353,440	$3,913,763
Operating income	39,390	30,699	25,535	393,156
Net income	23,477	12,694	16,273	234,327
Capital expenditures	14,796	14,498	10,859	147,677
Depreciation and amortization	14,347	10,006	9,789	143,194
R&D expenses	34,109	33,342	32,876	340,443
AT YEAR-END:				
Total assets	¥394,081	¥378,871	¥384,381	$3,933,338
Interest-bearing debt	12,790	13,137	12,216	127,163
Total net assets	256,758	244,082	257,491	2,562,713
Total shareholders' equity[2]	239,329	220,427	232,621	2,388,749
PER SHARE DATA:				
Net income—basic[3]	¥ 59.0	¥ 31.3	¥ 38.4	$0.589
Total net assets	639.7	607.5	604.9	6.385
Cash dividends	10.0	10.0	10.0	0.100
FINANCIAL RATIOS:				
Return on assets (ROA)	6.07%	3.33%	4.29%	
Return on equity (ROE)	9.47%	5.10%	6.63%	

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥100.19=US$1, the approximate exchange rate at March 31, 2008.
2. Due to a change in accounting standards, figures for total shareholders' equity in the years ended March 31, 2007 and 2006, have been restated.
3. Net income per share 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.

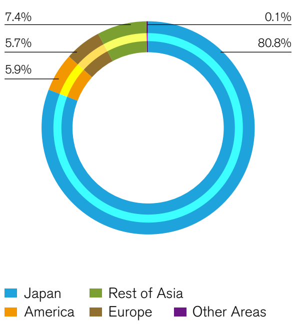
Net Sales



Net Income/Net Income Per Share



Sales Composition by Geographic Area



To Our Shareholders

First of all, I am pleased to report that Kirin Pharma Company, Limited, became a wholly owned subsidiary of Kyowa Hakko on April 1, 2008. On the same day, Kyowa Hakko became a consolidated subsidiary of Kirin Holdings Company, Limited, which now holds 50.1% of Kyowa Hakko's total shares of common stock. This took place in accordance with the Strategic Alliance between the Kyowa Hakko Group and the Kirin Group announced on October 22, 2007.

In the tender offer period from October 31 to December 6, 2007, Kirin Holdings acquired 27.95% of the total issued shares of our company. Kyowa Hakko and Kirin Pharma made a formal share exchange on April 1, 2008, after approval for the move from the Extraordinary General Meeting of Shareholders held on February 29, 2008. I would like to express my appreciation to shareholders and other stakeholders for their understanding and consideration during this time of great change.

On October 1, 2008, Kyowa Hakko Kirin Co., Ltd., will be born from the merger of Kyowa Hakko and Kirin Pharma. The new company, with firm foundations in biotechnology and focusing its considerable expertise on pharmaceuticals operations, will endeavor to carve itself a prominent place on the global stage as a Japan-based research and development-centered life sciences company.

YUZURU MATSUDA
President and Chief Executive Officer

OPERATING ENVIRONMENT AND PERFORMANCE

In fiscal 2008, the year ended March 31, 2008, business conditions for Pharmaceuticals operations was marked by intensifying competition on a global level among companies involved in ethical drug marketing and development, in circumstances exacerbated by ongoing revision of the Japanese medical care system in line with the government's health care cost containment policy, European and U.S. pharmaceutical companies adopting a more aggressive market stance, and expansion in the market for generics. In Bio-Chemicals operations, demand strengthened worldwide for amino acids, primarily for transfusion and pharmaceutical raw material use, but challenges came with stricter requirements regarding environmental regulations and product quality. In Chemicals operations, prices remained high in Japan and overseas, as a result of soaring crude oil prices. In Food operations, performance was affected by rising raw materials prices and growing consumer disquiet regarding food safety matters.

Against this backdrop, we accomplished the fundamental objectives of "growth and development" outlined in our Ninth Medium-Term Management Plan, of which fiscal 2008 was the final year. We heightened our competitiveness by being vigorous in research and development efforts and investing to augment equipment and facilities. We also pushed up sales of mainstay products through strategic sales promotion and implemented comprehensive cost reduction measures.

As a result, in the year ended March 31, 2008, consolidated net sales rose 10.7%, to ¥392.1 billion, and operating income grew 28.3%, to ¥39.4 billion. Both of these measures greatly exceeded the targets of the Ninth Medium-Term Management Plan, which were ¥350.0 billion and ¥34.0 billion, respectively. Net income in fiscal 2008 expanded 84.9%, to ¥23.5 billion, and like operating income this year, is the highest level in our corporate history. We have set the annual dividend at ¥10.0 per share, the same level as in the previous fiscal year.

NINTH MEDIUM-TERM MANAGEMENT PLAN IN SUMMARY

In addition to the targets for net sales and operating income referred to above, the Ninth Medium-Term Management Plan also employed ROIC (return on invested capital) as a management index for monitoring improvements in profitability and capital efficiency. We targeted an ROIC of more than 12.0% in fiscal 2008, and achieved 13.8%. In the organizational structure, we were focusing our full attention on the core Pharmaceuticals and Bio-Chemicals businesses under Kyowa Hakko as operating holding company, while the non-core Chemicals and Food businesses were carried out independently by our wholly owned subsidiaries allowing them each to become more competitive, more rapidly responsive, and more administratively efficient than ever before.

Reforming corporate consciousness is an area I have been giving particular attention. We were able to encourage major shifts in awareness of the executives and employees so that they could come to fully appreciate the value not only of attaining performance targets, but also of cost control measures, including a voluntary early retirement program, and capital efficiency initiatives to prioritize investment toward the most profitable business areas.

I believe we have done extremely well over the three years of our latest medium-term management plan, particularly considering the very changeable business conditions we have faced.

Growth in mainstay Pharmaceuticals operations and progress in antibody business

Sales of our mainstay Allelock® antiallergic agent and Patanol® antiallergic eyedrops grew steadily in fiscal 2008. The hypertension and angina pectoris agent Coniel® went off patent, but nevertheless performed very well, keeping sales decline to a bare minimum despite the subsequent market launch of generic competitors.

In exports and technology out-licensing, revenue growth was favorable for the antiallergic agent olopatadine hydrochloride, licensed to Alcon Inc., headquartered in Switzerland. Out-licensing of Potelligent®, our high antibody-dependent cellular cytotoxicity (ADCC) antibody production technology, is progressing well, and we have now concluded 11 licensing agreements with 9 companies worldwide. Our U.S. subsidiary BioWa, Inc., handles the licensing of therapeutic antibodies developed in-house using Potelligent® technology. It finalized agreements in December 2006 with MedImmune, Inc., for the IL-5R antibody BIW-8405, and in March 2008 with Amgen, Inc., for the CCR4 humanized monoclonal antibody KW-0761.

Under the licensing agreement for KW-0761 with Amgen, we received an up-front payment of US$100.0 million in April 2008. Licensing this product to Amgen, the world's foremost biotech company, is especially noteworthy because it simultaneously draws attention to the caliber of KW-0761 and reinforces the already high reputation of Kyowa Hakko's proprietary Potelligent® technology.

In April 2007, we filed a New Drug Application (NDA) in the United States for KW-6002 (istradefylline), an antiparkinson agent. Unfortunately, in February 2008, we received a Not Approvable Letter from the U.S. Food and Drug Administration (FDA). We will wait to consider the results of phase IIb clinical trials of KW-6002 currently underway in Japan before determining the best path forward.

In-licensing activities were also productive, as we enhanced our development pipeline with Asacol® for treating inflammatory bowel disease, and ARQ 197, an anticancer agent. We also took over marketing of Coversyl®, a long-acting ACE inhibitor from Daiichi Sankyo Co., Ltd., and made a joint sales agreement with Hisamitsu Pharmaceutical Co., Inc., for Japan for a transdermal absorption-type continuous-action drug to treat cancer pain (code name: HFT-290) that was filed in June 2008 by Hisamitsu.

Bio-Chemicals and Chemicals operations support achievement of medium-term targets

Sales from Bio-Chemicals operations rose favorably, with increased demand overseas for amino acids, nucleic acids, and related compounds for pharmaceutical and industrial-use raw materials, and in Japan for raw materials for generic pharmaceutical products. The first-time inclusion of Daiichi Fine Chemical Co., Ltd., in the Company's results also contributed to the surge in fiscal 2008 revenues and profits.

In Chemicals operations, unit sales volume remained firm, supported by sound demand from the domestic automotive industry and other industries, and product prices reflected the increase in raw material and fuel costs generated by rocketing crude oil and naphtha prices. Exports also bolstered the good results, as China's economic expansion supported continued high price levels in overseas markets.

We continued to invest in plant and equipment as part of our policy of building a solid foundation for future growth. In Bio-Chemicals operations we maintained and strengthened overseas amino acid manufacturing facilities, and in Chemicals operations we expanded manufacturing capacity for specialty chemicals, including for refrigeration lubricant raw materials.

THE STRATEGIC ALLIANCE WITH KIRIN GROUP

The overriding motivation for the strategic alliance between the Kyowa Hakko Group and the Kirin Group was to benefit from unifying our mutually resonant corporate visions. The integrated pharmaceuticals operations of Kyowa Hakko and Kirin Pharma now plays a principal role in the Kirin Group as one of its core businesses.

Pharmaceuticals operations is the bedrock of Kyowa Hakko's business. I have believed that to survive in an operating environment whose dynamics are shifting—with the Japanese government's ongoing reform of the medical care system, heightened aggressive involvement in the domestic market by overseas pharmaceutical companies, and continually rising R&D expenses—it is crucial to focus on utilizing our established strengths in biotech-based antibody technology to evolve into a specialty pharmaceutical company able to rapidly make our name in the global arena. I have felt for some time that Kyowa Hakko on its own simply does not have the wherewithal to respond with sufficient speed to this challenge.

Kirin Pharma, for its part, also possesses proprietary biotech-based technology in therapeutic antibodies. It has considerable achievements in protein pharmaceuticals, and I understand that its corporate direction coincides very neatly with ours. Also, its specialization in the renal field will complement Kyowa Hakko's areas of special expertise. I am convinced that integrating our pharmaceuticals operations will be a huge plus for both companies. By merging the areas of excellence of both companies while continuing to center on antibody technology, together we can bolster and complement each other's strengths to generate synergies on many levels, spurring on R&D efforts and enhancing marketing and manufacturing endeavors.

In addition, the Kyowa Hakko Group and the Kirin Group have overlaps in areas other than pharmaceuticals, such

STRATEGIC ALLIANCE WITH THE KIRIN GROUP

VISION

To create a Japan-based, leading world-class Japanese research and development-centered life sciences company focusing on pharmaceuticals with a firm foundation in biotechnology.

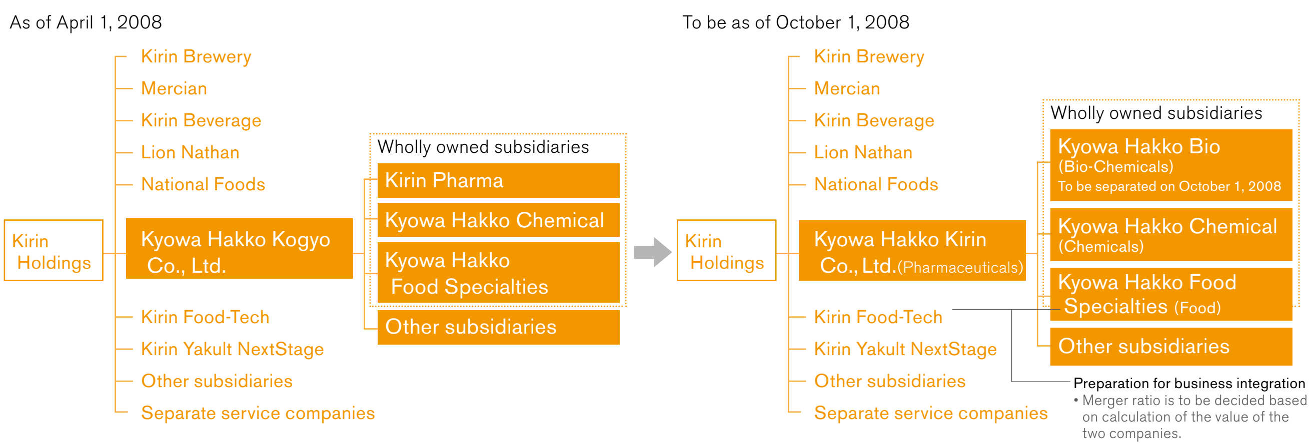
PURPOSE

- The environment for Pharmaceuticals operations is undergoing dynamic change, including progressive implementation of the government's health care cost containment policy, intensifying competition with the increasingly aggressive stance of the big European and U.S. pharmaceutical companies, and soaring R&D expenses. We took the step of entering into this alliance with the Kirin Group as a means of achieving our objective of becoming a global specialty pharmaceutical company built around our core antibody technology. By integrating the pharmaceuticals operations of both groups, we can fuse the strengths of Kyowa Hakko and Kirin Pharma in antibody technology to greatly enhance our drug discovery capabilities and thus fortify the foundations of our Pharmaceuticals business.
- The two Groups also have much in common in other businesses than pharmaceuticals operations, such as food, alcohol, health foods, and functional foods. We are investigating in detail the integration of these operations as well, in an effort to maximize corporate value.

SCHEDULE

OCT 22, 2007	• Announcement is made of strategic alliance with the Kirin Group
DEC 6, 2007	• Takeover bid by Kirin Holdings of Kyowa Hakko comes into effect
FEB 29, 2008	• Share Exchange Agreement with Kirin Pharma is approved by an extraordinary general meeting of Kyowa Hakko shareholders
APR 1, 2008	• Effective date of share exchange • Kyowa Hakko becomes a consolidated subsidiary of Kirin Holdings • Kirin Pharma becomes a wholly owned subsidiary of Kyowa Hakko
OCT 1, 2008	• Kyowa Hakko Kirin is established by merging with Kirin Pharma • Kyowa Hakko Bio is established and becomes an independent subsidiary within Kyowa Hakko Kirin holding company structure
APR 1, 2009	• Kirin Kyowa Foods is established through the integration of Kyowa Hakko Food Specialties and Kirin Food-Tech
JAN 1, 2011	• Kirin Kyowa Foods becomes a wholly owned subsidiary of Kirin Holdings

CHANGE IN ORGANIZATIONAL STRUCTURE



as food, alcohol, and the health and functional foods businesses. I felt sure we could look forward to the fruits of integrated and cooperative pursuits in these business areas, too.

Our Chemicals operations evolved from roots in fermentation technology, the foundation of Kyowa Hakko. It may not seem to fit within the Kirin Group business profile, but I am confident that our Chemicals operations will continue to meet new needs in an era of growing demand for environmentally friendly products and to contribute to revenues. Thus Chemicals operations has genuine intrinsic value and we will examine avenues for maximizing its business value.

NEW MEDIUM-TERM MANAGEMENT PLAN

The New Medium-Term Management Plan is to be implemented over three years from April 2008 (fiscal 2009–2011). The plan grew from the strategic alliance with the Kirin Group and outlines the direction we believe the new Kyowa Hakko Kirin should take over the next three years, the objectives we wish to achieve in that time, and a concrete plan of how we can achieve them. The targets we have set ourselves for the final year of the plan, ending March 2011, are net sales of ¥513 billion, operating income of ¥73 billion*, ROIC of more than 16%*, and net income per share of ¥80.2*. Please see the following section for further details.

Pharmaceuticals operations: strengthening drug discovery capabilities to ensure 20 candidates in development stage over five years

In October 2008, Kyowa Hakko Kirin will officially begin operations through the merger between Kyowa Hakko and Kirin Pharma, aiming to become a world-leading Japan-based specialty pharmaceutical company focusing on antibody technology. The most crucial strategy in achieving this goal is to amplify our drug discovery capabilities, allocating resources to the priority areas of oncology, nephrology, and immunology. Every year we will create four new drug development candidates—two therapeutic antibodies and two small molecule compounds—so that within five years we will have 20 new drug candidates enter the development stage.

Group businesses other than Pharmaceuticals operations: maximizing value

Bio-Chemicals operations remains an important business area of the Group, but because it deals with bulk marketing, primarily of amino acids, the appropriate management approach is necessarily different from that employed in the pharmaceuticals business. We have already successfully spun off our Chemicals operations and Food operations as independent subsidiaries, and have decided to follow suit with Bio-Chemicals operations so that these operations can also become more responsive and more self-reliant. Our Bio-Chemicals operations will be restructured as Kyowa Hakko Bio Co., Ltd., from October 1, 2008, and will become a wholly owned subsidiary of Kyowa Hakko Kirin.

In a world where being environmentally responsible is becoming increasingly more important all the time, we plan to expand the range of eco-friendly specialty products in our Chemicals operations, like the raw materials we already produce for lubricants used as CFC substitutes in air-conditioning equipment and refrigeration units. Combined with ensuring steady returns on the basic chemicals business, this move will help reinforce our foundation in the chemicals field.

In Food operations, a new company will be established in April 2009. Kyowa Hakko Food Specialties Co., Ltd., and Kirin Food-Tech Company, Limited, will join to form Kirin Kyowa Foods Company, Limited. In January 2011, Kirin Kyowa Foods will become a wholly owned subsidiary of Kirin Holdings. As a subsidiary of Kirin Holdings, which itself has adopted the concept “food and health,” Kirin Kyowa Foods will be able to capitalize on the synergies of the union to strengthen its management base and accelerate business growth.

RAISING SHAREHOLDER VALUE

Kyowa Hakko is now a consolidated subsidiary of Kirin Holdings, which acquired 50.1% of our total shares. At the same time, we are a listed company. I am very aware of the minority shareholders who own 49.9% of Kyowa Hakko and of the many other stakeholders who watch as we mark a new beginning. I will work hard to help raise value for Kyowa Hakko Kirin shareholders by fostering a high level of transparency and an alert and responsive management

PERFORMANCE TARGETS

New Medium-Term Management Plan Targets

Billions of Yen	FY2008 results			
	Kyowa Hakko	Kirin Pharma (Jan.–Dec. 2007)	Simple sum	FY2011 plan
Net sales	¥392.1	¥69.9	¥462.0	¥513.0
Operating income (Before goodwill amortization)	–	–	–	¥73.0
Operating income	¥39.3	¥13.0	¥52.3	¥63.3
ROIC (Before goodwill amortization)	–	–	–	16%+
ROIC	14%	–	–	10%+
EPS (¥) (Before goodwill amortization)	–	–	–	¥80.2
EPS (¥)	¥59.03	–	–	¥63.3
Dividend payout ratio (Consolidated)	16.9%	–	–	30%+

1. ROIC = Operating income / fixed assets + (accounts receivable + inventories – trade payable)
   ROIC (before goodwill amortization) = Operating income before goodwill / fixed assets excluding goodwill
2. Dividend payout ratio targets for fiscal 2011 and 2012 are based on profits before goodwill amortization.

style. We intend to fulfill the expectations of our shareholders by achieving solid medium-to-long-term growth, beginning with therapeutic antibodies and extending to all other areas of our operations.

The New Medium-Term Management Plan targets a consolidated dividend payout ratio of more than 30%*. The annual dividend for fiscal 2009 will be ¥20.0 per share, double the fiscal 2008 level.

FUTURE PROSPECTS

In the first year of the New Medium-Term Management Plan, we expect Kirin Pharma to contribute to our targets for fiscal 2009 of a 25.0% increase in net sales, to ¥490.0 billion*, a 44.7% rise in operating income, to ¥57.0 billion*, and 19.3% growth in net income, to ¥28.0 billion*.

In March 2008, I was made a director of Kirin Holdings. As the holding company of the Kirin Group, it oversees the mainstay alcoholic beverages business as well as soft drinks, pharmaceuticals, and other businesses, which includes seasonings, health foods, and functional foods. The pharmaceutical industry has many idiosyncrasies, so as head of pharmaceuticals operations, I look forward to having the opportunity to make helpful contributions to Kirin Holdings' management decisions in this area.

Also, in my position as head of Kyowa Hakko Kirin, I will be responsible for ensuring that all executives and employees understand the objectives of the Kirin Group as a whole. I will dedicate myself to preserving the individuality of Kyowa Hakko Kirin while neatly meshing its operations with the growth trajectory trends of the Kirin Group.

I will do my utmost to raise Kyowa Hakko's corporate value even further by steadily achieving our management objectives and so fulfil the expectations of shareholders and all of our other stakeholders. I would like to extend to you my deep gratitude for your kindness and support during this momentous time, and request your continued understanding and encouragement in the years ahead.

June 24, 2008

Yuzuru Matsuda

President and Chief Executive Officer

* Calculated before amortization of goodwill

The New Medium-Term Management Plan

PERFORMANCE TARGETS BY SEGMENT

Billions of Yen	FY2008 Actual	FY2009 Plan	FY2010 Plan	FY2011 Plan
Net Sales				
Pharmaceuticals	¥ 208.3	¥ 214.0	¥ 210.0	¥ 225.0
Bio-Chemicals	86.8	90.0	94.0	98.0
Chemicals	108.0	116.0	116.0	117.0
Food	43.3	43.0	43.0	45.0
Other[2]	15.6	27.0	29.0	28.0
	¥ 462.0	¥ 490.0	¥ 492.0	¥ 513.0
Operating Income				
Pharmaceuticals	¥ 33.0[1]	¥ 47.7	¥ 43.0	¥ 52.5
Bio-Chemicals	9.7	9.6	10.5	11.0
Chemicals	7.2	6.6	5.0	6.0
Food	1.6	1.8	2.0	2.5
Other[2]	0.7	1.0	1.5	1.0
	¥ 52.2	¥ 66.7	¥ 62.0	¥ 73.0
Goodwill Amortization	–	9.7	9.7	9.7
Operating Income	¥ 52.2	¥ 57.0	¥ 52.3	¥ 63.3

1. Figure represents simple sum of Kyowa Hakko's Pharmaceuticals operations from April 2007 to March 2008 and Kirin Pharma's operations from January 2007 to December 2007.
2. Figures were adjusted with intersegment transactions in a lump sum.

R&D EXPENSES, CAPITAL EXPENDITURES, AND DEPRECIATION

Billions of Yen	FY2008* Actual	FY2009 Plan	FY2010 Plan	FY2011 Plan
R&D expenses				
Total	¥ 34.1	¥ 52.0	¥ 50.5	¥ 53.0
Pharmaceuticals	28.1	45.0	44.0	47.0
Capital expenditures				
Total	14.7	29.0	29.0	25.0
Pharmaceuticals	4.2	16.0	15.0	12.0
Depreciation	¥ 14.3	¥ 20.0	¥ 21.5	¥ 25.0

*Kyowa Hakko's consolidated figures

PHARMACEUTICALS

Vision

To become a Japan-based global specialty pharmaceutical company that uses leading-edge biotechnology—especially antibody technology—in the oncology, nephrology, and immunology fields to create a steady pipeline of innovative new drugs, and contributes to the health and well-being of people around the world by developing and marketing new products globally.

Basic strategy

1 Research and Development
- (1) Create innovative development candidates
  - Advance two new antibodies and two new small molecule compounds into development each year
  - Allocate priority resources to core therapeutic areas of oncology, nephrology, and immunology
- (2) Create a research framework that fully utilizes the strengths of Kyowa Hakko and Kirin Pharma
  - Integrate biopharmaceutical discovery research functions at Tokyo Research Park (2010–2011)
  - Integrate pharmaceutical development research functions at Fuji Research Park (April 2009)
  - Integrate production technology development of pharmaceuticals, including therapeutic antibodies, and manufacturing of investigational drugs at the Takasaki Plant
- (3) Establish an optimal international development framework
  - Integrate the U.S. development bases
- (4) Pursue the creation of proprietary technology
  - Establish polyclonal antibody technology

2 Manufacturing
- (1) Establish world-leading biopharmaceutical production technology
- (2) Consolidate antibody production facilities at the Takasaki Plant to create an efficient manufacturing framework (build 5t and 10t tanks for manufacturing investigational drugs)

3 Domestic Operations
- (1) Capture the leading share in the erythropoiesis stimulating agent (ESA) market through strategic deployment of medical representatives (MRs)
- (2) Strengthen the market presence of GRAN® and Neu-up® in the G-CSF preparation area, and of Allelock® and Patanol® in the antiallergic area
- (3) Strengthen relationships with distributors

Sales of Principal Pharmaceutical Products (Plan)

Billions of Yen	FY2008 Actual	FY2009 Plan	FY2010 Plan	FY2011 Plan
NESP/ESPO* (ESA formulation)	¥ 48.6	¥ 51.0	¥ 54.0	¥ 58.0
GRAN*/Neu-up (G-CSF formulation)	19.3 (23.0)	18.2 (22.0)	19.3 (22.0)	18.0 (22.0)
Allelock (Antiallergic)	23.3	23.3	24.5	25.5
Coniel (Hypertension, angina pectoris)	25.4	22.8	22.5	21.0
Patanol (Antiallergic ophthalmic solution)	4.3	5.0	6.0	7.5
Topina (Antiepileptic)	0.1	1.2	2.0	2.5
REGPARA* (Secondary hyperparathyroidism)	–	6.9	10.0	15.0

* Kirin Pharma products

4 Overseas Operations

(1) Maximize value in antibody business

- Create synergies by adding to antibody value chain
- Focus on cancer, immunological disorders, and infections
- Enhance business value
  - Create two new development candidates each year
  - Promote high antibody-dependent cellular cytotoxicity (ADCC) antibody production technology as a global standard
  - Acquire one new antigen and one new antibody each year
  - Pursue co-development projects in which we apply our antibody technology and research funding to the antigen or antibody of a partner company

(2) Establish the foundations for a long-term profit base in Asia (expanding our product lineup, integrating Chinese operations)

(3) Investigate setting up an in-house marketing structure in Europe and the United States to complement advances in development pipeline

BIO-CHEMICALS

1 Expand sales of amino acids

- Meet expected increased demand for use in transfusions and medical foods

2 Strengthen collaboration with Daiichi Fine Chemical Co., Ltd.

- Create high-value-added fine chemical products by combining Kyowa Hakko's fermentation technology and Daiichi Fine Chemical's synthesis technology

3 Cultivate health care business in Japan

- Ensure market penetration of functional fermentation materials including citrulline and ornithine

4 Establish Bio-Chemicals operations as Kyowa Hakko Bio, an independent subsidiary within the Kyowa Hakko Kirin holding company structure on October 1, 2008

- Heighten competitiveness and achieve independent growth through speedy decision-making and flexible business development

CHEMICALS

1 Strengthen business foundations

- Achieve stable profits from basic chemicals and expand sales of environmentally friendly specialty chemicals

2 Create distinctive businesses and product lines

- Investigate commercializing oxo-related products and create new products in fields of lubricants, recording media, and waterborne resins

FOOD

1 Seasonings

- Maintain a leading share of natural seasonings and brewed seasonings markets for processed food manufacturers and make further inroads into food service industry

2 Bakery Ingredients

- Expand sales of mainstay flavorings and improvers

3 Establish a foothold in China's seasonings market

4 Integrate food operations

April 1, 2009
- Kirin Kyowa Foods is established by merging with Kirin Food-Tech
- Merger ratio to create the new company is determined after each company has been valued

January 1, 2011
- Kirin Kyowa Foods becomes a wholly owned subsidiary of Kirin Holdings
- New company is to fulfill an important role in the Kirin Group's growth strategy in the "Food and Health" sector by strengthening the base of operations and accelerating business expansion

STRENGTHENING GROUP BUSINESSES

1 Pursuing Groupwide investigation—since the announcement in October 2007 of the strategic alliance with the Kirin Group—of opportunities for collaboration in Group businesses other than pharmaceuticals operations

2 Food

- Establish Kirin Kyowa Foods through the integration of Kyowa Hakko Food Specialties and Kirin Food-Tech

3 Health Foods and Functional Foods

- Investigate collaboration on a functional level between Kyowa Hakko's Bio-Chemicals operations (Kyowa Hakko Bio) and Kirin Yakult NextStage

4 Alcohol

- IInvestigate collaboration on a functional level between Kyowa Hakko's Bio-Chemicals operations (Kyowa Hakko Bio) and Mercian

A New Beginning

Expanding the Boundaries of Life Sciences

On October 1, 2008, we will mark a new beginning as Kyowa Hakko Kirin. We remain dedicated to using leading-edge biotechnology—especially antibody technology—in the oncology, nephrology, and immunology fields to create a steady pipeline of innovative new drugs. In so doing, we aim to become a global specialty pharmaceutical company that responds effectively to unmet medical needs and contributes to the health and well-being of people around the world.

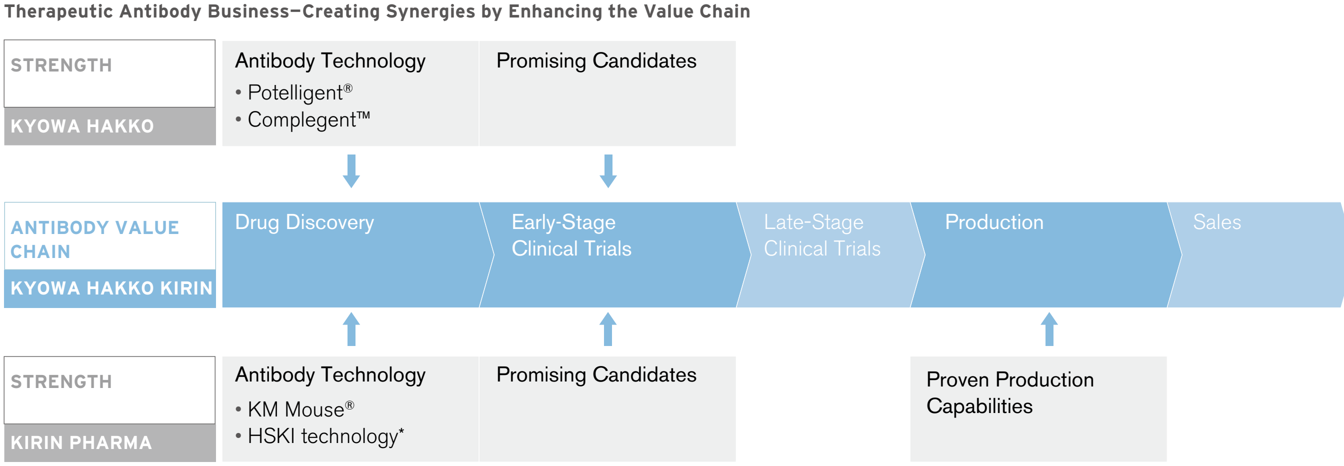
Therapeutic Antibody Business

Because of the specificity of antibodies, they can target only malignant cells; thus, antibody drugs can be used for treatments with minimal side effects. It is assumed that antibody drugs can be safer and more effective than small molecule drugs and meet unmet medical needs.

The therapeutic antibody market is continuing to grow rapidly. In 2006, the global market was valued at more than ¥2.0 trillion and is expected to reach ¥4.5 trillion by 2011.

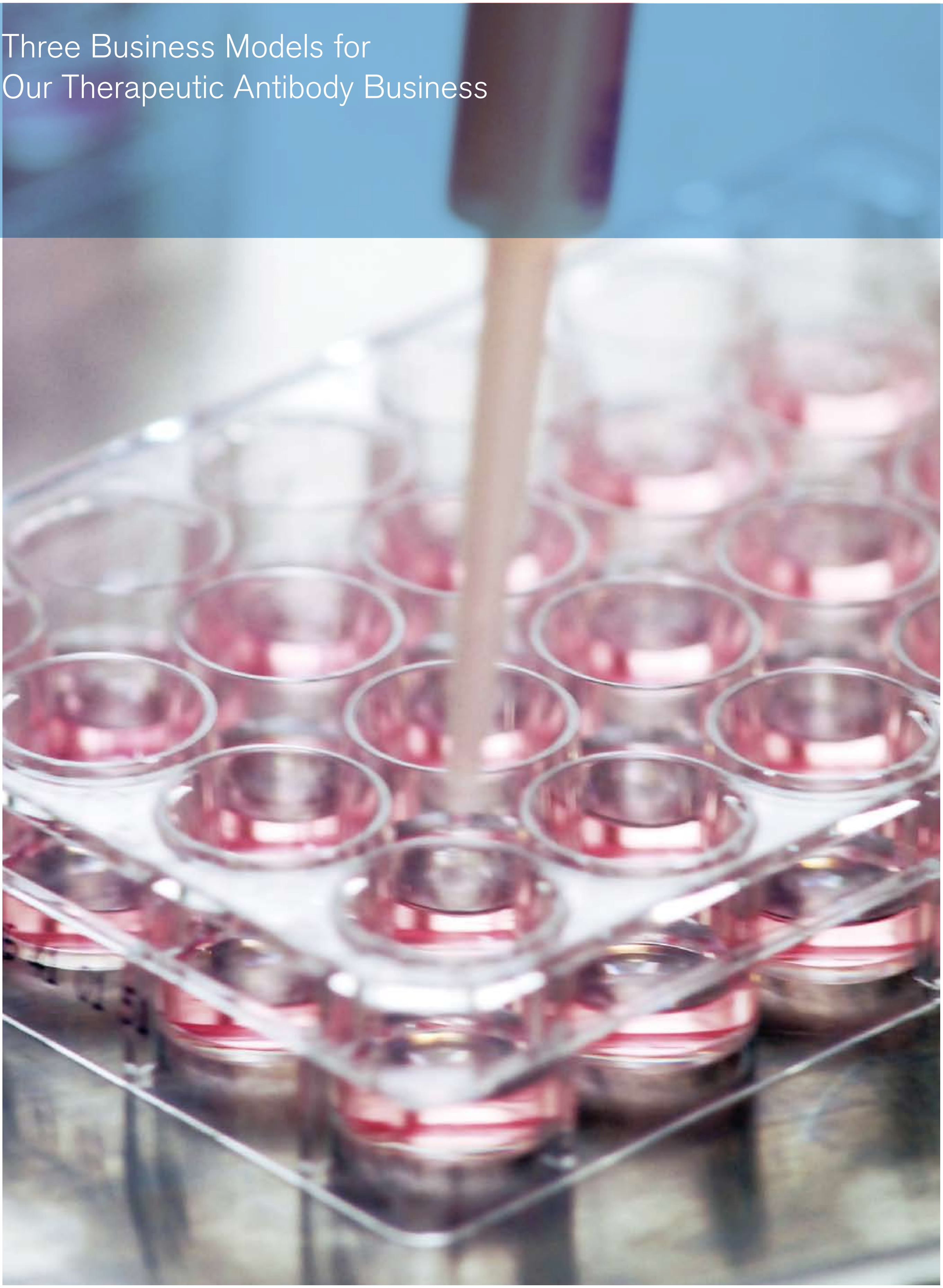
Kyowa Hakko possesses the Potelligent® technology, a high antibody-dependent cellular cytotoxicity (ADCC) antibody production technology, and Complegent™ technology, a complement-dependent cytotoxicity (CDC) enhancing technology, and promotes them as a global standard in antibody production. Kirin Pharma's strengths lie in its KM Mouse® technology for the production of fully human antibody and other technologies developed through its experience manufacturing biopharmaceuticals. By combining the technological achievements of both companies, we expect to strengthen our ability to develop drugs more efficiently and effectively, increase partnership opportunities to acquire new drug target molecules through a stronger presence in the field of therapeutic antibody technology, and expedite development of therapeutic antibodies. Kyowa Hakko Kirin will have a huge advantage in the therapeutic antibody business.

Therapeutic Antibody Business—Creating Synergies by Enhancing the Value Chain



*HSKI technology: High speed knock-in technology

Three Business Models for Our Therapeutic Antibody Business



Antibody/Protein Pharmaceuticals Pipeline (As of April 2008)

THERAPEUTIC AREA	PRECLINICAL	PHASE I	PHASE II	PHASE III	REMARKS
Cancer	5 compounds (3 antibodies using Potelligent® technology)	KW-0761 (Japan)* KRN330 (U.S.)	KW-2871 (U.S.)		• Out-licensed to Life Science Pharmaceuticals
Immunological		KW-0761 (Europe)* BIW-8405 (U.S.)			• Out-licensed to Amgen • Out-licensed to MedImmune
Renal					
Other areas		KW-3357 (Japan)*			• High-molecular-weight compound using Glycotechnology

* Antibodies using Potelligent® technology

In-House Antibody Pipeline

The pipeline for protein pharmaceuticals now includes various antibodies that utilize Kyowa Hakko's Potelligent® technology as well as many antibodies and other protein products under development by Kirin Pharma. Development candidates are in early clinical trial or preclinical trial stages, and we are endeavoring to speed up the development process. From the standpoint of value maximization, we assess each development candidate individually to determine its future course, including how far along the development process it should be taken in-house, whether it should be out-licensed or whether we should undertake sole development through to marketing. In December 2006, we licensed the IL-5R antibody BIW-8405 to MedImmune, Inc. Also, in March 2008, we licensed the anti-CCR4 (CC chemokine receptor 4) antibody KW-0761 to the U.S. pharmaceutical company Amgen Inc., and received a one-off payment of US$100.0 million when the agreement came into effect. The KW-0761 licensing agreement also includes milestone payments totaling US$420.0 million during development, and once the product is launched Kyowa Hakko will receive royalty payments based on sales value from Amgen.

Antibody Technology Licensing

The Company's U.S. subsidiary BioWa, Inc., has aggressively out-licensed Potelligent® technology. In May 2007, a U.S. patent was issued covering all antibodies with fucose-free complex-type sugar chains (a type of mammalian sugar chain), irrespective of the antigen or type of production method. This means that a license from BioWa is essential to commercialize Potelligent® antibodies in the United States. This patent reinforces the exclusive position of Kyowa Hakko and BioWa in the research and development of Potelligent® antibodies and furthers our aim for this technology to become the global standard. We have now granted licenses for Potelligent® technology to nine of the world's preeminent companies in therapeutic antibodies as well as pharmaceuticals companies, including Genentech, Inc., Biogen Idec Inc., GlaxoSmithKline plc, Novartis AG, and Takeda Pharmaceutical Co., Ltd.

Out-licensing agreements for high ADCC antibody and high CDC antibody production technologies like Potelligent® technology and Complegent™ technology bring with them a one-off up-front payment when the agreement comes into effect, various milestone payments along the development process, and royalty payments once the product is launched. The KW-0761 licensing agreement with Amgen, mentioned above, simultaneously highlights the great value of KW-0761 as an innovative new drug and enhances the worldwide reputation of our proprietary Potelligent® technology.

Kirin Pharma has licensed their proprietary KM Mouse® technology co-developed with Medarex, Inc., for producing fully human antibodies for a wide range of pharmaceutical manufacturers.

Collaborative Alliances

Since 2004, we have been promoting collaborative alliances for joint research and development projects combining high ADCC Potelligent® and high CDC Complegent™ antibody production technologies from Kyowa Hakko with promising antigens and antibodies for cancer or inflammatory allergic treatment that are owned by bio-venture companies. Our first such move was in April 2008 when we entered into a co-development agreement with the Australian company Arana Therapeutics Limited to develop an antibody to treat colorectal cancer. Under this agreement, Kyowa Hakko has the exclusive option to develop and market this product in Asia including Japan, China, South Korea, and Taiwan. We also share with Arana the rights to this product in the U.S. and European markets.

Out-Licensing of Potelligent® Technology (As of June 2008)
Technology out-licensing: 9 companies (11 contracts)

Licensees	Genentech
	Biogen Idec
	MedImmune* (Wholly owned subsidiary of AstraZeneca)
	Medarex*
	Takeda
	UCB
	Igeneon (Wholly owned subsidiary of Aphton Corporation)
	GlaxoSmithKline
	Novartis

* Two contracts are in effect.

Licensing Activities

To maintain a steady flow of product candidates through our development pipeline and to maximize value, Kyowa Hakko is actively engaged in both in- and out-licensing activities.

Out-Licensing

Among Kyowa Hakko's licensing activities, in August 2003, the Company entered into an out-licensing agreement with NovaCardia, Inc., a U.S. pharmaceutical development venture company that was acquired by Merck & Co., Inc., in July 2007, for the adenosine A1 receptor antagonist KW-3902, a treatment for cardiac and renal insufficiency. This compound is now in phase III clinical trials. An Eg5 inhibitor out-licensed to Eli Lilly and Company in December 2005 is now in phase I clinical trials. Also, in February 2007 we licensed the malignant tumor treatment KW-2871 (now in phase I/IIa trials) to the U.S. company Life Science Pharmaceuticals, Inc. The previously mentioned therapeutic antibodies BIW-8405 and KW-0761 have also been out-licensed.

In addition, pharmaceutical exports and technology licensing fees continue to grow, especially for olopatadine hydrochloride, the active ingredient in the antiallergic agent Allelock®, whose exports and royalty income greatly contribute to Kyowa Hakko's revenues. The Alcon Group, headquartered in Switzerland, markets olopatadine hydrochloride around the world as Patanol® eyedrops. In May 2008, it was launched in the United States in nasal spray form.

Also, Kirin Pharma entered into a license agreement in January 2007 with Astellas Pharma Inc. for worldwide development and marketing of a fully human anti-CD40 antagonistic monoclonal antibody.

In-Licensing

Kyowa Hakko entered into a co-development and co-marketing agreement with Zeria Pharmaceutical Co., Ltd., in January 2007 for Asacol®, a treatment for inflammatory bowel disease (Crohn's disease), and currently have the product in phase III clinical trials. In April 2007, we concluded an agreement with ArQule, Inc., to in-license ARQ 197, an anticancer agent to treat solid malignant tumors (phase I clinical trials completed in the United States), and are currently pursuing phase I clinical trials in Japan. In June 2008, we concluded an in-licensing agreement for the exclusive development and marketing rights in Japan and principal Asian regions for ALN-RSV01, a treatment for respiratory syncytial virus (RSV) infection that is currently in phase II trials in the United States, from the U.S. company Alnylam Pharmaceuticals, Inc.

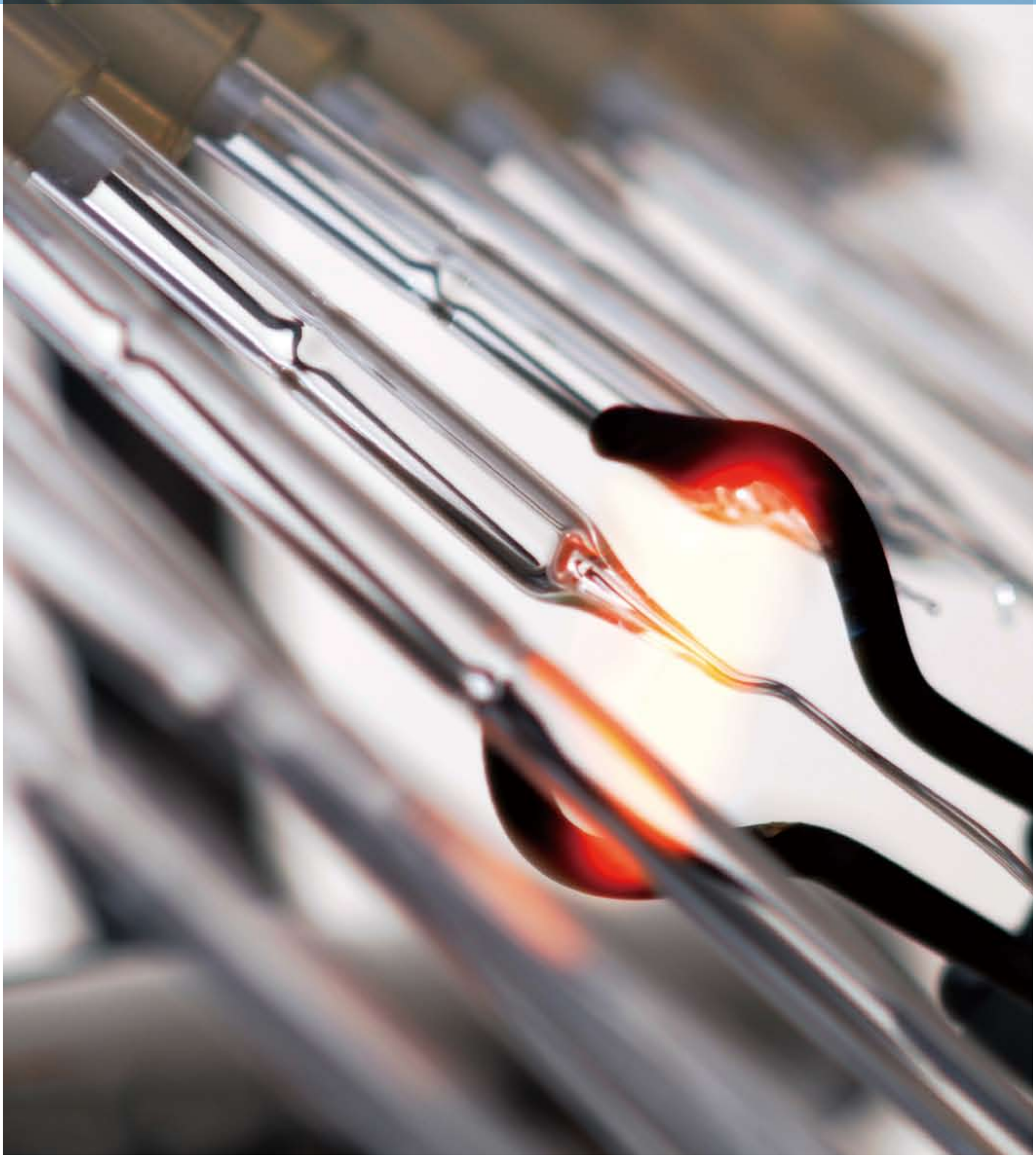
Increased Out-Licensing and In-Licensing (As of April 2008)

	CODE NAME	COMPANY	STAGE	INDICATION
Out-licensing	CEP-701	Cephalon	Phase III	Anticancer (acute myelocytic leukemia)
	KW-3902	Merck (NovaCardia)	Phase III	Congestive heart failure, renal failure
	Eg5 inhibitor	Eli Lilly	Phase I	Mitotic kinesin Eg5 inhibitor
	KW-2871 (Low-fucose antibody)	Life Science Pharmaceuticals	Phase II	Anticancer (malignant melanoma)
	KW-0761	Amgen	Phase I	Anti-CCR4 antibody
	BIW-8405 (Potelligent® antibody)	AstraZeneca (MedImmune)	Phase I	IL-5R antibody
In-licensing	KW-6500	Britannia Pharmaceuticals	Phase I	Antiparkinson (injection)
	Asacol®	Zeria Pharmaceutical	Phase III	Inflammatory bowel disease (Crohn's disease)
	ARQ 197	ArQule	Phase I	Anticancer

Preclinical   Phase I   Phase II   Phase III

Development Pipeline

Kyowa Hakko Kirin aims to create innovative, new development candidates and to advance two new antibodies and two new small molecule compounds into development stage each year. The primary products in development by Kyowa Hakko and Kirin Pharma are as follows.



KW-6002
We completed phase III clinical trials in Europe and the United States of this world-first selective adenosine A2A receptor antagonist for treating Parkinson's disease and filed an NDA in the United States in April 2007. Unfortunately, in February 2008 we received a Not Approvable Letter from the U.S. Food and Drug Administration (FDA). We are awaiting the results of phase IIb trials in Japan before deciding the future development course of KW-6002.

KW-0761
This is a humanized monoclonal antibody for CCR4 selectively expressed in T helper type 2 (Th2) cells. It is in phase I clinical trials in Europe as a treatment for allergic disorders. In Japan, it is in phase I trials for malignant tumors (hematologic cancer) in which CCR4 is highly expressed.

In March 2008, we concluded an out-licensing agreement with Amgen, granting it exclusive development and marketing rights for KW-0761 in all indications other than cancer treatment and in all countries but Japan, China, South Korea, and Taiwan.

KW-2449
This compound inhibits multiple kinases, such as FMS-like tyrosine kinase 3 (FLT3), which is known as a poor prognostic factor expressed in many acute myeloid leukemia (AML) patients. It also inhibits aurora kinases, making it a unique and very promising anticancer treatment. Indications include not only AML, but also chronic myeloid leukemia (CML) and solid tumors. It is now in phase I clinical trials in North America.

ARQ 197
The U.S. pharmaceutical development company ArQule has now completed phase I trials of this compound in the United States. ARQ 197 is an orally administered proprietary small molecule for treating malignant tumors. It is designed to selectively inhibit c-Met, a receptor tyrosine kinase, and the anticancer action comes about through molecular targeting. In April 2007, we entered into an agreement with ArQule for exclusive development and marketing rights for Japan and parts of Asia. ARQ 197 entered phase I clinical trials in Japan in February 2008.

KW-2478
Starting with a compound obtained through microbial screening and designed using our organic synthesis and X-ray crystallography technologies, KW-2478 possesses a new type of anticancer action. This compound inhibits the functions of heat shock protein 90 (Hsp90) client proteins and induces degradation of these proteins, which are involved in the survival, proliferation, metastasis, and other processes of cancer cells. Indications are for myeloma and lymphoma, as well as solid tumors. It is currently in phase I trials in Europe.

Z-206
In January 2007, we concluded a co-development and co-marketing agreement with Zeria Pharmaceutical for Asacol®, a treatment for inflammatory bowel disease (Crohn's disease) that is currently in phase III trials in Japan. Z-206 is an enteric product comprising mesalazine coated with a pH-dependent controlled-release substance. It is already marketed in 53 countries worldwide for other gastrointestinal indications and holds the leading share of one-third of the global market for inflammatory bowel disease treatments. In April 2008, Zeria Pharmaceutical's application for the additional indication of ulcerative colitis was approved.

KW-7158
With a unique mechanism of action on the sensory nerves, this compound was initially in development as a treatment for overactive bladder and urinary incontinence, but because the anticipated properties could not be demonstrated, we searched for new indications. It has been in phase II clinical trials since February 2008 for use as an irritable bowel syndrome treatment.

KW-3357
This recombinant antithrombin is of the same type as native-form antithrombin in the human body and was designed using the sugar chain control technology we acquired during the development of Potelligent® technology. It entered phase I clinical trials in Japan in December 2007. Because the antithrombins currently marketed in Japan are all blood products that cannot rule out the possibility of passing on an infection, KW-3357 will have great value as a safer substitute treatment.

KRN321
This project is in phase III in the development of additional indications for the antianemia agent NESP® (novel erythropoiesis stimulating protein) for anemia of CKD patients not on dialysis and for anemia in patients undergoing chemotherapy for cancer.

KRN125
This is the long-acting type of the G-CSF agent GRAN® currently in phase II clinical trials as a treatment for persistent leukopenia.

Pharmaceutical Pipeline

(As of June 24, 2008)

	CODE NAME (PRODUCT NAME)	GENERIC NAME	INDICATION	COUNTRY	FORMULATION
Anticancer	KW-2246	Fentanyl citrate	Cancer pain	Japan	Sublingual tablet
	KW-0761		Anticancer (Hematologic tumor)	Japan	Injection
	KW-2449		Anticancer	U.S.	Oral
	KW-2478		Anticancer	Europe	Injection
	ARQ 197		Anticancer	Japan	Oral
Antiallergic	KW-4679 (Allelock)	Olopatadine hydrochloride	Antiallergic	China	Oral
Central Nervous System	KW-6002	Istradefylline	Parkinson's disease (Adjunct therapy)	Japan	Oral
				U.S.	Oral
	KW-6500	Apomorphine hydrochloride	Parkinson's disease	Japan	Injection
Cardiovascular	KW-3049[1] (Coniel)	Benidipine hydrochloride	Angina pectoris	China	Oral
Other	Z-206 (Asacol)	Mesalazine	Inflammatory bowel disease (Crohn's disease)	Japan	Oral
	KW-7158		Bowel disease (Irritable bowel syndrome)	Japan	Oral
	KW-3357	Antithrombin	Blood coagulation factor inhibitor (Disseminated intravascular coagulation)	Japan	Injection
Hematology/ Cancer	KRN321[1, 2] (NESP)	Darbepoetin Alpha	Anemia (After chemotherapy for cancer)	Japan	Injection
	KRN125[2]	Pegfilgrastim	Neutropenia	Japan	Injection
	KRN654[2]	Hydrochloric acid agrylin	Essential thrombocythemia	Japan	Oral
	KRN330[2]		Cancer	U.S.	Injection
	AGS-003[2]		Cancer	U.S. and Canada	Injection
Renal	KRN321[1, 2] (NESP)	Darbepoetin Alpha	Anemia (For CKD patients not on dialysis)	Japan	Injection
				China	Injection
	PB94[2] (Renagel)	Sevelamer hydrochloride	Hyperphosphatemia	China	Oral

1. For additional indication
2. Kirin Pharma's pipeline

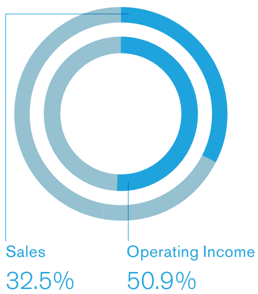
STAGE

PRECLINICAL	PHASE I	PHASE II	PHASE III	NDA FILED	APPROVED	LAUNCHED	REMARKS
							• Licensed from Orexo
							• Humanized monoclonal antibody (Potelligent® technology applied)
							• Licensed from ArQule
							• Prescribed in Japan as Allelock®
			(Phase IIb)				• Monotherapy[1] in Japan is in phase IIa
					(Filed in April 2007)		
							• Licensed from Britannia Pharmaceuticals
					(Filed in July 2007)		• Prescribed in China from December 2004 as Coniel® (Indication: hypertension)
							• Licensed from and jointly developed with Zeria Pharmaceutical
			(Phase IIa)				
							• Recombinant antithrombin product
							• Licensed from Kirin-Amgen • Approval has been given in Japan for anemia of CKD (chronic kidney disease) patients on dialysis
							• Licensed from Kirin-Amgen • Long-acting type of G-CSF
			(Phase I/II)				• Licensed from Shire
							• Fully human monoclonal antibody
							• Jointly developed with Argos • Dentritic cell-based immunotherapeutics
							• Licensed from Kirin-Amgen • Approval has been given in Japan for anemia of CKD patients on dialysis
					(Filed in June 2008)		• Licensed from Chugai Pharmaceutical • Prescribed in Japan as PHOSBLOCK®

At a Glance

SALES AND OPERATING INCOME | **SEGMENT PROFILE**

PHARMACEUTICALS

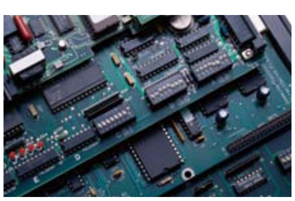


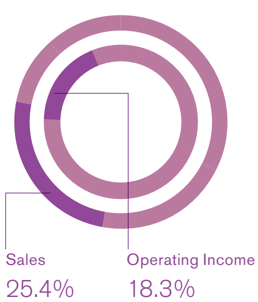
The Pharmaceuticals segment conducts R&D, production, and sales of ethical pharmaceuticals—principally in the fields of cancer, allergies, renal anemia, and hypertension—and of diagnostic reagents. In ethical pharmaceuticals, the segment is working to expand its business in overseas markets. To this end, we are conducting clinical development of new drugs in Europe, North America, and China and are moving ahead with therapeutic anti-body operations based on our original strong-acting antibody technologies.

BIO-CHEMICALS

In domestic and overseas markets, the Bio-Chemicals segment conducts production and sales of fermented bulk products, such as amino acids, nucleic acids, and related compounds, which are used as raw materials for pharmaceuticals, health foods and dietary supplements, cosmetics, and pharmaceutical intermediates. In addition, the segment conducts mail-order sales of health care products in Japan, produces and markets alcohol for the alcoholic beverages and food industries, and supplies agrochemicals as well as livestock and fisheries products.

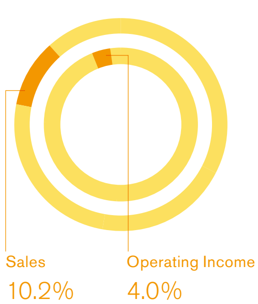
CHEMICALS





The Chemicals segment produces and markets basic chemicals and specialty chemicals. Basic chemicals include solvents used in paints and inks and raw materials for plasticizers used as additives in PVC products. Recently the segment places particular emphasis on specialty chemicals including environment-friendly products and products for advanced technologies.

FOOD



The Food segment develops, produces, and markets seasonings, principally natural seasonings made from meat, vegetables, or seafood; bakery products and ingredients, such as yeast and baking improvers; and processed foods, such as freeze-dried soup.

MAIN PRODUCTS

Ethical Drugs
Coniel® (hypertension and angina pectoris),
Allelock® (antiallergic agent),
Depakene® (antiepileptic agent), 5-FU (anticancer agent),
GRAN®*, Neu-up® (G-CSF formulation),
NESP*, ESPO* (ESA formulation),
REGPARA* (secondary hyperparathyroidism)

Diagnostic Reagents
Determiner® series
(clinical chemistry diagnostic reagents)

* Kirin Pharma products

Fine Chemicals
Amino acids, nucleic acids, related compounds

Health Care Products
Amino acids, vitamins, minerals, carotenoids, peptides,
Remake® series, Enguard® series

Agrochemicals and Livestock and Fisheries Products
Plant growth regulators, animal health products

Alcohol
For use in alcoholic beverages, in food preservatives, in disinfectants

Solvents
Butyl alcohol, butyl acetate, ethyl acetate, acetone, glycol ethers, MIBK, PM, PMA

Raw Materials for Plasticizers
2-ethylhexyl alcohol, isononyl alcohol (INA), isodecyl alcohol (IDA)

Specialty Chemicals
2-ethyl hexanoic acid, isononanoic acid,
DAAM (diacetone acrylamide),
high-purity solvents (PM-P, PMA-P, etc.), Diols

Seasonings
Natural seasonings

Bakery Products and Ingredients
Baker's yeast, premixes, baking improvers

Processed Foods
Instant egg-drop soup

TOPICS

June 2008 Entered an agreement with Alnylam Pharmaceuticals, Inc., for the development and commercialization of RNAi therapeutic ALN-RSV01 in Asia, including in Japan.

June 2008 Entered a joint sales agreement with Hisamitsu Pharmaceutical Co., Inc., for HFT-290, a transdermal absorption-type continuous-action analgesic for persistent cancer pain.

April 2008 Entered an agreement with Arana Therapeutics Limited, of Australia, to co-develop a new anticancer drug for colorectal cancer, ART104.

March 2008 Took over sales from Daiichi Sankyo Co., Ltd., of the long-acting ACE inhibitor Coversyl®.

March 2008 Entered a licensing agreement with Amgen Inc., of the U.S., for KW-0761, an anti-CCR4 humanized monoclonal antibody developed by Kyowa Hakko.

February 2008 Received "not approvable" letter from the U.S. FDA for application approval in the U.S. of istradefylline (KW-6002).

February 2008 Entered a licensing agreement with LivTech, Inc., for its LIV-1205 cancer treatment antibody.

January 2008 Commenced sales of REGPARA®, a calcium receptor activator for secondary hyperparathyroidism.*

September 2007 Launched antiepileptic agent Topina®.

July 2007 Commenced sales of NESP® injection syringe, a long-acting erythropoiesis stimulating agent.*

May 2007 Commenced sales in Japan through Kyowa Medex Co., Ltd., of diagnostic drugs and devices from DiaSorin S.p.A., of Italy.

April 2007 Entered a licensing agreement with ArQule, Inc., of the U.S., to introduce into Japan and parts of Asia ARQ 197, an anticancer agent in clinical development.

* Kirin Pharma topics

April 2008 Announced spin-off of the Bio-Chemicals operations following a corporate divestiture on October 1, 2008.

March 2008 Commenced sales of "Remake Collagen Drink" skin care products.

January 2008 Launched "Remake Lutein" capsule dietary supplements.

November 2007 Launched "Remake fermented Vitamin K2 & Ca" dietary supplements.

October 2007 Launched "Remake Citrulline," the first citrulline compound supplement manufactured in Japan.

April 2007 Acquired Daiichi Fine Chemical Co., Ltd., as a wholly owned subsidiary.

April 2007 Launched "Remake fermented Coenzyme Q 10" dietary supplements.

April 2007 Increased yearly production of isononanoic acid (a raw material for lubricants in air-conditioning and refrigeration equipment that use CFC substitutes) by 20,000 tons.

April 2008 Announced business integration of Kyowa Hakko Food Specialties Co., Ltd., and Kirin Food-Tech Company, Limited.

September 2007 Launched "Softto Series," a new material for baking that softens the bread.

August 2007 Completed new facilities to produce liquid seasonings at Tsuchiura plant.

August 2007 Launched commercial-use "Hon-Mirin Kyowa Kappou-Jitate (Japanese sweet rice wine for cooking)."

February 2007 Launched "Chicken Extract FR."

February 2007 Launched "Yeast Extract Kyowa JC-M."

Pharmaceuticals | Bio-Chemicals | Chemicals | Food

Pharmaceuticals

YOSHITO IMAI
President of Pharmaceuticals Business Unit
Executive Vice President

INDUSTRY TREND

Japanese pharmaceutical companies are facing an operating environment whose dynamics are changing. Against a backdrop of progressive revisions to the Japanese medical care system as part of the government's health care cost containment policy, competition with the big European and U.S. pharmaceutical companies is becoming more aggressive, the generics market is expanding, R&D expenses are rising, and global competition in new drug development and marketing is reaching new levels. In this environment, Kyowa Hakko aims to be a company trusted by patients and health care professionals alike through actively providing high-quality medical information as part of our contribution to spreading evidence-based medicine (EBM). We also plan to consistently and rapidly develop outstanding new drugs that meet the needs of the medical community in the focused area of oncology, nephrology, and immunology. To this end, we take full advantage of cutting-edge biotechnology—particularly antibody technology—and also actively cultivate external resources.

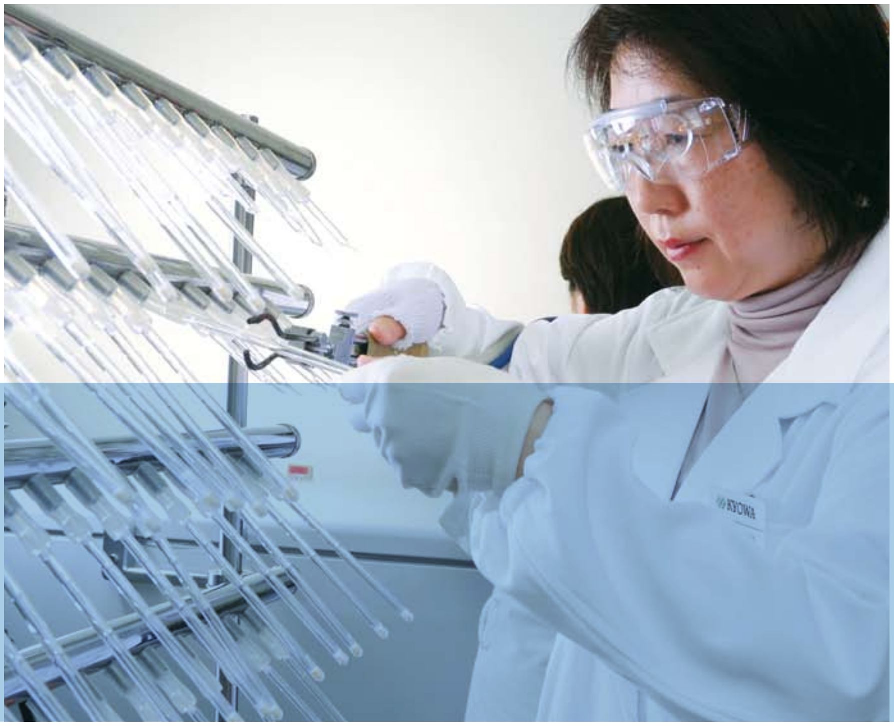
OPERATIONAL STRATEGY

We aim to become a global specialty pharmaceutical company that contributes to the health and well-being of people around the world. We have three strategies in place to achieve this target.

First is to extend our research and development capabilities. While continuing to give resources priority allocation in the areas of oncology, nephrology, and immunology, we will take full advantage of leading-edge proprietary technologies, such as our high antibody-dependent cellular cytotoxicity (ADCC) antibody production technology Potelligent® and Kirin Pharma's KM Mouse® technology platform, to raise our new drug discovery capabilities to new heights. We plan to have two new candidates each in therapeutic antibodies and small molecule compounds enter the development stage each year.

Second is to raise our market profile even further so that we hold the leadership position in the markets for our existing mainstay products. We plan strategic deployment of our medical representatives (MRs) in the key nephrology area in order to achieve the top share of the ESA (erythropoiesis stimulating agent) market. In the oncology field, we will work to steadfastly maintain the joint number one position occupied by GRAN® and Neu-up® in the market for G-CSF (granulocyte colony-stimulating factor) agents.

Third is to push forward with our overseas operations. In Asia, Kirin Pharma runs successful marketing campaigns for a lineup centering on its mainstay renal and cancer treatments. We aim to establish a sound long-term profit base, taking advantage of Kirin Pharma's activity and pursuing development endeavors to create new products and new indications for existing products. In the United States and Europe, we are continuing to develop business opportunities by expanding our antibody operations through the U.S. subsidiary BioWa, Inc. Licensing our high activity antibody technologies Potelligent® and Complegent™ to the world's leading pharmaceutical companies will successfully lead to the superior international standing of our technology. At the same time, we will fill out our high activity antibody development pipeline, both through the speedy development of proprietary products and through



collaborative work with biotech pharmaceutical companies that also possess antigens and antibodies. We are investigating the establishment of an independent marketing framework in the United States and Europe to complement the progress of our development pipeline.

OVERVIEW

Sales from Pharmaceuticals operations were up 5.2%, to ¥138.4 billion, in fiscal 2008, supported by steady revenues from our mainstay antiallergic agents in the domestic market, as well as exports and technology out-licensing fees. Operating income rose 26.8%, to ¥20 billion.

Ethical Drugs

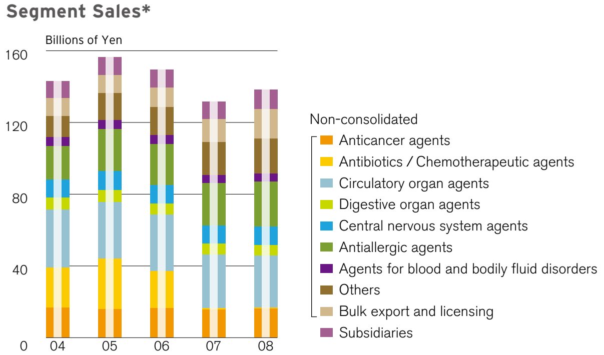
In the domestic market, the antihypertensive and angina pectoris agent Coniel® faced new competition from generics but nevertheless performed well, keeping the impact on sales to a bare minimum. Sales of the antiallergic Allelock® (olopatadine hydrochloride) and Patanol® antiallergic eyedrops were up, gaining market share and benefiting from a rise in the pollen count in Japan in the period under review. Sales of the antiepileptic Depakene® were also strong.

In the area of licensinic activities and exports, sales of the antiallergic agent olopatadine hydrochloride grew well. This agent is licensed to the Alcon Group headquartered in Switzerland, which markets it in eye-drop form in numerous countries and in nasal spray form in the United States from May 2008.

Diagnostic Reagents

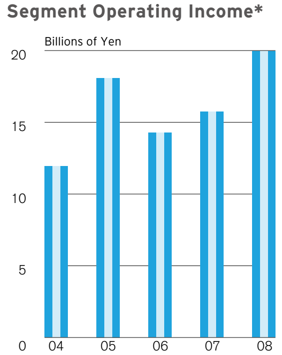
The subsidiary Kyowa Medex Co., Ltd., manufactures and markets our diagnostic reagents. Clinical chemistry diagnostic reagents and immunological reagents registered sales increases, leading to overall reagent sales growth in fiscal 2008. Aggressive in-licensing also supported the result.

Segment Sales*



* Including intersegment transactions

Segment Operating Income*



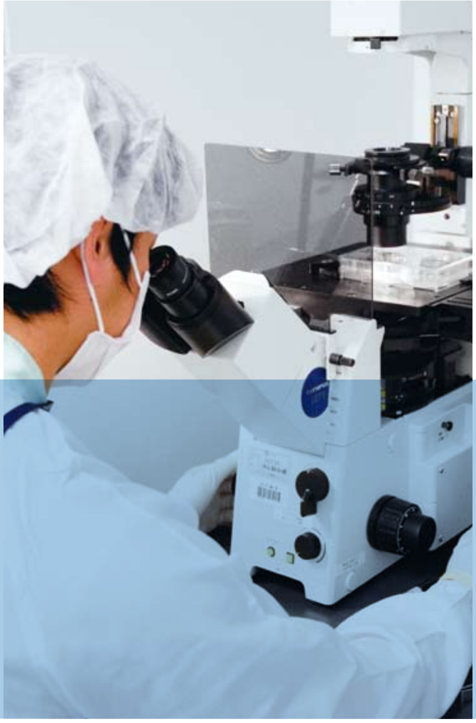
Principal Drug Sales

	INDICATION	2008	2007	2006
		Billions of Yen		
Coniel	Cardiovascular (hypertension and angina pectoris)	¥25.4	¥26.3	¥28.1
Allelock	Antiallergic	23.3	21.0	19.9
Celtect	Antiallergic	4.1	4.8	5.4
Depakene	Antiepileptic	10.5	10.2	10.2
Adriacin + Farmorubicin	Anticancer	8.7	8.6	9.5
Nauzelin	Gastrointestinal	6.1	6.5	6.6
5-FU	Anticancer	3.4	3.3	3.3
Neu-up	Recombinant human G-CSF derivative	4.4	4.5	4.6
Durotep	Transdermal analgesic	13.9	14.1	13.5
Navelbine	Anticancer	3.1	2.8	2.3
Patanol	Antiallergic eyedrops	4.3	2.1	–
Inovan + Pre Dopa	Cardiovascular	4.1	4.3	4.9
Export & licensing		16.3	12.8	10.6

Allelock®, antiallergic agent

Coniel®, antihypertensive and angina pectoris agent

Patanol®, antiallergic eyedrops



NEW DRUG DEVELOPMENT

In Japan, phase II clinical trials were completed on KW-2246, a sublingual tablet for cancer pain, and are ongoing for antiparkinson agent (adjunct therapy) KW-6002, antiparkinson agent (apomorphine hydrochloride self-injection formulation) KW-6500, and irritable bowel syndrome treatment KW-7158. Phase I clinical trials are in progress of KW-0761, a hematologic tumor treatment developed using our proprietary Potelligent® high ADCC antibody production technology. Also, in phase I clinical trials are blood coagulation factor inhibitor (recombinant antithrombin) KW-3357 and anticancer agent ARQ 197, for treating malignant tumors, which we licensed from the U.S. company ArQule in April 2007. Asacol®, an agent for treating inflammatory bowel disease that we will be marketing jointly with Zeria Pharmaceutical Co., Ltd., has completed phase III clinical trials and a New Drug Application (NDA) has been filed.

Overseas, the antiparkinson agent (adjunct therapy) KW-6002, which had been filed for approval with the U.S. Food and Drug Administration (FDA), received a Not Approvable Letter in February 2008. We will consider the results of phase II clinical trials currently underway on this candidate in Japan before deciding the course of its future development. The above-mentioned therapeutic antibody KW-0761, which has been in phase I clinical trials in Europe for indication as an antiallergic treatment, was out-licensed in March 2008 to the U.S. biotech pharmaceutical giant Amgen. Other overseas trials are also progressing, with multi protein kinase inhibitor KW-2449, for treating malignant tumors, now in phase I clinical trials in the United States, and heat shock protein 90 (Hsp90) inhibitor KW-2478, also a malignant tumor treatment, in phase I trials in Europe. In China, we filed in July 2007 for supplementary approval of Coniel® for indication as a treatment for angina pectoris, and antiallergic Allelock® is now in phase III clinical trials.

Depakene®, antiepileptic agent

Neu-up®, recombinant human G-CSF derivative

DM-Jack Upgrade, diabetes mellitus test analyzer

Bio-Chemicals

YUKINOBU KOTANI
President of Bio-Chemicals Business Unit
Executive Managing Officer

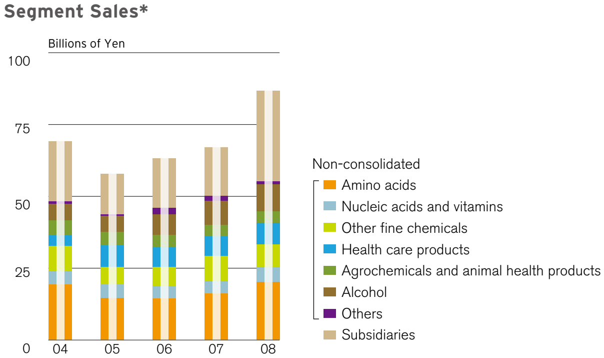
INDUSTRY TREND

Our mainstay fermented bulk products, including amino acids, nucleic acids, and related compounds, are used widely in pharmaceuticals, pharmaceutical intermediates, foods and dietary supplements, and cosmetics. We expect continued solid growth in demand for amino acids for pharmaceuticals and industrial use, with conspicuous rises in demand from Eastern Europe, the Middle East, South America, and other areas that until now had not used them routinely in medical transfusions. In Japan, the market for health foods remained sluggish, so sales of amino acids for use in beverages and as raw materials for health food products were slow. Nevertheless, the worldwide trend of heightening awareness of health maintenance and improvement issues continues to grow every year. Factors of concern in recent years include sharply rising prices for raw materials and crude oil that have led to unavoidable cost increases, and growing attention by the market at large on issues of food safety and product quality. To maximize customer value and provide safe, high-quality products, we are enhancing production efficiencies and further strengthening our global quality assurance system.

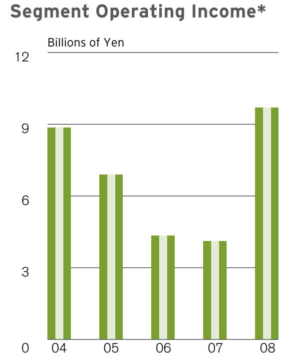
OPERATIONAL STRATEGY

In Bio-Chemicals, we have three strategic objectives in place to strengthen our business base in such fine chemicals as amino acids and to promote growth of our share of the medical and health care markets. First, we aim to increase our market share by growing volume sales of amino acids in the primary areas of medical foods, transfusions, and culture media. Kyowa Hakko and Ajinomoto Co., Inc., are the world's leading makers of amino acids for medical foods and industrial use, but in recent years manufacturers from China and South Korea have begun to make their mark in the health care foods market, armed with aggressive low-pricing strategies. In response, Kyowa Hakko is reconfirming its position in the global market by honing the cost-competitiveness of its products through efforts to increase production capacity and implement processing innovations across its bases of operations in Japan, the United States, and China. Second, we will take

Segment Sales*



Segment Operating Income*



* Including intersegment transactions/Reflecting the restatement of fiscal 2004 figures due to the reclassification of business segments effective from fiscal 2005

full advantage of the opportunity to join forces with the new consolidated subsidiary Daiichi Fine Chemical to combine our fermentation technology with its synthesis technologies and create high-value-added products for pharmaceutical raw materials and intermediates in the fine chemicals sector. Third, we will cultivate and strengthen our health care business in Japan. To achieve this, we are developing a strong marketing system based on a sound grasp of consumer needs and fine-tuned product development and project planning, as well as promoting sales of mainstay mail-order products such as citrulline and ornithine, and working to extend our activities in the OEM and raw materials businesses.

OVERVIEW

Sales in Bio-Chemicals grew 29.3%, to ¥86.8 billion, and operating income was up 135.6%, to ¥9.7 billion, in fiscal 2008. The principal factors underpinning this growth included the uptrend in worldwide demand for amino acids for medical transfusions and pharmaceutical raw materials use and growth in nucleic acid exports. The new inclusion of Daiichi Fine Chemical in the consolidated results also made a solid contribution to the sharp rise in net sales and operating income.

Fine Chemicals

Raw materials for pharmaceutical and industrial use—primarily amino acids, nucleic acids, and related compounds—saw very strong sales expansion. Overseas, this came from growth in the area of transfusions and from higher volume exports of nucleic acids. The consolidation of Daiichi Fine Chemical also contributed to these fine results.

Health Care Products

OEM and raw material sales could not shrug off the dampening effect of a sluggish Japanese health foods market. Nevertheless, steady sales growth was recorded overseas for amino acids for use in health foods and in Japan for the mail-order Remake® series of products, leading to a year-on-year rise in net sales of health care products.

Agrochemicals and Livestock and Fisheries Products

Increasing prices for feed slowed the Japanese livestock and fisheries industries and competition was fierce in overseas agrochemical markets. These factors lead to a decline in sales of agrochemicals and livestock and fisheries products.

Alcohol

Sales of raw material alcohol for use in alcoholic beverages rose despite continued dullness in demand from the refined "sake" industry as a whole. Combined with consistent year-on-year rises in sales volume of industrial-use alcohol since marketing of industrial-use alcohol was deregulated in April 2006, this resulted in alcohol products recording a rise in net sales.

R&D

We continue to research new ways to make fermentation production processes more efficient in order to keep costs down in our amino acid, nucleic acid, and related compounds operations. Together with Daiichi Fine Chemical, we are redoubling efforts to investigate new functions and develop new applications for a wide variety of amino acid products.

Remake® series of products

Biokyowa plant

Shanghai Kyowa Amino Acid plant

Chemicals

MAKOTO KIKKAWA
Kyowa Hakko Chemical Co., Ltd.
President and Chief Executive Officer

INDUSTRY TREND

The petrochemicals industry recorded good growth in the first half of fiscal 2008, supported by increased capital expenditure and favorable exports. From the middle of the period, however, the U.S. subprime crisis triggered rising fears of a possible recession in the United States. Combined with a steeply strengthening yen and higher raw material and fuel prices resulting from spiraling crude oil prices, demand contracted and corporate profits shrank in the second half of the fiscal year. Consequently, the petrochemicals industry recorded revenue declines, in contrast with the good results returned in fiscal 2007.

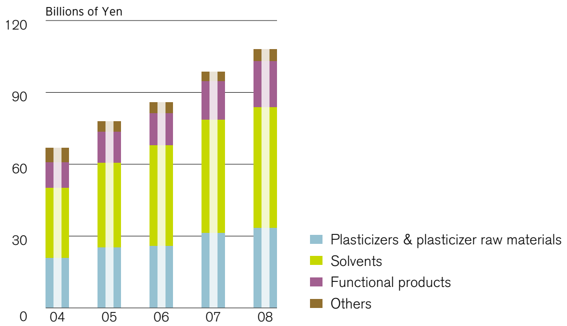
With concerns remaining about further crude oil price hikes and uncertainty about the direction of the U.S. economy, Japan's petrochemicals makers face the common challenges of implementing pricing policies in response to increased raw material and fuel costs, strengthening the core businesses, and fostering growth in highly differentiated specialty chemicals products.

OPERATIONAL STRATEGY

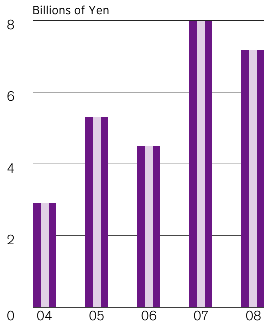
We expect strong fluctuations in raw material and fuel prices to continue. We plan to establish a steady flow of revenues by responding to this situation with appropriate product pricing policies. To reshape our business structure into one that is more resilient to such outside influences, we are focusing on the following strategic objectives.

In basic chemicals, we will consider alliances with other companies and other options in our efforts to strengthen the market position of our existing products and enhance our competitive advantage. Also, to reinforce our operations, we will work to set up reliable procurement of raw materials and fuel and continue to invest in maintenance,

Segment Sales*



Segment Operating Income*



* Including intersegment transactions

repair, and replacement of plants and other facilities at our production site. In specialty chemicals, particularly in environment-friendly lubricant raw materials for refrigeration systems and high-purity solvents for the IT industry, we, as one of the world's leading companies, will ensure continued growth by aggressively investing in such products. We are bolstering our R&D system in order to direct product development toward the key areas of raw materials for lubricants, recording materials, and waterborne resins. In addition to maintaining an in-house system that encourages efficient R&D efforts, we actively work with universities and other outside research organizations to foster the future growth and development of our operations.

OVERVIEW

Demand for petrochemicals remained mostly firm in Japan and overseas. Prices remained high for raw materials and fuel, but we were able to secure profits in our basic chemicals business in Japan by introducing price revisions for our principal products. While overseas markets remained highly priced, results for exports were dampened due to reduced operating rates caused by mechanical troubles at our plant.

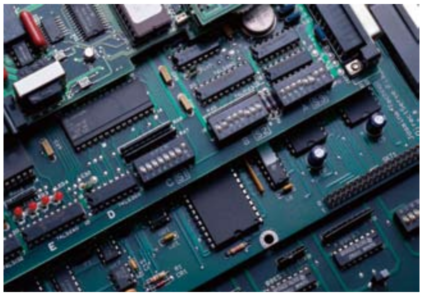
As a result, sales of Chemicals operations increased 9.5% year on year, to ¥108.0 billion, in fiscal 2008 and operating income fell 10.1%, to ¥7.2 billion due to depreciation and other increased expenses for the period.

Basic Chemicals

In the domestic market, volumes were up slightly year on year, supported by firm demand from key industries such as the automotive industry. As a result of selling price revisions for our main products, implemented in response to high raw material and fuel costs, sales of basic chemicals rose sharply in value terms in fiscal 2008. Export markets remained highly priced, but due to the unplanned shutdown of some manufacturing facilities, export sales volume for basic chemicals declined, resulting in slightly lower export sales.

Specialty Chemicals

Worldwide demand is rising for raw materials for lubricants used in refrigeration systems that utilize ozone-friendly chlorofluorocarbon (CFC) substitutes. In response, we have increased production capacity over the past few years and combined with successful promotional activities, this led to higher sales in Japan and overseas. Also, high-purity solvents for use in the IT industry recorded their highest-ever sales value in fiscal 2008.



Food

TAKEYUKI YOSHIDA
Kyowa Hakko Food Specialties Co., Ltd.
President and Chief Executive Officer

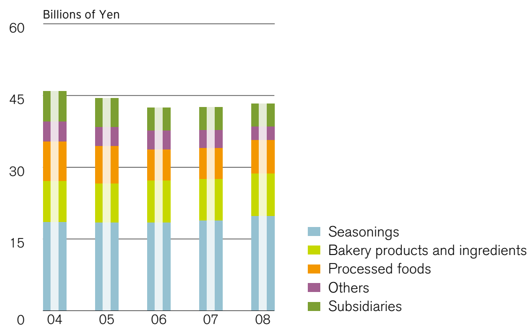
INDUSTRY TREND

The food industry is maturing and with worldwide increases in the prices of raw material and fuel, such as cereals and petroleum products, Food operations was caught in a vicious cycle of low selling prices and fierce competition. The operating environments for processed foods and the food service industry were also dull, with demand recovery held back by uneasiness about China-sourced raw materials and the rising cost of processed foods. Conditions remain severe, even to the point of higher gasoline prices bringing about a decline in the number of people frequenting roadside eateries. In order to survive in these conditions, food companies are becoming more selective and more focused in their businesses, while boosting R&D efforts to reinforce their core strengths and becoming increasingly involved in cooperative ventures, including M&A. Despite the maturing of the food industry, more and more companies are entering the food services sector, as a result of forecast strong medium-to-long-term sector growth. We anticipate that customer requirements for seasonings and bakery products and ingredients will trend even more strongly toward excellent flavor, safety, quality, and affordability. The development of new products, the enhancement of cost competitiveness, and the establishment of effective quality assurance systems are key issues for every company in the food industry.

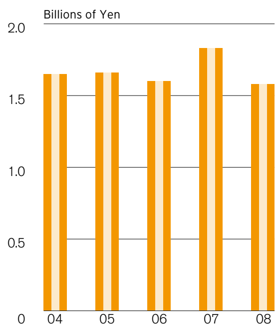
OPERATIONAL STRATEGY

The mission of Kyowa Hakko Food Specialties Co., Ltd., is to live up to the trust placed in us by our customers by providing safe, healthy food products for a fulfilling dietary lifestyle. By developing highly differentiated food ingredients using our proprietary fermentation and cooking-reaction technologies, carrying out our marketing strategy spanning product development to sales, and refining our quality assurance systems, we aim to use solutions-based marketing methods to open up new markets. While food raw material costs continue to rise steeply, we will stabilize our revenue base by implementing appropriate selling price revisions and securing safe, low-cost raw materials procurement from Japan and overseas.

Segment Sales*



Segment Operating Income*



* Including intersegment transactions/Reflecting the restatement of fiscal 2004 figures due to the reclassification of business segments effective from fiscal 2005/Liquor operations being sold in September 2002

Seasonings is a core business area. We are working to become the leader in the natural seasonings field, which covers extracts, amino acids, and brewed seasonings, by targeting the growing food services market. In bakery products and ingredients, another core area, we are working to make inroads with the principal bakery companies by providing a unique range of flavor enhancers and bread improvers. In China, we operate plants to manufacture natural seasonings and freeze-dried ingredients and are moving ahead with plans to strengthen our marketing capabilities in that highly promising new market.

On April 1, 2009, Kyowa Hakko Food Specialties and Kirin Food-Tech Company, Limited, will integrate their businesses and form the joint venture company Kirin Kyowa Foods Company, Limited. The new company will become a wholly owned subsidiary of Kirin Holdings on January 1, 2011, and will fill an important role in the Kirin Group's "food and health" segment, helping to strengthen its operational base and accelerate business growth.

OVERVIEW

Market conditions were severe in fiscal 2008, with a falling birth rate and an aging population, progressively higher standards being applied to food safety, and upward pressure on raw material prices. Food operations sales in fiscal 2008 were up 1.7%, to ¥43.3 billion, and operating income fell 13.9%, to ¥1.6 billion.

Seasonings

While the operating environment for natural seasonings products was made difficult by the high cost of raw materials, the effects of adjusting production of seasonal ingredients as a result of unseasonable weather in the summer period last fiscal year caused sluggish sales of extracts. These factors were offset by the success of vigorous marketing campaigns targeted to the food services market for brewed seasonings, the growing popularity of our range of sauce-style seasonings by the addition of new manufacturing lines and a strengthened position in the market, and higher demand for yeast extract as the trend toward more health-conscious and natural eating picks up pace. Sales of natural seasonings were roughly equal to the level of the previous year. Demand rose for Umami seasonings, leading to a net increase in this area.

Bakery Products and Ingredients

Among the confectionery and baking companies, our customers for these raw materials, price rises for commodities like wheat flour are a primary topic of discussion. Ingredient prices surged globally, and combined with short supply, created confusion in the market, leading us to suspend offering certain products. Our mainstay yeast products recorded good growth, however, and the aggressive promotion of cost-efficient and highly differentiated flavor enhancer products was also fruitful, contributing to overall sales growth.

Processed Foods

Sales of these products benefitted from expanded OEM operations for the big food manufacturers and the distribution industry, ending the year higher.

Freeze-dried soup products

Sources for chinese foods

Intellectual Property

BASIC POLICIES REGARDING INTELLECTUAL PROPERTY

Kyowa Hakko is an R&D-based company that considers intellectual property (IP) to be one of its key management resources. In particular, the Company aggressively pursues wide-ranging, robust, and effective rights to the IP that underpins its business strategies. Also, we respect the IP rights of third parties and refrain from infringing on them. This enables us to not only ensure compliance but also maintain a high degree of freedom in our research and business activities, which in turn contributes to the achievement of maximum value in each individual business.

To this end, the Company is strengthening its systems to conduct such activities as acquiring and protecting IP rights, managing licensing, and monitoring third parties' rights from a global perspective. For example, in its main business of pharmaceutical product development, the Company protects core technologies and prolongs the life of products through the strategic filing of relevant patents.

FUNCTIONS OF THE INTELLECTUAL PROPERTY DEPARTMENT

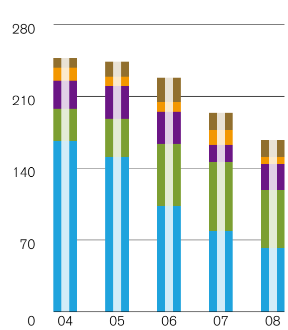
The Intellectual Property Department functions across the Company to make operations more efficient and reinforce risk management with regard to IP. Departmental responsibility includes being in charge of IP-related matters for each business division and providing IP support to major subsidiaries. As a result of the merger with Kirin Pharma on October 1, 2008, the Intellectual Property Department now shoulders the responsibility for IP issues related to this new subsidiary, thereby further enhancing its supervisory function with regard to the Company's pharmaceutical IP management.

In recent years, the Company has recognized that integrating business and IP strategies is an important Companywide issue. The Intellectual Property Department is strengthening its coordination with each business division, the head office of each principal subsidiary, and research laboratories by holding regular meetings as well as exchanging information and consulting with research laboratories more frequently.

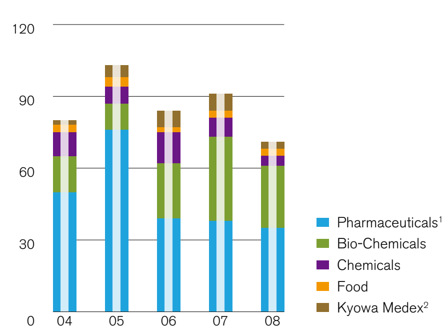
Moreover, we recognize the necessity of being familiar with the IP environment at each important stage of research and business decision making. Members of the Intellectual Property Department therefore participate in major projects related to development themes, existing products, licensing, and other relevant issues.

Another important function of the Intellectual Property Department is the education of employees on IP rights. The department sends IP supervisors on overseas training courses and regularly upgrades its in-house employee training programs, including the company orientation for new recruits and programs for specific fields or groups of employees. Also, the Company has close relationships with lawyers and patent attorneys with expertise in related fields in Japan or overseas to appropriately address highly specialized issues.

Number of Patent Applications (Japan)



Number of Patent Applications (Overseas)



1. Pharmaceuticals excludes Kyowa Medex Co., Ltd.
2. Kyowa Medex manufactures and sells diagnostic reagents.

CONTRIBUTIONS TO LICENSING ACTIVITIES

As it is becoming increasingly difficult to continue to independently develop new products, the Company's Pharmaceuticals operations actively out-licenses products developed in-house based on the POC (Proof of Concept) Fast strategy. At the same time, additional attention is being paid to in-licensing activities, which in turn has raised the importance of the evaluation of IP issues related to in-licensed candidates. The Company established the Legal Affairs Group within the Intellectual Property Department in the fiscal year under review to facilitate closer cooperation among IP staff, legal staff, and various business divisions, which is vital in the management of important licensing-related issues.

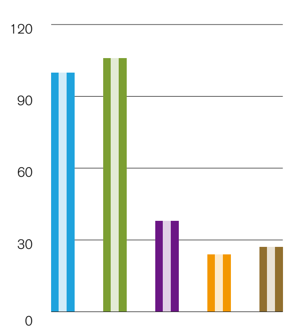
In recent years, opportunities have expanded in Pharmaceuticals operations, in particular, to license R&D achievements to other companies. For example, olopatadine hydrochloride, which the Company out-licensed to the Alcon Group, has become a mainstay of technology-licensing revenue. Also in fiscal 2008, we approved a major out-licensing agreement to grant Amgen, Inc., exclusive rights to develop and market the CCR4 humanized monoclonal antibody KW-0761 worldwide, with the exceptions of Japan, China, Korea, and Taiwan. As a result, technology-licensing fees are expected to expand considerably.

The Company has accumulated numerous core technologies in the process of pursuing R&D activities that are underpinned by unique and innovative research and technology. These include the proprietary Potelligent® technology, which dramatically enhances the antibody-dependent cellular cytotoxicity (ADCC) of antibodies, and Complegent™ high complement dependent cytotoxicity (CDC) antibody technology. While working to acquire multifaceted patent rights for these technologies, the Company is actively out-licensing it through its subsidiary BioWa, Inc., to leading U.S. and European pharmaceutical companies that develop antibodies. Moreover, the Company has multiple core technologies related to drug formulation, which are contributing to its profits under the protection of IP rights.

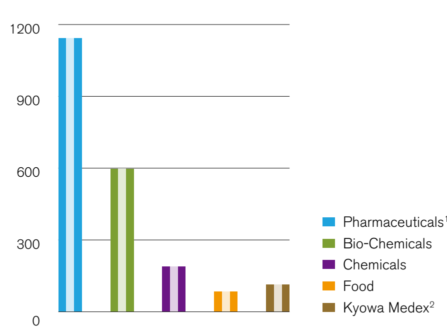
POLICIES RELATED TO THE IP PORTFOLIO

In principle, the Company encourages the aggressive pursuit of initial basic discoveries and the filing of patents based on such discoveries. Nevertheless, the timing of overseas applications and examination requests as well as post-registration operations, management, and other activities are evaluated in terms of technology, business operations, and rights. Each issue or project is prioritized by taking into account the additional factor of cost effectiveness, and decisions are made to maintain only those rights deemed necessary. This makes it possible to concentrate internal resources related to IP on the most significant issues. In Pharmaceuticals, for instance, the heads of relevant departments meet regularly to make decisions on which technologies to apply for and in which countries to lodge applications. Meetings are held when necessary to discuss the need to maintain patents in light of changes in strategic direction to make maximum use of patent rights. Each business division works to build an IP portfolio that is consistent with its business strategy, taking into account the position of individual projects under the strategy as well as the position of each IP right within the project. In addition, given the particular importance of IP strategies in Pharmaceuticals, a Portfolio Committee meets regularly to decide principal issues related to R&D as part of a structure for analyzing and evaluating IP-related issues as a whole or as individual projects.

Number of Patents Owned (Japan)



Number of Patents Owned (Overseas)



1. Pharmaceuticals excludes Kyowa Medex Co., Ltd.
2. Kyowa Medex manufactures and sells diagnostic reagents.

Corporate Social Responsibility

As stated in its management guidelines, Kyowa Hakko considers environmental safety, quality assurance, and social contribution activities to be important management issues. Leadership by top management provides an example that is followed by everyone at Kyowa Hakko.

ENVIRONMENT AND SAFETY MANAGEMENT

Management Systems

The Kyowa Hakko Group's environment and safety management systems ensure continuous improvement in environmental safety and preservation, workplace accident prevention, and product safety through the integration of ISO 14001, an environmental management system, with the Occupational Safety and Health Management System (OSHMS), a system that focuses on the safety, health, and welfare of employees, and the implementation of our Plan, Do, Check, and Act (PDCA) cycle. In addition to complying with environment and safety related laws and regulations, our activities are measured against our own stricter standards. Moreover, we have also fully adopted Responsible Care (RC) activities

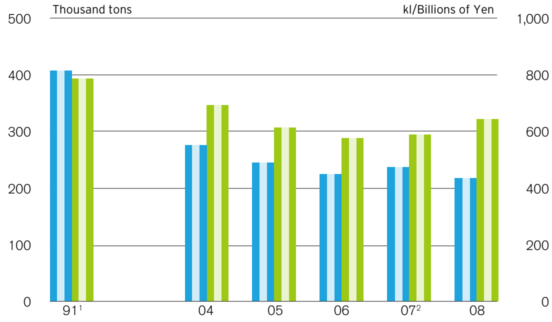
Performance

During the fiscal year under review, we have once again worked to reduce the environmental burden of our operations through the Companywide Kyowa Eco-Project, focusing on energy saving, resource saving, and zero emissions. As a result, the Company has achieved its stringent targets for zero emissions, which included aggressive efforts to recycle industrial waste, for the fourth consecutive year. We achieved a 17% reduction in greenhouse gas emissions relative to 1990, the benchmark year as per the Kyoto Protocol, by converting from heavy oil to gas at the Hofu and Yokkaichi plants and by installing solar power generation equipment at the Fuji Plant.

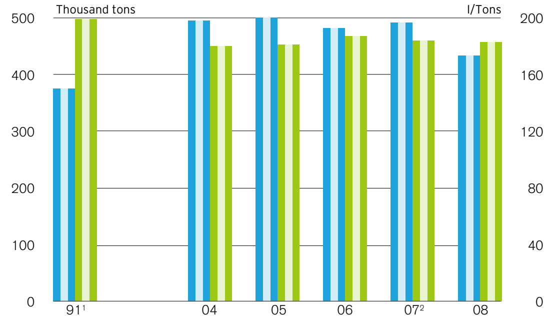
Furthermore, the entire Group is engaged in green office plan activities, which focus on the promotion of a green supply chain along with saving energy and promoting recycling in administrative departments.

In terms of workplace safety, we continue to rank at the top of our industry, with an accident rate of zero at Kyowa Hakko, Kyowa Hakko Food Specialties, Kyowa Hakko Chemical, and Kyowa Medex in the year under review.

Yearly Changes in Unit Energy Consumption
The Kyowa Hakko Group, except Kyowa Hakko Chemical*



Yearly Changes in Unit Energy Consumption
Kyowa Hakko Chemical



■ CO_2
■ Unit energy consumption (right scale)

1. Fiscal 1991 figures are the reference values for numerical targets spelled out in the Kyoto Protocol, which determined emission reduction obligations for CO_2 and other greenhouse gases.
2. Following the revision of the law in 2006, CO_2 equivalent units and the areas for which energy are calculated have been revised.

Communication

The annual Sustainability Report prepared by Kyowa Hakko provides information related to the environment and workplace safety, and we are enhancing the reliability of this report through third-party verification. We also consider dialog with local communities to be important, and regularly hold responsible care (RC) discussions with residents, local government bodies, and NGOs in the areas where our plants are located.

Continuous Improvement

How to recycle the liquid fermentation waste created when producing amino acids is a critical issue for industries involved with fermentation. However, the concepts of nature and environmental improvement are firmly rooted at Kyowa Hakko. More than 50 years ago, we developed a system that recycles liquid waste into fertilizer and livestock feed, and we have always worked to curtail emissions of chemical substances in our production of chemicals. Factories have received ISO 14001 certification, and going forward we will seek to obtain this certification on a Companywide basis as we strive to carry out best-practice environmental improvements.

QUALITY ASSURANCE

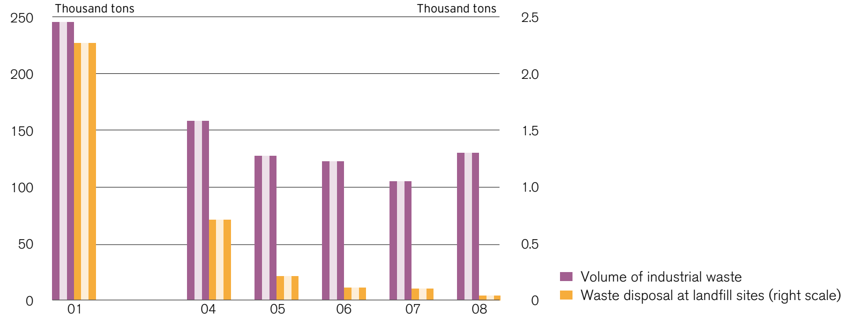
The Kyowa Hakko Group has formulated the Quality Assurance Action Policy to raise the awareness of quality assurance and is actively promoting this policy throughout the Group, including overseas locations.

Our goal is to gain the trust and satisfaction of customers by providing products and services that are superior in terms of quality and function. With this in mind, the Group strives to enhance quality and function across all divisions, from R&D to purchasing, manufacturing, distribution, and sales.

In addition, we strive to further raise product quality assurance through highly reliable manufacturing and quality control by addressing new laws, including the Pharmaceutical Affairs Law, and implementing and continuously improving GMP (good manufacturing practice), ISO 9001, and other quality assurance systems at all our plants.

The Pharmaceuticals business carried out a voluntary product recall of Coniel® during 2007. We sincerely apologize for the concern and inconvenience this has caused for not only patients, but also medical institutions and other persons involved. Fortunately, however, there were no reports of anyone suffering physical harm as a result of this incident. We are subsequently devoting our full energy to regain the confidence of patients and the medical community by implementing strict measures to prevent a recurrence, and carrying out organizational changes at both plants and the head office to ensure the active involvement of the Quality Control division in the manufacturing process.

Yearly Changes in Volume of Industrial Waste



CORPORATE CITIZENSHIP

One of the management guidelines of Kyowa Hakko for the achievement of its fundamental policy is to ensure that management is open to society and international standards are fully adopted in all its management practices. Furthermore, the keys to achieving this guideline are to maintain open lines of communication with all stakeholders, and earn society's understanding and trust through exchanges of information, good corporate citizenship, and social contribution activities.

Local Science Experiment Classrooms

The BioAdventure vehicle is a mobile classroom equipped with microscopes and other scientific equipment that is operated by BioFrontier Laboratories, in Machida City, Tokyo. Kyowa Hakko's researchers teach science to elementary school students and junior and senior high school students and assist the students in conducting experiments. Other local activities include the Children's Science Experiment Classroom, situated at the Fuji Plant, in Shizuoka Prefecture, for local elementary school students, and the Junior Science Classroom, located at the Ube Plant, in Yamaguchi Prefecture, for elementary school students and junior high school students.

Kato Memorial Bioscience Foundation

Established in 1988 in commemoration of Kyowa Hakko's founder, Dr. Benzaburo Kato, the Kato Memorial Bioscience Foundation supports creative bioscience research through the provision of research and financial assistance to young researchers.

Free Braille Calendars for Schools for the Blind Nationwide

Kyowa Hakko has created a braille calendar for people with visual disabilities each year since 1994 and distributed it free to schools for the blind all over Japan. Approximately 4,000 calendars were distributed to 71 schools in 2007.

Braille calendar 2008

Corporate Governance

FUNDAMENTAL APPROACH

Kyowa Hakko operates its business in accordance with its corporate philosophy of "contributing to the health and well-being of people worldwide by creating new value with the pursuit of advances in life sciences and technology." Our basic pursuit in corporate governance is to frame the responsibilities and duties of the management organization and ensure the policies that we have in place are complied with and lead toward the realization of the Company's philosophy. We recognize the importance of increasing management transparency and reinforcing oversight functions and make efforts to enhance corporate governance to continually raise corporate value.

FUNDAMENTAL STRUCTURE

Kyowa Hakko uses a company auditor system, with the General Shareholders' Meeting as the highest decision-making body. The corporate governance structure is based on the Board of Directors and the Board of Auditors, which together carry out the functions stipulated under the Corporation Law of Japan.

Directors and Board of Directors

The Board of Directors convenes once a month in principle and had seven members, including one outside director, as of June 24, 2008. The Board of Directors performs critical Groupwide management functions, including strategic planning, decision making, and the monitoring of operational execution. In performing these functions, the Board of Directors met 16 times during the fiscal year ended March 31, 2008.

Company Auditors and Board of Auditors

The Company has adopted a corporate governance system using company auditors. The Board of Auditors comprised five members, including four outside auditors, as of June 24, 2008. Based on the audit policies set forth by the board, auditors attend important meetings, including those of the Board of Directors; inspect operations and assets; and audit the work of directors. In performing these duties, the Board of Auditors met 13 times during the fiscal year ended March 31, 2008.

Note: There are no personal interests between the Company's directors and company auditors and its outside auditors. Also, there is no capital, business, or any other interest between the Company and its outside directors.

Management Meeting, Executive Officer System, and Advisory Board

The Management Meeting, comprising directors and the presidents of the Group's principal subsidiaries, has been established as a decision-making body to make accurate and effective management decisions from a strategic viewpoint. The Management Meeting deliberates on important and fundamental issues related to the Group's management policies and operational execution and met 16 times during the fiscal year.

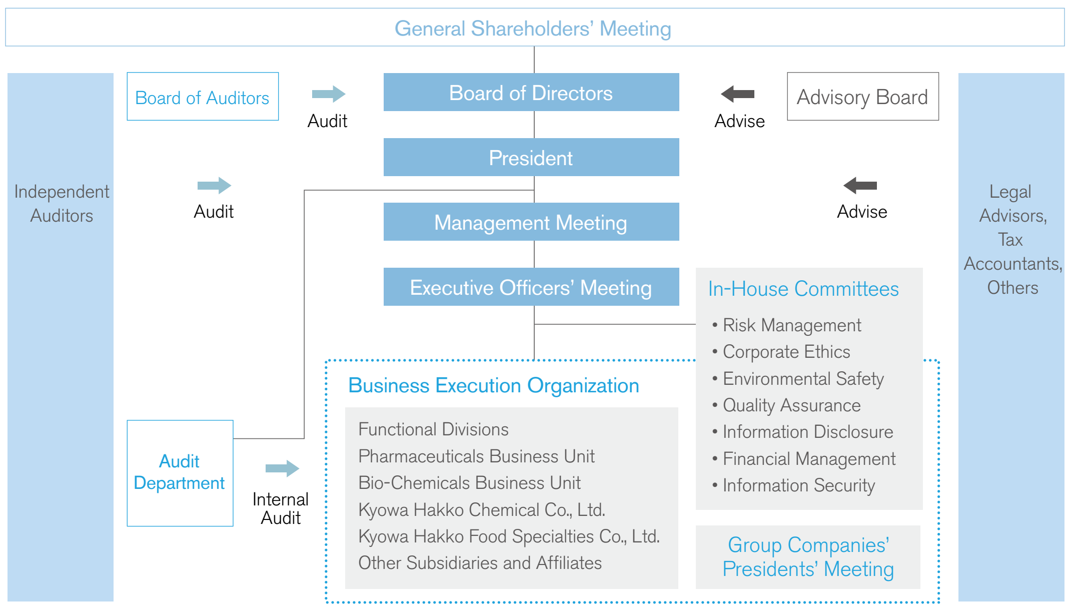
In addition, an executive officer system has been introduced to facilitate swift decision making and strengthen operational execution.

Also, Kyowa Hakko has established the Advisory Board, which acts as a counseling body to the Board of Directors in order to bolster management and ensure transparency and soundness, to provide an external management perspective on various management-related issues to the entire Group. The Advisory Board is made up of four outside advisors and met twice during the fiscal year ended March 31, 2008.

Risk Management System and In-House Committees

To address the variety of risks inherent in management issues, seven in-house committees have been established to strengthen risk management and enhance corporate governance. These committees regularly report on their activities to the Board of Directors. These in-house committees are the Risk Management Committee, Corporate Ethics Committee, Environmental Safety Committee, Quality Assurance Committee, Information Disclosure Committee, Financial Management Committee, and Information Security Committee. For details of identified risks, please refer to "Risk Factors" on page 50.

Corporate Governance Structure



INTERNAL CONTROL SYSTEM

A policy for the establishment of a structure for internal control to ensure the integrity of operations was approved by the Board of Directors on May 22, 2006, and this structure is currently under development based on that resolution.

The Company's Board of Directors resolved at a meeting on April 1, 2008, that consequent on Kyowa Hakko becoming a subsidiary of Kirin Holdings on that date, the internal control system policy be revised. This revision enables Kyowa Hakko to retain autonomy and flexibility in its corporate activities, while reflecting the basic objectives of the strategic alliance and respecting the fundamental policies of the Kirin Group.

Compliance

Kyowa Hakko views regulatory compliance as one of its most important management issues and has established guidelines under the Kyowa Hakko Code of Ethics and Kyowa Hakko Standards of Ethical Conduct. A dedicated organization has been created to promote corporate ethics and familiarize all employees throughout the Group with Kyowa Hakko's corporate ethics policies. Also, an internal reporting system is in place and, when necessary, advice is sought from lawyers and other third parties. The Company has established a dedicated internal audit organization that is independent of the operating organization to carry out checks on the effectiveness of the compliance system.

Internal Audit

The Audit Department was established to operate under the direct supervision of the Company president. In addition to examining and reporting on the status of the Company's operations from legal, internal compliance, and effective management perspectives, the Audit Department offers advice and makes proposals to enhance operations and improve efficiency.

Structure for Reporting to Auditors

Directors and employees are obligated to report to auditors any violations of laws, internal regulations, resolutions of the Board of Directors, or other rules under the internal reporting structure. Auditors may attend important management meetings, including those of the Board of Directors, as well as examine meeting minutes and other documents and carry out other audits in cooperation with the dedicated internal audit department.

INDEPENDENT AUDITOR

The Company's consolidated financial statements conform to standards of corporate accounting generally accepted in Japan as being fair and appropriate. To ensure that representations are correct, we undergo audits by the independent auditors Ernst & Young ShinNihon. Also, regarding issues that may arise in the course of these audits, we place top priority on compliance, and seek appropriate advice as necessary from third parties, such as attorneys.

COMPENSATION TO DIRECTORS AND AUDITORS

Executive compensation to directors and auditors during the fiscal year under review totaled ¥303 million, of which ¥232 million was compensation to directors and ¥71 million was to auditors. The Company introduced a performance-based compensation system for its directors and executive officers. Furthermore, a stock option scheme for a stock-linked compensation plan has been offered in place of the discontinued retirement benefit system and the compensation to directors shown above included stock options in the amount of ¥33 million. In addition, ¥67 million in audit fees were paid to the independent auditor, including ¥52 million for the audit certification based on the audit contract.

MESSAGE FROM THE OUTSIDE COMPANY AUDITORS

Of Kyowa Hakko's five company auditors, four are outside auditors, including two full-time auditors. The two full-time company auditors are from completely unrelated business entities. Audits have a high degree of objectivity, with these two outside auditors remaining entirely independent of the executive management of the Company, checking each other to ensure independence and having the right of free access to in-house information to conduct continuous audits.

Since its establishment, Kyowa Hakko has employed a system of continuous audits conducted by multiple independent, full-time outside auditors. All executives and employees accept this as being in the ordinary course of business of an extremely transparent corporate culture where there are no obstacles, such as withholding information from auditors carrying out their individual duties.

In determining the agenda to be put before the Board of Directors, we carry out the following procedure as an extremely effective and important process from a corporate governance perspective. The auditors provide their opinions on information put before them both at Management Meetings and earlier while investigations are proceeding at the divisional level, and executives and administrative staff take those opinions, including those of outside auditors, into account with a view to enhancing decision-making processes.

Takeshi Asaoka
Company Auditor

Akira Taniguchi
Company Auditor

Management Members

(As of June 24, 2008)

MEMBERS OF THE BOARD

Directors

Yuzuru Matsuda[1]*
President

Tomohiro Mune[2]*

Tomonori Yuji[5]

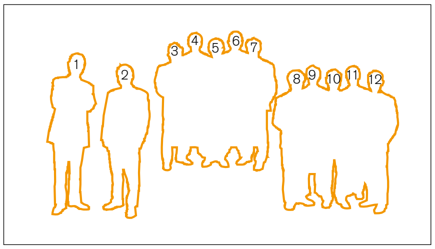
Kazuhiko Yamanoe[7]

Yukinobu Kotani[6]

Kozo Fujita[3]
Outside Director, Lawyer

Ken Yamazumi[4]

* Representative Director



Company Auditors

Takeshi Asaoka[11]
Outside Company Auditor

Akira Taniguchi[9]
Outside Company Auditor

Nobuo Kanda[12]

Hiroyuki Takahashi[10]
Outside Company Auditor

Tomojiro Sato[8]
Outside Company Auditor

MANAGING OFFICERS

President and Chief Executive Officer

Yuzuru Matsuda

Executive Vice Presidents

Tomohiro Mune

Yoshito Imai
President of Pharmaceuticals Business Unit

Senior Executive Managing Officers

Tomonori Yuji

Kazuhiko Yamanoe

Executive Managing Officers

Yukinobu Kotani
President of Bio-Chemicals Business Unit

Yutaka Yoshida

Fumio Norimatsu

Yoshihiko Kitamura

Managing Officers

Yoshiki Tsunekane

Akio Ozaki

Kazuyoshi Tachibana

Nobuo Hanai

Akira Karasawa

Manabu Suzuki

Shuichi Ishino

Fumihiro Nishino

Takao Miyamoto

Masau Takayanagi

Financial Section

Eleven-Year Selected Financial Data

KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries
For the years ended March 31

	2008	2007	2006	2005
For the Year:				
Net sales	**¥392,120**	¥354,274	¥353,440	¥358,963
Gross profit	**144,918**	131,425	126,983	132,113
Selling, general and administrative expenses	**105,528**	100,726	101,448	98,606
Operating income	**39,390**	30,699	25,535	33,507
Net income	**23,477**	12,694	16,273	17,932
Capital expenditures	**14,796**	14,498	10,859	7,647
Depreciation and amortization	**14,347**	10,006	9,789	10,565
R&D expenses	**34,109**	33,342	32,876	28,762
Cash Flows:				
Net cash provided by operating activities	**30,714**	23,381	14,303	30,104
Net cash (used in) provided by investing activities	**(9,492)**	(8,494)	(1,796)	(8,104)
Net cash used in financing activities	**(13,500)**	(24,417)	(5,139)	(9,116)
Cash and cash equivalents at the end of the year	**44,119**	36,614	45,820	37,818
At Year-End:				
Current assets	**232,661**	214,352	212,985	210,341
Total assets	**394,081**	378,871	384,381	374,493
Current liabilities	**111,744**	106,566	94,148	103,489
Interest-bearing debt	**12,790**	13,137	12,216	12,193
Total net assets	**256,758**	244,082	257,491	–
Total shareholders' equity [2]	**239,329**	220,427	232,621	235,439
Number of employees [4]	**6,073**	5,756	5,800	5,960
Per Share Data:				
Net income—basic [3]	**¥ 59.0**	¥ 31.3	¥ 38.4	¥ 41.7
Total net assets	**639.7**	607.5	604.9	556.3
Cash dividends	**10.0**	10.0	10.0	10.0
Common Stock Price Range (Per share):				
High	**1,430**	1,154	946	864
Low	**933**	722	656	661
Stock Information (Thousands of shares):				
Number of common stock issued	**399,244**	399,244	434,244	434,244
Weighted average number of common stock issued	**397,717**	405,270	422,920	427,636
Financial Ratios:				
Return on assets (ROA)	**6.07**	3.33	4.29	4.88
Operating return on assets	**10.19**	8.04	6.73	9.11
Return on equity (ROE)	**9.47**	5.10	6.63	7.79
Equity ratio	**64.53**	63.80	66.55	62.87
Debt/equity ratio	**5.03**	5.43	4.78	5.18

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥100.19=US$1, the approximate exchange rate at March 31, 2008.
2. Due to a change in accounting standards, figures for total shareholders' equity in the years ended March 31, 2007 and 2006, have been restated.
3. Net income per share 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.
4. Figures for number of employees prior to the year ended March 31, 2000, were only available in nonconsolidated basis.

	Millions of Yen						Thousands of U.S. Dollars [1]
2004	2003	2002	2001	2000	1999	1998	**2008**
¥348,838	¥359,285	¥378,668	¥375,610	¥374,910	¥384,671	¥397,361	**$3,913,763**
129,507	126,328	128,744	123,945	126,872	127,864	144,191	**1,446,432**
102,671	110,239	108,387	106,233	105,216	104,407	109,448	**1,053,276**
26,836	16,089	20,357	17,712	21,656	23,457	34,743	**393,156**
10,017	8,485	5,535	9,395	11,274	6,143	13,528	**234,327**
9,041	11,791	11,454	17,092	21,053	24,408	24,555	**147,677**
11,358	14,768	17,819	18,502	19,153	17,673	17,113	**143,194**
29,206	31,438	29,294	28,921	25,888	24,083	25,358	**340,443**
34,264	18,193	16,955	28,789	32,737	–	–	**306,554**
10,477	2,586	8,377	(1,991)	23,422	–	–	**(94,743)**
(44,226)	(38,748)	(16,843)	(20,871)	(50,077)	–	–	**(134,742)**
24,911	24,588	41,908	32,600	26,215	–	–	**440,353**
194,062	195,878	244,410	237,852	223,353	270,499	235,697	**2,322,198**
361,096	368,772	430,113	431,410	433,958	477,729	437,271	**3,933,338**
98,914	95,046	162,508	169,821	158,542	211,376	181,554	**1,115,325**
13,358	51,969	74,354	87,624	102,870	151,489	98,282	**127,663**
–	–	–	–	–	–	–	**2,562,713**
225,042	219,047	211,652	194,692	195,039	185,766	188,645	**2,388,749**
6,294	6,749	7,299	7,766	7,866	5,044	5,134	**–**
	Yen						U.S. Dollars [1]
¥ 23.0	¥ 19.4	¥ 12.7	¥ 21.6	¥ 26.0	¥ 13.9	¥ 30.3	**$0.589**
522.6	505.4	487.5	448.3	449.1	427.8	422.6	**6.385**
7.5	7.5	7.5	7.5	10.0	7.5	7.5	**0.100**
719	780	899	1,225	1,581	694	888	**14.273**
495	411	587	701	610	485	492	**9.312**
434,244	434,244	434,244	434,244	434,244	434,244	446,343	
431,497	433,748	434,244	434,244	434,244	441,906	446,343	
	%						
2.74	2.12	1.28	2.17	2.47	1.34	3.11	
7.35	4.03	4.73	4.09	4.75	5.13	8.00	
4.51	3.94	2.72	4.82	5.92	3.28	7.33	
62.32	59.40	49.21	45.13	44.94	38.89	43.14	
5.94	23.73	35.13	45.01	52.74	81.55	52.10	

Management's Discussion and Analysis

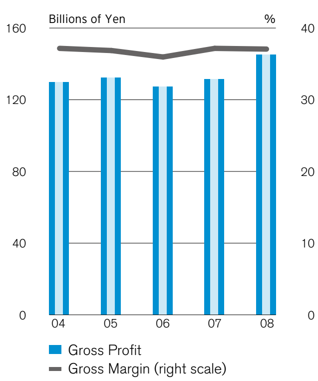
OPERATING ENVIRONMENT AND OVERVIEW

The underlying tone of recovery in the Japanese economy, supported by improved corporate earnings, was dampened in the second half of fiscal 2008, ended March 31, 2008, as the subprime market crisis in the United States triggered unease about the U.S. economy.

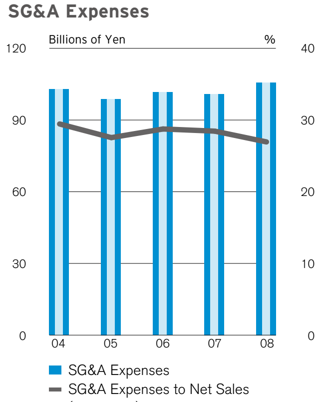
The operating environment for Kyowa Hakko's Pharmaceuticals operations continued to be influenced by ongoing revision of the medical care system as part of the Japanese government's health care cost containment policy, and was characterized by fiercer global competition from European and U.S. pharmaceutical companies in both marketing and new drug development, and by expansion in the market for generic drugs. In Bio-Chemicals operations, conditions remained challenging—despite increased worldwide demand for the Company's core amino acids products for use in transfusions and pharmaceutical raw materials—with tightening regulations related to the environment and product quality. Chemicals operations saw a shift to higher overall prices in domestic and overseas markets as crude oil prices rose even higher. The operating environment for Food operations was affected by increased raw materials prices and growing consumer concern about food safety issues.

Against this backdrop, the Kyowa Hakko Group worked vigorously to implement strategic policies to expand sales from existing operations and comprehensively reduce costs in order to achieve the targets of ¥350 billion net sales and ¥34 billion operating profit set in its Ninth Medium-Term Management Plan, of which fiscal 2008 was the final year. As part of the plan, with its fundamental focus on growth and development, the Company also worked to enhance its competitive strengths through aggressive, forward-looking investment.

Gross Profit



SG&A Expenses



PROFIT AND LOSS

Sales

Net sales in fiscal 2008 grew 10.7%, to ¥392.1 billion, with double-digit growth recorded across all segments of the Group. Mainstay Pharmaceuticals operations benefited from solid sales of the antiallergic agent Allelock®, and Bio-Chemicals operations registered a substantial rise in sales as a result of demand growth overseas for pharmaceutical and industrial raw materials. In addition, chemical product prices were revised upward in response to higher prices for fuel and raw materials and, combined with strong demand, this contributed to firm sales results in Chemicals operations. Successful marketing initiatives in natural seasonings products led to steady sales in Food operations.

Cost of Sales and SG&A Expenses

Cost of sales was up 10.9%, to ¥247.2 billion, and the cost of sales ratio improved 0.1 percentage points, to 63.0%. Gross profit registered a 10.3% increase, to ¥144.9 billion, and the gross margin edged down 0.1 percentage points, to 37.0%. Although increased R&D and personnel expenses led to a 4.8% rise in selling, general and administrative (SG&A) expenses, to ¥105.5 billion, the ratio of SG&A expenses to net sales improved 1.5 percentage points, to 26.9%.

Operating Income

Operating income for fiscal 2008 grew 28.3%, to ¥39.4 billion, resulting in a 1.3 percentage point improvement in the operating margin, which rose to 10.0%. Double-digit revenue growth and a better ratio of SG&A to net sales offset the largely unchanged gross margin, allowing for the substantial rise in operating income.

Other Revenue (Expenses)

In fiscal 2008, net other expenses fell sharply, to ¥0.6 billion, from ¥7.2 billion in the year before. Major expenses recorded in the previous year, such as a loss of ¥2.6 billion on sale of investments in affiliated companies, and ¥1.0 billion allocated to retroactive provision of periodic repairs, did not recur. Other expenses in fiscal 2008 included a ¥1.0 billion foreign exchange loss, ¥2.8 billion in expenses related to integration, and ¥1.4 billion on loss on revaluation of investment in affiliates. In other revenue, a primary contributor to improved results was profit of ¥6.9 billion on sale of property, plant and equipment.

Consequently, income before income taxes and minority interests showed a sharp 65.0% rise, to ¥38.8 billion.

Income Taxes

Current and deferred income taxes totaled ¥15.2 billion in fiscal 2008, a 39.8% rise year on year. As a percentage of pretax income, the effective tax rate was 39.1%, a decline from 46.2% in the previous year.

Net Income

As a result, net income for the year to March 31, 2008, expanded significantly, up 84.9%, to ¥23.5 billion, and the net margin rose 2.4 percentage points, to 6.0%.

PERFORMANCE BY INDUSTRY SEGMENT

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

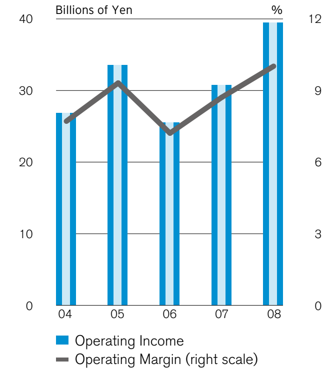
Pharmaceuticals

This segment, the mainstay of Kyowa Hakko's business, registered a 5.2% increase in sales in fiscal 2008, to ¥138.4 billion, and represented 32.5% of consolidated net sales. The rise in operating expenses lagged that of sales, up just 2.3% from the previous year, to ¥118.4 billion, leading to very sound operating income growth of 26.8%, to ¥20.0 billion. Large contributions to these favorable results came from good sales volume for high-margin main products, such as the antiallergic agent Allelock® and Patanol® antiallergic eyedrops, and reduced personnel expenses.

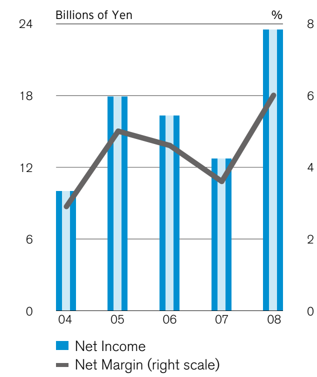
Bio-Chemicals

Sales from Bio-Chemicals operations increased 29.3%, to ¥86.8 billion, accounting for 20.4% of consolidated net sales. Operating expenses rose at a slower 22.4%, to ¥77.1 billion, and operating income rose 135.6%, to ¥9.7 billion. In addition to solid demand overseas for pharmaceutical and industrial raw materials, the first-time inclusion of Daiichi Fine Chemical Co., Ltd., in the consolidated accounts was the primary factor leading to the remarkable increase in operating income.

Operating Income



Net Income



Chemicals

Sales were up 9.5%, to ¥108.0 billion, with Chemicals operations contributing 25.4% of consolidated net sales. Operating expenses increased 11.2%, to ¥100.8 billion, and operating income was down 10.1%, to ¥7.2 billion. Despite price increases for fuel and raw materials, upward product price revisions and buoyant overseas markets supported sales generally. An accident at a manufacturing facility led to underproduction of some lines, however, which had a dampening effect on performance in this business area.

Food

Food operations sales were up 1.7%, to ¥43.3 billion, contributing 10.2% of consolidated net sales. Operating expenses rose 2.4%, to ¥41.7 billion, and operating income was down 13.9%, to ¥1.6 billion. Sales of seasonings, confectionery and bakery products, and processed foods were all sound, but rising raw material prices unavoidably led to a decline in operating income.

Other

Other operations recorded a 1.1% rise in sales, to ¥49.0 billion, with this segment accounting for 11.5% of consolidated net sales. Operating expenses inched up 1.4%, to ¥48.2 billion, and operating income declined 13.4%, to ¥800 million. The Other segment includes wholesale and transportation operations at subsidiaries.

	Millions of Yen						Thousands of U.S. Dollars[1]
	2008	2007	2006	2005	2004	2003	2008
Sales by Industry Segment:							
Pharmaceuticals	¥138,377	¥131,526	¥148,939	¥156,426	¥142,881	¥140,594	$1,381,150
Bio-Chemicals	86,820	67,120	63,241	57,767	69,195	58,525	866,555
Chemicals	108,007	98,650	85,835	77,983	66,899	65,158	1,078,023
Food[2]	43,324	42,589	42,440	44,500	45,912	72,322	432,420
Other	49,000	48,480	45,950	57,784	62,906	63,485	489,058
Corporate, elimination and other	(33,408)	(34,091)	(32,965)	(35,497)	(38,955)	(40,799)	(333,443)
Total	¥392,120	¥354,274	¥353,440	¥358,963	¥348,838	¥359,285	$3,913,763
Operating Income (Loss) by Industry Segment:							
Pharmaceuticals	¥19,962	¥15,746	¥14,268	¥18,100	¥11,943	¥11,014	$199,240
Bio-Chemicals	9,688	4,112	4,341	6,887	8,847	1,975	96,697
Chemicals	7,169	7,974	4,501	5,339	2,893	1,100	71,557
Food[2]	1,577	1,832	1,602	1,662	1,654	(368)	15,737
Other	839	968	711	1,634	1,767	2,597	8,370
Corporate, elimination and other	155	67	112	(115)	(268)	(229)	1,555
Total	¥39,390	¥30,699	¥25,535	¥33,507	¥26,836	¥16,089	$393,156

1. U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥100.19=US$1, the approximate exchange rate at March 31, 2008.
2. Due to the transfer of alcoholic beverage operations in September 2002, the name of the Liquor and Food Segment was changed to the Food Segment from the year ended March 31, 2004.
3. Due to the reclassification of business segments effective from fiscal 2005, segment information for fiscal 2004 has been restated. However, segment information for years prior to fiscal 2004 has not been restated.
4. Due to the reclassification of the Other Segment effective from fiscal 2007, segment information for the Pharmaceuticals, Bio-Chemicals, and Other segments for fiscal 2006 has been restated. However, segment information for years prior to fiscal 2006 has not been restated.

CASH FLOWS

Net cash from operating activities in fiscal 2008 was ¥30.7 billion, an increase of ¥7.3 billion compared to the previous fiscal year. The main reason for this was that growth in income before income taxes and minority interests greatly outstripped the rise in income taxes.

Net cash used in investing activities in fiscal 2008 amounted to ¥9.5 billion, which was ¥1.0 billion higher than a year earlier. A ¥7.3 billion inflow from sale of property, plant and equipment was set off against ¥14.4 billion in outlays for acquisition of other property, plant and equipment, as well as a net outlay of ¥2.3 billion to acquire a subsidiary, which was subsequently included in the consolidated results.

Net cash used in financing activities during fiscal 2008 was ¥13.5 billion, representing a decline of ¥10.9 billion on the prior year's amount, and included repayment of ¥8.3 billion in short-term borrowings. The level was unusually high in the previous year, as a result of ¥20.8 billion used to acquire treasury stock.

Consequently, cash and cash equivalents outstanding at March 31, 2008, totaled ¥44.1 billion, up ¥7.5 billion from the previous year-end.

FINANCIAL POSITION

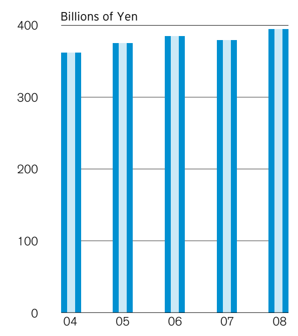
Assets

Current assets rose to ¥232.7 billion at the end of fiscal 2008, up 8.5% year on year. Although cash and bank deposits declined, the value of marketable securities increased sharply, and inventory levels were higher. Property, plant and equipment was 4.3% higher than at the end of the previous year, totaling ¥95.1 billion, a result of increased capital expenditure and the inclusion of Daiichi Fine Chemical in the consolidated financial statements.

Investments and other assets declined 9.5%, to ¥66.3 billion, largely because of a decline in the value of investment securities as the prices of listed securities held fell.

As a result, total assets increased 4.0%, to ¥394.1 billion, at the end of fiscal 2008.

Total Assets



Liabilities

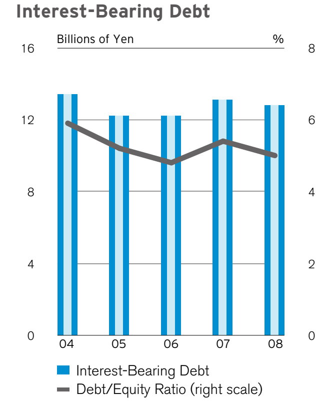
Current liabilities grew 4.9%, to ¥111.7 billion. Although accounts and notes payable were lower at the fiscal year-end, income taxes payable rose substantially.

A decline of 9.4% in long-term liabilities, to ¥25.6 billion, was primarily the result of a 57.1% reduction in deferred tax liabilities, to ¥2.4 billion.

As a result, total liabilities were down 1.9%, to ¥137.3 billion, at the end of fiscal 2008.

Interest-bearing debt decreased 2.6%, to ¥12.8 billion, despite an increase in the number of consolidated subsidiaries in the year under review. Cash and bank deposits remained considerably higher than borrowings.

Interest-Bearing Debt

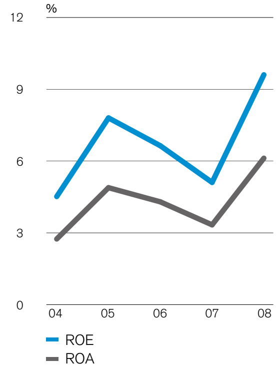


Net Assets

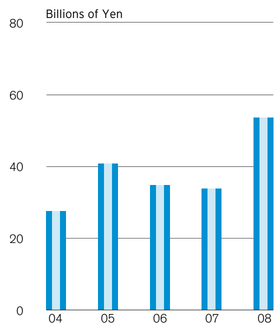
Total shareholders' equity was ¥239.3 billion at the end of fiscal 2008, an 8.6% rise on the previous level, essentially the result of increased retained earnings. Net assets* expanded by 5.2%, to ¥256.8 billion.

* Due to a change in accounting standards, effective from the year ended March 31, 2007, shareholders' equity has been changed to net assets, which includes shareholders' equity as well as minority interests in consolidated subsidiaries, share subscription rights, and net deferred profits on hedges. The figures for the previous year have been restated in conformity with this change.

ROE and ROA



EBITDA



The equity ratio was up 0.7 percentage points, to 64.5%, from 63.8% at the end of the previous fiscal year. The debt/equity[1] ratio improved 0.4 percentage points, to 5.0%, from 5.4% at the end of fiscal 2007, representing a further reduction in investors' risk.

MANAGEMENT INDEXES

Return on equity (ROE) was calculated at 9.47% for fiscal 2008, up from 5.10%, and return on assets (ROA) rose to 6.07%, from 3.33%. The marked improvement in both ratios reflects the very large rise in net income. Operating return on assets also improved, to 10.19%, from 8.04%, buoyed by strong growth in operating income.

The Ninth Medium-Term Management Plan emphasizes return on invested capital (ROIC[2]) as a key management indicator and sets an ROIC target of 12.0% for fiscal 2008. This indicator actually exceeded that target, registering 13.8% at the fiscal year-end, a considerable improvement on the 11.1% recorded for the previous fiscal year. EBITDA[3] for the fiscal year to March 31, 2008 grew 58.4%, to ¥53.5 billion.

CAPITAL EXPENDITURES

Capital expenditures rose 2.6% in fiscal 2008, to ¥14.8 billion. Based on the Ninth Medium-Term Management Plan, which covers a "period of investment to build the foundations for future growth," the Company maintained its aggressive, forward-looking capital expenditure program. This included investment in expanding production facilities for Pharmaceuticals, Chemicals, and Foods operations.

Depreciation was ¥14.3 billion, up 43.4% year on year. The modest ¥500 million excess of total capital expenditure over depreciation was easily covered from internal reserves.

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

	Millions of Yen					
	Capital Expenditures			Depreciation and Amortization		
	2008	2007	2006	2008	2007	2006
Pharmaceuticals	¥ 4,233	¥ 3,681	¥ 3,898	¥ 3,947	¥ 3,606	¥3,913
Bio-Chemicals	4,192	6,628	2,317	5,540	3,181	2,642
Chemicals	4,345	3,623	3,407	3,772	2,302	2,283
Food	1,955	886	1,216	978	799	806
Other	71	30	32	120	130	159
Corporate, elimination and other	–	(350)	(11)	(10)	(12)	(14)
Total	¥14,796	¥14,498	¥10,859	¥14,347	¥10,006	¥9,789

1. Debt/equity ratio = Interest-bearing debt (short-term borrowings + current portion of long-term debt + long-term debt) / total shareholders' equity
2. ROIC = Operating income / total fixed assets + (accounts receivable + inventories – trade payables)
3. EBITDA = Income before income taxes and minority interests + interest expenses + depreciation and amortization

R&D EXPENSES

R&D expenses, which are accounted for under production expenses and SG&A expenses, rose 2.3%, to ¥34.1 billion. This represented 8.7% of fiscal 2008 consolidated net sales, down from 9.4%. Fiscal 2008 saw a one-off payment for the in-licensing from ArQule, Inc., of the c-Met inhibitor ARQ 197, an anticancer drug for treating malignant tumors. Pharmaceuticals operations comprised 82.6% of total R&D expenses, at ¥28.2 billion. This amount represented 20.4% of Pharmaceuticals sales, slightly down from the 21.7% recorded in the previous fiscal year.

PER SHARE DATA

Net income per share rose substantially in fiscal 2008, to ¥59.0, from ¥31.3 in the previous fiscal year. Net assets per share grew to ¥639.7, from ¥607.5. Dividends were steady year on year, at ¥10.0 per share, including an interim dividend of ¥5.0 per share.

DISTRIBUTION OF PROFITS

Kyowa Hakko considers returns to shareholders to be one of its most important management principles. Its dividend policy balances a need to augment retained earnings as a foundation for future business growth with the desire to make stable and consistent dividend payments after thorough consideration of consolidated business results, the dividend payout ratio, and the yield on net assets. With this perspective in mind, and in spite of the large rise in net income, we maintained the annual dividend at ¥10.0 per share. The dividend payout ratio for fiscal 2008 was 16.9%, down from 31.9%.

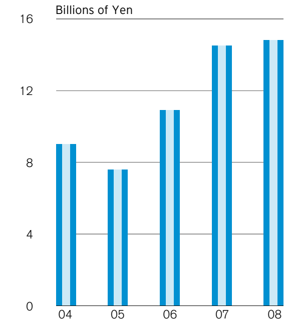
Retained earnings will be allocated to support future growth, including in investments in R&D and capital expenditure, in order to promote continued gains in corporate value.

The New Medium-Term Management Plan, which begins in the year ending March 31, 2009, targets a dividend payout ratio of over 30.0% (calculated on the basis of net income before amortization of goodwill). Kyowa Hakko also plans an annual dividend of ¥20.0 per share in the year ending March 31, 2009.

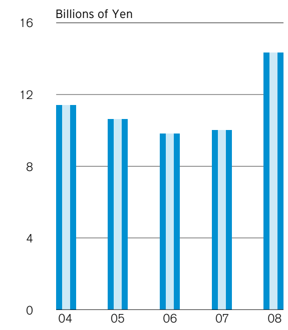
DAIICHI FINE CHEMICAL CO., LTD.

In June 2007, Kyowa Hakko acquired all the outstanding shares of Daiichi Fine Chemical Co., Ltd., from Daiichi Sankyo Company Limited. The total acquisition price was ¥6.2 billion, with deduction of the company's ¥4.0 billion in cash and cash equivalents leaving a net outlay on acquisition of ¥2.3 billion.

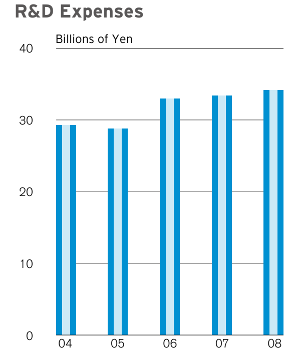
Capital Expenditures



Depreciation and Amortization



R&D Expenses



Risk Factors

In the analysis of Kyowa Hakko's business performance and financial position, the major risks that could have a significant influence on the judgment of investors include those outlined below. The Group recognizes that these risk events may occur and uses a risk management system to prevent the occurrence of risk events that it is able to control. At the same time, the Company will do its utmost to respond to risk events if and when they were to occur. Matters in this section dealing with future events represent the judgment of the Kyowa Hakko Group as of March 31, 2008, the end of the fiscal year under review.

RISKS INHERENT IN THE DOMESTIC PHARMACEUTICAL INDUSTRY'S OPERATING ENVIRONMENT

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

RISK OF NON-RECOVERY OF SUBSTANTIAL R&D INVESTMENTS

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

RISKS RELATED TO INTELLECTUAL PROPERTY RIGHTS

The creation of new products and new technologies through R&D is a fundamental management strategy for Kyowa Hakko. The Company endeavors to accumulate technologies and acquire intellectual property (IP) rights to differentiate itself from other companies. Furthermore, the Group is strengthening its information control systems to prevent external leakages of its proprietary technologies and expertise. Although the Company strives to ensure that it does not infringe on the IP rights of others, there could be an adverse impact on the Group's market competitiveness in the event it is unable to appropriately protect or control such IP rights.

LEGAL RISKS

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

RISKS RELATED TO DEFECTIVE PRODUCTS

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

RISKS RELATED TO DISASTERS AND ACCIDENTS

To minimize the negative effects of interruptions in manufacturing line activities, the Company conducts regular disaster prevention tests and inspections of all its production facilities. Nevertheless, no guarantee exists that the Company will be able to completely prevent events that interrupt production, including accidents, electrical outages, and boiler stoppages. Furthermore, the Company handles flammable materials, including petrochemical products and raw material alcohol, as well as substances that are subject to an array of statutory regulations and guidelines. The handling of these materials is strictly controlled, but if a fire, natural disaster, or some other event were to occur surrounding areas could suffer damage. Such an accident or disaster could not only result in large payments for damages but also adversely affect the public's trust in the Group.

RISKS RELATED TO THE STRENGTHENING OF ENVIRONMENTAL REGULATIONS ON PRODUCTION ACTIVITIES

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

RISKS INHERENT IN OVERSEAS BUSINESS ACTIVITIES

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

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

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

RISK OF DROPS IN PRODUCT PRICES FROM FLUCTUATIONS IN THE SUPPLY-DEMAND BALANCE

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

RISK OF DECLINES IN PROFITABILITY FROM MAJOR FLUCTUATIONS IN CRUDE OIL PRICES

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

Consolidated Balance Sheets

KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries
As at March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**2008**	2007	**2008**
Current Assets:			
Cash and bank deposits	¥ 18,481	¥ 28,896	$ 184,461
Marketable securities (Note 4)	26,668	6,998	266,174
Accounts and notes receivable:			
Trade	101,352	99,026	1,011,596
Unconsolidated subsidiaries and affiliates	10,534	10,354	105,138
Other	2,889	1,741	28,835
	114,775	111,121	1,145,569
Inventories	62,416	56,015	622,976
Deferred tax assets (Note 7)	6,830	5,803	68,168
Other current assets	3,581	5,619	35,744
Less: allowance for doubtful accounts	(90)	(100)	(894)
Total Current Assets	232,661	214,352	2,322,198
Property, Plant and Equipment (Notes 11 and 16):			
Land	21,254	20,364	212,137
Buildings and structures	124,832	116,681	1,245,955
Machinery and equipment	234,609	214,699	2,341,636
Construction in progress	4,356	5,123	43,477
	385,051	356,867	3,843,205
Less: accumulated depreciation	(289,916)	(265,619)	(2,893,659)
Total Property, Plant and Equipment	95,135	91,248	949,546
Investments and Other Assets:			
Investments in securities (Note 4)	44,900	54,489	448,144
Investments in unconsolidated subsidiaries and affiliates (Note 4)	9,880	9,907	98,614
Receivables from bankrupt (quasi-bankrupt)	1,238	777	12,352
Deferred tax assets (Note 7)	1,080	313	10,784
Long-term loans and other assets	10,707	8,765	106,873
Less: allowance for doubtful accounts	(1,520)	(980)	(15,173)
Total Investments and Other Assets	66,285	73,271	661,594
Total Assets (Note 16)	¥ 394,081	¥ 378,871	$ 3,933,338

The accompanying notes are an integral part of the statements.

LIABILITIES AND NET ASSETS	Millions of Yen 2008	2007	Thousands of U.S. Dollars (Note 3) 2008
Current Liabilities:			
Short-term borrowings (Note 5)	¥ 12,598	¥ 12,887	$ 125,745
Accounts and notes payable:			
Trade (Note 4)	44,712	46,884	446,269
Unconsolidated subsidiaries and affiliates	5,082	6,089	50,722
Construction and acquisition of properties	–	4,589	–
Other	21,197	12,390	211,577
	70,991	69,952	708,568
Income taxes payable	10,604	7,080	105,834
Accrued bonuses	3,776	3,141	37,686
Reserve for periodic repairs	1,477	968	14,744
Guarantee deposits	6,334	6,599	63,218
Other current liabilities	5,964	5,939	59,530
Total Current Liabilities	111,744	106,566	1,115,325
Long-Term Liabilities:			
Long-term debt (Note 5)	192	250	1,918
Deferred tax liabilities (Note 7)	2,399	5,593	23,940
Reserve for retirement benefits:			
Employees (Note 9)	20,949	21,402	209,088
Directors and corporate auditors	219	108	2,184
Other non-current liabilities	1,820	870	18,170
Total Long-Term Liabilities	25,579	28,223	255,300
Total Liabilities	137,323	134,789	1,370,625
Commitments and Contingent Liabilities (Notes 6 and 12)			
Net Assets:			
Shareholders' equity (Note 13)			
Common stock:			
Authorized: 987,900,000 shares at March 31, 2008 and 2007			
Issued: 399,243,555 shares at March 31, 2008 and 2007	26,745	26,745	266,943
Additional paid-in capital	43,180	43,180	430,984
Retained earnings	170,948	151,565	1,706,236
Treasury stock, at cost:			
1,723,184 shares at March 31, 2008			
1,351,220 shares at March 31, 2007	(1,544)	(1,063)	(15,414)
Total Shareholders' Equity	239,329	220,427	2,388,749
Valuation, translation adjustments and others:			
Unrealized gains on available-for-sale securities (Note 4)	15,349	21,785	153,195
Net deferred profits (losses) on hedges	(9)	6	(93)
Translation adjustments	(379)	(502)	(3,777)
Total Valuation, Translation Adjustments and Others	14,961	21,289	149,325
Share subscription rights	156	66	1,562
Minority interests in consolidated subsidiaries	2,312	2,300	23,077
Total Net Assets	256,758	244,082	2,562,713
Total Liabilities and Net Assets	¥394,081	¥378,871	$ 3,933,338

Consolidated Statements of Income

KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2008	2007	2006	2008
Net Sales (Note 16)	¥392,120	¥354,274	¥353,440	$3,913,763
Cost of Sales (Notes 9 and 16)	247,202	222,849	226,457	2,467,331
Gross Profit	144,918	131,425	126,983	1,446,432
Selling, General and Administrative Expenses (Notes 9, 11 and 16)	105,528	100,726	101,448	1,053,276
Operating Income (Note 16)	39,390	30,699	25,535	393,156
Other Revenue (Expenses):				
Interest and dividend income	1,803	1,167	995	17,996
Interest expenses	(328)	(240)	(186)	(3,274)
Foreign exchange gain (loss)	(1,035)	350	454	(10,330)
Equity in earnings of affiliates	1,125	832	680	11,229
Loss on disposal of inventories	(1,474)	(1,047)	(402)	(14,717)
Gain on sale of property, plant and equipment	6,916	4	942	69,024
Loss on impairment of fixed assets (Notes 11 and 16)	(2,265)	(2,406)	(1,061)	(22,607)
Loss on sale of investments in affiliates	–	(2,626)	–	–
Retroactive provision of reserve for periodic repairs	–	(1,016)	–	–
Expenses related to integration	(2,832)	–	–	(28,262)
Loss on revaluation of investment in affiliates	(1,373)	–	–	(13,702)
Other, net	(1,111)	(2,191)	(2,085)	(11,093)
	(574)	(7,173)	(663)	(5,736)
Income before Income Taxes and Minority Interests	38,816	23,526	24,872	387,420
Income Taxes (Note 7):				
Current	15,229	10,456	6,887	151,998
Deferred	(35)	414	1,603	(349)
	15,194	10,870	8,490	151,649
Income before Minority Interests	23,622	12,656	16,382	235,771
Minority Interests in (Earnings) Losses of Consolidated Subsidiaries	(145)	38	(109)	(1,444)
Net Income	¥ 23,477	¥ 12,694	¥ 16,273	$ 234,327

The accompanying notes are an integral part of the statements.

Consolidated Statements of Changes in Net Assets

KYOWA HAKKO KOGYO CO., LTD. and its consolidated subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of Yen								
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities	Net deferred profits (losses) on hedges	Translation adjustments	Share subscription rights	Minority interests in consolidated subsidiaries
Balance at March 31, 2005	¥26,745	¥43,185	¥159,588	¥ (7,821)	¥15,307	¥ —	¥ (1,564)	¥ —	¥ 1,458
Net income for the year ended March 31, 2006			16,273						
Cash dividends			(4,760)						
Directors' and corporate auditors' bonuses			(99)						
Decrease due to initial consolidation of subsidiaries			(284)						
Purchases of treasury stock				(239)					
Gain on sale of treasury stock		1		32					
Net changes during the year					9,031		412		226
Balance at March 31, 2006	26,745	43,186	170,718	(8,028)	24,338	—	(1,152)	—	1,684
Net income for the year ended March 31, 2007			12,694						
Cash dividends			(4,105)						
Directors' and corporate auditors' bonuses			(41)						
Decrease due to initial consolidation of subsidiaries			(25)						
Purchases of treasury stock				(20,755)					
Disposal of treasury stock		(6)	(5)	29					
Retirement of treasury stock			(27,671)	27,671					
Decrease due to exclusion of affiliates accounted for by the equity method				20					
Net changes during the year					(2,553)	6	650	66	616
Balance at March 31, 2007	26,745	43,180	151,565	(1,063)	21,785	6	(502)	66	2,300
Net income for the year ended March 31, 2008			23,477						
Cash dividends			(3,978)						
Decrease due to exclusion of consolidated subsidiaries			(102)						
Purchases of treasury stock				(567)					
Disposal of treasury stock			(14)	86					
Net changes during the year					(6,436)	(15)	123	90	12
Balance at March 31, 2008	¥26,745	¥43,180	¥170,948	¥(1,544)	¥15,349	¥ (9)	¥ (379)	¥156	¥2,312

	Thousands of U.S. Dollars (Note 3)								
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized gains on available-for-sale securities	Net deferred profits (losses) on hedges	Translation adjustments	Share subscription rights	Minority interests in consolidated subsidiaries
Balance at March 31, 2007	$266,943	$430,984	$1,512,779	$(10,605)	$217,440	$ 59	$(5,011)	$ 651	$22,953
Net income for the year ended March 31, 2008			234,327						
Cash dividends			(39,710)						
Decrease due to exclusion of consolidated subsidiaries			(1,022)						
Purchases of treasury stock				(5,664)					
Disposal of treasury stock			(138)	855					
Net changes during the year					(64,245)	(152)	1,234	911	124
Balance at March 31, 2008	$266,943	$430,984	$1,706,236	$(15,414)	$153,195	$ (93)	$(3,777)	$1,562	$23,077

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, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2008	2007	2006	2008
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 38,816	¥ 23,526	¥ 24,872	$ 387,420
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	14,347	10,006	9,789	143,194
Loss on impairment of fixed assets	2,265	2,406	1,061	22,607
Decrease in reserve for retirement benefits	(1,037)	(3,123)	(6,053)	(10,353)
(Increase) decrease in accrued bonuses	365	(163)	3,304	3,641
(Increase) decrease in allowance for doubtful accounts	424	(274)	(23)	4,231
Interest and dividend income	(1,803)	(1,167)	(995)	(17,996)
Interest expenses	328	240	186	3,274
Equity in earnings of affiliates	(1,125)	(832)	(680)	(11,229)
(Gain) on sale of property, plant and equipment	(6,916)	(82)	(959)	(69,031)
Decrease (increase) in trade receivable	1,770	(9,274)	8,665	17,667
Increase (decrease) in inventories	(2,146)	38	(4,641)	(21,421)
Increase (decrease) in trade payable	(5,681)	4,689	(3,176)	(56,703)
Others	1,105	3,677	(5,157)	11,049
	40,712	29,667	26,193	406,350
Interest and dividend received	2,593	1,470	1,303	25,883
Interest expenses paid	(306)	(220)	(169)	(3,056)
Dividend of anonymous association received	–	–	2,590	–
Payment of expenses on support for employees' early retirement	–	(529)	(4,318)	–
Income taxes paid	(12,285)	(7,007)	(11,296)	(122,623)
Net Cash Provided by Operating Activities	30,714	23,381	14,303	306,554
Cash Flows from Investing Activities:				
Acquisition of property, plant and equipment	(14,402)	(13,040)	(9,001)	(143,746)
Proceeds from sale of property, plant and equipment	7,297	1,632	3,216	72,835
Acquisition of investments in securities	(1,189)	(68)	(63)	(11,869)
Proceeds from sale of investments in securities	145	3,951	4,117	1,448
Proceeds from sale of investments in consolidated subsidiaries	–	–	1,183	–
Acquisition of investments in consolidated subsidiaries (Note 15)	(2,264)	–	–	(22,597)
Net increase in short-term loans receivable	(20)	(117)	(439)	(200)
Increase in long-term loans receivable	–	–	(169)	–
Decrease in long-term loans receivable	1,729	23	332	17,259
Others	(788)	(875)	(972)	(7,873)
Net Cash Used in Investing Activities	(9,492)	(8,494)	(1,796)	(94,743)
Cash Flows from Financing Activities:				
Decrease (increase) in short-term debt	(8,309)	169	(141)	(82,936)
Increase in long-term debt	–	282	–	–
Repayment of long-term debt	(665)	(8)	(11)	(6,640)
Acquisition of treasury stock	(567)	(20,755)	(234)	(5,663)
Proceeds from sale of treasury stock	39	18	16	396
Dividends paid	(3,979)	(4,105)	(4,755)	(39,716)
Dividends paid to minority	(19)	(18)	(14)	(183)
Net Cash Used in Financing Activities	(13,500)	(24,417)	(5,139)	(134,742)
Effect of Exchanges on Cash and Cash Equivalents	(44)	238	381	(440)
(Decrease) Increase in Cash and Cash Equivalents	7,678	(9,292)	7,749	76,629
Cash and Cash Equivalents at the Beginning of the Year	36,614	45,820	37,818	365,445
Increase in Cash and Cash Equivalents of newly consolidated subsidiaries	–	86	253	–
Decrease in Cash and Cash Equivalents of deconsolidated subsidiaries	(173)	–	–	(1,721)
Cash and Cash Equivalents at the End of the Year	¥ 44,119	¥ 36,614	¥45,820	$ 440,353

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

Cash and bank deposits	¥18,481	¥28,896	¥26,019	$184,461
Time deposits whose maturity periods exceed 3 months	(331)	(281)	(293)	(3,308)
Marketable securities with original maturities of 3 months or less	25,969	6,998	15,494	259,200
Investments in accounts receivable securitization	–	1,001	4,600	–
Cash and cash equivalents	¥44,119	¥36,614	¥45,820	$440,353

The accompanying notes are an integral part of the statements.

Note 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 Financial Instruments and Exchange Law of Japan and in conformity with generally accepted accounting principles and practices prevailing in Japan, which are different in certain respects as to the 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 Company's fiscal year is from April 1 to March 31. Therefore, "fiscal 2008" began on April 1, 2007 and ended on March 31, 2008.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation

The Company had 40 subsidiaries as at March 31, 2008 (41 as at March 31, 2007). The consolidated financial statements include the accounts of the Company and 22 subsidiaries in fiscal 2008 (22 for fiscal 2007).

The remaining 18 (19 as at March 31, 2007) 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 financial statements of 8 (8 as at March 31, 2007) overseas consolidated subsidiaries prepare their financial statements on a calendar year basis. All domestic consolidated subsidiaries have adopted 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.

Any differences 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, have 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 control.

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 18 (19 at March 31, 2007) unconsolidated subsidiaries and 18 (20 at March 31, 2007) affiliates. The equity method is applied to the investments in 5 (5 at March 31, 2007) significant 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 investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost or less.

(3) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows comprise of cash on hand, bank deposits, which can be withdrawn on demand at any time, and short-term investments with an original maturity of 3 months or less, which are readily convertible into cash and considered to represent a low risk of market price fluctuation.

(4) Securities Valuation

Held-to-maturity debt securities are valued at amortized 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 4.

(5) Inventories Valuation

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

(6) 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 or after April 1, 1998 using the straight-line method.

The range of useful lives is principally as follows:

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

Change in accounting policies

According to the revision of Japanese Corporate Income Tax Law, the Company and its domestic consolidated subsidiaries have changed the method of depreciation of property, plant and equipment acquired on or after April 1, 2007. This change has resulted in a decrease of operating income by ¥506 million ($5,049 thousand) and decreases in ordinary income and net income before income taxes and minority interests by ¥506 million ($5,052 thousand), respectively.

Additional information

From the current fiscal year, the Company and its domestic consolidated subsidiaries have changed its depreciation method to depreciate the residual values of the property, plant and equipment acquired on or before March 31, 2007, which was stipulated in the former Japanese Corporate Income Tax Law, using the straight-line method over 5 years after depreciated to the residual values. As a result, the operating income declined by ¥1,322 million ($13,191 thousand) and the ordinary income and net income before taxes and minority interests declined by ¥1,397 million ($13,943 thousand), compared to the previous method.

(7) 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 is expected to be uncollectible due to bad financial condition or insolvency.

Accrued Bonuses

Accrued bonuses are provided for bonuses payable to employees based on the amount expected to be paid at the year-end.

Reserve for Periodic Repairs

The Company estimates expenditure needed for periodic repairs of manufacturing equipment in Chemicals operations and recognizes the part of this amount allocated to the year current fiscal.

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 using the straight-line method over 5 years from the year they occur.

Unrecognized actuarial differences are amortized using the straight-line method over 10 years from the year after they occur.

Reserve for Retirement Benefits to Directors and Corporate Auditors

A reserve for retirement benefits to directors and corporate auditors is provided in accordance with the Company's internal rule.

(8) 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 "Net assets."

(9) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as finance leases, while leases that 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 6.

(10) 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 to reduce the Companies' risk of fluctuation in interest and exchange rates. Therefore, the Companies' purchase of the hedging instruments is limited to, at maximum, the amounts of the hedged items.

The Companies evaluate the effectiveness of their hedging activities with 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.

(11) 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 7 for details of deferred tax assets and liabilities.

(12) Appropriation of Retained Earnings

Under the Corporation Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

See Note 13.

(13) 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.

(14) Reclassification

Certain fiscal 2007 and 2006 figures have been reclassified to conform to the current year representation.

(15) New Accounting Standard

Accounting for impairment of fixed assets

On August 9, 2002, the Business Accounting Council issued a new accounting standard, Accounting Standard for Impairment of Fixed Assets, and on October 31, 2003, the Accounting Standards Board of Japan issued the Financial Accounting Standards Implementation Guidance No. 6, Implementation Guidance (ASBJ) for Accounting Standard for Impairment of Fixed Assets. The Companies applied the adoption of the new accounting standard for impairment of fixed assets in the fiscal year beginning on April 1, 2005. As a result of adopting the new accounting standard, income before taxes and minority interests for the year ended March 31, 2006 decreased ¥1,061 million. Accumulated impairment losses are deducted directly from related fixed assets.

Accounting standard for presentation of net assets in the balance sheet

For fiscal 2007, the Company adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5, December 9, 2005) and Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8, December 9, 2005). In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Accounting standard for stock options, etc.

For fiscal 2007, the Company adopted Accounting Standard for Share-Based Payment (ASBJ Statement No. 8, December 27, 2005) and Guidance on Accounting Standard for Share-Based Payment (ASBJ Guidance No. 11, May 31, 2006). As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2007 decreased ¥65 million, respectively.

Reserve for periodic repairs

Previously, expenses for periodic repairs of production facilities in Chemicals operations were charged to income when incurred. However, with effect from fiscal 2007 the Company recognized the part of estimated expenditure allocated to the year current fiscal as reserve for periodic repairs.

In light of the introduction of a quarterly financial reporting system from the year beginning on April 1, 2008, the Company made this change to increase the accuracy of periodic income statements and further the soundness of its financial position by allocating expenses to reflect the operational period until the next periodic repairs are needed.

As a result, compared with the previous method, operating income increased ¥230 million, and income before income taxes and minority interests decreased ¥786 million for the year ended March 31, 2007. Further, the effect on segment information is described in Note 16.

Note 3

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 ¥100.19 =U.S.$1, the approximate exchange rate at March 31, 2008. 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 ¥100.19 =U.S.$1 or at any other rate.

Note 4

SECURITIES

a) Available-for-sale securities for which market value is available as of March 31, 2008 and 2007 are as follows:

	2008		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥6,686	¥33,216	¥26,530
Securities with unrealized loss:			
Shares	2,133	1,719	(414)

	2008		
	Thousands of U.S. Dollars		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	$66,733	$ 331,530	$ 264,797
Securities with unrealized loss:			
Shares	21,290	17,157	(4,133)

	2007		
	Millions of Yen		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares	¥7,245	¥44,351	¥37,106
Securities with unrealized loss:			
Shares	331	315	(16)

b) The details of investments in securities without market quotation as of March 31, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Held-to-maturity debt securities:			
Commercial paper	¥25,969	¥6,998	$259,198
Available-for-sale securities:			
Unlisted shares	8,965	8,819	89,480
Other securities	1,698	1,004	16,948

c) The maturity schedule of held-to maturity debt securities with scheduled maturity as at March 31, 2008 is as follows:

	Millions of Yen
	2008
Less than 1 year	¥ 25,969
More than 1 year, less than 5 years	–
More than 5 years, less than 10 years	–
Thereafter	–

	Thousands of U.S. Dollars
	2008
Less than 1 year	$259,198
More than 1 year, less than 5 years	–
More than 5 years, less than 10 years	–
Thereafter	–

d) Assets pledged as collateral and relevant debt as at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Investments in securities	¥833	¥914	$8,319
Accounts and notes payable—trade	370	793	3,689

e) Investments in unconsolidated subsidiaries and affiliates as at March 31, 2008 and 2007 were:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Investments in shares	¥8,297	¥7,899	$82,816
Participations	1,583	2,008	15,798

Note 5

SHORT-TERM AND LONG-TERM DEBT

Short-term debt consisted principally of unsecured loans bearing interest of 1.73% and 1.41%, which was the weighted-average interest rate on outstanding balances as at March 31, 2008 and 2007, respectively.

Short-term debt as at March 31, 2008 and 2007 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Short-term borrowings	¥12,534	¥12,822	$125,101
Current portion of long-term loans	64	65	644
	¥12,598	¥12,887	$125,745

Long-term debt as at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Loans from banks, other financial institutions, etc., due from 2008 to 2012 with mortgage and collateral (Remarks 1 and 2)	¥192	¥250	$1,918

Remarks: 1. The weighted-average interest rate on outstanding balances of long-term loans (excluding current portion) from banks at the year-end was 6.46%.

2. 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 interest on the bond.

See Note 12 for underlying obligations of the Company.

Annual maturities of long-term debt subsequent to March 31, 2008, except for bonds, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within 1 year	¥ 65	$ 644
More than 1 year, less than 2 years	64	644
More than 2 years, less than 3 years	64	639
More than 3 years, less than 4 years	64	635
More than 4 years, less than 5 years	–	–
More than 5 years	–	–
	¥257	$2,562

Note 6

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, 2008 and 2007 is as follows.

The acquisition cost, accumulated depreciation and net book value of leased assets at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Acquisition cost	**¥1,468**	¥1,515	**$14,650**
Accumulated depreciation	**748**	776	**7,461**
Net book value	**¥ 720**	¥ 739	**$ 7,189**

Lease payments for the years ended March 31, 2008 and 2007 were ¥300 million ($2,993 thousand) and ¥315 million, respectively.

Depreciation equivalents for the years ended March 31, 2008 and 2007 were ¥300 million ($2,993 thousand) and ¥315 million, respectively.

Depreciation equivalent 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, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within 1 year	**¥265**	¥268	**$2,649**
Due over 1 year	**455**	471	**4,540**
	¥720	¥739	**$7,189**

(2) Operating Leases

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within 1 year	**¥–**	¥ 0	**$–**
Due over 1 year	**–**	–	**–**
	¥–	¥ 0	**$–**

Note 7

INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	March 31, 2008 Millions of Yen	March 31, 2008 Thousands of U.S. Dollars
Deferred tax assets:		
Non-deductible portion of reserve for retirement benefits to employees	¥ 8,511	$ 84,951
Non-deductible portion of depreciation of property, plant and equipment	3,938	39,303
Reserve for bonuses	1,530	15,276
Deferred assets for tax purposes	1,319	13,162
Prepaid expenses for tax purposes	1,165	11,624
Others	12,309	122,862
Sub-total	28,772	287,178
Valuation allowance	(7,343)	(73,292)
Total deferred tax assets	¥ 21,429	$ 213,886
Deferred tax liabilities:		
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,217)	$ (22,130)
Unrealized gains on available-for-sale securities	(10,481)	(104,611)
Others	(3,220)	(32,133)
Total deferred tax liabilities	(15,918)	(158,874)
Deferred tax assets, net	¥ 5,511	$ 55,012

The classification of "Deferred tax assets, net" on the consolidated balance sheets as of March 31, 2008 is as follows:

Balance sheet item		Millions of Yen	Thousands of U.S. Dollars
Current assets	Deferred tax assets	¥6,830	$ 68,168
Non-current assets	Deferred tax assets	1,080	10,784
Non-current liabilities	Deferred tax liabilities	(2,399)	(23,940)
		¥ 5,511	$ 55,012

Remark: 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.

	March 31, 2007 Millions of Yen
Deferred tax assets:	
Non-deductible portion of reserve for retirement benefits to employees	¥ 8,071
Non-deductible portion of depreciation of property, plant and equipment	2,146
Reserve for bonuses	1,275
Deferred assets for tax purposes	1,234
Prepaid expenses for tax purposes	1,215
Others	9,338
Sub-total	23,279
Valuation allowance	(5,318)
Total deferred tax assets	¥ 17,961
Deferred tax liabilities:	
Deferred gain, mainly related to expropriation of fixed assets	¥ (2,086)
Unrealized gains on available-for-sale securities	(15,050)
Others	(302)
Total deferred tax liabilities	(17,438)
Deferred tax assets, net	¥ 523

The classification of "Deferred tax assets, net" on the consolidated balance sheets as of March 31, 2007 is as follows:

Balance sheet item		Millions of Yen
Current assets	Deferred tax assets	¥ 5,803
Non-current assets	Deferred tax assets	313
Non-current liabilities	Deferred tax liabilities	(5,593)
		¥ 523

Remark: 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 for fiscal 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Statutory tax rate	40.7%	40.7%	40.7%
Non-deductible expenses, such as entertainment expenses	3.0	5.6	5.8
Loss on sale of equity method affiliates' shares	–	4.5	–
Future tax benefits deemed not to be realized	1.4	3.7	(5.2)
Equity in earnings of affiliates	(1.2)	(1.4)	(1.1)
Non-taxable income, such as dividend income	(0.9)	(1.5)	(0.9)
Special corporate tax credit	(4.5)	(5.1)	(3.5)
Others	0.6	(0.3)	(1.7)
Effective tax rate	39.1%	46.2%	34.1%

Note 8

STOCK OPTION PLANS

a) The following table summarizes the contents of stock options as of March 31, 2008.

	2008 Plan	2007 Plan	2006 Plan
Grantees' position	Directors and Executive Officers	Directors and Executive Officers	Directors and Executive Officers
Number of grantees	18	18	19
Type of stock	Common stock	Common stock	Common stock
Date of grant	June 20, 2007	June 29, 2006	June 28, 2005
Vesting condition	No provisions	No provisions	No provisions
Applicable period of service	No provisions	No provisions	No provisions
Exercisable period	June 22, 2007 — June 20, 2027	June 30, 2006 — June 28, 2026	June 29, 2005 — June 28, 2025

b) The following table summarizes scale and movement of stock options as of March 31, 2008.

	2008 Plan	2007 Plan	2006 Plan
Non-vested (number of shares):			
Stock options outstanding at March 31, 2007	–	–	–
Granted during the year	92,000	–	–
Forfeited during the year	–	–	–
Vested during the year	92,000	–	–
Stock options outstanding at March 31, 2008	–	–	–
Vested (number of shares):			
Stock options outstanding at March 31, 2007	–	111,000	114,000
Vested during the year	92,000	–	–
Exercised during the year	–	28,000	33,000
Forfeited during the year	–	–	–
Stock options outstanding at March 31, 2008	92,000	83,000	81,000

c) The following tables summarize the price information of stock options as of March 31, 2008.

	2008 Plan	2007 Plan	2006 Plan
Exercise price (yen)	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise (yen)	–	1,167	775
Fair valuation price (date of grant) (yen)	1,140	705	–

d) Method of estimating the fair value of stock options
1) Valuation method used: Black-Scholes model
2) Principal basic numeric values and estimation methods

	2008 Plan	2007 Plan
Share price variability (Remark 1)	5.6%	6.0%
Projected remaining period (Remark 2)	3 years	5 years
Projected dividends (yen) (Remark 3)	¥10/per share	¥10/per share
Risk-free interest rate (Remark 4)	0.27%	0.58%

Remarks: 1. Calculated based on share price results over 3 years (from June 2004 to May 2007).
2. Calculated by subtracting the average years of service of present office holders from the average years of service of retirees over the past 5 years.
3. Based on dividends for the year ended March 2007.
4. The rate of return on government bonds over the projected remaining period.

e) Method of estimating number of stock option vestings
In principle, because reasonable estimations of future expirations are problematic, a method reflecting actual expirations is used.

Note 9

RESERVE FOR RETIREMENT BENEFITS TO EMPLOYEES

The Company and its domestic consolidated subsidiaries operate various defined benefit plans, including a corporate pension plan (the so-called cash-balanced plan), a group contributory plan, a tax-qualified pension plan and a severance payment plan.

a) The reserve for retirement benefits as of March 31, 2008 and 2007 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligations (Remark)	¥(64,620)	¥(62,221)	$(644,980)
Plan assets	42,291	42,888	422,109
Unfunded benefit obligations	(22,329)	(19,333)	(222,871)
Unrecognized actuarial differences	7,271	1,660	72,580
Unrecognized prior service costs	(1,175)	(2,350)	(11,728)
Prepaid pension cost	(4,716)	(1,379)	(47,069)
	¥(20,949)	¥(21,402)	$(209,088)

Remark: Reserve for certain subsidiaries calculate the projected benefit obligation by the simplified method permitted under the accounting standards generally accepted in Japan.

b) The net periodic pension expense related to the retirement benefits for fiscal 2008, 2007 and 2006 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Service cost (Remark)	¥ 2,517	¥ 2,445	¥ 2,595	$ 25,121
Interest cost	1,599	1,518	1,575	15,964
Expected return on plan assets	(1,343)	(1,136)	(1,011)	(13,403)
Amortization of unrecognized actuarial differences	1,083	1,158	1,457	10,810
Amortization of unrecognized prior service costs	(1,075)	(1,222)	(1,432)	(10,735)
Special severance payment	139	387	4,364	1,390
	¥ 2,920	¥ 3,150	¥ 7,548	$ 29,147

Remark: Includes net periodic pension expense incurred by the subsidiaries that apply the simplified method.

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

	As of March 31, 2008	As of March 31, 2007
Method of attributing the projected benefits to periods of service	Benefit/year of service approach	Benefit/year of service approach
Discount rate	2.5%	2.5%
Expected rate of return	3.0%	3.0%

Note 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 non-performance by counterparties. However, at March 31, 2008, in 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 high credit ratings. Also, the Companies do not use derivative financial instruments for highly leveraged transactions.

(2) Fair Value Information of Derivative Financial Instruments

The Companies have the following derivative contracts outstanding at March 31, 2008 and 2007:

		Millions of Yen					
		2008			2007		
Classification	Type of transaction	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Non-market transactions	Foreign exchange forward contracts						
	Selling U.S. dollar	¥ 1	¥ 1	¥ 0	¥ —	¥ —	¥ —
	Buying U.S. dollar	2,018	2,114	96	2,310	2,341	31
	Buying Euro	2,584	2,549	(35)	2,095	2,086	(9)
	Currency swaps						
	Receiving Japanese yen, paying U.S. dollar	3,898	(94)	(94)	—	—	—
		¥8,501	¥ 4,570	¥ (33)	¥4,405	¥4,427	¥22

		Thousands of U.S. Dollars		
		2008		
Classification	Type of transaction	Contract amount	Fair value	Unrealized gain (loss)
Non-market transactions	Foreign exchange forward contracts			
	Selling U.S. dollar	$ 10	$ 10	$ 0
	Buying U.S. dollar	20,139	21,096	957
	Buying Euro	25,790	25,441	(349)
	Currency swaps			
	Receiving Japanese yen, paying U.S. dollar	38,906	(934)	(934)
		$84,845	$45,613	$(326)

Remarks: 1. Fair value is determined based on the foreign currency forward exchange market rates.
2. Derivative transactions utilized by the Companies other than above are applied by hedge accounting and are not included in the above.

Note 11

SUPPLEMENTARY INFORMATION FOR STATEMENTS OF INCOME

a) The significant elements of selling, general and administrative expenses for each of the 3 years in the period ended March 31, 2008, 2007 and 2006 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2008	2007	2006	2008
Research and development expenses	¥33,458	¥32,687	¥32,318	$ 333,943
Salaries	17,502	16,888	17,018	174,691
Sales promotion	8,705	8,475	8,186	86,882
Bonuses to employees	5,859	5,523	5,980	58,478
Transportation expenses	4,425	3,948	4,061	44,162
Provision for accrued bonuses	1,982	1,735	1,896	19,782

b) Loss on impairment of fixed assets

The Companies have made a group of fixed assets for impairment testing by the management accounting unit. However, the Companies classifies certain assets as a separate unit for impairment testing. The assets include assets held for lease, idle assets and assets held for sale or disposition.

For the fiscal year ended March 31, 2008, the Companies recognized impairment loss for the following group of assets:

Location	Description	Classification	Millions of Yen	Thousands of U.S. Dollars
3 locations, including Yamaguchi Business Office (Hofu City, Yamaguchi Prefecture, etc.)	Idle assets	Land and Buildings, other	¥2,265	$22,607

The Companies wrote down the book value to recovery value and accounted for its diminution in "Loss on impairment of fixed assets." The reason was that idle assets in 3 locations are idle or expected to halt operations or their future use has not been decided. Further, the recovery value was measured by the net sales value. The idle assets that would be difficult to dispose of and assets scheduled for disposal were measured at ¥1.

For the fiscal year ended March 31, 2007, the Companies recognized impairment loss for the following group of assets:

Location	Description	Classification	Millions of Yen
5 locations, including a pharmaceutical distribution center in Tokyo (Itabashi-ku, Tokyo, etc.)	Assets scheduled for disposal	Buildings and equipment	¥1,310
Hofu Plant and 2 other locations (Hofu City, Yamaguchi Prefecture, etc.)	Idle assets	Buildings and equipment	1,096

The Companies wrote down the book value to recovery value and accounted for its diminution in "Loss on impairment of fixed assets." The reason was that assets scheduled for disposal in 5 locations are scheduled for sale or disposal, and idle assets in 2 locations are idle or expected to halt operations or their future use has not been decided. Further, the recovery value was measured by the net sales value. The idle assets that would be difficult to dispose of and assets scheduled for disposal were measured at ¥1.

For the fiscal year ended March 31, 2006, the Companies recognized impairment loss for the following group of assets.

Location	Description	Classification	Millions of Yen
6 locations, including Houki Town, Saihaku County, Tottori Prefecture	Idle assets	Land	¥187
Toxicological Research Laboratories	Idle assets	Buildings	551
Company housing of Kyowa Hakko Chemical Co., Ltd.	Assets scheduled for disposal	Buildings, other	323

The Companies wrote down the book value to recovery value and accounted for its diminution in "Loss on impairment of fixed assets." The reason was that the market price of idle land in 6 locations fell significantly, a part of the buildings of the Toxicological Research Laboratories had been idle, and its purpose for future use had not been determined, and the Company's housing of Kyowa Hakko Chemical Co., Ltd. was determined to be disposed of. The recovery value was measured by the net sales value. The idle land was valued by the adjusted assessed value of fixed assets based on the valuation for property taxes. The idle building that would be difficult to dispose of and assets scheduled for disposal were measured at ¥1.

Note 12

CONTINGENT LIABILITIES

a) The Companies had contingent liabilities arising from notes discounted by banks in the amount of ¥114 million ($1,140 thousand) at March 31, 2008.

The Companies are contingently liable for guarantees of loans borrowed by Kyowa Foods (Jiangyin) Co., Ltd. and others in the amounts of ¥362 million ($3,609 thousand) and ¥10million ($103 thousand), respectively, at March 31, 2008.

b) Contingent liabilities under a debt assumption contract totaled ¥33,000 million ($329,374 thousand).

Note 13

SUPPLEMENTARY INFORMATION FOR SHAREHOLDERS' EQUITY

(1) Type and number of outstanding shares

	Number of shares Fiscal 2008
Common stock:	
Balance at beginning of the year	399,243,555
Increase in shares during the year	–
Decrease in shares during the year	–
Balance at end of the year	399,243,555
Treasury stock:	
Balance at beginning of the year	1,351,220
Increase in shares during the year (Remark 1)	478,199
Decrease in shares during the year (Remark 2)	106,235
Balance at end of the year	1,723,184

Remarks: 1. Treasury stock increased by 478,199 shares due to the repurchase of shares less than 1 unit.
2. Treasury stock decreased by 106,235 shares due to the sale of shares by equity method affiliates by 11,000 shares, the stock options exercised by 61,000 shares and the sale of shares less than 1 unit by 34,235 shares.

(2) Dividends

a) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount (Thousands of U.S. dollars)	Per share (Yen)	Per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 20, 2007	Annual general meeting of shareholders	Common stock	¥1,990	$19,858	¥5	$0.050	March 31, 2007	June 21, 2007
October 29, 2007	Board of directors	Common stock	1,989	19,851	5	0.050	September 30, 2007	December 3, 2007

b) Dividends with a shareholders' cut-off date during the current fiscal year but an effective date subsequent to the current year.

Date of approval	Resolution approved by	Type of shares	Amount (Millions of Yen)	Amount (Thousands of U.S. dollars)	Per share (Yen)	Per share (U.S. dollars)	Shareholders' cut-off date	Effective date
June 24, 2008	Annual general meeting of shareholders	Common stock	¥1,988	$19,839	¥5	$0.050	March 31, 2008	June 25, 2008

Note 14

RELATED PARTY TRANSACTIONS

The Company discloses significant transactions of the Company with its related companies representing more than 10 percent 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.

Also, the Company discloses significant balances and transactions with related companies where such balances and transactions, including the related amounts in the footnote, represent more than 1 percent of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. No such transaction occurred in fiscal 2008, 2007 or 2006.

Significant transactions and balances of the Company with its related individuals, including shareholders and directors, representing more than ¥1 million shall be disclosed, however, no such transactions and balances were noted for the years ended March 31, 2008, 2007 and 2006.

Note 15

CASH FLOW INFORMATION

(1) Summary of assets and liabilities of the newly consolidated subsidiary, DAIICHI FINE CHEMICAL CO., LTD., related acquisition cost and net expenditure is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	2008
Current assets	¥ 13,431	$ 134,053
Fixed assets	8,793	87,767
Goodwill	175	1,740
Current liabilities	(14,585)	(145,571)
Non-current liabilities	(1,573)	(15,698)
Acquisition costs	6,241	62,291
Cash and cash equivalents of the acquired company	(3,977)	(39,694)
Payment for acquisition of shares	¥ 2,264	$ 22,597

Note 16

(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	Pharmaceutical and industrial-use raw materials, health care products, agrochemicals, products for livestock and fisheries industries and alcohol
(3) Chemicals Division	Solvents, raw materials of plasticizers and specialty chemicals
(4) Food Division	Seasonings, baking products and ingredients and processed foods
(5) Other Division	Transportation and facilities

Millions of Yen

Year ended March 31, 2008	Industry segment: Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	¥138,050	¥ 78,045	¥100,069	¥39,357	¥36,599	¥392,120	¥ –	¥392,120
Intersegment sales/transfers	327	8,775	7,938	3,967	12,401	33,408	(33,408)	–
Total sales	138,377	86,820	108,007	43,324	49,000	425,528	(33,408)	392,120
Operating expenses	118,415	77,132	100,838	41,747	48,161	386,293	(33,563)	352,730
Operating income	¥ 19,962	¥ 9,688	¥ 7,169	¥ 1,577	¥ 839	¥ 39,235	¥ 155	¥ 39,390
II. Assets, Depreciation and Amortization, Loss on Impairment of Fixed Assets and Capital Expenditures:								
Assets	¥115,560	¥105,525	¥ 83,198	¥33,009	¥20,590	¥357,882	¥ 36,199	¥394,081
Depreciation and amortization	3,947	5,540	3,772	978	120	14,357	(10)	14,347
Loss on impairment of fixed assets	376	1,616	–	273	–	2,265	–	2,265
Capital expenditures	4,233	4,192	4,345	1,955	71	14,796	–	14,796

Year ended March 31, 2008	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
	Thousands of U.S. Dollars							
	Industry segment							
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	$1,377,886	$778,972	$998,791	$392,828	$365,286	$ 3,913,763	$ –	$ 3,913,763
Intersegment sales/transfers	3,264	87,583	79,232	39,592	123,772	333,443	(333,443)	–
Total sales	1,381,150	866,555	1,078,023	432,420	489,058	4,247,206	(333,443)	3,913,763
Operating expenses	1,181,910	769,858	1,006,466	416,683	480,688	3,855,605	(334,998)	3,520,607
Operating income	$ 199,240	$ 96,697	$ 71,557	$ 15,737	$ 8,370	$ 391,601	$ 1,555	$ 393,156
II. Assets, Depreciation and Amortization, Loss on Impairment of Fixed Assets and Capital Expenditures:								
Assets	$1,153,404	$1,053,250	$830,397	$329,462	$205,508	$ 3,572,021	$ 361,317	$ 3,933,338
Depreciation and amortization	39,395	55,296	37,646	9,757	1,198	143,292	(98)	143,194
Loss on impairment of fixed assets	3,750	16,129	–	2,728	–	22,607	–	22,607
Capital expenditures	42,251	41,839	43,371	19,511	705	147,677	–	147,677

According to change in an accounting policy of the depreciation method for material depreciable assets, the operating expenses for the current consolidated financial year of the Pharmaceuticals Division, Bio-Chemicals Division, Chemicals Division, Food Division, and Other Division increased by ¥147 million ($1,474), ¥112 million ($1,127), ¥199 million ($1,988), ¥44 million ($448), and ¥1 million ($12), and the operating income decreased by same amounts, respectively.

Year ended March 31, 2007	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
	Millions of Yen							
	Industry segment							
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	¥130,879	¥57,055	¥92,099	¥38,447	¥35,794	¥354,274	¥ –	¥354,274
Intersegment sales/transfers	647	10,065	6,551	4,142	12,686	34,091	(34,091)	–
Total sales	131,526	67,120	98,650	42,589	48,480	388,365	(34,091)	354,274
Operating expenses	115,780	63,008	90,676	40,757	47,512	357,733	(34,158)	323,575
Operating income	¥ 15,746	¥ 4,112	¥ 7,974	¥ 1,832	¥ 968	¥ 30,632	¥ 67	¥ 30,699
II. Assets, Depreciation and Amortization, Loss on Impairment of Fixed Assets and Capital Expenditures:								
Assets	¥117,778	¥85,871	¥83,523	¥34,775	¥22,632	¥344,579	¥34,292	¥378,871
Depreciation and amortization	3,606	3,181	2,302	799	130	10,018	(12)	10,006
Loss on impairment of fixed assets	815	940	138	513	–	2,406	–	2,406
Capital expenditures	3,681	6,628	3,623	886	30	14,848	(350)	14,498

For fiscal 2007, the Companies recognized part of estimated expenditure allocated to the current fiscal year as reserve for periodic repairs.

As a result, compared with the previous method, operating income increased ¥230 million in Chemicals segment.

The Companies reviewed the operations of some consolidated subsidiaries in Pharmaceuticals operations and Other operations and changed the division of the Group's managerial control. As a result, the Companies included these consolidated subsidiaries in Bio-Chemicals operations from fiscal 2007.

The industry segment information for fiscal 2006 has been restated accordingly.

Year ended March 31, 2006	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Corporate, elimination and other	Consolidated total
	Millions of Yen							
	Industry segment							
I. Sales and Operating Income:								
Sales:								
Sales to outside customers	¥148,593	¥52,740	¥80,231	¥37,930	¥33,946	¥353,440	¥ —	¥353,440
Intersegment sales/transfers	346	10,501	5,604	4,510	12,004	32,965	(32,965)	—
Total sales	148,939	63,241	85,835	42,440	45,950	386,405	(32,965)	353,440
Operating expenses	134,671	58,900	81,334	40,838	45,239	360,982	(33,077)	327,905
Operating income	¥ 14,268	¥ 4,341	¥ 4,501	¥ 1,602	¥ 711	¥ 25,423	¥ 112	¥ 25,535
II. Assets, Depreciation and Amortization, Loss on Impairment of Fixed Assets and Capital Expenditures:								
Assets	¥118,800	¥82,423	¥73,381	¥31,962	¥27,547	¥334,113	¥ 50,268	¥384,381
Depreciation and amortization	3,913	2,642	2,283	806	159	9,803	(14)	9,789
Loss on impairment of fixed assets	738	—	323	—	—	1,061	—	1,061
Capital expenditures	3,898	2,317	3,407	1,216	32	10,870	(11)	10,859

(2) Geographic Segment Information

For fiscal 2008, 2007 and 2006, geographic segment information has been omitted because both domestic sales and assets located in Japan were more than 90% of those for all segments.

(3) Overseas Sales

The classification of overseas sales is as follows:

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

Year ended March 31, 2008	Americas	Europe	Asia	Other areas	Total
	Millions of Yen				
I. Overseas sales	¥23,150	¥22,476	¥ 29,052	¥ 540	¥ 75,218
II. Consolidated net sales					392,120
III. Ratio of overseas sales to consolidated net sales	5.9%	5.7%	7.4%	0.2%	19.2%

Year ended March 31, 2008	Americas	Europe	Asia	Other areas	Total
	Thousands of U.S. Dollars				
I. Overseas sales	$231,058	$224,332	$289,972	$5,385	$ 750,747
II. Consolidated net sales					3,913,763
III. Ratio of overseas sales to consolidated net sales	5.9%	5.7%	7.4%	0.2%	19.2%

Year ended March 31, 2007	Americas	Europe	Asia	Other areas	Total
	Millions of Yen				
I. Overseas sales	¥19,364	¥15,789	¥28,618	¥425	¥ 64,196
II. Consolidated net sales					354,274
III. Ratio of overseas sales to consolidated net sales	5.5%	4.4%	8.1%	0.1%	18.1%

Year ended March 31, 2006	Millions of Yen Americas	Europe	Asia	Other areas	Total
I. Overseas sales	¥15,138	¥13,608	¥25,548	¥644	¥ 54,938
II. Consolidated net sales					353,440
III. Ratio of overseas sales to consolidated net sales	4.3%	3.9%	7.2%	0.2%	15.6%

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

Note 17

PER SHARE DATA

	Yen 2008	2007	2006	U.S. Dollars 2008
Net assets per share	¥639.7	¥607.5	¥604.9	$6.385
Net income—basic	59.0	31.3	38.4	0.589
Net income—diluted (*)	59.0	31.3	38.3	0.589

a) The basis for the calculation of net income per share data is as follows:

	Millions of Yen 2008	2007	2006	Thousands of U.S. Dollars 2008
Net income	¥23,477	¥12,694	¥16,273	$234,327
Less: Components not pertaining to common shareholders				
Bonuses to directors and corporate auditors	–	–	(51)	–
Net income pertaining to common shareholders	¥23,477	¥12,694	¥16,222	$234,327

	2008	2007	2006
Average outstanding shares of common stock	397,716,985	405,270,297	422,919,680 shares

b) The basis for the calculation of net assets per share data is as follows:

	Millions of Yen 2008	Thousands of U.S. Dollars 2008
Net assets	¥256,758	$2,562,713
Less: Share subscription rights	(156)	(1,562)
Less: Minority interests in consolidated subsidiaries	(2,312)	(23,077)
Net assets pertaining to common shareholders	¥254,290	$2,538,074

	2008	2007
Number of shares of common stock at year-end (number of shares outstanding)	397,520,371	397,892,335 shares

Note 18

SUBSEQUENT EVENT

(Share Exchange)

On October 22, 2007, the Board of Directors of the Company resolved and entered into a "Share Exchange Agreement" with Kirin Pharma Company, Limited (hereinafter "the share exchange"). Through the share exchange under this agreement, the Company became the parent of Kirin Pharma Company, Limited (hereinafter "Kirin Pharma"), and Kirin Pharma became a wholly owned subsidiary of the Company. The Share Exchange Agreement took effect on April 1, 2008 with the approval of the extraordinary meeting of shareholders of the Company held on February 29, 2008.

a) Names of the acquirer and acquiree, nature of their businesses, and the main reason for the business combination

(1) Acquirer and acquiree
The objective of the share exchange is to make the Company the parent of Kirin Pharma. However, because the Company will become a subsidiary of Kirin Holdings Company, Limited (hereinafter "Kirin Holdings"), the business combination will result in a "reverse acquisition" whereby Kirin Pharma will become the acquirer and the Company will become the acquiree. For this case, the purchase method was applied in accordance with Accounting Standard for Business Combinations (Accounting Standards Board of Japan) and ASBJ Guidance No. 10 on Accounting Standards for Business Combinations and Accounting Standards for Spin-offs.

(2) Nature of business of the acquirer
Manufacturing and sale of pharmaceutical products

(3) Main reason for the business combination
Antibody drug technology-centered biotechnology is the strength of both the Company and Kirin Pharma. Through the integration of antibody technologies, both companies aim to improve drug development capabilities, expand opportunities to acquire novel antigens through an improved presence in the antibody drug sector and increase development speed and proactive overseas development of antibody drugs through the mutual exploitation of antibody technologies. Furthermore, through the integration, the Company and Kirin Pharma expect an increase in the scale of research and development and marketing, the establishment of effective business operations systems, and the further strengthening of the profitability and competitiveness of their pharmaceutical business, all of which is believed to result in a strengthening of the operational base. To maximize these effects, the Company and Kirin Pharma intend to undertake an absorption and merger whereby the Company becomes a surviving entity and Kirin Pharma becomes an extinguished entity (hereinafter "this merger"). We believe that the preparations for this merger will proceed more quickly and smoothly if Kirin Pharma becomes a wholly owned subsidiary of the Company before this merger.

(4) Date of the business combination
April 1, 2008

(5) Legal form of the business combination
Share exchange for consideration of common shares of the Company
The Company has acquired all of the outstanding common shares of Kirin Pharma. Because the Company has issued its common shares to Kirin Holdings, the parent of Kirin Pharma, Kirin Holdings holds 50.10% of the total number of issued shares of the Company and thus has become the parent of the Company.

b) Class of shares issued and the share exchange ratio, etc.

(1) Class of shares issued and share exchange ratio
The Company allocated and delivered 8,862 shares of common stock for 1 share of common stock of Kirin Pharma.

(2) Summary of the calculation of the share exchange ratio
In order to ensure the fairness of the share exchange ratio to be used by the Company and Kirin Pharma in the share exchange, the Company appointed Merrill Lynch Japan Securities Co., Ltd. (hereinafter "Merrill Lynch") and Kirin Pharma appointed JPMorgan Securities Japan Co., Ltd. (hereinafter "JPMorgan") as financial advisors, and requested each company conduct an analysis of the share exchange ratio.

In evaluating the terms and conditions of the share exchange, Merrill Lynch performed various analyses, including a discounted cash flow (DCF) analysis, a comparable companies analysis, a market price analysis, a comparable transactions analysis, a contribution analysis and an earnings per share accretion/dilution analysis, a value creation analysis, and reviewed and considered such analyses as a whole in preparing its opinion. When calculating the share exchange ratio for the share exchange, JPMorgan took into account business results and forecasts of the Company and Kirin Pharma and the synergy effects created by the share exchange, and conducted a valuation using methods such as the trading comparable companies analysis and the DCF analysis. JPMorgan also conducted the contribution analysis.

With reference to the results of the share exchange ratio calculation by Merrill Lynch (in the case of the Company) and JPMorgan (in the case of Kirin Pharma), and after considering the financial condition and forecasts and the causes of trends in share value, among others, of each of the 2 companies, as a result of mutual discussions, the Company and Kirin Pharma reached a final agreement that the share exchange ratio described above was appropriate.

(1) Number of shares delivered in the share exchange
177,240,000 shares
All were newly issued.

c) Acquisition cost and other particulars of the shares
Consideration in shares: ¥477,819 million ($4,769,134 thousand)
Expenditures directly required for the acquisition: ¥—
Total acquisition cost: ¥477,819 million ($4,769,134 thousand)
Because this transaction is a "reverse acquisition," the consolidated financial statements will show that Kirin Pharma has acquired 100% of the voting rights of the Company. While Kirin Pharma is not publicly traded, the Company is publicly quoted, hence the consideration for the acquisition will be determined based on the market price of the Company's stock.

d) Value of goodwill and the period of amortization
(1) Value of goodwill and events leading to the occurrence of goodwill
In the consolidated financial statements following this share exchange, the purchase method will be applied with any goodwill expected to be recognized. However, it is not definitive at this moment.
(2) Amortization method and amortization period
Amortization method: Straight-line method
Amortization period: 20 years

e) Values of assets acquired and liabilities assumed as of the date of the business combination, and main particulars
They are not definitive at this moment.

f) Size of acquirer (for the period ended December 31, 2007)
Sales: ¥34,979 million ($349,129 thousand)
Net income: ¥3,728 million ($37,209 thousand)
Total assets: ¥100,896 million ($1,007,044 thousand)
Net assets: ¥67,336 million ($672,087 thousand)

Note: Kirin Pharma took over the pharmaceutical business of Kirin Holdings (former Kirin Brewery Company, Limited) by divestiture as of July 1, 2007. Note, however, that since no pharmaceutical businesses were carried out for the period from January 1, 2007 to June 30, 2007 before the takeover, the sales and net income reflect the business operations of Kirin Pharma after July 1, 2007. The consolidated sales and operating income included in "Pharmaceuticals" segmented by type for Kirin Holdings for the period ended December 31, 2007 were ¥69,909 million ($697,764 thousand) and ¥13,001 million ($129,763 thousand), respectively.

(Divestiture of a business)

On April 28, 2008, the Board of Directors of the Company resolved to divest the Bio-Chemicals Division as of October 1, 2008 and to transfer the division to a newly established company. The divestiture of the business was approved at the regular general meeting of shareholders of the Company expected to be held in on June 24, 2008.

Names of combining entities and business to be divested, etc.

(1) Name of the business to be divested
Bio-Chemicals Division of the Company

(2) Nature of the business to be divested
Manufacturing and sale of pharmaceutical and industrial-use raw materials, healthcare products, agrochemicals, products for livestock, fisheries industries and alcohol, etc.

(3) Legal form of the business combination
Business divestiture establishing a new entity where the newly established company is the successor company

(4) Name of the entity after combination
KYOWA HAKKO BIO CO., LTD. (newly established company)

(5) Overview of transactions, including the transaction purposes
The business model for the Bio-Chemicals Division in particular with focus on materials differs from the business model for the Pharmaceuticals Division. So, the Company has decided to take advantage of the merger of the Company with Kirin Pharma as an opportunity to spin off the Bio-Chemicals Division. The Company believes that the Bio-Chemicals Division will develop its proprietary management system that will certainly facilitate faster decision making and thereby result in flexible and proactive business development. The Bio-Chemicals division is expected to achieve a more competitive edge and the capacity to grow on a self-sustaining basis as a significant business entity of the Kyowa Hakko Group (the Company, its subsidiaries and affiliates).

(Merger)

On April 28, 2008, the Board of Directors resolved and entered into a "Merger Agreement" with Kirin Pharma to take effect on October 1, 2008 in relation to the merger of the Company and Kirin Pharma. The merger was approved at the general meeting of shareholders of the Company to be held on June 24, 2008.

a) Names of combining entity and combined entity, etc.

(1) Names of combining entity and combined entity
Combining entity: the Company
Combined entity: Kirin Pharma
(Kirin Pharma became a wholly owned subsidiary of the Company through the share exchange on April 1, 2008.)

(2) Nature of business of the combining entity
Manufacturing and sale of pharmaceutical products

(3) Legal form of business combination
Absorption and merger where the Company becomes the surviving company and Kirin Pharma becomes the extinguished company

(4) Name of the entity after combination
Kyowa Hakko Kirin Co., Ltd.

(5) Date of business combination
October 1, 2008 (expected)

(6) Overview of transactions, including the transaction purposes
This merger will be effected as a part of a strategic alliance between the Kyowa Hakko Group and the Kirin Group. Antibody drug technology-centered biotechnology is the strength of both the Company and Kirin Pharma. Through the integration of antibody technologies, both companies aim to improve drug development capabilities, expand opportunities to acquire novel antigens through an improved presence in the antibody drug sector and increase development speed and proactive overseas development of antibody drugs through the mutual exploitation of antibody technologies. Furthermore, through the integration, the Company and Kirin Pharma expect an increase in the scale of research and development and marketing, the establishment of effective business operations systems, and the further strengthening of the profitability and competitiveness of their pharmaceutical business, all of which is believed to result in a strengthening of the operational base.

b) Merger ratio and cash payment on merger
At the date when the merger takes effect, as Kirin Pharma is a wholly owned subsidiary of the Company, no issuance of new shares, no capital increase, and no cash payment will be made on this merger.

(Merger of a subsidiary and transfer of share)
On April 28, 2008, the Board of Directors resolved and entered into a "Basic Agreement to Integrate the Food Products Businesses of the Kyowa Hakko Group and the Kirin Group" between 4 companies (the Company, Kyowa Hakko Foods Specialties Co., Ltd., Kirin Food-Tech Company, Limited, and Kirin Holdings) to take effect on April 1, 2009 in relation to the establishment of a joint venture by absorption and merger of Kyowa Hakko Foods Specialties Co., Ltd. (the wholly owned subsidiary of the Company), and Kirin Food-Tech Company, Limited (the wholly owned subsidiary of Kirin Holdings).

a) Names of combining entity and combined entity, etc.

(1) Names of combining entity and combined entity
Combining entity: Kyowa Hakko Foods Specialties Co., Ltd.
Combined entity: Kirin Food-Tech Company, Limited

(2) Nature of business of the combined entity
Manufacturing and sale of seasonings, baking products and ingredients and processed foods, etc.

(3) Legal form of business combination
Absorption and merger where Kyowa Hakko Foods Specialties Co., Ltd. becomes the surviving company and Kirin Food-Tech Company, Limited becomes the extinguished company

(4) Name of the entity after combination
Kirin Kyowa Foods Company, Limited.

(5) Date of business combination
April 1, 2009 (expected)

(6) Overview of transactions, including the transaction purposes
This merger will be effected as a part of a strategic alliance between the Kyowa Hakko Group and the Kirin Group. By integrating the businesses through the merger of both companies, the Company will maximize the corporate value of the business by creating synergies in the food business and enhance the presence in the market.

b) Merger ratio
The merger ratio is expected to be decided based on calculation of the value of the 2 companies.

c) Transfer of share in the Company
The surviving company after the merger, Kirin Kyowa Foods Company, Limited, will be managed as a joint venture by the Company and Kirin Holdings until the end of 2010. The Company is expected to transfer all the outstanding and issued shares of the surviving company held by the Company to Kirin Holdings on January 1, 2011, and Kirin Kyowa Foods Company, Limited will become a wholly owned subsidiary of Kirin Holdings.

(Conclusion of significant contracts)
On March 6, 2008, the Board of Directors of the Company resolved and entered into an agreement to license to Amgen Inc. exclusive rights for the development and sales of CC chemokine receptor KW-0761, an agent developed proprietarily by the Company, in all areas of the world except Japan, China, South Korea and Taiwan. The agreement required the filing of an application form with, and examination procedures by, the U.S. Federal Trade Commission (FTC). The Company will not be required to undergo an additional examination by the FTC after the filing, and the agreement will take effect upon the elapse of the waiting period.

The waiting period ended on April 14, 2008 and the agreement took effect on April 15, 2008.

a) Purpose or reason for the agreement
KW-0761 is a humanized monoclonal antibody. It was created with the Comapny's original POTELLIGENT® antibody technology and has been confirmed to enhance ADCC. A phase I study has been conducted in Europe on a small number of healthy people and on patients with allergy rhinitis (the planned study is already completed). Another phase I study is now being conducted in Japan for patients with blood cancer. Those studies show that the antibody decreases CCR4+ T cells and CCR4+ blood cancer cells, cell lines that are thought to be involved with diseases such as asthma or inflammatory diseases. The Company has been deliberating a plan to select a partner for the worldwide development and sales of the technology independently from its development and sales in Japan and selected parts of Asia.

b) Name of the counterparty to the agreement
Amgen Inc. (Head office: California, U.S.A.)

c) Contents of the agreement
(1) The Company will grant Amgen Inc. the rights to exclusive development and sales in all parts of the world except Japan, China, South Korea and Taiwan.
(2) The Company will receive $100 million as a part of the consideration, in a single payment to be made when the agreement takes effect.
(3) The Company will receive up to $420 million in additional payments, including a single payment in consideration of the achievement of the milestone for the progress of development and the accomplishment of the targeted sales amount.
(4) The Company will receive double-digit royalties in accordance with the sales after the launch of products in markets.

d) Effect on profit and loss
The Company intends to recognize sales of $100 million (single payment when the agreement takes effect) for the period ending March 31, 2009.

Report of Independent Auditors

ERNST & YOUNG SHINNIHON

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

Tel: 03 3503 1100
Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
KYOWA HAKKO KOGYO CO., LTD.

We have audited the accompanying consolidated balance sheets of KYOWA HAKKO KOGYO CO., LTD. (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the two years in the period ended March 31, 2008, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company and consolidated subsidiaries for the year ended March 31, 2006, were audited by other auditors whose report dated June 28, 2006, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2008 in conformity with accounting principles generally accepted in Japan.

Supplemental Information:

1. As described in Note18, the Board of Directors of the Company resolved and entered into a "Share Exchange Agreement" with Kirin Pharma Company, Limited. Through the share exchange under this agreement, Kirin Pharma Company, Limited became a wholly owned subsidiary of the Company. The Share Exchange Agreement took effect on April 1, 2008.

2. As described in Note18, on April 28, 2008 the Board of Directors of the Company resolved to divest the Bio-chemicals Division and to transfer the division to a newly established company effective on October 1, 2008.

A MEMBER OF ERNST & YOUNG GLOBAL

ERNST & YOUNG SHINNIHON

3. As described in Note18, on April 28, 2008, the Board of Directors resolved and entered into a "Merger Agreement" with Kirin Pharma Company, Limited to take effect on October 1, 2008 in relation to the merger of the Company and Kirin Pharma Company, Limited.

4. As described in Note18, on April 28, 2008, the Board of Directors resolved and entered into a "Basic Agreement to Integrate the Food Products Businesses of the Kyowa Hakko Group and the Kirin Group" between 4 companies (the Company, Kyowa Hakko Foods Specialties Co., Ltd., Kirin Food-Tech Company, Limited, and Kirin Holdings Company, Limited) to take effect on April 1, 2009 in relation to the establishment of a joint venture by absorption and merger of Kyowa Hakko Foods Specialties Co., Ltd. (the wholly owned subsidiary of the Company), and Kirin Food-Tech Company, Limited (the wholly owned subsidiary of Kirin Holdings Company, Limited) and also to the transfer of shares when the joint venture period has elapsed.

5. As described in Note18, the license agreement established between the Company and Amgen Inc. took effect on April 15, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 24, 2008

Ernst & Young ShinNihon

Principal Subsidiaries and Affiliates

As of March 31, 2008

Name of Company	Percentage Owned Directly or Indirectly by the Company	Capital Stock (Millions)	Principal Business
PHARMACEUTICALS			
Kyowa Medex Co., Ltd.[1]	100.0%	¥450	Manufacture and sale of diagnostic reagents
BioWa, Inc.[1]	100.0	$10	Licensing of antibody technology, development of therapeutic antibodies
Kyowa Medical Promotion Co., Ltd.[1]	100.0	¥50	Sales promotion of pharmaceuticals
BIO-CHEMICALS			
Biokyowa Inc. (U.S.A.)[1]	100.0	$20	Manufacture and sale of amino acids
Shanghai Kyowa Amino Acid Co., Ltd.[1]	70.0	CNY156	Manufacture and sale of amino acids
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, and chemicals
Kyowa Italiana Farmaceutici S.R.L. (Italy)[1]	100.0	Euro1	Sale of pharmaceuticals and fine chemicals
Kyowa Hakko (H.K.) Co., Ltd. (Hong Kong)[1]	100.0	HK$1	Sale of pharmaceuticals and amino acids
Kyowa Wellness Co., Ltd.[1]	100.0	¥30	Sale of health care products
Shinwa Pharmaceutical Co., Ltd.[1]	100.0	¥95	Manufacture and sale of herbal medicines and health foods
Kyowa Engineering Co., Ltd.[1]	100.0	¥70	Design and installation of equipment and facilities
Daiichi Fine Chemical Co., Ltd.	100.0	¥6,276	Manufacture and sale of fine chemicals
CHEMICALS			
Kyowa Hakko Chemical Co., Ltd.[1]	100.0	¥5,320	Manufacture and sale of chemicals
J-PLUS Co., Ltd.[2]	50.0	¥480	Manufacture and sale of plasticizers
Kurogane Kasei Co., Ltd.[2]	40.0	¥90	Manufacture and sale of chemicals
FOOD			
Kyowa Hakko Food Specialties Co., Ltd.[1]	100.0	¥3,000	Manufacture and sale of seasonings and bakery products and ingredients
Kyowa F.D. Foods Co., Ltd.[1]	100.0	¥100	Manufacture and sale of freeze-dried foods
Ohland Foods Co., Ltd.[1]	100.0	¥50	Manufacture and sale of foods
Riken Kagaku Co., Ltd.[1]	100.0	¥30	Manufacture and sale of seasonings and health foods
Kyowa HiFoods Co., Ltd.[1]	100.0	¥60	Import and sale of foods
Aji-Nihon Co., Ltd.[2]	46.3	¥95	Manufacture and sale of foods and seasonings
Zenmi Foods Inc.[2]	50.0	¥190	Manufacture and sale of seasonings
OTHER			
Miyako Kagaku Co., Ltd.[1]	52.9	¥111	Wholesale of pharmaceuticals, chemicals, and foods
Chiyoda Kaihatsu Co., Ltd.[1]	100.0	¥113	Transportation, trading, and insurance
Kyowa America, Inc. (U.S.A.)[1]	100.0	$58	Coordination and monitoring of subsidiaries in the United States
Japan Synthetic Alcohol Co., Ltd.[2]	33.3	¥480	Manufacture and sale of various types of alcohol

1. Consolidated subsidiary
2. Affiliate accounted for by the equity method

Overseas Network

As of June 30, 2008

AMERICAS

Kyowa America, Inc.
Princeton Commerce Center,
29 Emmons Drive, Suite C-10,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-734-3420
FAX: 1-609-734-3455

Kyowa Hakko Bio U.S. Holdings, Inc.
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

Biokyowa Inc.
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

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767 Third Avenue, 19th Floor,
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.
Princeton Commerce Center,
29 Emmons Drive, Suite C-10,
Princeton, NJ 08540, U.S.A.
TEL: 1-609-734-3420
FAX: 1-609-734-3455

Kirin-Amgen, Inc.
c/o Amgen Inc.
One Amgen Center Drive,
Thousand Oaks, CA 91320-1799
U.S.A.
TEL: 1-805-447-1000
FAX: 1-805-447-1010

Kirin Pharma USA, Inc.
9420 Athena Circle,
La Jolla, CA 92037, U.S.A.
TEL: 1-858-952-7000
FAX: 1-858-952-7001

Hematech, Inc.
4401 South Technology Drive,
Sioux Falls, SD 57106, U.S.A.
TEL: 1-605-361-6793
FAX: 1-605-361-9702

EUROPE

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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

ASIA

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260 Orchard Road, #12-04,
The Heeren, Singapore 238855
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20, Jalan SS 19/5,
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FAX: 86-21-6415-6022

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Jianshe 6 Ma Lu, Guangzhou
510060, People's Republic of China
TEL: 86-20-8364-4123
FAX: 86-20-8364-4131

Shanghai Kyowa Amino Acid Co., Ltd.
No. 158, Xintuan Road,
Qingpu Industrial Zone,
Shanghai 201700,
People's Republic of China
TEL: 86-21-5970-1988
FAX: 86-21-5970-1135

Kyowa Hakko (H.K.) Co., Ltd.
Room 1908, Hang Lung Centre,
2-20 Paterson Street, Causeway Bay,
Hong Kong, People's Republic of China
TEL: 852-2895-6795
FAX: 852-2576-6142
Guangzhou Representative Office
Room 411, China Hotel Office Tower,
Liu Hua Road, Guangzhou 510015,
People's Republic of China
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FAX: 86-20-8667-5472

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TEL: 852-2895-6795
FAX: 852-2576-6142

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Suzhou Industrial Park,
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People's Republic of China
TEL: 86-512-6283-1082
FAX: 86-512-6283-1083

Kyowa Foods (Jiangyin) Co., Ltd.
Huangtang Industrial Park,
Xiake Zhen, Jiangyin,
Jiangsu 214407,
People's Republic of China
TEL: 86-510-8653-0599
FAX: 86-510-8653-0505

Wuxi Xiehe Food Co., Ltd.
Huangtang Industrial Park,
Xiake Zhen, Jiangyin,
Jiangsu 214407,
People's Republic of China
TEL: 86-510-8653-0599
FAX: 86-510-8653-0505

Qingdao Kyowa Wanfu Foods Co., Ltd.
East of Shenzhen Road,
Laixi Qingdao 266600,
People's Republic of China
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FAX: 86-532-8840-7606

Kyowa Hakko Chemical Co., Ltd.
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Room 908, Changning District,
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TEL: 86-21-5208-0009
FAX: 86-21-5208-0130

Kirin Kunpeng (China) Bio-Pharmaceutical Co., Ltd.
970 Long Dong Road,
Z. J. High-Tech Park,
Pudong New Area, Shanghai 201203,
People's Republic of China
TEL: 86-21-5080-0909
FAX: 86-21-5080-0026

Jeil-Kirin Pharmaceutical Inc.
5F, Poonglim B/D,
823 Yeoksam-Dong, Kangnam-Ku,
Seoul, Republic of Korea
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FAX: 82-2-3471-4322

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Taipei, 10448, Taiwan
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FAX: 886-2-2560-1667

Kirin Pharmaceutical (Asia) Co., Ltd.
Unit B, 13/F, Manulife Tower,
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Hong Kong,
People's Republic of China
TEL: 852-2956-0828
FAX: 852-2956-1627

Kirin Pharmaceutical (Thailand) Co., Ltd.
2 Ploenchit Center, 6th Floor,
Sukhumvit Road, Kwaeng Klongtoey,
Khet Klongtoey, Bangkok 10110,
Thailand
TEL: 66-2254-6316
FAX: 66-2254-6316

Kirin Pharmaceutical Singapore Pte. Ltd.
c/o Steward Cross Pte Ltd.
801, Lorong 7, Toa Payoh 06-06,
Wearnes Technology Building,
319319 Singapore
TEL: 65-6253-2938
FAX: 65-6253-2438

Principal Products

PHARMACEUTICALS

Nephrology
ESPO®, NESP®, PHOSBLOCK®, REGPARA®, Rocaltrol®

Oncology
Adriacin®, Dacarbazine®, 5-FU, Farmorubicin®, Hysron®H-200, Platosin®, Leunaze®, Mitomycin, Navelbine®, GRAN®, Neu-up®, Leukoprol®, Busulfex®, Navoban®

Antihypertensive/Angina Pectoris
Coniel®, Coversyl®, Meditrans® Tape

Antiallergy
Allelock®, Celtect®, Patanol®, Propaderm®

Central Nervous System
Depakene®, Topina®, EC-Doparl®, Doparl®, Benozil®

Gastrointestinal
Nauzelin®, Glumin®, Bothdel®

Acute Care
Activacin®, Inovan®, Dobupum®, Pre Dopa®

Other Agents
Desmopressin, Hysron®, Pasetocin®, Emeradole®, ATP Kyowa

Diagnostic Reagents (IVD)
Determiner®L HDL-C, Determiner®L LDL-C, MetaboLead®RemL-C, Determiner®L HbA1c, Determiner®BNP, UROPIECE® S

BIO-CHEMICALS

Fine Chemicals for Pharmaceutical and Industrial Use
Amino Acids (L-Alanine, L-Arginine, L-Glutamine, 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, Ubidecarenone (Coenzyme Q10)

Health Care Products
Amino Acids, Vitamins, Minerals, Carotenoids, Probiotics, Peptides, Remake® series, Enguard® series

Companion Animal Health Care Products
Elendaite®, E&D Shampoo and Rinse, Amino Glutamine Kyowa (H), Green Mussel E

Agrochemicals
Plant Growth Regulators (Gibberellin, Fulmet®)

Livestock and Fisheries Products
Nanaomycin, Polyup®, Atomolate®, Benesal®, Lysozyme Chloride for Aquaculture, Ampicirin for Aquaculture

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

Alcohol
For use in refined sake, food preservatives, and disinfectants

CHEMICALS

Solvents
Butyl Alcohol, Butyl Acetate, Ethyl Acetate, Acetone, Glycol Ethers, MIBK, PM (Propylene Glycol Monomethyl Ether), PMA (Propylene Glycol Monomethyl Ether Acetate)

Raw Materials for Plasticizers
2-Ethylhexyl Alcohol, Isononyl Alcohol (INA), Isodecyl Alcohol (IDA)

Specialty Chemicals
2-Ethyl Hexanoic Acid, Isononanoic Acid,
DAAM (Diacetone Acrylamide),
High-Purity Solvents (PM-P, PMA-P, etc.),
Diols (1-3 Butylene Glycol, 2,4-DiEthyl-1,5 Pentanediol,
Butyl Ethyl Propanediol)

FOOD

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

Kokumi Seasonings
Simmerin®

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

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

Processed Foods
Instant egg-drop soup, Various food materials

Corporate Data

As of March 31, 2008

KYOWA HAKKO KOGYO CO., LTD.

Head Office

1-6-1, Ohtemachi, 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

6,073 (Parent Company: 3,617)

Date of Foundation

July 1, 1949

Paid-in Capital

¥26,745 million

Principal Plants

Domestic
Sakai, Fuji, Yamaguchi Production Center (Hofu, Ube)
Kyowa Hakko Chemical Co., Ltd. (Yokkaichi, Chiba),
Kyowa Hakko Food Specialties Co., Ltd. (Tsuchiura),
Kyowa Medex Co., Ltd. (Fuji)

Overseas
Biokyowa Inc. (U.S.A.),
Shanghai Kyowa Amino Acid Co., Ltd. (China)

Principal Laboratories

BioFrontier Laboratories
Pharmaceutical Research Center
Technical Research Laboratories
Healthcare Products Development Center
Kyowa Hakko Chemical Co., Ltd., Yokkaichi Research Laboratories
Kyowa Hakko Food Specialties Co., Ltd., Food Creation Center
Kyowa Medex Co., Ltd., Research Laboratories

Investor Information

As of March 31, 2008

Stock Listing

Tokyo

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: 399,243,555

Number of Shareholders

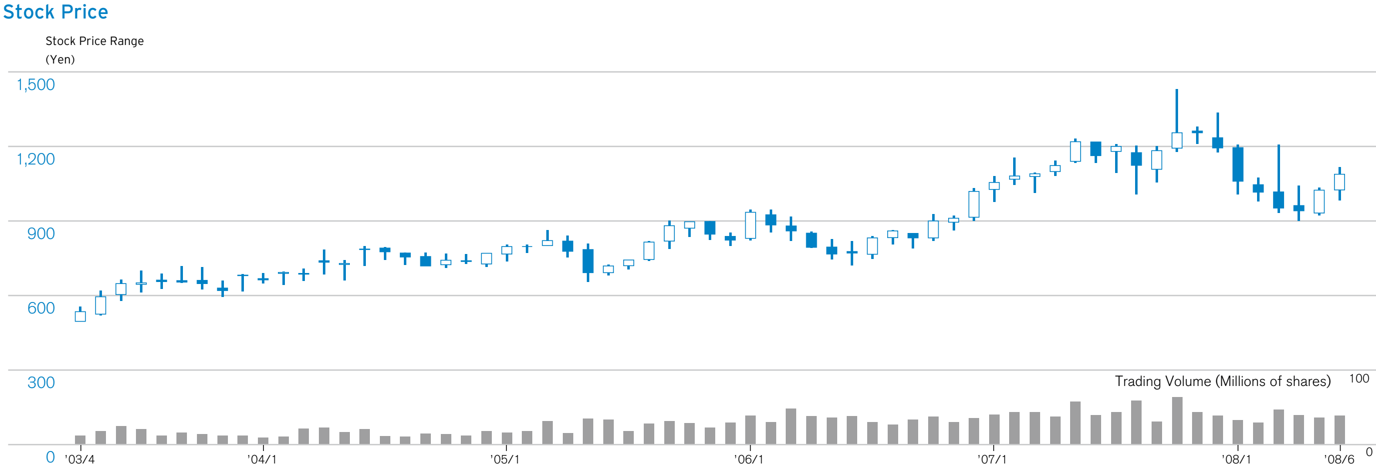
50,906

Principal Shareholders

	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Kirin Holdings Company, Limited[2]	111,579	28.06%
The Master Trust Bank of Japan, Ltd. (Trust account)	16,766	4.21
Japan Trustee Services Bank, Ltd. (Trust account)	16,190	4.07
The Dai-ichi Life Mutual Insurance Co.	14,600	3.67
The Norinchukin Bank	10,706	2.69
Mizuho Trust & Banking Co., Ltd. (Retirement Benefit Trust for Mizuho Bank, Ltd.)	4,781	1.20
Mizuho Bank, Ltd.	4,219	1.06
Japan Trustee Service Bank, Ltd. (Trust account 4)	3,770	0.94
State Street Bank and Trust Company 505103	3,718	0.93
J Toshi Jigyo Kumiai	3,633	0.91

1. The Company had 1,708 thousand shares (non-consolidated) of treasury stock as of March 31, 2008, which are not included in the above list.
2. As of April 1, 2008, Kirin Holdings holds 288, 819 thousands shares.

Stock Price



KYOWA HAKKO KOGYO CO., LTD.

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