

Kyowa Hakko Kogyo Co., Ltd.

Interim Consolidated Financial Summary Fiscal 2007 Interim

(April 1, 2007 - September 30, 2007)

This document is an English translation of parts of the Japanese-language original. All financial information has been prepared in accordance with generally accepted accounting principles in Japan. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including fluctuations in exchange rates, changing economic conditions, legislative and regulatory developments, delays in new product launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)
For the Interim Period of the Fiscal Year Ended March 31, 2008

Kyowa Hakko Kogyo Co., Ltd.

October 29, 2007

Stock Code:	4151	Listed
URL:	www.kyowa.co.jp/eng/index.cfm	exchanges: Tokyo, 1 st section
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December 17, 2007		Telephone: 813 3282-0009
Scheduled start date of dividend payment: December 3, 2007		

1. Consolidated Financial Results for the Interim Period of the Fiscal Year Ending March 31, 2008
(Amounts less than 1 million yen have been ignored)

1) Consolidated Operating Results

Millions of yen

	April 1, 2007 to September 30, 2007		April 1, 2006 to September 30, 2006		April 1, 2006 to March 31, 2007
Net sales	192,639	11.3	173,139	(2.4)	354,274
Operating income	18,246	25.2	14,570	18.4	30,698
Recurring income	18,080	19.4	15,137	5.2	30,901
Net income	11,047	177.2	3,984	(47.5)	12,694
Net income per share	¥27.77		¥9.66		¥31.32
Fully diluted net income per share	¥27.75		¥9.65		¥31.31

Note: Gain from investments in subsidiaries and affiliates accounted for by the equity method:
Interim period ended September 30, 2007: ¥502 million; Interim period ended September 30, 2006: ¥350 million;
FY ended March 31, 2007: ¥831 million

2) Consolidated Financial Position

	As of September 30, 2007	As of September 30, 2006	As of March 31, 2007
Total assets (millions of yen)	396,667	368,557	378,870
Net assets (millions of yen)	252,211	236,323	244,082
Equity ratio (%)	62.9	63.5	63.8
Net assets per share (¥)	627.70	587.62	607.49

Note: Total shareholders' equity: As of September 30, 2007: ¥249,666 million; As of September 30, 2006: ¥233,941 million;
As of March 31, 2007: ¥241,717 million

3) Consolidated Cash Flows

Millions of yen

	April 1, 2007 to September 30, 2007	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Net cash provided by operating activities	15,154	14,044	23,380
Net cash used in investing activities	(10,430)	(670)	(8,493)
Net cash used in financing activities	(11,101)	(22,197)	(24,417)
Cash and cash equivalents at end of period	30,371	37,067	36,613

2. Dividends

	FY Ended March 31, 2007	FY Ended March 31, 2008	FY Ending March 31, 2008 (forecast)
Dividend per share:			
Interim	¥5.00	¥5.00	--
Year-end	¥5.00	--	¥5.00
Annual	¥10.00	¥10.00(forecast)	

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2008

Millions of yen

	Full year	Change %
Net sales	395,000	11.5
Operating income	36,000	17.3
Recurring income.....	36,000	16.5
Net income.....	26,000	104.8
Net income per share	¥65.35	--

Note: "Change %" indicates the percentage change compared to the previous full-year.

4. Other

1) Transfer of important subsidiaries during the period (Transfers of certain subsidiaries resulting in changes in the scope of consolidation): Yes

1 company newly added (Daiichi Fine Chemical Co., Ltd.)

Note: For details, see page 11, Section 2. Group Status.

2) Changes in accounting principles, procedures and presentation in the preparation of these financial statements

(1) Changes in accordance with revision to accounting standards: Yes

(2) Other changes: Yes

3) Number of shares outstanding (ordinary shares)

(1) Number of shares outstanding at end of period (including treasury shares):

As of September 30, 2007: 399,243,555 shares; As of September 30, 2006: 434,243,555 shares;

As of March 31, 2007: 399,243,555 shares

(2) Number of treasury shares at end of period:

As of September 30, 2007: 1,491,814 shares; As of September 30, 2006: 36,128,571 shares;

As of March 31, 2007: 1,351, 220 shares

The above forecasts are based on the information available and assumptions made at the time of release of this document about a number of uncertain factors that may affect results in the future. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please refer to page 6, "(3). Forecasts for the fiscal year ending March 31, 2008".

1. Operating Results and Financial Position

I. Summary of Operating Results

(1) Operating results for the interim period of the fiscal year ending March 31, 2008

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	192.6	173.1	19.5
Operating income	18.2	14.5	3.6
Recurring income	18.0	15.1	2.9
Net income	11.0	3.9	7.0

During the interim period under review, the Japanese economy continued its moderate recovery trend, driven by robust corporate profits and an improvement in consumer spending, despite the effect of rising crude oil prices.

As regards the business environment in which the Kyowa Hakko Group operates, in the Pharmaceuticals business, in an environment characterized by reform of the Japanese National Health Insurance system based on the control of medical treatment costs, global competition in sales and new drug development became more severe as the generic drugs market expanded and major U.S. and European pharmaceutical companies intensified their activities. In the Bio-Chemicals business, global demand for core amino acids, primarily for intravenous liquids and pharmaceutical raw materials, has increased, but environmental regulations and demands for product quality have become increasingly severe. In the Chemicals business, product prices remained at high levels in both overseas and domestic markets as a result of increased oil prices. In the Food business, further emphasis was placed on initiatives to ensure food safety and security, and there was upward pressure on raw materials prices.

Against this background Kyowa Hakko implemented its ninth medium term business plan for 'Growth and Development'. In order to increase our competitiveness we initiated proactive investment for future growth, a strategic sales growth policy and comprehensive cost-cutting measures.

As a result, consolidated net sales for the interim period were ¥192.6 billion, 11.3% higher than in the interim period of the previous fiscal year. Operating income was ¥18.2 billion (up 25.2%) and recurring income was ¥18.0 billion (up 19.4%). Consolidated net income was ¥11.0 billion, an increase of ¥7 billion (177.2%) compared to the interim period of the previous fiscal year which was affected by extraordinary loss of ¥6.4 billion.

R&D expenses during the interim period were ¥18.8 billion, an increase of 23.7% compared to the first half of the previous fiscal year, and represented 9.8% of net sales.

(2) Segmental Review

Pharmaceuticals

	Billions of yen		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	68.9	65.1	3.7
Operating income	9.7	9.9	0.2

Sales of ethical pharmaceutical products were higher than in the first half of the previous fiscal year supported by primarily by strong sales of core products.

Sales of *Coniel*, a treatment for hypertension and angina pectoris, were slightly lower than in the first half of the previous fiscal year, but sales of both *Allelock* (*olopatadine hydrochloride*) an antiallergic agent and *Navelbine*, an anticancer agent increased. Meanwhile, *Patanol*, an antiallergic ophthalmic solution, launched in October 2006, has penetrated its market and contributed to sales growth.

As regards income from the licensing-out of technologies and export of pharmaceutical products, sales of antiallergic agent *Olopatadine* hydrochloride continued to perform very well.

At the Kyowa Hakko subsidiary Kyowa Medex Co., Ltd., responsible for manufacture and sale, strong performance of both diagnostic reagents and immunological reagents led to higher sales than in the previous fiscal year.

Net sales in the Pharmaceuticals business were ¥68.9 billion, an increase of 5.8% compared to the first half of last fiscal year, but a lump sum payment following the licensing in of anti-cancer drug ARQ 197 resulted in an increase in R&D expenses leading to an operating income of ¥9.7 billion, a decrease of 2.4%.

In new drug development in Japan, approval for antiepileptic *Topina* was acquired in July and sales commenced in September, 2007. Meanwhile, Phase II clinical trials for KW-6002, a treatment for Parkinson's disease, and KW-2246, an analgesic for cancer pain, as well as Phase I clinical trials for KW-0761 as a blood cancer treatment, and KW-6500, an treatment for Parkinson's disease, are in progress.

Overseas, in the U.S. we filed an NDA for the anti-Parkinson's agent KW-6002 as a adjunct therapy to *levodopa* in April, 2007 and KW-2449, an anticancer agent, is in Phase I trials. In Europe Phase I trials are progressing for therapeutic antibody KW-0761 as an antiallergenic treatment and for anticancer agent KW-2478. Meanwhile, in China, we filed an application for the additional indication of angina pectoris for *Coniel*, while *Allelock*, an antiallergic agent, is in Phase III trials.

Bio-Chemicals

	Billions of yen		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	43.8	33.3	10.4
Operating income	4.0	1.5	2.4

In the Bio-Chemicals business, sales increased 31.3%, to ¥43.8 billion, while operating income increased 157.4%, to ¥4.0 billion. Sales of pharmaceuticals and industrial use raw materials, mainly amino acid, nucleic acid, and related compounds, demonstrated strong growth driven primarily by increased overseas demand for amino acids for pharmaceutical use raw materials and intravenous liquids, and also by the effects of foreign exchange rates. In addition, Daiichi Fine Chemical, which became a consolidated subsidiary in June of this year, benefited from an improved vitamin market and contributed to a strong performance.

In healthcare products, sales increased over the first half of last fiscal year supported by factors such as steadily expanding mail-order sales of the *Remake* series.

Sales of agrochemicals and products for the livestock and fisheries industry decreased due to the effects of severe competition and the effects of low pricing. However, sales of alcohol increased as efforts to expand sales of industrial-use alcohol bore fruit.

As a result of these factors, sales in the Bio-Chemicals business increased 31.3%, to ¥43.8 billion, while operating income increased 157.4%, to ¥4.0 billion.

In R&D, focus was placed on research to raise the productivity of amino acid fermentation production as well as on the integration of Kyowa Hakko's existing fermentation technology with Daiichi Fine Chemical's synthesis technology in order to develop high value-added active pharmaceutical ingredients and pharmaceuticals intermediates.

Chemicals

	Billions of yen		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	51.0	45.8	5.2
Operating income	3.2	1.6	1.5

In Japan, firm demand underpinned an increase in shipment volumes, while revisions of core product prices were implemented as a significant rise in the naphtha and crude oil markets led to a background of higher raw materials and fuel prices. As a result, sales showed a large increase compared to the first half of the previous fiscal year. Export shipment volumes were lower than in the first half of the previous fiscal year, despite prices trending higher in overseas markets, as production of certain products declined due to difficulties at production facilities, and export sales also declined slightly.

By product category, shipment volumes of high-purity solvents to the IT industry were slightly lower than in the first half of last fiscal year due to market inventory adjustments. Sales of specialty chemicals

products were higher than in the first half of last fiscal year in Japan and overseas, supported by steady growth in core refrigerant oil raw materials.

As a result of these factors, sales in the Chemicals business net sales increased 11.4%, to ¥51.0 billion, while operating income increased by 93.6%, to ¥3.2 billion.

Food

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	20.9	20.9	(0.0)
Operating income	0.6	0.8	(0.1)

In the Food business, sales decreased 0.2%, to ¥20.9 billion, while operating income decreased 22.1%, to ¥0.6 billion. In seasonings, sales were lower than in the first half of last fiscal year partly due to the effects of adjustments to production of seasonal products due to unseasonable weather and sluggish sales of extract seasonings due to intensifying competition. Sales of *Umami* seasonings also decreased slightly as price rises following a sharp rise in the price of raw materials led to a decline in sales volumes. In bakery products and ingredients, sales of products such as core yeasts and flavor enhancers grew and sales of premixes recovered leading to an increase in sales over the first half of last fiscal year. In processed foods, sales were slightly lower than in the first half of last fiscal year, partly as a result of a decrease in OEM products.

Other

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Net sales	24.6	24.2	0.4
Operating income	0.4	0.4	(0.0)

In the Other business segment, sales increased 1.8%, to ¥24.6 billion, while operating income decreased 1.1% to ¥0.4 billion.

(3) Forecasts for the fiscal year ending March 31, 2008*

	<i>Billions of Yen</i>	
	FORECAST Fiscal Year ending March 31, 2008	% Change compared to the previous fiscal year
Net sales	395.0	+11.5%
Operating income	36.0	+17.3%
Recurring income	36.0	+16.5%
Net income	26.0	+104.8%
Net income per share	¥65.35	+108.6%

While the Japanese economy is generally expected to continue its moderate expansion, trends in crude oil prices and the outlook for the economy of the United States remain unclear and our business environment is expected to remain uncertain.

Amidst such an environment, Kyowa Hakko is targeting future growth by carrying out active investment while implementing comprehensive cost-cutting measures. We will also increase investment in marketing to expand sales as we strive to build the foundations for future profits.

In fiscal 2007, we expect increases in both revenue and profits, and we forecast net sales of ¥395.0 billion, operating income of ¥36.0 billion, recurring income of ¥36.0 billion, net income of ¥26.0 billion.

In the Pharmaceuticals business, fiscal 2007 net sales and operating income are each forecast to increase as sales volumes of core products, including *Allelock* and *Patanol*, continue to grow. We also expect increased licensing-out of technologies and export of pharmaceutical products, in particular of *Olopatadine hydrochloride*. In the Bio-Chemicals business, core amino acids, nucleic acids and related compounds are performing well, particularly in overseas markets and Daiichi Fine Chemical, newly consolidated from this fiscal year is also making a large contribution, as a result both net sales and operating income are forecast to increase.

In the Chemicals business, while we expect a large increase in sales as high crude oil prices lead to higher product prices, operating income is forecast to decline as difficulties at production facilities lead to lower shipment volumes. In the Food business, sales are forecast to increase as we actively utilize solutions-based marketing and introduce new products resulting in higher sales volumes of natural seasonings, particularly sauces. However operating income is expected to decline, partly due to higher raw materials prices. In Other business, we are forecasting an increase in revenue and a decrease in profits.

II. Summary of Financial Position

(1) Assets, Liabilities and Net Assets Summary

At the end of the interim period of the fiscal year ending March 31, 2008 total assets stood at ¥396.6 billion, an increase of ¥17.7 billion over the end of the previous fiscal year. The inclusion of Daiichi Fine Chemical as a consolidated subsidiary was a primary factor for the increase. Current assets increased by ¥6.9 billion from the end of the previous fiscal year, as a result of increases in accounts and notes receivable, inventory assets and others, despite a decrease in cash and time deposits. Fixed assets increased ¥10.8 billion from the end of the previous fiscal year, due to increases in tangible fixed assets and other items.

Liabilities increased by ¥9.6 billion to ¥144.4 billion, due to increases in current liabilities such as accounts and notes payable and accrued expenses, despite decreases in long-term liabilities such as deferred tax liabilities.

Net assets increased ¥8.1 billion over the end of the previous fiscal year to ¥252.2 billion, supported by factors such as recording net income of ¥11.0 billion for the interim period under review.

As a result of the above factors, the consolidated equity ratio at the end of the interim period was 62.9%, a decrease of 0.9 percentage points from the end of the previous fiscal year.

(2) Cash Flow Summary

<i>Billions of yen</i>			
	Consolidated results for the period ended September 30, 2007	Consolidated results for the period ended September 30, 2006	Change
Cash flows from operating activities	15.1	14.0	1.1
Cash flows from investing activities	(10.4)	(0.6)	(9.7)
Cash flows from financing activities	(11.1)	(22.1)	11.0
Cash and cash equivalents at end of period	30.3	37.0	(6.6)

Net cash provided by operating activities was ¥15.1 billion, ¥1.1 billion higher than in the previous interim period. The main contributing factor was an increase in net income before income taxes, despite an increase of ¥2.8 billion in corporate and other taxes paid and other factors.

Net cash used in investing activities was ¥10.4 billion, an increase of ¥9.7 billion from the previous interim period. This was mainly due to a payment of ¥6.0 billion for the acquisition of tangible fixed assets and a payment of ¥2.2 billion for the acquisition of shares in a subsidiary in association with changes in the scope of consolidation.

Net cash used in financing activities was ¥11.1 billion, a decrease of ¥11.0 billion from the previous interim period in which there was a payment of ¥20.5 billion for the purchase of treasury stock. The main factor was a payment of ¥8.2 billion for repayment of short-term debt.

As a result of the above factors, the balance of cash and cash equivalents as of the end of the interim period was ¥30.3 billion, a decline of ¥6.2 billion from the total of ¥36.6 billion as of the end of the previous fiscal year.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007 interim
Shareholders' equity ratio (%)	62.9	66.6	63.8	62.9
Shareholders' equity (market price base) ratio (%)	92.7	94.6	114.5	118.6
Interest bearing debt/cash flow ratio	40.5	85.4	56.2	--
Interest coverage ratio	124.4	84.8	106.3	94.0

Notes:

Shareholders' equity ratio = shareholders' equity / total assets

Shareholders' equity ratio (market price base) ratio = Market capitalization / total assets

Interest bearing debt/cash flow ratio = Interest-bearing debt / Operating cash flow (not recorded for the interim period)

Interest coverage ratio = Operating cash flow / Interest payments

* All ratios based on consolidated figures.

* Market capitalization based on number of shares issued, excluding treasury shares.

* Operating cash flow is the figure for cash flows from operating activities in the consolidated statement of cash flows.

* Of borrowings on the consolidated balance sheet, interest-bearing debt includes short and long-term borrowings.

* For interest payments, the interest payments figure in the consolidated statements of cash flows is used.

(3) Fiscal 2007 Outlook for Financial Position

Cash flows from operating activities: Payments of corporate and other taxes, etc., are expected to increase but net income before income and other taxes is expected to increase significantly compared to fiscal 2006 and so fiscal 2007 cash flows from operating activities are expected to be higher than in fiscal 2006.

Cash flows from investing activities: An inflow is expected from the sale of land used for warehousing in Nishinomiya City, Hyogo Prefecture, but the purchase of shares of Daiichi Fine Chemical in June and increased expenditure on facilities investment are expected to result in increased outflows compared to fiscal 2006.

Cash flows from financing activities: A significant decrease in outflow is expected compared to fiscal 2006, during which a total payment of ¥20.7 billion was made for the acquisition of treasury shares. Financial activities such as the procurement of funds and the repayment of borrowings will be considered flexibly in the light of economic and financial conditions.

As a result, cash and cash equivalents as of the end of fiscal 2007 are expected to be at a similar level to the end of fiscal 2006.

Note: The forecasts above are based on the information available to management on the date of their announcement. Actual results can differ materially from these projections for a wide variety of reasons.

III. Basic Policy on Profit Distribution and Fiscal 2007 dividends

Kyowa Hakko regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy while maintaining fully adequate internal reserves, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders' equity. We aim to retain sufficient reserves to make the investments in facilities and research and development that are required to fund new growth. In accordance with this basic policy we expect to pay a dividend for fiscal 2007 of ¥5 per share, the same as in the previous fiscal year. As a result, along with the interim dividend payment of ¥5 per share, the annual dividend per share for fiscal 2007 is expected to be ¥10 per share, the same as in fiscal 2006.

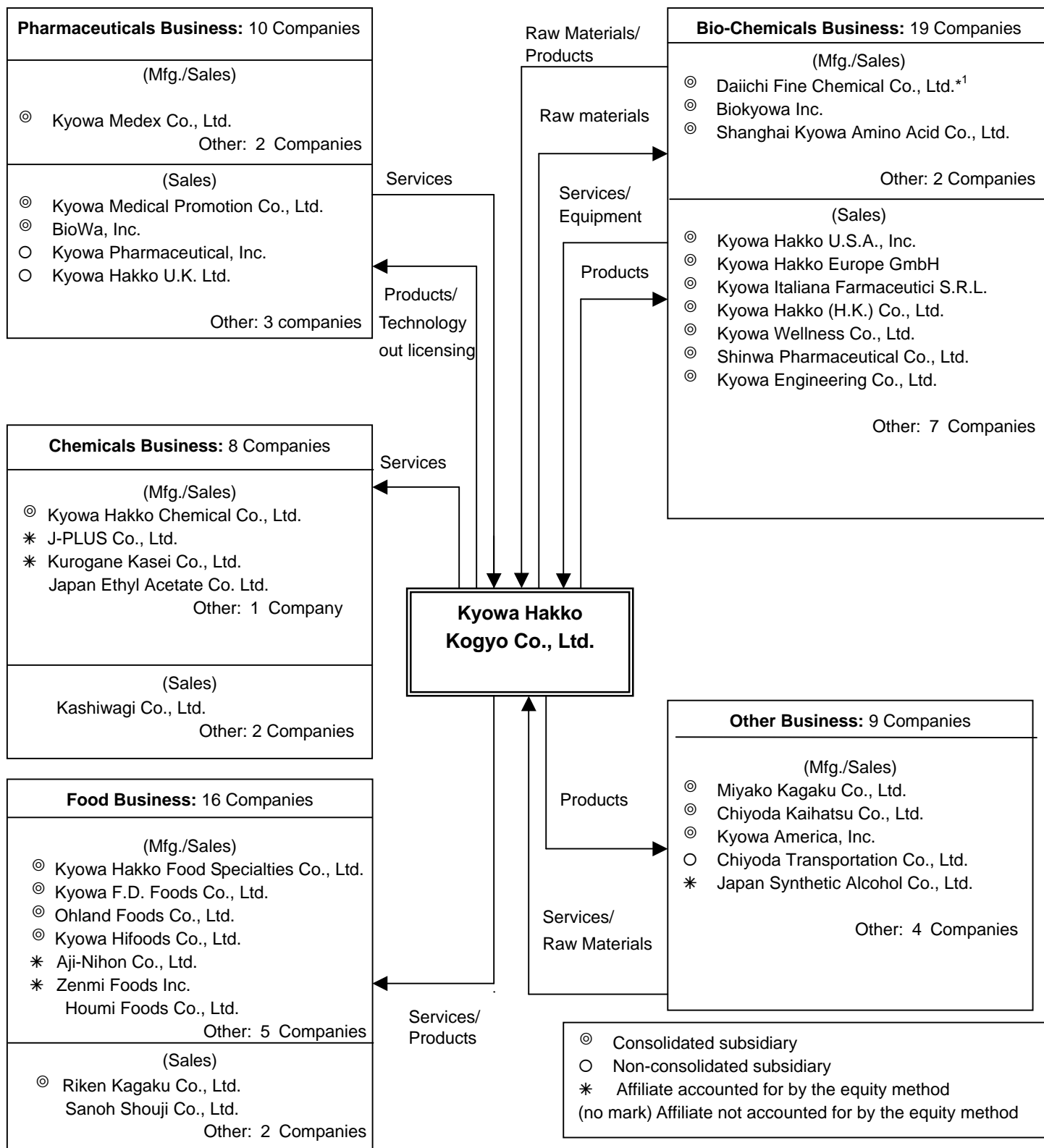
2. Group Status

The Kyowa Hakko Group is composed of the parent company (KYOWA HAKKO KOGYO CO., LTD.) also referred to as “the Company”), 42 subsidiaries and 20 affiliates. The major operating activities of the company and the main group companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Pharmaceuticals Business	<p>Prescription pharmaceuticals are manufactured and sold predominantly by the parent company and Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities of Kyowa Hakko products.</p> <p>Overseas, BioWa, Inc. pursues the out-licensing of antibody technology and development of therapeutic antibodies developed by the Company and is also involved in the strategic development of Kyowa Hakko’s therapeutic antibody business. Kyowa Pharmaceutical, Inc. handles the development in the U.S. of new drug candidates created by the parent company, and Kyowa Hakko U.K. Ltd. handles the development in Europe of new drug candidates created by the parent company and the sales of parent company products. Manufacturing and sales of diagnostic reagents are the responsibility of Kyowa Medex Co., Ltd.</p>
Bio-Chemicals Business	<p>The Company, Daiichi Fine Chemical Co., Ltd., Biokyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture raw materials for pharmaceuticals and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. These are sold directly by these three companies and also by overseas subsidiaries such as Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Italiana Farmaceutici S.R.L., and Kyowa Hakko (H.K.) Co., Ltd. Healthcare products for the domestic market are sold by Kyowa Wellness Co., Ltd. Shinwa Pharmaceutical Co., Ltd. sells herbal medicines, health foods, etc. Agrochemicals and products for the livestock and fisheries industries, and alcohol, are primarily manufactured and sold by Kyowa Hakko. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supplies equipment to Kyowa Hakko and certain related companies.</p>
Chemicals Business	<p>Chemical products such as solvents, plasticizers and their raw materials, and specialty chemicals are mainly manufactured and sold by Kyowa Hakko Chemical Co., Ltd., and partly by J-PLUS Co., Ltd., Kurogane Kasei Co., Ltd., and Japan Ethyl Acetate Co., Ltd. Kyowa Hakko Chemical Co., Ltd. also sells products provided by such companies, supplies raw materials to certain related companies, and receives services from Kyowa Hakko. The Kashiwagi Co., Ltd. primarily sells products supplied by Kyowa Hakko Chemical Co., Ltd. and goods purchased from third parties.</p>
Food Business	<p>The manufacture and sale of seasonings, bakery products and ingredients and processed foods is mainly performed by Kyowa Hakko Food Specialties Co., Ltd., and partly by Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Kyowa Hifoods Co., Ltd., Aji-Nihon Co., Ltd., Zenmi Foods Co., Ltd., and Houmi Foods Co., Ltd. Kyowa Hakko Food Specialties Co., Ltd. provides each of these companies with some of their raw materials and also sells finished products supplied by them. Kyowa Hakko Food Specialties Co., Ltd. is supplied with products and services by the Company. Sanoh Shouji Co., Ltd. is mainly involved in the sales of products supplied by Kyowa Hakko Food Specialties Co., Ltd., and of goods purchased from other companies.</p>
Other Business	<p>A number of related companies including Miyako Kagaku Co., Ltd., Chiyoda Kaihatsu Co., Ltd., and Chiyoda Unyu Co., Ltd. are responsible for activities including wholesale and distribution, and provide services and supply raw materials to Kyowa Hakko and some of its related companies.</p> <p>Kyowa America, Inc. is a U.S.-based holding company.</p> <p>In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications.</p>

Note: Unless specifically stated otherwise, in this document ‘the Group’ refers to the parent company and its 22 consolidated subsidiaries.

The flow chart on the following page shows an illustration of the Kyowa Hakko Group.



*1. On June 1, 2007 all issued shares of Daiichi Fine Chemical were acquired and the company was made into a subsidiary.

3. Management Policies

(1) Basic management policies

(2) Management targets and indicators

As there have been no significant changes to the content of above two items since they appeared in the Consolidated Financial Statements for the Fiscal Year Ended March 31, 2007, they have been omitted.

The said financial statements can be accessed from the Kyowa Hakko website:

<http://ir.kyowa.co.jp/eng/index.cfm>

(3) Medium- and long-term management policies and issues

Kyowa Hakko Group has identified the three-year period of its ninth medium-term business plan, from fiscal 2005 to fiscal 2007, as a period during which it will actively pursue investment, including research and development expenses, with the aim of achieving sustained growth, while also expanding sales of existing businesses and pursuing wide-ranging cost reductions. Through strengthening the Group's growth capabilities and competitiveness by steadily implementing this plan, we aim to further enhance corporate value.

As regards the Pharmaceuticals business, in an environment characterized by reform of the Japanese National Health Insurance system based on the control of medical treatment costs, we are facing intensified competition from European and U.S. pharmaceuticals manufacturers, and an expanding market for generic pharmaceutical products. In response, Kyowa Hakko Group will strive to strengthen its domestic sales activities to expand sales of core products, and promote research and development aimed at the early launch of anti-Parkinson agents, anticancer agents and others. We will also focus on the strategic development of the antibody business.

In the Bio-Chemicals business, amidst increased global demand for amino acids, primarily for intravenous liquids and pharmaceutical use raw materials, we will strengthen our production capabilities for core products amino acids, by introducing innovative production methods in fermentation production and expanding and improving production facilities. We will also strengthen our synthetics capabilities through the acquisition of Daiichi Fine Chemical, and are aiming to enhance our operating base, focusing mainly on active pharmaceutical ingredients and pharmaceutical intermediates.

In the Chemicals business, we aim to maintain profits in the existing bulk business supported by firmly based growth in the Chinese market, though continued high prices of fuel and raw materials are a cause for concern. With attention to environmental concerns, we are expanding the specialty chemicals business focusing on environmentally friendly products, and actively making capital investment to increase production.

In the Food business, in an environment characterized by further emphasis on initiatives to ensure food safety and security, we will focus on using our fermentation technology and other original technologies to develop distinctive new products such as natural seasonings, flavor enhancers and bread improvers, while paying full attention to product quality assurance.

We have reached an agreement with respect to a strategic alliance with Kirin Pharma Company, Limited and Kirin Holdings Company, Limited, and accordingly, on October 22 we entered into an

integration agreement and a share exchange agreement. As a result, following a share exchange on April 1, 2008, Kyowa Hakko and Kirin Pharma will merge effective October 1, 2008, with Kyowa Hakko as the surviving company. The new company created by the merger, Kyowa Hakko Kirin Co., Ltd., will aim to develop as a global top-class research and development-centered life science company based in Japan, focusing on biotechnology.

With respect to the integration of the pharmaceutical business, the core element of the strategic alliance, by combining the strengths of both Kyowa Hakko and Kirin Pharma in antibody drug technology, we aim to: improve our drug discovery capabilities; increase opportunities to acquire new antigens by improving our presence in the antibody drug field; accelerate the speed of development of antibody drugs through mutual use of antibody technologies; and actively develop overseas business. Furthermore, through this integration both companies expect that they will be able to expand the scale of their research and development, sales and so forth, develop an effective business management system, further strengthen the competitiveness and earnings base of their pharmaceutical business, and strengthen their operations base.

In addition, Kyowa Hakko Group and Kirin Group operate a number of similar non-pharmaceutical businesses (food, alcohol, mail-order sales of health food, etc.), and aim to maximize business value by proceeding with specific business integration and alliances in each of these fields.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of yen

	As of September 30, 2007	As of September 30, 2006	As of March 31, 2007
ASSETS			
Current assets:			
Cash and time deposits	24,713	22,497	28,895
Accounts and notes receivable	113,705	102,320	107,458
Marketable securities	6,994	14,993	6,998
Inventories	61,583	56,062	56,015
Deferred tax assets	6,097	4,904	5,803
Other current assets	8,331	7,992	9,281
Less: allowance for doubtful accounts	(107)	(279)	(100)
	221,319	208,490	214,352
Fixed assets:			
Tangible fixed assets			
Buildings and Structures	38,202	35,977	35,608
Machinery and equipment	30,737	23,414	24,994
Land	21,701	20,255	20,364
Construction in progress	2,920	4,692	5,123
Other	5,527	5,462	5,157
	99,089	89,802	91,248
Intangible fixed assets	605	578	510
Investments and other assets:			
Investment securities	62,208	61,096	62,387
Long-term loans	1,853	2,567	1,849
Deferred tax assets	725	406	313
Other investments and other assets	12,250	7,299	9,189
Allowance for doubtful accounts	(1,385)	(1,241)	(980)
Allowance for investment valuations	--	(443)	--
	75,653	69,684	72,759
Total Fixed Assets	175,348	160,066	164,518
Total Assets	396,667	368,557	378,870

Consolidated Balance Sheets (continued)

Millions of yen

	As of September 30, 2007	As of September 30, 2006	As of March 31, 2007
LIABILITIES			
Current liabilities:			
Accounts and notes payable	59,672	54,727	52,249
Short-term bank loans	12,660	12,969	12,822
Accrued expenses	20,106	18,427	17,556
Income taxes payable	6,942	2,617	7,079
Reserve for sales rebates	787	805	947
Reserve for sales returns	40	34	44
Reserve for sales promotion expenses	687	682	716
Reserve for periodic repairs	700	--	967
Reserve for bonuses	3,640	3,325	3,140
Other current liabilities	11,640	9,820	10,976
	116,880	103,409	106,501
Long-term liabilities:			
Long-term debt	266	12	314
Deferred tax liabilities	4,630	5,476	5,592
Retirement benefit allowance	21,496	22,266	21,402
Directors' retirement benefit allowance	194	88	108
Other long-term liabilities	987	978	868
	27,575	28,823	28,287
TOTAL LIABILITIES	144,456	132,233	134,788
NET ASSETS			
Shareholders' equity:			
Common stock	26,745	26,745	26,745
Capital surplus	43,180	43,180	43,180
Retained earnings	160,493	172,515	151,565
Treasury stock	(1,247)	(28,515)	(1,062)
Total shareholders' equity	229,171	213,924	220,428
Valuation and translation adjustments			
Valuation difference on other marketable securities	20,532	20,944	21,785
Deferred gains on hedges	(4)	5	5
Foreign exchange adjustment account	(32)	(932)	(502)
Total valuation and translation adjustments	20,495	20,016	21,289
Subscription rights to shares	104	26	65
Minority interests	2,440	2,355	2,299
Total net assets	252,211	236,323	244,082
Total liabilities and net assets	396,667	368,557	378,870

(2) Consolidated Statements of Income

Millions of yen

	April 1, 2007 to September 30, 2007	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Net sales	192,639	173,139	354,274
Cost of sales	120,526	109,999	222,844
Gross profit	72,113	63,139	131,430
Reversal of reserve for sales returns	44	38	38
Addition to reserve for sales returns	40	34	44
Adjusted gross profit	72,116	63,144	131,424
Selling, general and administrative expenses:			
Transportation	2,186	1,929	3,947
Sales promotion	4,193	3,754	8,474
Addition to reserve for sales promotion expense	687	682	716
Salaries	8,728	8,436	16,887
Bonuses	1,951	1,846	5,522
Addition to bonus reserve	1,901	1,870	1,734
Addition to allowance for directors' retirement benefits	25	20	39
Employee retirement benefit expense	758	761	1,559
Depreciation	263	456	689
Research and development	18,438	14,929	32,687
Others	14,735	13,886	28,465
	53,869	48,573	100,725
Operating income	18,246	14,570	30,698
Other income:			
Interest income	225	142	325
Dividend income	743	609	841
Currency exchange gain	--	132	349
Dividend on insurance	277	297	297
Income from equity method investments	502	350	831
Others	772	388	1,179
	2,521	1,922	3,825
Other expenses:			
Interest expense	171	107	239
Loss on foreign exchange	307	--	--
Expense on removal of fixed assets	256	122	502
Loss on sale of fixed assets	228	196	676
Loss on sale of inventories	369	193	1,047
Expenses related to idle facilities	454	--	--
Others	900	734	1,156
	2,687	1,355	3,622
Recurring income	18,080	15,137	30,901

Consolidated Statements of Income (continued)

Millions of yen

	April 1, 2007 to September 30, 2007	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Extraordinary income:			
Gain on sale of fixed assets.....	328	594	666
Gains related to disposal of affiliates shares.....	--	54	55
Realized profit on investments in securities.....	--	14	32
Reversal of allowance for doubtful accounts.....	--	14	44
	328	677	800
Extraordinary losses:			
Addition to allowance for doubtful accounts.....	406	--	--
Loss related to disposal of affiliates' shares	--	2,626	2,626
Asset impairment losses.....	--	2,405	2,405
Addition to reserve for prior year periodic repairs.....	--	--	1,016
Industrial water obligation fee	--	777	777
Expense related to early retirement support system...	--	347	389
Expense related to restructuring of affiliates.....	--	256	267
Other expenses	--	--	693
	406	6,413	8,176
Net income before income taxes.....	18,002	9,402	23,525
Corporate, local, and enterprise taxes.....	7,125	3,674	10,455
Corporate tax adjustment	(259)	1,691	413
Minority interests in consolidated subsidiaries.....	89	51	(38)
Net income	11,047	3,984	12,694

(3) Consolidated Statements of Changes in Net Assets

(April 1, 2007 to September 30, 2007)

Millions of yen

	Shareholders' Equity				
	Common stock	Capital surplus	Retained surplus	Treasury stock	Total shareholders' equity
Balances as of March 31, 2007	26,745	43,180	151,565	(1,062)	220,428
Changes during the interim period					
Dividends			(1,989)		(1,989)
Net income			11,047		11,047
Acquisition of treasury stock				(241)	(241)
Disposal of treasury stock			(26)	56	29
Decrease in retained earnings due to decrease in consolidated subsidiaries			(102)		(102)
Net changes in items other than shareholders' equity					
Total changes during the interim period:	--	--	8,928	(184)	8,743
Balances as of September 30, 2007	26,745	43,180	160,493	(1,247)	229,171

Consolidated Statements of Changes in Net Assets (continued)

Millions of yen

	Valuation, Translation Adjustments and Others				Subscription rights to shares	Minority interests	Total net assets
	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Translation adjustments	Total valuation, translation adjustments and others			
Balances as of March 31, 2007	21,785	5	(502)	21,289	65	2,299	244,082
Changes during the interim period							
Dividends							(1,989)
Net income							11,047
Acquisition of treasury stock							(241)
Disposal of treasury stock							29
Decrease in retained earnings due to decrease in consolidated subsidiaries							(102)
Net changes in items other than shareholders' equity	(1,253)	(10)	469	(793)	38	140	(614)
Total changes during the interim period:	(1,253)	(10)	469	(793)	38	140	8,129
Balances as of September 30, 2007	20,532	(4)	(32)	20,495	104	2,440	252,211

Consolidated Statements of Changes in Net Assets
(April 1, 2006 to September 30, 2006)

Millions of yen

	Shareholders' Equity				
	Common stock	Capital surplus	Retained surplus	Treasury stock	Total shareholders' equity
Balances as of March 31, 2006	26,745	43,186	170,718	(8,028)	232,621
Changes during the interim period					
Dividends			(2,114)		(2,114)
Bonuses to directors and statutory auditors			(40)		(40)
Net income			3,984		3,984
Acquisition of treasury stock				(20,529)	(20,529)
Disposal of treasury stock		(6)	(6)	21	8
Decrease in retained earnings due to increase in consolidated subsidiaries			(25)		(25)
Decrease in treasury stock due to decrease in equity-method affiliates				20	20
Net changes in items other than shareholders' equity					
Total changes during the interim period:	--	(6)	1,797	(20,487)	(18,696)
Balances as of September 30, 2006	26,745	43,180	172,515	(28,515)	213,924

Consolidated Statements of Changes in Net Assets (continued)

Millions of yen

	Valuation, Translation Adjustments and Others				Subscription rights to shares	Minority interests	Total net assets
	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Translation adjustments	Total valuation, translation adjustments and others			
Balances as of March 31, 2006	24,338	--	(1,152)	23,186	--	1,683	257,490
Changes during the interim period:							
Dividends							(2,114)
Bonuses to directors and statutory auditors							(40)
Net income							3,984
Acquisition of treasury stock							(20,529)
Disposal of treasury stock							8
Decrease in retained earnings due to increase in consolidated subsidiaries							(25)
Decrease in treasury stock due to decrease in equity-method affiliates							20
Net changes in items other than shareholders' equity	(3,394)	5	219	(3,169)	26	671	(2,471)
Total changes during the interim period:	(3,394)	5	219	(3,169)	26	671	(21,167)
Balances as of September 30, 2006	20,944	5	(932)	20,016	26	2,355	236,323

Consolidated Statements of Changes in Net Assets

(April 1, 2006 to March 31, 2007)

Millions of yen

	Shareholders' Equity				
	Common stock	Capital surplus	Retained surplus	Treasury stock	Total shareholders' equity
Balances as of March 31, 2006	26,745	43,186	170,718	(8,028)	232,621
Changes during the fiscal year					
Dividends			(4,105)		(4,105)
Bonuses to directors and statutory auditors			(40)		(40)
Net income			12,694		12,694
Acquisition of treasury stock				(20,755)	(20,755)
Disposal of treasury stock		(6)	(5)	29	18
Retirement of treasury stock			(27,671)	27,671	--
Decrease in retained earnings due to increase in consolidated subsidiaries			(25)		(25)
Decrease in treasury stock due to decrease in equity-method affiliates				20	20
Net changes in items other than shareholders' equity					
Total annual change:	--	(6)	(19,152)	6,966	(12,193)
Balances as of March 31, 2007	26,745	43,180	151,565	(1,062)	220,428

Consolidated Statements of Changes in Net Assets (continued)

Millions of yen

	Valuation, Translation Adjustments and Others				Subscription rights to shares	Minority interests	Total net assets
	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Translation adjustments	Total valuation, translation adjustments and others			
Balances as of March 31, 2006	24,338	--	(1,152)	23,186	--	1,683	257,490
Changes the fiscal year							
Dividends							(4,105)
Bonuses to directors and statutory auditors							(40)
Net income							12,694
Acquisition of treasury stock							(20,755)
Disposal of treasury stock							18
Retirement of treasury stock							--
Decrease in retained earnings due to increase in consolidated subsidiaries							(25)
Decrease in treasury stock due to decrease in equity-method affiliates							20
Net changes in items other than shareholders' equity	(2,553)	5	650	(1,896)	65	615	(1,215)
Total annual change:	(2,553)	5	650	(1,896)	65	615	(13,408)
Balances as of March 31, 2007	21,785	5	(502)	21,289	65	2,299	244,082

(4) Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2007 to September 30, 2007	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Cash flows from operating activities:			
Income before income taxes.....	18,002	9,402	23,525
Depreciation and amortization	6,722	4,686	10,006
Asset impairment losses	--	2,405	2,405
Decrease in retirement benefit allowance.....	(488)	(2,252)	(3,123)
(Increase) decrease in prepaid annuity expenses	(1,689)	--	--
Increase (decrease) in reserve for bonus payments....	229	21	(162)
Increase (decrease) in allowance for bad debts	306	176	(274)
Interest and dividend income.....	(968)	(752)	(1,167)
Interest expenses	171	107	239
Income from equity method investments	(502)	(350)	(831)
Gain on sales of tangible fixed assets	(105)	(407)	(82)
(Gain) loss on sales of marketable securities	(0)	2,557	2,537
Employees' early retirement expenses	--	347	389
(Increase) decrease in trade receivables.....	(1,445)	(4,279)	(9,274)
(Increase) decrease in inventories.....	(1,115)	62	38
Increase in trade payables.....	4,290	7,462	4,689
Others.....	(1,516)	(625)	749
Sub-total	21,890	18,561	29,666
Interest and dividend income.....	1,187	869	1,469
Interest payments	(161)	(104)	(219)
Payment of premium severance for early retirement...	--	(337)	(528)
Corporate etc. tax payments	(7,762)	(4,944)	(7,007)
Net cash provided by operating activities	15,154	14,044	23,380

Consolidated Statements of Cash Flows (continued)

Millions of Yen

	April 1, 2007 to September 30, 2007	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Cash flows from investing activities:			
Payments for purchase of property, plant & equipment	(6,081)	(4,806)	(13,040)
Proceeds from sale of property, plant, and equipment.....	508	687	1,632
Payments for purchase of investment securities	(1,148)	(35)	(68)
Proceeds from sale of investment securities	5	3,910	3,951
Payments for the purchase of subsidiaries' shares	(2,263)	--	--
Net increase in short-term loans receivable.....	(10)	(82)	(117)
Increase in long-term loans receivable	24	3	23
Others.....	(1,465)	(347)	(875)
Net cash (used in) provided by investing activities..	(10,430)	(670)	(8,493)
Cash flows from financing activities:			
Net (decrease) increase in short-term debt	(8200)	461	169
Proceeds from long-term borrowing.....	--	--	281
Repayment of long-term debt	(663)	(5)	(7)
Payment for purchase of treasury stock	(241)	(20,529)	(20,755)
Proceeds from sale of treasury stock.....	9	8	18
Dividends paid	(1,987)	(2,113)	(4,105)
Dividends paid to minority interests	(18)	(18)	(18)
Net cash used in financing activities	(11,101)	(22,197)	(24,417)
Cash and cash equivalents translation differences..	307	(16)	238
Increase in cash and cash equivalents.....	(6,096)	(8,838)	(9,292)
Cash and cash equivalents at the beginning of the period	36,613	45,820	45,820
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	--	85	85
Decrease in cash and cash equivalents, from eliminations from consolidation	(172)	--	--
Cash and cash equivalents at the end of the period.....	30,371	37,067	36,613

5. Segment information

(1) Segment information by business type

Interim period: April 1, 2007– September 30, 2007

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales:								
(1) Sales to external customers	68,515	39,277	47,329	19,025	18,491	192,639	--	192,639
(2) Inter-segment sales and transfers	385	4,530	3,715	1,921	6,156	16,709	(16,709)	--
Total	68,900	43,808	51,045	20,947	24,647	209,349	(16,709)	192,639
Operating expenses	59,166	39,763	47,769	20,272	24,190	191,163	(16,709)	174,392
Operating income	9,733	4,045	3,275	674	456	18,185	61	18,246

Previous interim period: April 1, 2006 – September 30, 2006

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales:								
(1) Sales to external customers	64,978	28,128	43,047	18,972	18,012	173,139	--	173,139
(2) Inter-segment sales and transfers	142	5,230	2,789	2,025	6,194	16,382	(16,382)	--
Total	65,120	33,358	45,837	20,997	24,207	189,521	(16,382)	173,139
Operating expenses	55,149	31,786	44,145	20,132	23,744	174,959	(16,390)	158,568
Operating income	9,970	1,571	1,692	865	462	14,562	8	14,570

Previous fiscal year: April 1, 2006 - March 31, 2007

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales:								
(1) Sales to external customers	130,878	57,055	92,098	38,446	35,794	354,274	--	354,274
(2) Inter-segment sales and transfers	646	10,065	6,550	4,142	12,686	34,091	(34,091)	--
Total	131,525	67,121	98,649	42,589	48,480	388,365	(34,091)	354,274
Operating expenses	115,779	63,008	90,676	40,757	47,512	357,733	(34,158)	323,575
Operating income	15,745	4,112	7,973	1,831	968	30,631	66	30,698

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko group. The main products of each segment are as follows:

Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

Bio-chemicals: Pharmaceutical and industrial-use raw materials, healthcare products, products for livestock and fisheries industries, and alcohol

Chemicals: Solvents, plasticizer raw materials and specialty chemicals

Food: Seasonings, bakery products and ingredients, and processed food

Other: Wholesale and distribution

2. Using the method prior to the changes made to the depreciation method of tangible fixed assets, operating income for the consolidated interim financial period ending March 31, 2008 would decline in each segment and would be recorded as follows: Pharmaceuticals: ¥43 million; Bio-Chemicals: ¥29 million; Chemicals: ¥67 million; Food: ¥8 million; Other: ¥0 million.

(2) Segment information by location

April 1, 2007– September 30, 2007

As Japan represents over 90% of total sales this information is omitted.

April 1, 2006 – September 30, 2006

As Japan represents over 90% of total sales this information is omitted.

April 1, 2006 – March 31, 2007

As Japan represents over 90% of total sales this information is omitted.

(3) Overseas Sales

April 1, 2007– September 30, 2007

Millions of yen

	America	Europe	Asia	Other regions	Total
(1) Overseas sales	15,154	10,417	13,780	251	39,604
(2) Consolidated sales					192,639
(3) Overseas sales as a percentage of consolidated sales	7.9	5.4	7.2	0.1	20.6

April 1, 2006 – September 30, 2006

Millions of yen

	America	Europe	Asia	Other regions	Total
(1) Overseas sales	11,732	8,042	12,352	266	32,393
(2) Consolidated sales					173,139
(3) Overseas sales as a percentage of consolidated sales	6.8	4.6	7.1	0.2	18.7

April 1, 2006– March 31, 2007

Millions of yen

	America	Europe	Asia	Other regions	Total
(1) Overseas sales	19,363	15,789	28,618	424	64,196
(2) Consolidated sales					354,274
(3) Overseas sales as a percentage of consolidated sales	5.5	4.5	8.1	0.1	18.1

Notes:

1. The regions have been classified geographically.
2. Regions other than Japan are as follows:
America..... North America and Latin America
Europe..... All of Europe
Asia.....All of Asia
Other Regions.... Oceania and Africa
3. Overseas sales comprise sales by Kyowa Hakko and its consolidated subsidiaries to customers outside of Japan.