Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

Fiscal 2007

(April 1, 2007 - March 31, 2008)

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 Fiscal Year Ended March 31, 2008

Kyowa Hakko Kogyo Co., Ltd. **April 28, 2008**

Stock Code:	4151	Listed exchanges:	Tokyo, 1st section
URL:	www.kyowa.co.jp	Inquiries:	Tetsuro Kuga, General Manager
President	Yuzuru Matsuda		Corporate Communications Department
			Telephone: 813 3282-0009

Scheduled date of General Meeting of Shareholders: June 24, 2008
Scheduled date of submission of Securities Report: June 24, 2008
Scheduled start date of dividend payment: June 25, 2008

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2008

(Amounts less than 1 million yen have been ignored)

1) Consolidated Operating Results

Millions of yen

	FY Ended March 31, 2008		FY Ended March 31, 2007	
		Change (%)		Change (%)
Net sales	392,119	10.7	354,274	0.2
Operating income	39,390	28.3	30,698	20.2
Recurring income	37,996	23.0	30,901	9.5
Net income	23,477	84.9	12,694	(22.0)
Net income per share (¥)	¥59.03		¥31.32	
Fully diluted net income per share (¥)	¥58.99		¥31.31	
Return on equity (%)	9.5%		5.1%	
Recurring income to total capital ratio (%)	9.8%		8.1%	
Operating income to sales ratio (%)	10.0%		8.7%	

Notes: 1. "Change %" indicates the percentage change compared to the comparable period of the previous fiscal year.
2. Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY ended March 31, 2008: ¥1,125 million FY ended March 31, 2007: ¥831 million

2) Consolidated Financial Position

	As of March 31, 2008	As of March 31, 2007
Total assets (millions of yen)	394,081	378,870
Net assets (millions of yen)	256,758	244,082
Equity ratio (%)	64.5%	63.8%
Net assets per share (¥)	¥639.69	¥607.49

Note: Shareholders' equity: FY ended March 31, 2008: ¥254,289 million; FY ended March 31, 2007: ¥241,717 million

3) Consolidated Cash Flows

Millions of yen

	FY Ended March 31, 2008	FY Ended March 31, 2007
Net cash provided by operating activities	30,713	23,380
Net cash used in investing activities	(9,492)	(8,493)
Net cash used in financing activities	(13,499)	(24,417)
Cash and cash equivalents at end of period	44,118	36,613

2. Dividends

	FY Ended March 31, 2007	FY Ended March 31, 2008	FY Ending March 31, 2009 (forecast)
Dividend per share:			
Interim	¥5.00	¥5.00	¥10.00
Year-end	¥5.00	¥5.00	¥10.00
Annual	¥10.00	¥10.00	¥20.00
Total annual dividend amount (millions of yen)	¥3,980	¥3,976	--
Dividend payout ratio	31.9%	16.9%	41.1%
Ratio of dividends to net assets	1.6%	1.6%	--

3. Consolidated Results Forecasts for the Fiscal Year Ending March 31, 2009

Millions of yen

	Interim		Full year	
		Change %		Change %
Net Sales	245,000	27.2	490,000	25.0
Operating income.......................	31,000	69.9	57,000	44.7
Recurring income.......................	31,000	71.5	56,000	47.4
Net income................................	16,000	44.8	28,000	19.3
Net income per share	¥27.84		¥48.72	

Note: "Change %" indicates the percentage change compared to the previous full year for full-year forecasts and the previous period for interim forecasts.

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 15, 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):

March 31, 2008: 399,243,555 shares March 31, 2007: 399,243,555 shares

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

March 31, 2008: 1,723,184 shares 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 8, "2. Outlook for Fiscal 2008".

Consolidated outlook for the fiscal year ending March 31, 2009

As a result of the an exchange of shares between Kyowa Hakko and Kirin Pharma that occurred on April 1, 2008, Kirin Pharma became a consolidated subsidiary. Accounting regulations for business integration deems the share exchange a reverse acquisition and therefore the financial statements for the consolidated fiscal year ending March 31, 2009 will be prepared assuming that Kyowa Hakko has been acquired by Kirin Pharma and in accordance with current accounting regulations, goodwill is expected to arise.

Accordingly, as a result of the reverse acquisition, the forecasted amounts for depreciation of goodwill (Consolidated interim forecast: ¥4,750 million; consolidated full year forecast ¥9,500 million) are included in 2. *Outlook for fiscal 2008 on page 8.*

Regarding the forecasted net income per share, calculations were based on a total of 574,760,371 shares which equals the 576,483,555 outstanding shares at the end of the period, a figure that includes the 177,240,000 increase of shares following the exchange of shares, less the 1,723,184 treasury shares at the end of the period.

1. Operating Results and Financial Position

I. Summary of Operating Results

1) Operating results for the fiscal year ended March 31, 2008

Billions of yen

	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	392.1	354.2	37.8
Operating income	39.3	30.6	8.6
Recurring income	37.9	30.9	7.0
Net income	23.4	12.6	10.7

During the consolidated fiscal year under review, the Japanese economy continued to recover against a background of improvements in corporate profits. However, in the second half of the fiscal year we saw the upward momentum halt due to a steep rise in the price of raw materials and anxiety in the US economy stemming from the sub-prime problem.

The business environment in which Kyowa Hakko Group operates, in the Pharmaceuticals business was as follows. In an environment characterized by reform of the Japanese National Health Insurance system to control medical treatment costs, global competition in markets 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, and in an effort to achieve the goals in the final fiscal year of our ninth-medium term business plan for net sales of ¥350.0 billion and operating income of ¥34.0 billion, Kyowa Hakko expanded sales through existing businesses and implemented a strategic sales growth policy as well as implementing comprehensive cost-cutting measures endeavoring to enhance competitiveness.

Consolidated net sales in the fiscal year ended March 31, 2008 were ¥392.1 billion, an increase of 10.7% from the previous year. Operating income was ¥39.3 billion, an increase of 28.3%; recurring income was ¥37.9 billion, an increase of 23.0%; and net income was ¥23.4 billion, an increase of 84.9%. Consolidated R&D expenses for the period were ¥34.1 billion, an increase of 2.3%, and the R&D expense to net sales ratio was 8.7%, a decrease of 0.7 percentage points.

2) Segmental Review

Pharmaceuticals

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	138.3	131.5	6.8
Operating income	19.9	15.7	4.2

In the pharmaceuticals business in Japan net sales were higher than the previous fiscal year, supported by higher sales of anti-allergic and other products.

Results benefited from higher sales of products such as *Allelock*, an antiallergic agent, *Patanol*, an antiallergic ophthalmic solution, and *Depakene*, an anti-epileptic agent, despite a decline in sales of products such as *Coniel*, a treatment for hypertension and angina pectoris. The antiepileptic *Topina*, which was launched in September 2007, also contributed to the growth in sales. In the licensing-out of technologies and export of pharmaceutical products, sales of antiallergic agent *Olopatadine hydrochloride* that are outlicensed to Alcon Laboratories, Inc. continued to perform very well.

As a result, net sales in the pharmaceuticals business increased 5.2% to ¥138.3 billion, while operating income increased 26.8% to ¥19.9 billion.

In new drug development in Japan, KW-2246, an analgesic for cancer pain, completed Phase II clinical trials. Kyowa Hakko is also carrying out Phase II clinical trials on KW-6002, an anti-Parkinson's disease treatment, KW-6500, also an anti-Parkinson's disease treatment, and KW-7158, a candidate treatment for irritable bowel syndrome. KW-0761, a therapeutic antibody that utilizes our Potelligent® technology, is in Phase I clinical trials as a blood cancer treatment, and KW-3357, an agent for inhibiting blood coagulation, and ARQ 197, an anticancer agent for the treatment of malignant tumors that was inlicensed from U.S. drug development company ArQule in April 2007, are also in Phase I clinical trials. In addition, inflammatory bowel disease agent *Asacol*, which Kyowa Hakko is jointly developing with Zeria Pharmaceutical Co., Ltd., has completed Phase II clinical trials and preparations have been made for application for its approval as a new drug.

Overseas, the U.S. Food and Drug Administration (FDA) informed Kyowa Hakko in February 2008 that it could not grant approval as of that time for anti-Parkinson's disease treatment KW-6002, for which Kyowa Hakko has applied for approval as a new drug in the United States. Kyowa Hakko has decided to consider its development policy for this treatment while proceeding with discussions with the FDA. In addition, Kyowa Hakko decided in March 2008 to outlicense KW-0761, which is in Phase I trials as a therapeutic antibody in Europe, to major U.S. biotechnology company Amgen. Furthermore, Phase I clinical trials are underway in the United States for anti-cancer agent KW-2449 and in Europe for anti-cancer agent for malignant tumors KW-2478. Meanwhile, in China, application was made in July 2007 for approval for additional indications for *Coniel* as a treatment for angina pectoris, and Phase III clinical trials are underway for *Allelock,* an antiallergic agent.

Bio-Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	86.8	67.1	19.6
Operating income	9.6	4.1	5.5

The major increase in sales was attributable to stronger overseas demand for raw materials for pharmaceuticals and industrial use, particularly amino acids, nucleic acids and related compounds, as well as increased sales in Japan of raw materials for generic pharmaceuticals. The inclusion of Daiichi Fine Chemical as a consolidated subsidiary also contributed. In healthcare products, sales increased from the previous fiscal year, due to steady growth in sales in overseas markets of amino acids used as dietary supplements and in mail-order sales in Japan of the *Remake* series, although Kyowa Hakko did not escape the impact of sluggish growth in the Japanese health food industry.

Sales of agrochemicals and products for the livestock and fisheries industry decreased due to sluggishness caused by the steep rise in the price of feed and the effects of increased competition in overseas agrochemical markets.

As a result net sales in the Bio-Chemicals business increased 29.3% to ¥86.8 billion, while operating income increased 135.6% to ¥9.6 billion.

In R&D, Kyowa Hakko continued to pursue research in fermentation production technology aimed at reducing the production cost of amino acids and nucleic acids and related compounds as well as promote process research for Daiichi Fine Chemical's synthesis technology. Further, there was a continued focus on developing applications and searching for functionalities for a wide-range of amino acids and other compounds at the Healthcare Products Development Center.

Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	108.0	98.6	9.3
Operating income	7.1	7.9	(0.8)

In Japan, firm demand from the car industry and others underpinned a slight increase in shipment volumes, while core product prices were revised against a background of higher raw materials and fuel prices accompanying continued high crude oil and naphtha prices, leading to a large increase in sales compared to last fiscal year. Export shipment volumes were lower, 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, sales volumes of high-purity solvents increased, driven by sales to the electronics materials industry. Sales in Japan and overseas of specialty chemicals products were slightly higher than in the previous fiscal year, supported by steady growth in core refrigerant oil raw materials.

As a result net sales in the Chemicals business increased 9.5% to ¥108.0 billion, while operating income decreased 10.1% to ¥7.1 billion.

Food

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	43.3	42.5	0.7
Operating income	1.5	1.8	(0.2)

In seasonings, sales of natural seasonings were broadly in line with the previous fiscal year, supported by expanding sales of fermented seasonings and despite sluggish sales of extract seasonings amidst a difficult environment of sharply rising prices of raw materials and other factors. Increased demand for *Umami* seasonings also contributed to higher sales.

In bakery products and ingredients, sales were higher than in the previous year, supported by sales of products such as core yeasts and flavor enhancers and despite the suspension of sales of certain products due to factors such as the rapidly increasing prices of raw materials. Processed foods also contributed to growth in sales, partly due to an increase in sales of OEM products.

As a result net sales in the Food business sales increased 1.7% to ¥43.3 billion, while operating income decreased 13.9% to ¥1.5 billion.

Other

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Net sales	48.9	48.4	0.5
Operating income	0.8	0.9	(0.1)

In the Other business segment, sales increased 1.1% to ¥48.9 billion, while operating income decreased 13.4% to ¥0.8 billion.

2. Outlook for Fiscal 2008

	Billions of yen		%
	FORECAST Fiscal Year ending March 31, 2009	Change compared to the previous fiscal year	
Net sales	490.0	97.8	+25.0%
Operating income	57.0	17.6	+44.7%
Recurring income	56.0	18.0	+47.4%
Net income	28.0	4.5	+19.3%

(These figures assume an average exchange rate of ¥110 to the U.S. dollar and ¥160 to the Euro)

The Japanese economy is generally expected to continue to decelerate as economic sentiment begins to level off due to factors such as a rapid rise in the cost of raw materials and fuels and anxiety in the U.S. economy stemming from the sub prime problem. Corporate profits, meanwhile, are expected to weaken.

In fiscal 2008, we expect large increases in sales and profits, mainly due to integration with Kirin Pharma. We forecast net sales to increase by 25.0% to ¥490.0 billion and operating income to increase by 44.7% to ¥57.0 billion. Recurring income is forecast to grow by 47.4% to ¥56.0 billion and net income to increase by 19.3% to ¥28.0 billion. Further, a forecasted ¥95 million yen in amortization of goodwill for operating income, recurring income and net income following integration have been included.

In the Pharmaceuticals business, despite the challenging environment resulting from reductions in prescription pharmaceuticals prices that were implemented in April, we are forecasting that fiscal 2008 net sales and operating income will each increase significantly, as a result of factors such as Kyowa Hakko's integration with Kirin Pharma. Furthermore, we expect revenues to benefit from growth in sales of core products *Allelock* and *Patanol,* the commencement of sales of *Coversyl*, an ACE inhibitor for treatment of hypertension in-licensed from Daiichi Sankyo, and a one-off contract payment for the outlicensing of KW-0761 to Amgen, although we expect sales of *Durotep*, an analgesic for persistent cancer pain, to decline due to the completion of the term of a joint sales contract.

In the Bio-Chemicals business, we are forecasting an increase in sales due to expected growth in the health care domain, particularly in amino acids, for which we are pursuing an active sales expansion strategy, and in mail-order sales of the *Remake Series*. However, we are forecasting a slight decrease in operating income, as we expect an increase in SG&A expenses such as R&D expenses and amortization of goodwill.

In the Chemicals business, we are forecasting an increase in sales, as we expect product prices to remain high against the backdrop of high prices for raw materials and fuel. However, we are forecasting a decrease in operating income, due partly to an expected increase in depreciation expenses.

In the Food business, we are forecasting an increase in sales volumes of natural seasonings for the prepared food and restaurant markets, but we expect sales to be almost the same level as last fiscal year, partly as a result of a revision in the items we sell, and we expect operating income to decrease, partly due to amortization of goodwill.

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

II. Summary of Financial Position

1) Assets, Liabilities, and Net Assets

Total assets at the close of fiscal 2007 stood at ¥394.0 billion, ¥15.2 billion higher than at the end of the previous fiscal year. Current assets increased by ¥18.3 billion as a result of an increase in Cash and cash equivalents, inventories and other items. Fixed assets decreased by ¥3.0 billion due to a decrease in investment securities caused by declines in the share prices of holdings of listed equity securities and despite an increase in tangible fixed assets following the consolidation of Daiichi Fine Chemicals.

Liabilities increased by ¥2.5 billion to ¥137.3 billion due to an increase in current liabilities such as accrued expenses and income taxes payable, as despite a decline in long-term liabilities such as deferred tax liabilities. Net assets at the end of the period increased ¥12.6 billion to ¥256.7 billion as a result of recording ¥23.4 billion in net income and other factors. As a result, the consolidated equity ratio as of the end of the fiscal year was 64.5%, an increase of 0.7 percentage points compared to the end of the previous fiscal year.

2) Cash Flow Summary

	Billions of yen		
	Consolidated results for the period ended March 31, 2008	Consolidated results for the period ended March 31, 2007	Change
Cash flows from operating activities	30.7	23.3	7.3
Cash flows from investing activities	(9.4)	(8.4)	(0.9)
Cash flows from financing activities	(13.4)	(24.4)	10.9
Cash and cash equivalents at end of period	44.1	36.6	7.5

Net cash provided by operating activities was ¥30.7 billion, ¥7.3 billion higher than in the previous fiscal year. The main reason for this was an increase in net income before income taxes, despite an increase in the amount of corporate and other taxes paid compared to the previous fiscal year.

Net cash used in investing activities was ¥9.4 billion, ¥0.9 billion more than in the previous fiscal year. The main outflows included ¥14.4 billion for the acquisition of tangible fixed assets and ¥2.2 billion for the acquisition of shares in subsidiaries following changes to the scope of consolidation but these were partially offset by an inflow of ¥7.2 billion from the sale of tangible fixed assets.

Net cash used in financing activities was ¥13.4 billion, due to factors such as a ¥8.3 billion repayment of short-term bank loans, however cash outflow decreased ¥10.9 billion compared to the previous fiscal year in which a ¥20.7 billion payment for the acquisition of treasury shares was incurred.

As a result of the above factors, the balance of cash and cash equivalents as of March 31, 2008 was ¥44.1 billion, an increase of ¥7.5 billion from the ¥36.6 billion balance at the end of the previous fiscal year.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Shareholders' equity ratio (%)	62.3	62.9	66.6	63.8	64.5
Shareholders' equity (market price base) ratio (%)	82.1	92.7	94.6	114.5	96.0
Interest bearing debt/ Cash flow ratio (%)	39.0	40.5	85.4	56.2	41.6
Interest coverage ratio (times)	31.7	124.4	84.8	106.3	100.3

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

*All ratios based on consolidated figures.
*Market capitalization is based on the number of shares issued and outstanding at the end of the period (excluding treasury stock).
*Operating cash flow is the figure for cash flows from operating activities in the consolidated statements of cash flows.
*Of the borrowings on the consolidated balance sheet, interest-bearing debt includes short-term and long-term borrowings.
*For interest payments, the Interest payments figure in the consolidated statements of cash flows is used.

3) Fiscal 2008 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 compared to fiscal 2007 and so fiscal 2008 cash flows from operating activities are expected to be higher than in fiscal 2007.

Cash flows from investing activities: Results for fiscal 2008 are expected to remain largely the same as the for fiscal 2007.

Cash flows from financing activities: An increased payment for dividends is expected compared to fiscal 2007. Financial activities, such as the procurement of funds and 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 2008 are expected to be at a higher level than at the end of fiscal 2007.

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

III. Basic Policy on Profit Distribution and Fiscal 2008 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. Kyowa Hakko aims to retain sufficient reserves to make the investments in facilities and research and development that are required to fund new growth.

In accordance with this basic policy we expect to pay a final 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.

As of the fiscal year ended March 31, 2008 and in accordance with the Kyowa Hakko Kirin Group 2008-2010 medium-term business plan, we are targeting dividend payout ratio of 30% or more (based on goodwill before amortization). For the fiscal year ending March 31, 2009, we expect to pay an annual dividend of ¥20 per share, consisting of an interim dividend payment of ¥10 per share, and a year-end dividend of ¥10 per share.

IV. Business Risks and Other Risks

With respect to Kyowa Hakko Group's business performance and financial position, the major risks that may significantly affect investors' judgments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the judgment of Kyowa Hakko Group as of the end of fiscal year to March 31, 2008.

Risks associated with the operating environment in the domestic pharmaceutical industry

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

In addition, the Kyowa Hakko Group's business performance and financial position could also be affected by factors including future trends in the reform of Japan's system of medical treatment aimed at controlling the costs of medical treatment, and intensified competition resulting from the entry of foreign pharmaceutical companies into the Japanese market.

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

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

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

Risks related to Intellectual Property Assets

A basic management strategy of Kyowa Hakko Group is to create new products and new technologies based on research and development and we strive to accumulate technologies and acquire intellectual property rights in order to differentiate our Group from other companies. In an environment in which R&D and business activities, including alliances with other companies, are globalizing, the risk that technologies and expertise independently developed by Kyowa Hakko Group could leak outside the Group is increasing. In this environment we are strengthening our information administration system but where we cannot appropriately protect and control our intellectual property assets we may experience adverse effects on our competitive position.

Furthermore, as the Group is focusing on new areas of R&D including the creation of innovative new drugs we may be admonished or subject to litigation for infringing the intellectual property rights of others. As a result of such litigation Kyowa Hakko Group may be required to cease such activities, pay large sums in compensation or settlement, and our business activities, business performance and financial position may be adversely affected.

Furthermore, even in cases where Kyowa Hakko and certain of its consolidated subsidiaries have decided to pay appropriate compensation based on internal regulations to employees in respect of patents and other intellectual property developed by them in the course of their duties, employees and others may, even after their retirement consider such payments inadequate and may possibly institute litigation in these respects.

Legal regulation risks

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

In such cases, the Group's business performance and financial position could be negatively impacted. Furthermore, in the future, if laws and regulations that must be observed in Japan and overseas change, the Group's business performance and financial position could be adversely affected.

Risk of defective products

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

Disaster-related and accident-related risks

To minimize the negative effects of halting manufacturing line activities, The Group conducts periodic disaster prevention tests and facility maintenance for all of its production line facilities. However, there is no guarantee that the Group will be able to completely prevent events that interrupt production, such as accidents, electricity outages, and boiler stoppages. For example, in Shizuoka Prefecture a major earthquake or other incident could halt production in Kyowa Hakko's Fuji Plant, which produces ethical pharmaceutical products. In preparation for such an event the production system at our Ube plant in Yamaguchi is capable of substitute production of certain products. However, depending upon the extent of the damage to the Fuji plant, our production capacity for ethical pharmaceutical products could be severely reduced.

Also, the petrochemical products and alcohol manufactured by the Group are dangerous materials that are extremely flammable. In regard to these products, the Group pays particular attention to safety in its daily production activities; however, in the event of an accident caused by any of a variety of reasons, damage could be caused not only to production facilities but also to the surrounding region

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

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

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

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

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

Potential risks for overseas business activities

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

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

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

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

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

Risk of significant crude oil and raw material price fluctuations on profit margin

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

2. Group Status

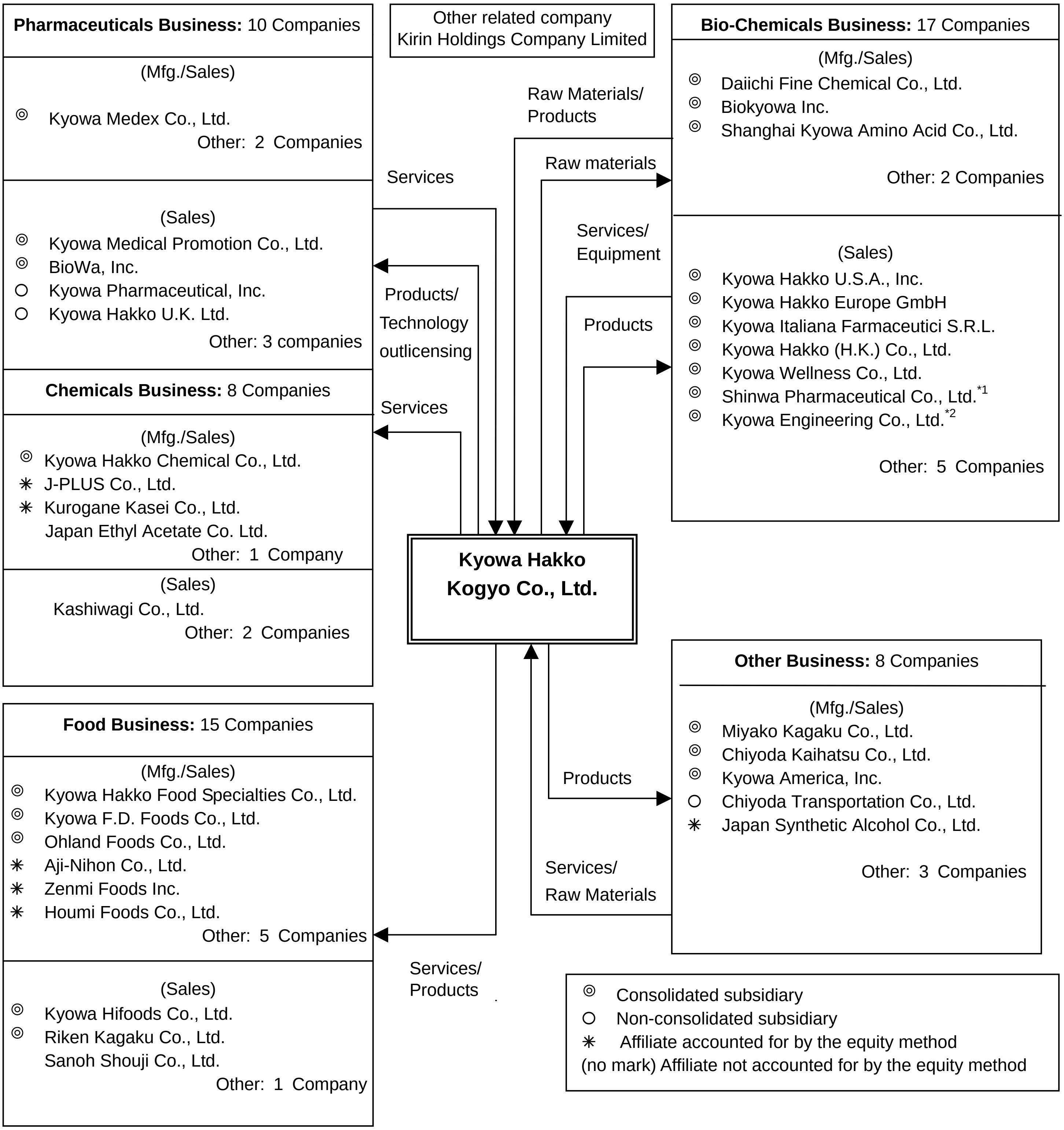
The Kyowa Hakko Group is composed of the parent company (KYOWA HAKKO KOGYO CO., LTD.) also referred to as "the Company"), 40 subsidiaries, 18 affiliates and 1 other related company. The major operating activities of the company and the main group companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Note: The other related company is Kirin Holdings. As a result of the tender offer for Kyowa Hakko common shares effective October 31, 2007 to December 6, 2007, Kirin Holdings held the equivilant of 27.95% of Kyowa Hakko's outstanding shares and became a related company. (As a result of the share exchange between Kyowa Hakko and Kirin Pharma, a wholly owned subsidiary of Kirin Holdings implemented April 1, 2007, Kirin Holdings now holds the equivilant of 50.1% of the outstanding shares of Kyowa Hakko and have become the parent company.)

Pharmaceuticals Business	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. 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.
Bio-Chemicals Business	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 four 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.
Chemicals Business	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.
Food Business	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.
Other Business	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. Kyowa America, Inc. is a U.S.-based holding company. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications.

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, Kyowa Hakko acquired all outstanding shares of Daiichi Fine Chemical Co., Ltd. making it subsidiary.

3. Management Policies

(1) Basic Management Policies

The Kyowa Hakko Group's fundamental management policy is to contribute to the health and well being of people worldwide by creating new value through the pursuit of advancements in life sciences and technology. Based on this policy, the Group is developing business around the world as a creative and innovative R&D corporation.

As announced in October 2007, centered around the integration of Kyowa Hakko and Kirin Pharma, a pharmaceutical company within the Kirin Group, Kyowa Hakko Group and Kirin Group agreed upon a strategic alliance which aims to quickly strengthen both Groups based on their bio-technology and increase their corporate value. Looking forward, both Groups will strive towards the vision set out in the strategic alliance to become a Japanese international top-class R&D life sciences company based on bio-technology and centered around pharmaceuticals.

Our businesses aim to provide products, services, and information that deliver superior quality and performance in line with our focus on customer satisfaction. In addition, we are working to build a highly transparent and healthy corporate management that discloses accurate and objective information in a timely manner. At the same time, by undertaking activities to protect the environment, to ensure safety and to contribute to society, we are striving to be a company that earns the broad trust of society.

(2) Management Targets

With the aim of utilizing its business resources more efficiently and enhancing profitability the Kyowa Hakko Group has designated return on invested capital (ROIC) as a management indicator in its medium-term business plan. As of the current fiscal year, 2008, the first year of the plan, numerical targets for the final year of the medium-term plan (the year to March 2011) are net sales of ¥513.0 billion, operating income (before amortization of goodwill) of ¥73.0 billion and ROIC of at least 16%. Trends in these figures (consolidated) are as follows:

Billions of yen

	FY to March, 2008 Results	FY to March, 2009 Forecast	FY to March, 2011 Target
Net Sales	392.1	490.0	513.0
Operating income	39.3	57.0	63.3
Operating income (Before amortization of goodwill)	39.6	66.7	73.0
ROIC	13.8%	14.9%	Above 16%

Note: ROIC = Operating income (before amortization of goodwill)/ Fixed assets + Working capital
*Fixed assets does not include goodwill

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

Kyowa Hakko and Kirin Holdings Company, Ltd. reached an agreement with respect to a strategic alliance centered around the integration between Kyowa Hakko and Kirin Pharma Co., Ltd. and on October 22, 2007 completed an integration contract and share exchange contract. Following approval at an extraordinary meeting of shareholders held on February 29, 2008, Kirin Pharma, on April 1, 2007, became a wholly owned subsidiary of Kyowa Hakko through a share exchange and Kyowa Hakko became a consolidated subsidiary of Kirin Holdings, the holding company, as Kirin Holdings had acquired a total number of shares of common stock equivalent to 50.10% of the total issued shares. Kyowa Hakko aims to maximize profits and to consistently increase corporate value for all shareholders, and while respecting the basic policies of Kirin Holdings Group management, we will conduct independent operating activities that are autonomous and flexible and insure independent management as a listed company. Further, as confirmed in the integration contract, for the 10 years following the date of the integration contract, Kirin Holdings will, in principle, maintain a shareholder ratio of 50.10% and we have their full agreement that Kyowa Hakko shall remain a listed company.

The merger between Kyowa Hakko and Kirin Pharma is scheduled to occur on October 1, 2008 (Kyowa Hakko is the surviving company). The parent company that emerges from the merger (trade name: Kyowa Hakko Kirin Co., Ltd.) aims to be a world-class R&D-focused life sciences company, based on biotechnology and with the pharmaceutical business at its core.

As regards Kyowa Hakko's Bio-Chemical business, on October 1, 2008 the company will divide and the new Kyowa Hakko Bio Co., Ltd. will be launched. Following this, an independent management structure, enabling speedy decision-making, will be established. This will be a major business for the Kyowa Hakko Kirin Group as we endeavor to further strengthen our competitiveness and grow as an independent company.

As regards Kyowa Hakko Food Specialties Co., Ltd., the foods business of the Kyowa Hakko Group, integration with Kirin Food-Tech Company Limited has been under consideration, and on April 28, 2008, the four companies Kyowa Hakko, Kirin Holdings Company Limited, Kyowa Hakko Food Specialties Co., Ltd., and Kirin Food-Tech Company Limited concluded a basic letter of agreement under which Kyowa Hakko Food Specialties and Kirin Food-Tech Company Limited will merge on April 1, 2009 and a joint venture with Kirin Holdings. It was also agreed that from January 1, 2011, the new company would be a wholly owned subsidiary of Kirin Holdings. The details of the arrangement are still under consideration and we are working towards a smooth integration of the food operations.

Kyowa Hakko Group has formulated a new three-year medium-term business plan, launched in fiscal 2008 and based on the emergence of the Kyowa Hakko Kirin Group. By fiscal 2010, the final year of the plan, we aim to achieve net sales of ¥513.0 billion and operating income before amortization of goodwill of ¥73.0 billion.

As regards the Pharmaceuticals business, in the domestic ethical pharmaceuticals market we are developing cost reduction policies aimed at reducing pharmaceutical expenses, such as promoting the use of generic pharmaceutical products. Meanwhile, we are facing increased competition from US and European drug manufacturers and major Japanese pharmaceutical companies.

In response to this, the Group will endeavor to further strengthen its domestic operational capacity and expand sales of core products. Further, we will actively promote global development focusing on the Asia region. Regarding research and development, we endeavor to continue to generate groundbreaking new products by focusing primarily on areas such as cancer, kidney and immunological diseases and leveraging cutting edge biotechnology, primarily antibody technologies.

In the Bio-Chemicals business, we are aiming for growth in the pharmaceuticals and healthcare areas as a biotech company based on the integration of fermentation and synthetic technology. We are aiming for increased market share in the amino acid market, primarily in fluid infusion and medical foods despite forecasting price declines resulting from pressure from Chinese manufacturers. In healthcare, we are undertaking activities aimed at expanding mail-order sales of dietary supplement Remake® series while promoting the development of markets for unique materials.

In the Chemicals business, we aim to maintain profits in the existing basic chemcials business supported by steady growth in the Asian economy, primarily in China, and by promoting stability in our operations. However, worsening exports, resulting from continued high prices of fuel and raw materials and a strong yen, are a cause for concern. With attention to environmental concerns, we are also steadily implementing measures to secure future growth and development, including the expansion of the specialty chemicals business focused on environmentally friendly products and active capital investment to increase production.

Our Food business is unfortunately facing a difficult environment stemming from decreased domestic demand as a result of the declining birthrate and an aging population and a steep rise in the cost of raw materials globally. However, we are providing safe food products in natural seasonings, bread improvers and flavor enhancers by using our fermentation technology and other technologies to develop distinctive new products.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen		
	As of March 31, 2008	As of March 31, 2007	Change
ASSETS			
Current assets:			
Cash and time deposits	18,481	28,895	
Accounts and notes receivable	110,447	107,458	
Marketable securities	26,667	6,998	
Inventories	62,415	56,015	
Deferred tax assets	6,829	5,803	
Other current assets	7,908	9,281	
Less: allowance for doubtful accounts	(89)	(100)	
	232,661	**214,352**	**18,308**
Fixed assets:			
Tangible fixed assets			
Buildings and structures	37,286	35,608	
Machinery and equipment	27,031	24,994	
Land	21,253	20,364	
Construction in progress	4,355	5,123	
Other	5,207	5,157	
Total tangible fixed assets	**95,134**	**91,248**	**3,886**
Intangible fixed assets	556	510	46
Investments and other assets:			
Investment securities	53,196	62,387	
Long-term loans	522	1,849	
Deferred tax assets	1,080	313	
Other investments and other assets	12,449	9,189	
Allowance for doubtful accounts	(1,520)	(980)	
Total investments and other assets	**65,728**	**72,759**	**(7,030)**
Total Fixed Assets	**161,420**	**164,518**	**(3,098)**
Total Assets	**394,081**	**378,870**	**15,210**

Consolidated Balance Sheets (continued)

	Millions of yen		
	As of March 31, 2008	As of March 31, 2007	Change
LIABILITIES			
Current liabilities:			
Accounts and notes payable	49,358	52,249	
Short-term bank loans	12,533	12,822	
Accrued expenses	21,490	17,556	
Income taxes payable	10,603	7,079	
Reserve for sales rebates	341	947	
Reserve for sales returns	58	44	
Reserve for sales promotion expenses	668	716	
Reserve for periodic repairs	1,477	967	
Reserve for bonuses	3,775	3,140	
Other current liabilities	11,371	10,976	
Total current liabilities	**111,679**	**106,501**	**5,178**
Long-term liabilities:			
Long-term debt	256	314	
Deferred tax liabilities	2,398	5,592	
Retirement benefit allowance	20,948	21,402	
Reserve for directors' retirement benefit allowance	218	108	
Reserve for provision for loss on guarantees	700	--	
Reserve for other long-term liabilities	1,120	868	
Total long-term liabilities	**25,643**	**28,287**	**(2,644)**
Total Liabilities	**137,322**	**134,788**	**2,534**

Consolidated Balance Sheets (continued)

Millions of yen

	As of March 31, 2008	As of March 31, 2007	Change
NET ASSETS			
Shareholders' equity:			
Common stock	26,745	26,745	
Capital surplus	43,180	43,180	
Retained earnings	170,947	151,565	
Treasury stock	(1,544)	(1,062)	
Total shareholders' equity	239,328	220,428	18,900
Valuation and translation adjustments			
Valuation difference on other marketable securities	15,348	21,785	
Deferred gains (losses) on hedges	(9)	5	
Foreign exchange adjustment account	(378)	(502)	
Total valuation and translation adjustments	14,960	21,289	(6,328)
Subscription rights to shares	156	65	91
Minority interests	2,312	2,299	12
Total net assets	256,758	244,082	12,676
Total liabilities and net assets	394,081	378,870	15,210

(2) Consolidated Statements of Income

	Millions of yen		
	April 1, 2007 to March 31, 2008	April 1, 2006 to March 31, 2007	Change
Net sales	**392,119**	**354,274**	**37,845**
Cost of sales	247,201	222,844	24,357
Gross profit	144,917	131,430	13,487
Reversal of reserve for sales returns	--	38	(38)
Addition to reserve for sales returns	--	44	(44)
Adjusted gross profit	144,917	131,424	13,493
Selling, general and administrative expenses:			
Transportation	4,424	3,947	
Sales promotion	8,704	8,474	
Addition to reserve for sales promotion expense	668	716	
Addition to allowance for doubtful accounts	921	--	
Salaries	17,502	16,887	
Bonuses	5,858	5,522	
Addition to bonus reserve	1,981	1,734	
Addition to allowance for directors' retirement benefits	--	39	
Employee retirement benefit expense	1,508	1,559	
Depreciation	569	689	
Research and development	33,457	32,687	
Others	29,929	28,465	
	105,527	100,725	4,801
Operating income	**39,390**	**30,698**	**8,691**
Other income:			
Interest income	528	325	
Dividend income	1,274	841	
Currency exchange gain	--	349	
Dividend on insurance	277	297	
Income from equity method investments	1,125	831	
Others	1,657	1,179	
	4,863	3,825	1,037
Other expenses:			
Interest expense	327	239	
Loss on foreign exchange	1,034	--	
Expense on removal of fixed assets	837	502	
Loss on sale of fixed assets	603	676	
Loss on sale of inventories	1,474	1,047	
Expenses related to idle facilities	733	--	
Others	1,245	1,156	
	6,257	3,622	2,634
Recurring income	**37,996**	**30,901**	**7,094**

Consolidated Statements of Income (continued)

	April 1, 2007 to March 31, 2008	April 1, 2006 to March 31, 2007	Change
	Millions of yen		
Extraordinary income:			
Gain on sale of fixed assets	7,471	666	
Gains on disposal of affiliates' shares	--	55	
Reversal of allowance for doubtful accounts	--	44	
Realized profit on investments in securities	--	32	
Others	517	--	
	7,988	800	7,188
Extraordinary losses:			
Integration-related expenses	2,831	--	
Asset impairment losses	2,264	2,405	
Appraisal loss on investments in affiliate companies	1,372	--	
Addition to provision for loss on guarantees	700	--	
Losses on disposal of affiliates' shares	--	2,626	
Addition to reserve for prior year periodic repairs	--	1,016	
Industrial water obligation fee	--	777	
Expense related to early retirement support system	--	389	
Expense related to restructuring of affiliates	--	267	
Others	--	693	
	7,169	8,176	(1,006)
Income before income taxes	38,815	23,525	15,289
Corporate, local, and enterprise taxes	15,228	10,455	
Corporate tax adjustment	(35)	413	4,324
Income (loss) in minority interests in consolidated subsidiaries	144	(38)	182
Net income	**23,477**	**12,694**	**10,782**

(3) Consolidated Statements of Changes in Net Assets

(April 1, 2007 to March 31, 2008)

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 in period ended March 31, 2008:					
Cash dividends paid			(3,978)		(3,978)
Net income			23,477		23,477
Acquisition of treasury stock				(567)	(567)
Disposal of treasury stock			(13)	85	71
Decrease following decrease in consolidated subsidiaries			(102)		(102)
Net changes in items other than shareholders' equity					
Total changes in period ended March 31, 2008	--	--	19,382	(481)	18,900
Balances as of March 31, 2008	26,745	43,180	170,947	(1,544)	239,328

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 in period ended March 31, 2008:							
Cash dividends paid							(3,978)
Net income							23,477
Acquisition of treasury stock							(567)
Disposal of treasury stock							71
Decrease following decrease in consolidated subsidiaries							(102)
Net changes in items other than shareholders' equity	(6,436)	(15)	123	(6,328)	91	12	(6,224)
Total changes in period ended March 31, 2008	(6,436)	(15)	123	(6,328)	91	12	12,676
Balances as of March 31, 2008	15,348	(9)	(378)	14,960	156	2,312	256,758

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 in period ended March 31, 2007:					
Cash dividends paid			(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 changes in period ended March 31, 2007	--	(6)	(19,152)	6,966	(12,193)
Balances as of March 31, 2007	26,745	43,180	151,565	(1,062)	220,428

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 in period ended March 31, 2007:							
Cash dividends paid							(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 changes in period ended March 31, 2007	(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 March 31, 2008	April 1, 2006 to March 31, 2007
Cash flows from operating activities:		
Income before income taxes	38,815	23,525
Depreciation and amortization	14,346	10,006
Asset impairment losses	2,264	2,405
Decrease in retirement benefit allowance	(1,037)	(3,123)
Increase in prepaid pension expenses	(3,337)	--
Increase (decrease) in reserve for bonus payments	364	(162)
Increase (decrease) in allowance for bad debts	423	(274)
Interest and dividend income	(1,803)	(1,167)
Interest expenses	327	239
Income from equity method investments	(1,125)	(831)
Gain on sales of tangible fixed assets	(6,916)	(82)
(Gain) loss on sales of marketable securities	(59)	2,537
Employees' early retirement expenses	--	389
Decrease (increase) in trade receivables	1,770	(9,274)
(Increase) decrease in inventories	(2,146)	38
(Decrease) increase in trade payables	(5,681)	4,689
Others	4,503	749
Sub-total	40,712	29,666
Interest and dividend income	2,593	1,469
Interest payments	(306)	(219)
Payment of premium severance for early retirement	--	(528)
Corporate etc. tax payments	(12,285)	(7,007)
Net cash provided by operating activities	**30,713**	**23,380**

Consolidated Statements of Cash Flows (continued)

	Millions of Yen	
	April 1, 2007 to March 31, 2008	April 1, 2006 to March 31, 2007
Cash flows from investing activities:		
Payments for purchase of property, plant & equipment	(14,401)	(13,040)
Proceeds from sale of property, plant, and equipment	7,297	1,632
Payments for purchase of investment securities	(1,189)	(68)
Proceeds from sale of investment securities	145	3,951
Payments for purchase of shares in subsidiaries following changes to the scope of consolidation	(2,263)	--
Net increase in short-term loans receivable	--	(117)
Proceeds from repayment of long-term debt	1,729	23
Others	(808)	(875)
Net cash (used in) provided by investing activities	(9,492)	(8,493)
Cash flows from financing activities:		
Net (decrease) increase in short-term debt	(8,309)	169
Proceeds from long-term borrowing	--	281
Repayment of long-term debt	(665)	(7)
Payment for purchase of treasury stock	(567)	(20,755)
Proceeds from sale of treasury stock	39	18
Dividends paid	(3,979)	(4,105)
Dividends paid to minority interests	(18)	(18)
Net cash used in financing activities	(13,499)	(24,417)
Cash and cash equivalents translation differences	(44)	238
Increase in cash and cash equivalents	7,677	(9,292)
Cash and cash equivalents at the beginning of the period	36,613	45,820
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	--	85
Decrease in cash and cash equivilant following elimination from consolidation	(172)	--
Cash and cash equivalents at the end of the period	**44,118**	**36,613**

5. Segment information

(1) Segment information by business type

Fiscal year: April 1, 2007– March 31, 2008

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales:								
(1) Sales to external customers	138,050	78,045	100,068	39,357	36,598	392,119	--	392,119
(2) Inter-segment sales and transfers	327	8,774	7,938	3,966	12,400	33,407	(33,407)	--
Total	138,377	86,820	108,007	43,324	48,998	425,527	(33,407)	392,119
Operating expenses	118,415	77,131	100,837	41,747	48,160	386,293	(33,563)	352,729
Operating income	19,961	9,688	7,169	1,576	838	39,234	155	39,390
II. Assets, Depreciation expenses and Capital outlays								
Assets	115,559	105,525	83,197	33,008	20,589	357,880	36,200	394,081
Depreciation expenses	3,946	5,540	3,771	977	119	14,356	(9)	14,346
Loss on disposal	375	1,615	--	273	--	2,264	--	2,264
Capital outlays	4,233	4,191	4,345	1,954	70	14,795	--	14,795

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:	Ethical pharmaceuticals and diagnostic and diagnostics reagents
Bio-Chemicals:	Pharmaceutical and industrial-use raw materials, healthcare products, agrochemicals and 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. Entire company assets included within Elimination/Corporate are ¥45,833 million and mainly comprise excess working capital (cash and marketable securities) and long-term investments (investment securities) at the parent company.
3. Following changes to the accounting methods for depreciation, operating expenses in each segment increased as follows in comparison to the accounting methods used in the previous fiscal year: Pharmaceuticals: ¥147 million; Bio-Chemical: ¥112 million; Chemicals: ¥199 million; Food: ¥44 million; Other: ¥1 million. In each segment operating income decreased by the same amount.

Segment information by business type

Fiscal year: April 1, 2006– March 31, 2007

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. 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
II. Assets, Depreciation expenses and Capital outlays								
Assets	117,778	85,870	83,522	34,775	22,631	344,578	34,291	378,870
Depreciation expenses	3,605	3,181	2,301	799	129	10,018	(12)	10,006
Loss on disposal	814	940	137	513	--	2,405	--	2,405
Capital outlays	3,680	6,628	3,622	886	29	14,847	(350)	14,497

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:	Ethical pharmaceuticals and diagnostic and diagnostics reagents
Bio-Chemicals:	Pharmaceutical and industrial-use raw materials, healthcare products, agrochemicals and 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. Entire company assets included within Elimination/Corporate are ¥46,403 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.

3. From the fiscal year ended March 31, 2007 a Reserve for periodic Repairs has been accounted for. As a result of this change and compared to the previous accounting treatment, operating income of the Chemicals business has increased by ¥230 million.

(2) Segment information by location

April 1, 2007 – March 31, 2008
As Japan represents over 90% of total sales and assets this information is omitted.

April 1, 2006 – March 31, 2007
As Japan represents over 90% of total sales and assets this information is omitted.

(3) Overseas Sales

April 1, 2007– March 31, 2008

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	23,149	22,475	29,052	539	75,217
(2) Consolidated sales					392,119
(3) Overseas sales as a percentage of consolidated sales	5.9%	5.7%	7.4%	0.1%	19.2%

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.