

**Kyowa Hakko Revises Consolidated
and Non-Consolidated First-Half and Full-Year Forecasts**

Tokyo, September 25, 2003 – Kyowa Hakko Kogyo Co., Ltd. (“Kyowa Hakko”) today issued revised consolidated and non-consolidated first-half and full-year forecasts for the year ending March 31, 2004. Details of the revised forecasts are as follows, along with the previous forecasts that were issued on May 14, 2003.

1. Revised consolidated forecasts

(1) For the six-month period to Sept. 30, 2003

Millions of yen

	Net sales	Operating income	Recurring income	Net income (loss)
Previous forecast	171,000	9,000	8,500	4,500
Revised forecast	175,000	11,500	10,500	(4,500)
Difference in forecasts	4,000	2,500	2,000	(9,000)
Percentage change	2.3%	27.8%	23.5%	-
Interim results from previous year	185,393	7,841	4,814	5,847

(2) For the year to March 31, 2004

Millions of yen

	Net sales	Operating income	Recurring income	Net income (loss)
Previous forecast	344,000	24,000	22,000	10,000
Revised forecast	346,000	26,000	24,000	6,000
Difference in forecasts	2,000	2,000	2,000	(4,000)
Percentage change	0.6%	8.3%	9.1%	(40.0%)
Full-year results from previous year	359,284	16,088	11,675	8,484

2. Revised non-consolidated forecasts

(1) For the six-month period to Sept. 30, 2003

Millions of yen

	Net sales	Operating income	Recurring income	Net income (loss)
Previous forecast	141,000	6,500	6,500	3,000
Revised forecast	142,000	7,500	7,500	(8,000)
Difference in forecasts	1,000	1,000	1,000	(11,000)
Percentage change	0.7%	15.4%	15.4%	-
Interim results from previous year	152,731	6,514	6,371	7,032

(2) For the year to March 31, 2004

Millions of yen

	Net sales	Operating income	Recurring income	Net income (loss)
Previous forecast	282,000	17,000	16,000	7,000
Revised forecast	286,000	18,500	17,500	2,000
Difference in forecasts	4,000	1,500	1,500	(5,000)
Percentage change	1.4%	8.8%	9.4%	(71.4%)
Full-year results from previous year	294,277	12,214	11,436	6,718

Main reasons for the revisions to first-half earnings forecasts

The transfer of the Company's liquor business in September 2002 reduced consolidated and non-consolidated revenue by about 14.3 billion yen. While this will make consolidated and non-consolidated net sales in the first half lower than the previous comparable period, net sales are now expected to exceed our previous forecast. Both consolidated and non-consolidated operating income and recurring income are also expected to exceed both last year's results and the previous forecasts for the first half.

In the Pharmaceutical Business, we expect consolidated and non-consolidated net sales to be slightly lower than our original expectations because of tough competition in the market for prescription drugs. Operating income is expected to be in line with the original forecasts because of lower operating expenses. In the Bio-Chemicals Business sales of high value-added amino acids for use in pharmaceuticals and health foods have increased, while in the Chemicals Business prices for solvents and raw materials for plasticizers have been improving and sales of functional products have increased. As a result, consolidated and non-consolidated sales and operating income in both divisions are

expected to exceed our earlier expectations. In the Food Business consolidated and non-consolidated sales are expected to be slightly lower than originally expected because of sluggish consumer spending and the effects of unseasonably cool summer weather. Operating income however is expected to be roughly in line with expectations.

The Kyowa Hakko group continues to select and concentrate its businesses as it seeks to raise its corporate value. We are focusing specifically on improving our management structure, and in April 2004 we will make the Chemicals Business into a separate, wholly-owned subsidiary, and then shift to a holding company system centered on pharmaceuticals in April the following year.

As a result of this, in the interim period to September 30, 2003 we expect to record an extraordinary loss of around 21 billion yen on a consolidated basis and around 21.5 billion yen on a non-consolidated basis because of a one-time write off of unrecognized actuarial losses following the closure of the employee pension trust. We also expect to record an extraordinary profit of 3.5 billion yen on both a consolidated and a non-consolidated basis following the sale of investment securities and the sale of non-performing assets. As a result of these factors, net income for the interim period to September 30, 2003 on a consolidated and non-consolidated basis is expected to be significantly below expectations, and we have revised our net income forecasts accordingly.

1. Details of extraordinary losses

(1) One-time write off of unrecognized actuarial losses following the closure of the employee pension trust

In April 2000 we set up an employee pension trust following the introduction of retirement benefit accounting. The up-coming changes to our corporate structure – the step-by-step spin off of subsidiaries, and the planned shift to a holding company system – will make it difficult to divide the assets of the employee pension trust between each company. Even if we were to divide the assets successfully we expect it would be very difficult to manage them subsequently. Furthermore, in April 2004 we expect to make significant revisions to our retirement benefits system, and managing the balance of trust assets in the pension system and lump-sum retirement system would also become problematic. Therefore, with the agreement of the managers of the trust and its beneficiaries – who are the employees of the Company – and the trustees of the Kyowa Hakko employee pension fund – who are trust banks – we have transferred the assets of the trust to the Company's retirement benefit pension fund and, on September 25, 2003, closed the employee pension trust.



(2) Losses associated with the dissolution of Mexican subsidiary

As previously announced, at a meeting of the board of directors on July 29, 2003 the Company decided to dissolve its Mexican subsidiary FERMENTACIONES MEXICANAS, S.A. DE C.V.

Taking into account the poor business performance of the subsidiary, Kyowa Hakko recognized an appraisal loss on the shares of this subsidiary as a loss on the restructuring of overseas operations as part of extraordinary losses in its consolidated and non-consolidated accounts in the previous fiscal year. However, during the dissolution process we incurred additional charges relating to the write-down of assets and so plan to record an extraordinary loss of around 3 billion yen on the consolidated profit and loss statement for the interim period to September 30, 2003, and a similar amount on the non-consolidated profit and loss statement for the same period.

(3) Payments associated with lysine price fixing in Europe

As previously announced, on June 7, 2000 the European Commission decided to fine the Company and our subsidiary Kyowa Hakko Europe GmbH 13.2 million euros due to their involvement in a lysine (feed-use amino acid) price-fixing cartel. Of this total, 1.12 million euros was recorded in the consolidated and non-consolidated balance sheets for the year ended March 31, 2003 as an accrued liability. The Company plans to record the difference between the accrued liability and the amount of the fine to be paid to the European Commission plus any related legal costs as an extraordinary loss of 1.9 billion yen in the consolidated and non-consolidated interim financial statements for the six months to September 30, 2003.

2. Details of extraordinary profits

As mentioned above, the Company expects to record an extraordinary profit of around 3.5 billion yen on a consolidated and non-consolidated basis following sales of investment securities and non-performing assets.

Main reasons for the revisions to full-year earnings forecasts

We expect consolidated and non-consolidated net sales, operating income, and recurring income for the year ending March 31, 2004 to exceed our previous forecasts.

In the Pharmaceutical Business consolidated and non-consolidated sales have exceeded our original forecasts following increased sales of *Durotep Patches*, which relieve persistent cancer pain, and an effective marketing campaign for *Allelock*, an anti-allergy agent. However, the operating environment is expected to be difficult because of severe competition and so we expect operating income at the division to be slightly lower than originally forecast. As in the interim period, consolidated and non-consolidated sales and operating income in the Bio-Chemical Business will exceed our original expectations because of increased sales of high value-added amino acids for use in pharmaceuticals and health foods. In the Chemicals Business consolidated and non-consolidated sales and operating income are expected to be in line with original expectations. In the Food Business consolidated sales and operating income are expected to remain in line with our original expectations but non-consolidated sales and operating income will likely be slightly below expectations because of the effects of sluggish consumer spending in Japan.

As explained below, we have decided to sell certain investment securities and fixed assets to improve our financial condition. As a result of these factors, we expect to record an extraordinary profit of around 12 billion yen in the second half of the year ending March 31, 2004. Furthermore we expect to record extraordinary losses of around 7.5 billion yen on a consolidated basis and around 6.0 billion yen on a non-consolidated basis from items such as early redemption of certain corporate bonds and the retirement of redundant or difficult to deploy equipment.

As a result of these factors, net income for the year to March 31, 2004 on a consolidated and non-consolidated basis is expected to be significantly below earlier expectations, and we have revised our net income forecasts accordingly.

1. Further details on the recording of extraordinary profits

(1) Sale of shares in JSR Co. Ltd.

At the Board of Directors meeting on September 25, 2003, it was decided to sell some of the shares the Company holds in JSR. Details are given below:

- 1) Outline of JSR
 - Name: JSR Corporation
 - President: Yoshinori Yoshida
 - Address: Tsukiji 5-6-10, Chuo-ku, Tokyo
 - Capital 23.32 billion yen

- 2) Number of shares to be sold

- The Company will sell 4.32 million shares, or 1.69% of the total shares outstanding
- 3) Method of sale
 - Secondary Offering
 - 4) Number of shares held before and after the sale
 - Shares held before the sale – 8.641 million, or 3.38% of the total shares outstanding
 - Shares held after the sale – 4.321 million, or 1.69% of the total shares outstanding

5) Reason for sale

To improve the liquidity of the shares of the above-mentioned company, and to reduce market risk and reduce the assets held by the Company.

6) Effect on earnings of the Company

We will confirm details of profits from the sale of the shares mentioned above once the sale conditions are settled, but we expect to record a profit of approximately 7.5 billion yen on a consolidated and non-consolidated basis and have already included the effects of this amount in the earnings forecast revision released today. Should the actual outcome of the share sale result in a material change to earnings forecasts as released today, we make an announcement at the earliest opportunity.

(2) Sale of assets (improving real estate liquidity)

We have decided to sell some company housing in order to improve our financial condition further by reducing our asset base.

1) Details of assets for sale

- Assets selected for sale: Five buildings used for company housing in Setagaya-ku and Saitama
- Book value of assets: About 230 million yen (for all 5 buildings)
- Sales value of assets: About 2.3 billion yen (for all 5 buildings)
- Conditions: The buildings must be used as company housing

2) Details of sale

- The five buildings will be held by a trust, which will have beneficial ownership rights, after the Company signs a contract covering details of this trust with a financial institution.,

- The beneficial ownership rights to these buildings will then be sold to a special purpose company that will be set up separately

3) Details of holder of beneficial ownership rights

The owner will be an SPC set up for this securitization. There will be no special relationship between the Company and the SPC; the Company will not invest in the SPC nor will it transfer employees to the company

4) Impact on earnings

As a result of the sale of these properties, the Company expects to record an extraordinary profit on a consolidated and non-consolidated basis of approximately 2 billion yen.

(3) Other extraordinary profits

The Company plans to sell certain fixed assets and investment securities in addition to those mentioned above.

2. Further details on the recording of extraordinary losses

(1) Completion of corporate bond obligations (material defeasance)

To reduce interest-bearing debt, we will buy back the corporate bonds listed below by using the trust account method with financial institutions, and will pay the outstanding obligations to a trust at the original rate of interest.

As a result, the Company will reduce the level of corporate bonds listed on its balance sheet and will record, on a consolidated and non-consolidated basis, an extraordinary loss of 1 billion yen for the year to March 31, 2004, which is the difference between the outstanding balance of these corporate bonds and the balance of the trust account.

1. Bond	No. 15 uncollateralized corporate bond	No. 16 uncollateralized corporate bond	No. 17 uncollateralized corporate bond
2. Amount	15 billion yen	15 billion yen	3 billion yen
3. Coupon	2.550%	2.525%	1.980%
4. Date of maturity	May 15, 2008	August 5, 2008	October 20, 2008

(2) Other extraordinary losses

In addition to those mentioned above we plan to retire and dispose of redundant and difficult to



deploy equipment.

Forecast dividends for the financial year ending March 31, 2004

There are no changes to the interim or full-year dividends.

Notes: Forward-looking statements are based on information currently available to management. Please be aware that actual results can differ materially from these projections for a wide variety of reasons.

About Kyowa Hakko:

Kyowa Hakko (TSE:4151) is an industry leading global supplier to the food, pharmaceutical and chemical industries, with net sales in the fiscal year ending March 31, 2003 of 359 billion yen. The Company was established in 1949 and is headquartered in Tokyo, Japan. Areas of expertise include the development and application of fermentation technology, and new forms of biotechnology. Kyowa Hakko's core pharmaceutical research focuses on drug discovery using antibody-based technologies and on developing therapeutic agents for cancer and allergies.