

Kyowa Hakko Kogyo Co., Ltd.

Fiscal 2007 First Half Results

October 30, 2007

President and Chief Executive Officer

Yuzuru Matsuda

Statements on results, forecasts and R&D status contained in this presentation represent judgments based on information available at the current time. Actual results may differ significantly due to a variety of factors such as economic conditions and exchange rate fluctuations.

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(¥ bn)	Net Sales	Operating Income	Recurring Income	Net Income
FY 2007 H1	192.6	18.2	18.0	11.0
Compared to previous interim period	+19.5	+3.6	+2.9	+7.0
FY 2007 H1 forecasts announced July 27	193.0	15.0	16.0	10.0
FY 2006 H1	173.1	14.5	15.1	3.9

◆ Sales and profits up

- Pharmaceuticals:** Allelock and Patanol performed strongly. Coniel sales were fair but declined slightly. Income from exports and licensing royalties grew substantially due to Olopatadine. A lump-sum licensing-in payment was made to ArQule
- Bio-Chemicals:** Amino acids for pharmaceuticals and industrial-use raw materials performed well. Dai-ichi Fine Chemical, newly consolidated as of FY2007, surpassed initial targets from the start of the period
- Chemicals:** Price of naphtha in FY2007 H1: ¥58,700/KL (FY2006 H1:¥51,000/KL). Successfully implemented price revisions and overseas markets improved, but sales declined due to manufacturing facility problems and operating income decreased compared with FY2007 H1 falling short of our business plans

(¥bn)	FY 2005 H1	FY 2006 H1	FY 2007 H1	Compared to previous interim period
Net sales	77.7	65.1	68.9	+ 3.7
Operating income	7.2	9.9	9.7	- 0.2

◆ **Despite increased sales, profits were down slightly due to lump-sum licensing-in payment and other factors**

- Core products *Allelock* sales up due to increased market share. Steady market penetration by *Patanol* since October 2006 launch. Impact on *Coniel* by generic brands (July to September, 2006) lasted into FY2007, decreasing sales slightly.
- Income from exports and licensing royalties Substantial growth in *Olopatadine* licensing royalties
- Expenses: Lump-sum licensing-in payment to ArQule
Cutbacks and delays until H2 of R&D expenses, etc.
- Newly launched products: **Topina tablets, an anti-epileptic drug, launched Sept. 26**
—synergy with *Depakene* expected

Sales of Core Pharmaceutical Products

Drug name	FY 2006 H1 Net Sales (¥bn)	FY 2007 H1 Net Sales (¥bn)	Compared to FY 2006 H1 (%)
Coniel (hypertension, angina pectoritis)	13.4	13.2	99%
Allelock (anti-allergenic)	8.5	9.5	112%
Patanol (antiallergic ophthalmic solution)	-	0.8	-
Depakene (anti-epileptic)	5.1	5.2	102%
Navelbine (anti-cancer agent)	1.3	1.6	123%
Durotep (cancer pain relief)	7.1	7.1	100%
Income from exports and licensing royalties	8.2	10.3	126%

◆ Background

- 2 reports from medical institutions of *commingling* of one Allelock 5 mg tablet in 10 tablet PTP packaging sheets of Coniel 4 mg tablets. Range of recall determined following investigation; decision to implement voluntary recall
- *Commingling* occurred during “unusual operations” on transfer of production of Allelock from Fuji plant to Ube plant; caused by adhesion to production equipment

◆ Recall status

- Approx. 9 million tablets recalled as of October 10. No incidences of commingling of Allelock 5 mg detected in products recalled.

We will provide prompt notification if revision of FY2007 forecasts is required

(¥bn)	FY 2005 H1	FY 2006 H1	FY 2007 H1	Compared with previous interim period
Net sales	28.3	33.3	43.8	+10.4
Operating income	1.7	1.5	4.0	+2.4

◆ Large rise in sales and profits due to strong performance in amino acids and new consolidation

- Domestic market—Pharmaceutical and industrial-use amino acids performed well; performance of raw materials for domestic generic pharmaceuticals were weakened by the impact of inventory adjustment for distribution
- Overseas market—strong performance of pharmaceutical and industrial-use amino acids mainly for fluid infusion ; nucleic acid and vitamins sales also increased, centered on Citicoline
- In the Healthcare division mail-order shopping for consumer and health products grew steadily
- Daiichi Fine Chemical performed well above the targets of its initial FY2007 plan due to strong performance in vitamins

Consolidated full-year forecasts for FY 2006

(¥bn)	Net Sales	Operating Income	Recurring Income	Net Income
FY 2007	395.0	36.0	36.0	26.0
FY 2008 Forecast announced July 27	395.0	36.0	36.0	26.0
FY 2006	354.2	30.6	30.9	12.6

- In Pharmaceuticals, strong sales of core products and technology expected to continue
- In Bio-Chemicals, robust performance expected both in exports amino acids for pharmaceutical and industrial-use raw materials and Daiichi Fine Chemical; based on this, net sales and operating income have been revised upwardly
- In Chemicals, the market slump is expected to remain firm; however, net sales and operating income have been revised downwardly due to manufacturing facility problems
- In Foods, net sales and operating income have been revised downwardly due to intensifying competition, and rising price of raw materials
- Expenses postponed in FY2007 H1 are expected to be cleared in FY2007 H2

- R&D Pipeline
- Increased licensing-out/licensing-in
- Antibody pharmaceuticals: Pipeline
- Licensees of POTELLIGENT® technology
- Phase I results of KW-0761 (Allergy)
- Phase I results of KW-0761 (Carcinoma)
- New development model (alliance with JapanBridge, Inc.)

October 29, 2007

Category	Code Name	Generic Name	Stage		Indication
	Product Name		Japan	Other countries	
Cancer	KW-2246	Fentanyl citrate	Phase		Cancer pain
	KW-0761		Phase		Anticancer (Hematologic tumor)
	KW-2449			Phase in USA	Anticancer
	KW-2478			Phase in Europe	Anticancer
Allergy	KW-4679 Allelock	Olopatadine hydrochloride		Phase in China	Antiallergic
	KW-0761			Phase in Europe	Antiallergic
CNS	KW-6485 Topina	Topiramate	Launched Sep/2007		Antiepileptic
	KW-6002	Istradefylline	Phase b	Filed in USA Apr/2007	Parkinson's disease
	KW-6500	Apomorphine hydrochloride	Phase		Parkinson's disease
Cardiovascular	KW-3049 Coneil	Benidipine hydrochloride		Filed in China Jul/2007	Angina
Others	Z-206 Asacol	Mesalazine	Phase		Inflammatory bowel disease (Crohn's disease)

(Notes)



















Updated since April 27th, 2007 (Area, Stage, Filed, Approved, Launched etc.)

New indication

In Apr 2007, it was decided to discontinue the KW-6002 development program (Phase a clinical trials) for Mono-Therapy in the US Due to the high investment risk and poor cost-benefit performance.

Increased licensing-out/licensing-in

(Red indicates progress since April 27)

		Partner	Pre-clinical	Phase			Remarks
Licensing-out	CEP-701	Cephalon					Anticancer (acute myelocyticleukemia)
	KW-3902	Merck (Nova Cardia)					Congestive heart failure, Renal failure
	Eg5 inhibitor	Eli Lilly					Mitotic Kinesin Eg5 inhibitor
	KW-2401	Keryx ^(*1)					Anticancer
	KW-2871 (Low-fucose antibody)	Life Science ^(*2)					Anticancer (malignant melanoma)
	BIW-8405 (Potelligent antibody)	AstraZeneca (MedImmune)					Ph 1 interim results release IL-5R antibody
Licensing-in	KW-6500	Britannia ^(*3)					Anti-Parkinson's disease (injection)
	Asacol	Zeria Pharmaceutical					Ulcerative colitis Crohn's disease
	ARQ197	ArQule					Anticancer

*1 Keryx Biopharmaceuticals

*3 Britannia Pharmaceuticals

*2 Life Science Pharmaceuticals

Compounds of BioWa	Target Ag	Indication(s)	Preclinical	Phase-I	Phase-II
BIW-8405 *	IL-5 Receptor	Asthma		Allergy	
BIW-8962 *	Ganglioside GM2	Lung cancer Glioblastoma		Oncology	
BIW-8556 *	VEGF-R/FLT-1	Breast cancer Colon cancer		Oncology	
BIW-8137 *	Ganglioside GD2	Solid tumor		Oncology	
BIW-7034 <small>Anti-FGF8 anti-body</small>	FGF8	Prostate, breast, ovarian cancer		Oncology	
Compounds of Kyowa Hakko Kogyo (KHK)					
KW-0761 *	CCR4	Allergic disorders, T-cell lymphoma		Allergy Oncology	
Undisclosed *	Tumor Ag	Solid tumor		Oncology	
Undisclosed *	Tumor Ag	Hematological/ Solid tumors		Oncology	

*BIW-8405 was out-licensed to MedImmune in December 2006.

*: **POTELLIGENT[®]** technology applied

- ◆ **Formed license contracts with three new companies (previously out-licensed 12 contracts with 10 companies)**
 - 2007.5 Out-licensed to Takeda Pharmaceutical Company Limited
 - 2007.10 Formed a second contract for MedImmune and new targets
 - 2007.10 Formed a license with GlaxoSmithKline

Licensees
of high
ADCC
technology

Genentech

Biogen idec

MedImmune
(A wholly-owned subsidiary of AstraZeneca)

Medarex

Takeda

UCB


Igeneon
(A wholly-owned subsidiary of Apton Corporation, Philadelphia)

GlaxoSmithKline

+ two other as-yet-unannounced contracts

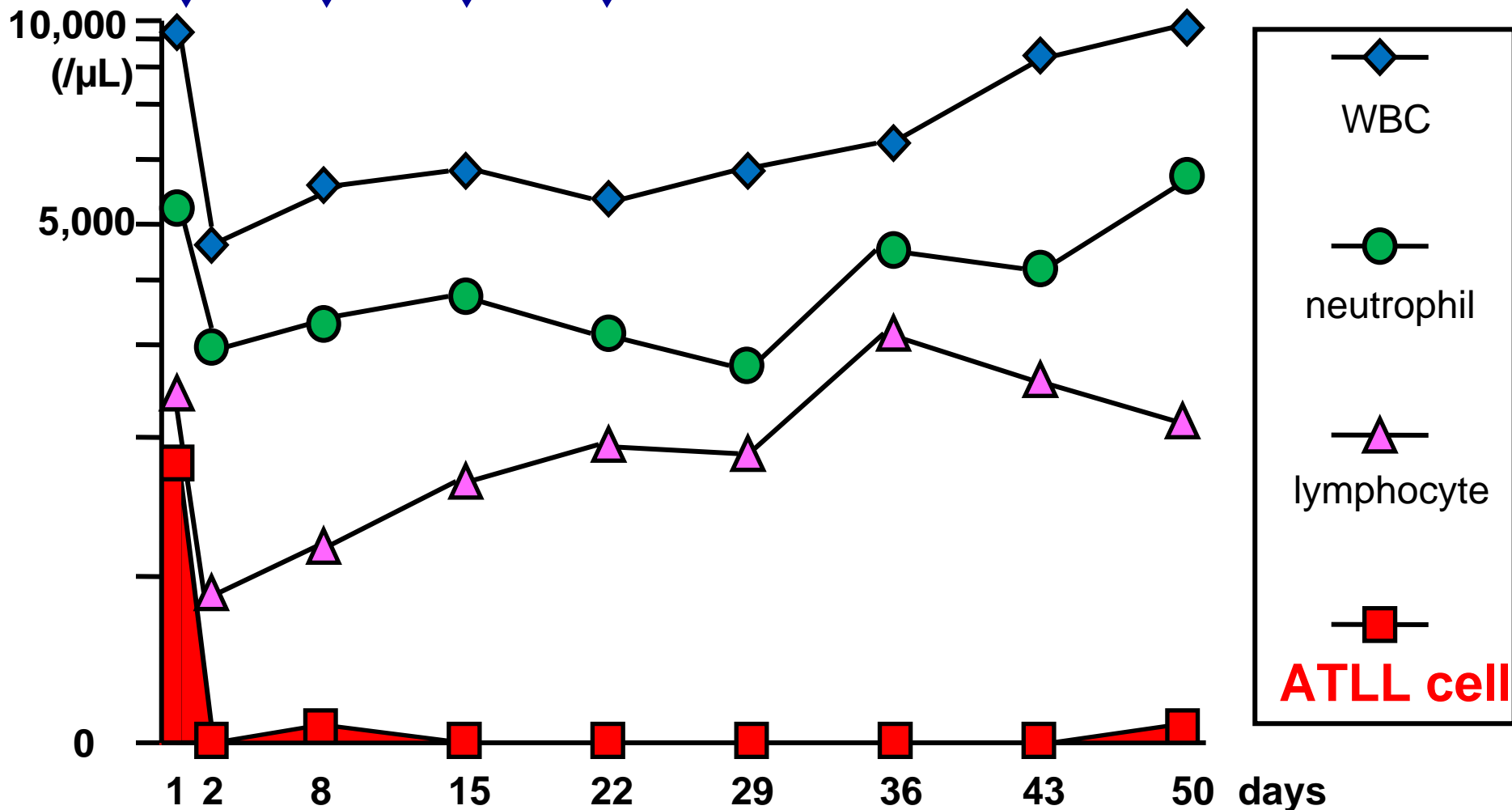
◆ July 24, 2007 News Release

- Targeted healthy adult males administering a single-dose test using doses between 0.1 μ g/kg ~ 3 μ g/kg and a dose-dependent decrease in CCR4 positive cells was identified
- The test used a maximum dose of 3 μ g/kg and the decrease in CCR4 positive cells peaked at over 80%
- Similarly, production of Helper 2-type T-cell (Th2: exacerbates allergy symptoms) derived cytokine (IL-4, IL-5, IL-13) was reduced by more than 80% at the peak period with a 3 μ g/kg dose. On the other hand, there was no effect on the production of Helper 1-type cell (Th1: works to suppress allergy symptoms) derived cytokine (IL-10 and IFN -)
- Also targeted seasonal allergy rhinitis patients administering a single-dose test between 0.1 μ g/kg ~ 1 μ g/kg and similar to the test on healthy adult males, a decrease in CCR4 positive cells and reduced production of Th2 derived cytokine was identified

- ◆ Announced by Dr. Utsunomiya, Director of Jiaikai Hospital Branch of Imamura Hospital, to the JAPANESE CANCER ASSOCIATION October 4, 2007 (O-234)
 - Concerning ATLL (Adult T-cell lymph cell leukemia and lymphoma) PTCL (Peripheral T-cell lymphoma)
 - Administration method: 1 injection per week x **4 weeks**
0.01, 0.1, 0.5, 1.0mg/kg
 - Out of three cases administered with 0.01mg/kg doses (two ATLL, one PTCL) one case showed 67% lymphoma reduction, decreased abnormal lymphocytes
 - No severe side effects and anti-KW-0761 antibodies **were** detected for KW-0761 antibody
-  Results indicate the benefit of POTELLIGENT[®] technology

Hematological CR !!

KW-0761 (0.01 mg/kg i.v.)

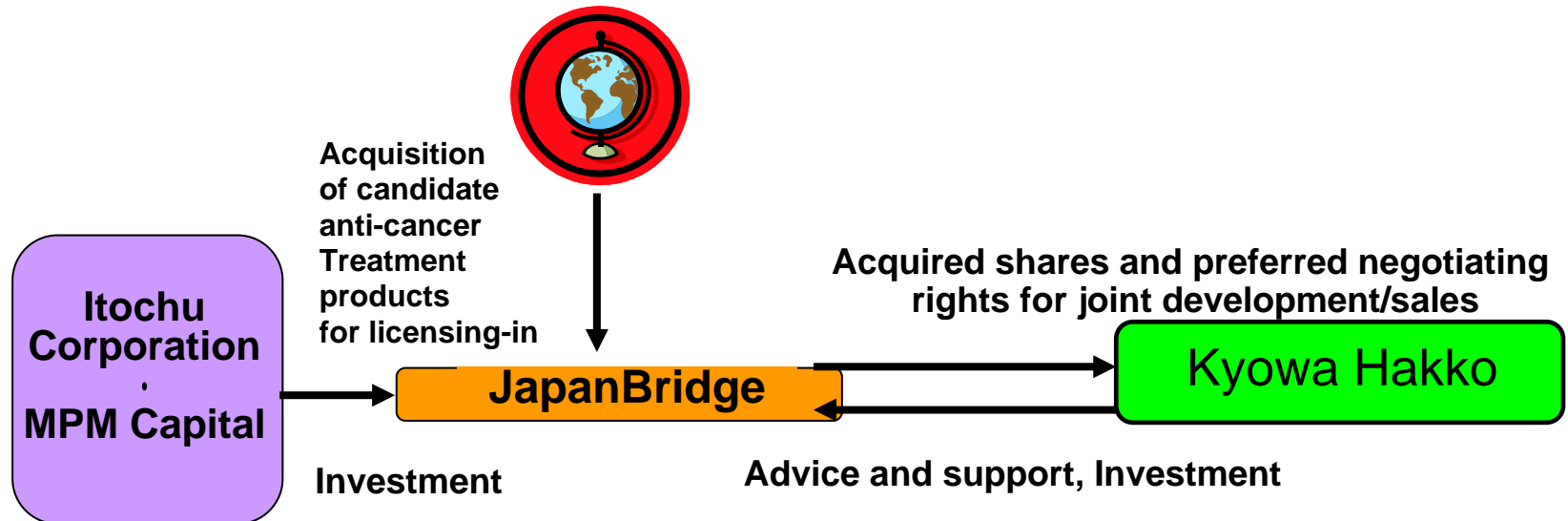


◆ Purpose

- Develop an anti-cancer treatments market in Japan; aim to increase opportunities for acquisition of marketable candidate products

◆ Scheme

- Advise and aid pharmaceutical venture JapanBridge, Inc. on its candidate products for entry into the anti-cancer treatment market; gain priority negotiation rights for joint development and sales. Licensing-in JapanBridge, Inc. anti-cancer treatments



Appendix



High-quality
products worldwide



Major factors affecting results – Pharmaceuticals

(All listed factors are on a non-consolidated basis unless otherwise noted)

FY 2006 H1 (¥bn)	Net Sales (¥bn)	FY 2007 H1 (¥bn)
65.1	+ 3.7	68.9
Positive factors	Increase in volumes of <i>Allelock</i> and <i>Navelbine</i> , etc. Launch of <i>Patanol</i> Increased revenue from export and licensing-out royalties	
Negative factors	Decline in sales of <i>Coniel</i> , etc.	
	Operating Income	
9.9	- 0.2	9.7
Positive factors	Increase in volumes of <i>Allelock</i> and <i>Navelbine</i> Launch of <i>Patanol</i> Increased revenue from export and licensing-out royalties	
Negative factors	Lump-sum payment to ArQule Inc. for licensing-in	

Major factors affecting results – Bio-Chemicals

(All listed factors are on a non-consolidated basis unless otherwise noted)

FY 2006 H1 (¥bn)	Net Sales (¥bn)	FY 2007 H1 (¥bn)
33.3	+ 10.4	43.8
Positive factors	Increased bulk sales of raw materials for pharmaceuticals and industrial use Consolidation of DAIICHI FINE CHEMICAL Co., Ltd. Increased mail-order sales of <i>Remake</i> series	
Negative factors	Sluggish sales of raw materials for domestic generic pharmaceutical products	
Operating Income		
1.5	+ 2.4	4.0
Positive factors	Increased bulk sales of raw materials for pharmaceuticals and industrial use Consolidation of DAIICHI FINE CHEMICAL Co., Ltd.	
Negative factors	Sluggish sales of raw materials for domestic generic pharmaceutical products	

(¥bn)	FY 2005 H1	FY 2006 H1	FY 2007 H1	Compared with previous interim period
Net sales	41.2	45.8	51.0	+5.2
Operating income	1.9	1.6	3.2	+1.6

- Domestic** Sales volumes increased over last year. Increase following product price revisions in response to increased raw material and fuel prices
- Exports** Although prices in overseas markets were high, trouble at production facilities led to decreased production of some products, resulting in lower volumes and decreased revenue
- Functional products** Sales increased due to growth in raw materials for refrigerant lubricants

Naptha price (reference)

FY 2006 H1	FY 2007 H1
¥51,000/kl	¥58,700/kl

Major factors affecting results – Chemicals

(All listed factors are on a non-consolidated basis unless otherwise noted)

FY 2006 H1 (¥bn)	Net Sales (¥bn)	FY 2007 H1 (¥bn)
45.8	+ 5.2	51.0
Positive factors	(Domestic) Cost increases passed through to product prices in basic chemical products, increase in volumes (Exports) Market prices have risen; growth in functional products	
Negative factors	Decrease from trouble with production facilities	
Operating Income		
1.6	+ 1.5	3.2
Positive factors	Domestic price revisions Export market price have risen Growth in functional products	
Negative factors	Rising prices of raw materials and fuels Decrease from trouble with production facilities	

(¥bn)	FY 2005 H1	FY 2006 H1	FY 2007 H1	Compared with previous interim period
Net sales	20.9	20.9	20.9	- 0.0
Operating income	0.8	0.8	0.6	- 0.1

- **Natural seasonings**

Decrease due to the effects of factors such as increased competition and poor weather

- **Bakery products and ingredients**

Increase from growth in pre-mixes and flavor enhancers, etc.

Major factors affecting results - Food

(All listed factors are on a non-consolidated basis unless otherwise noted)

FY 2006 H1 (¥bn)	Net Sales (¥bn)	FY 2007 H1 (¥bn)
20.9	- 0.0	20.9
Positive factors	Growth in bakery products and ingredients (pre-mixes and flavor enhancers) volumes	
Negative factors	Decrease in sales of natural seasonings	
Operating Income		
0.8	- 0.1	0.6
Positive factors	Growth in bakery products and ingredients volumes (pre-mixes and flavor enhancers)	
Negative factors	Decrease in sales of natural seasonings Higher price of raw materials	

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