

5. Consolidated financial statements

(1) Consolidated balance sheets

Millions of yen

	As of September 30, 2008	As of March 31, 2008
ASSETS		
Current assets:		
Cash and time deposits	39,567	18,481
Accounts and notes receivable	135,237	110,447
Marketable securities	14,664	26,667
Products and merchandise	52,910	42,556
Work in progress	8,458	9,121
Raw materials and inventory goods	11,823	10,738
Deferred tax assets	11,494	6,829
Short-term loans	5,863	20
Other current assets	13,909	7,888
(Less) Allowance for doubtful accounts	(172)	(89)
Total current assets	293,755	232,661
Fixed assets:		
Tangible fixed assets:		
Buildings and structures	157,394	124,832
Depreciation	(108,698)	(87,545)
Buildings and structures (net)	48,695	37,286
Machinery and equipment	215,126	198,703
Depreciation	(185,442)	(171,672)
Machinery and equipment (net)	29,684	27,031
Land	81,626	21,253
Construction in progress	5,447	4,355
Other	53,349	35,904
Depreciation	(44,110)	(30,697)
Other (net)	9,238	5,207
Total tangible fixed assets	174,692	95,134
Intangible fixed assets:		
Goodwill	187,769	180
Other	3,561	376
Total intangible fixed assets	191,331	556
Investments and other assets:		
Investment securities	71,620	53,196
Long-term loans	520	522
Deferred tax assets	5,305	1,080
Other	12,786	12,449
Allowance for doubtful accounts	(1,557)	(1,520)
Total investments and other assets	88,674	65,728
Total fixed assets	454,698	161,420
Total assets	748,454	394,081

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Consolidated balance sheets (continued)

Millions of yen

	As of September 30, 2008	As of March 31, 2008
LIABILITIES		
Current liabilities:		
Accounts and notes payable	63,508	49,358
Short-term bank loans	13,402	12,533
Accrued expenses	22,873	21,490
Income taxes payable.....	10,088	10,603
Reserve for sales rebates.....	309	341
Reserve for sales returns	--	58
Reserve for sales promotion expenses	--	668
Reserve for periodic repairs	533	1,477
Reserve for bonuses	5,396	3,775
Other	14,814	11,371
Total current liabilities	130,927	111,679
Long-term liabilities:		
Corporate bonds	75	--
Long-term debt	2,921	256
Deferred tax liabilities.....	31,836	2,398
Retirement benefit allowance	28,003	20,948
Directors' retirement benefit allowance	187	218
Reserve for provision for loss on guarantees	--	700
Other.....	2,685	1,120
Total long-term liabilities	65,709	25,643
Total liabilities	196,637	137,322
NET ASSETS		
Shareholders' equity:		
Common stock.....	26,745	26,745
Capital surplus	512,438	43,180
Retained earnings.....	12,730	170,947
Treasury stock	(2,353)	(1,544)
Total shareholders' equity	549,560	239,328
Valuation and differences due to foreign exchange:		
Valuation difference on other marketable securities.....	(2,685)	15,348
Gain (loss) on deferred hedge accounting	5	(9)
Foreign exchange adjustment account	(40)	(378)
Total valuation and differences due to foreign exchange	(2,721)	14,960
Share subscription rights	169	156
Minority interests.....	4,808	2,312
Total net assets.....	551,817	256,758
Total liabilities and net assets	748,454	394,081

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(2) Consolidated statements of income

	<i>Millions of yen</i>
	April 1, 2008 to September 30, 2008
Net sales	247,769
Cost of sales	138,424
Gross profit	109,345
Selling, general and administrative expenses:	
Research and development	25,845
Amortization of goodwill	4,836
Other	49,498
Total selling, general and administrative expenses.....	80,180
Operating income	29,164
Other income:	
Interest income.....	351
Dividend income.....	668
Currency exchange gain	442
Income from equity method investments.....	694
Others	936
Total other income	3,093
Other expenses:	
Interest expense	300
Loss on disposal of fixed assets.....	856
Others	742
Total other expenses	1,899
Recurring income	30,357
Extraordinary losses:	
Asset impairment losses	1,931
Integration-related expenses.....	1,895
Extraordinary depreciation of fixed assets	762
Loss from revaluation of investment securities	180
Total extraordinary losses	4,769
Income before income taxes	25,588
Corporate, local, and enterprise taxes	10,150
Corporate tax adjustment	6,798
Total corporate and other taxes	16,948
Income from minority interests	353
Net income	8,285

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(3) Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2008 to September 30, 2008
Cash flows from operating activities:	
Income before income taxes	25,588
Depreciation and amortization	9,640
Asset impairment losses	1,931
Amortization of goodwill	4,929
Decrease in retirement benefit allowance	(384)
Increase in prepaid pension expenses.....	(1,399)
Increase in reserve for bonus payments	955
Increase in allowance for bad debts.....	26
Interest and dividend income	(1,020)
Interest expenses.....	300
Income from equity method investments.....	(694)
Loss on sales of tangible fixed assets.....	458
Increase in trade receivables	(1,081)
Increase in inventories	(3,601)
Increase in trade payables	6,599
Others	(6,978)
Sub total	35,268
Interest and dividends received	1,329
Interest payments.....	(257)
Corporate etc. tax payments	(12,544)
Net cash from operating activities	23,796
Cash flows from investing activities:	
Payments for purchase of property, plant & equipment	(8,404)
Proceeds from sale of property, plant, and equipment.....	39
Payments for purchase of investment securities.....	(26)
Proceeds from sale of investment securities.....	16
Payments to fixed-term deposits.....	(3,878)
Withdrawals from fixed-term deposits	873
Others	(318)
Net cash from investing activities	(11,698)
Cash flows from financing activities:	
Net increase in short-term debt.....	608
Proceeds from long-term borrowing.....	100
Repayment of long-term debt.....	(10,140)
Payments for purchase of treasury stock.....	(869)
Dividends paid	(1,990)
Dividends paid to minority interests.....	(171)
Other	(16)
Net cash from financing activities	(12,478)
Cash and cash equivalents translation differences	553
Increase in cash and cash equivalents	172
Cash and cash equivalents at the beginning of the period.....	10,440
Increase in cash and cash equivalents due to new consolidation	43,740
Cash and cash equivalents at the end of the period.....	54,353

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From the first quarter of the current consolidated fiscal year, Accounting Standards for Quarterly Reporting (Accounting Standards Board of Japan Article 12) and Application Guidelines related to Accounting Standards for Quarterly Reporting (Accounting Standards Board of Japan Article 14) have been applied. Further, in accordance with the Regulations for Consolidated Quarterly Reporting a quarterly consolidated financial report has been prepared.

(4) Items related to going concern

No applicable items

(5) Segment information

Fiscal 2008 interim period: Segment information by business type (April 1, 2008 – September 30, 2008)

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated
Net sales								
(1) Sales to external customers	108,441	40,159	50,224	18,823	30,121	247,769	--	247,769
(2) Inter-segment sales and transfers	277	5,551	6,979	1,980	6,451	21,241	(21,241)	--
Total sales	108,719	45,711	57,204	20,804	36,572	269,011	(21,241)	247,769
Operating income	19,699	5,216	2,960	565	687	29,128	35	29,164

Fiscal 2008 interim period: Segment information by location (April 1, 2008 to September 30, 2008)

Millions of yen

	Japan	Other regions	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	227,680	20,089	247,769	--	247,769
(2) Inter-segment sales and transfers	11,591	5,858	17,450	(17,450)	--
Total sales	239,272	25,947	265,220	(17,450)	247,769
Operating income	26,318	3,660	29,979	(815)	29,164

Fiscal 2008 interim period: Overseas Sales (April 1, 2008 – September 30, 2008)

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	23,635	12,792	22,290	314	59,032
(2) Consolidated sales					247,769
(3) Overseas sales as a percentage of consolidated sales	9.5%	5.2%	9.0%	0.1%	23.8%

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(6) Note on significant change in shareholders' equity

On April 1, 2008, a share exchange was implemented to make Kyowa Hakko the wholly owning parent company and Kirin Pharma the wholly owned subsidiary. As accounting regulations for business integration deem the share exchange a reverse acquisition the balance of shareholders' equity at the beginning of the interim period of the current consolidated fiscal year was that of Kirin Pharma, as of that date. As a result the balance of shareholders equity at the end of the previous consolidated fiscal year and the balance at the beginning of the interim period of the current consolidated fiscal year differ and therefore, comparisons cannot be made.

Main changes in shareholders' equity during the interim period:

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings ³	Treasury stock	Total shareholders' equity
Balance as of March 31, 2008 ¹	3,000	56,813	4,445	--	64,258
Changes during the period:					
Increase from share exchange ²	23,745	455,618		(1,544)	477,819
Net income			8,285		8,285
Acquisition of treasury stock				(869)	(869)
Disposal of treasury stock		5		60	66
Total changes during the period ended September 30, 2008	23,745	455,624	8,285	(2,353)	485,302
Balance as of September 30, 2008	26,745	512,438	12,730	(2,353)	549,560

Note 1. The balances mentioned above in 'Balance as of March 31, 2008' are the consolidated balance of Kirin Pharma Company, Limited as of April 1, 2008.

2. The increase (acquisition amount of the company being acquired) from share exchange is due to an increase resulting from the application of the purchase method, which assumes that Kirin Pharma is the acquiring company and that Kyowa Hakko is the company being acquired.
3. The negative amount of ¥1,987 million representing Kyowa Hakko's dividend payment from retained earnings with a record date of March 31, 2008 (effective date: June 25, 2008) is included in 'Increase from share exchange' under 'Capital surplus'.