KYOWA

Kyowa Hakko Co., Ltd.

Consolidated Financial Summary

Fiscal 2004

(April 1, 2004 - March 31, 2005)

This document has been translated from the original Japanese as a guide for non-Japanese investors. 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 changing economic conditions, legislative and regulatory developments, delay in new product and service launches, and pricing and product initiatives of competitors.

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

For The Fiscal Year Ended March 31, 2005

Kyowa Hakko Co., Ltd. **May 11, 2005**

Stock Code:	4151	Listed exchanges:	Tokyo, Osaka
URL:	www.kyowa.co.jp		
President	Yuzuru Matsuda	Inquiries:	Tetsuo Hanai, General Manager
Date of the meeting of the board of directors:	May 11, 2005		Corporate Communications Department
U.S. GAAP:	Not adopted	Telephone:	813 3282-0009

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2005

Amounts less than 1 million yen have been ignored

1) Consolidated Operating Results

Millions of yen

	FY Ended March 31, 2005		FY Ended March 31, 2004	
		Change (%)		Change (%)
Net sales	358,963	2.9	348,838	(2.9)
Operating income	33,506	24.9	26,836	66.8
Recurring income	32,366	30.6	24,792	112.3
Net income	17,931	79.0	10,017	18.1
Net income per share (¥)	41.67		22.99	
Fully diluted net income per share (¥)	—		—	
Return on equity (%)	7.8%		4.5%	
Recurring income to total capital ratio (%)	8.8%		6.8%	
Recurring income to sales ratio (%)	9.0%		7.1%	

Notes: (1) Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY ended March 31, 2005 563 million yen FY ended March 31, 2004: 552 million yen
(2) Average number of shares outstanding (consolidated) during the period:
FY ended March 31, 2005 427,635,631 shares FY ended March 31, 2004: 431,497,240 shares
(3) Changes to accounting treatment: Yes
(4) Percentages for net sales, operating income, recurring income and net income represent changes from the previous fiscal year.

2) Consolidated Financial Position

Millions of yen

	As of March 31, 2005	As of March 31, 2004
Total assets	374,492	361,095
Shareholders' equity	235,439	225,041
Equity ratio (%)	62.9%	62.3%
Shareholders' equity per share (¥)	¥556.28	¥522.62

Notes (1) Number of shares outstanding at fiscal year end. FY ended March 31, 2005: 423,033,261 shares
FY ended March 31, 2004: 430,417,021 shares

3) Consolidated Cash Flows

Millions of yen

	FY Ended March 31, 2005	FY Ended March 31, 2004
Net cash provided by (used in) operating activities	30,104	34,264
Net cash provided by (used in) investing activities	(8,104)	10,476
Net cash provided by (used in) financing activities	(9,116)	(44,226)
Cash and cash equivalents at end of period	37,817	24,911

4) Consolidated subsidiaries and affiliates accounted for by the equity method:

Number of consolidated subsidiaries 22
Number of non-consolidated subsidiaries accounted for by the equity method 0
Number of affiliates accounted for by the equity method 6

5) Changes in the scope of consolidation and companies accounted for by the equity method

Consolidated subsidiaries	Newly included:	1	Excluded	2
Companies accounted for by the equity method	Newly included:	0	Excluded	0

2. Consolidated Results Forecast for the Fiscal Year Ending March 31, 2006

Millions of yen

	Interim	Full year
Net sales	180,000	360,000
Recurring income	11,500	25,000
Net income	5,000	13,000

Reference: Net income per share forecast for the fiscal year ending March 31, 2006 (consolidated): ¥30.73

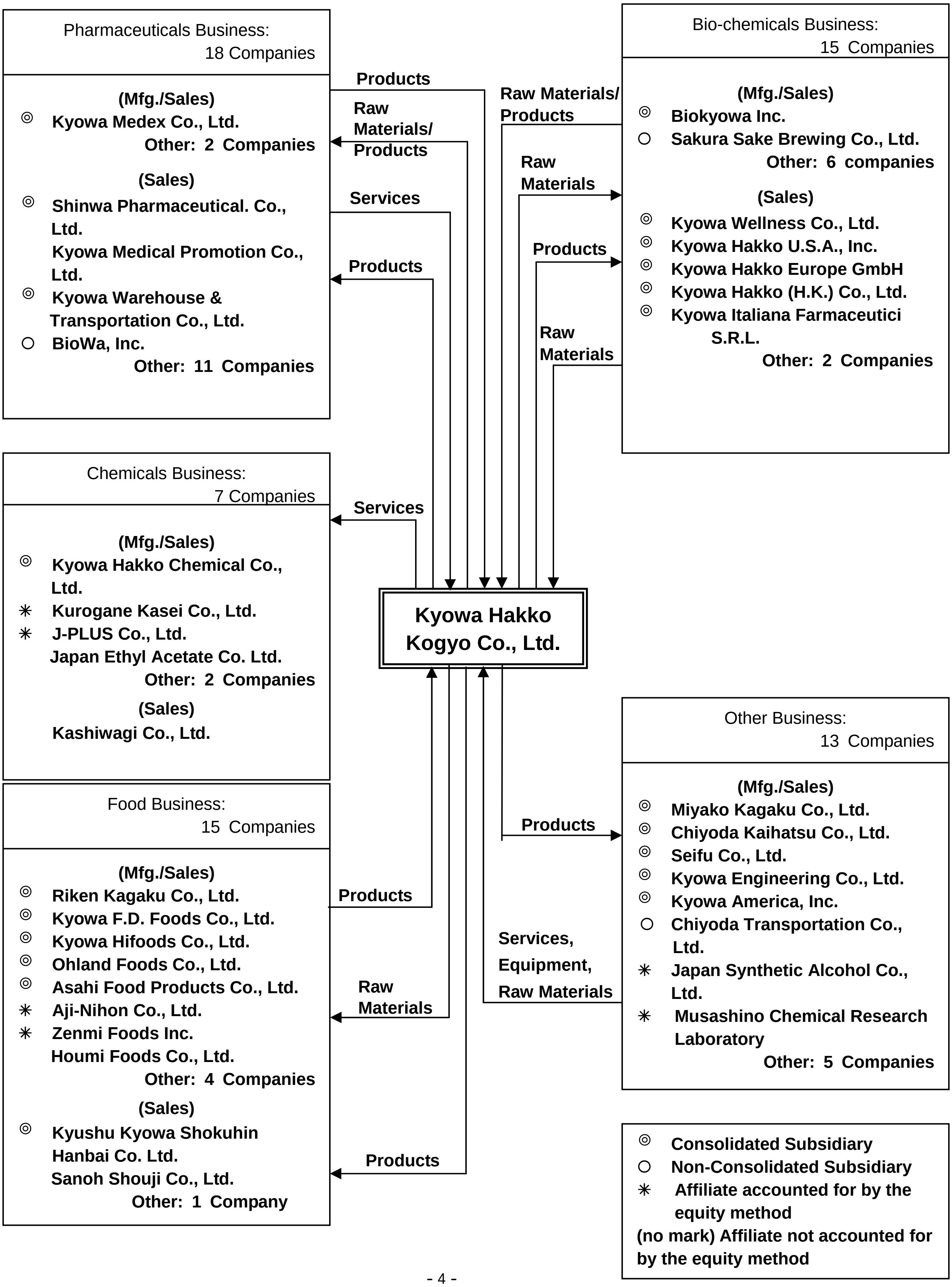
Note: The forecasts above are based on the information available to management on the date of their announcement. Actual results can differ materially from these projections for a wide variety of reasons. Please consult page 14 of the attached materials for further information concerning these forecasts.

1. Group Status

The Kyowa Hakko Group is composed of the parent company (Kyowa Hakko Kogyo Co., Ltd., also referred to as "the Company"), 47 subsidiaries and 21 affiliates. The major operating activities of the companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Pharmaceuticals	Prescription pharmaceuticals are manufactured and sold predominantly by the parent company. Also, Shinwa Pharmaceutical Co., Ltd. sells herbal medicines and Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities on behalf of Kyowa Hakko. Kyowa Warehouse & Transportation Co., Ltd. delivers pharmaceutical products. BioWa, Inc. pursues the out-licensing in the U.S. and Europe of antibody technology developed by the company and is also involved in the strategic development of Kyowa Hakko's antibody technology business. Manufacturing and sales of diagnostic and related products at the testing phase are the responsibility of Kyowa Medex Co., Ltd. This company receives a portion of the raw materials it needs directly from Kyowa Hakko.
Bio-Chemicals	Raw materials for pharmaceuticals and related products, agrochemicals and products for the livestock and fisheries industries are manufactured primarily by Kyowa Hakko. Sales are the responsibility of the parent company and the following: Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Italiana Farmaceutici S.R.L., and overseas subsidiaries such as Kyowa Hakko (H.K.) Co., Ltd. Biokyowa Inc. manufactures and sells mainly high value-added amino acids and supplies some of these products to Kyowa Hakko. Healthcare products are manufactured and sold by Kyowa Hakko. Kyowa Wellness Co., Ltd. also sells healthcare products supplied by Kyowa Hakko and also those purchased from other companies. The parent company manufactures and sells raw material alcohol and delivers a portion of its products as raw materials to the Sakura Sake Brewery Co., Ltd., and others.
Chemicals	Chemical products such as solvents, plasticizers, and related raw materials and functional products 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. The Kashiwagi Co., Ltd. primarily sells products supplied by Kyowa Hakko Chemical Co., Ltd. and goods purchased from third parties.
Food	The manufacture of foodstuffs is performed by Kyowa Hakko and group companies such as Riken Kagaku Co., Ltd., Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Asahi Food Products Co., Ltd., Aji-Nihon Co., Ltd., Zenmi Foods Co., Ltd., and Houmi Foods Co., Ltd. Kyowa Hakko provides each of these companies with some of their raw materials and is supplied with finished products by them. The parent company, Kyowa Hifoods Co., Ltd., Kyushu Kyowa Shokuhin Hanbai Co., Ltd., and Sanoh Shouji Co., Ltd. handle sales of foodstuffs. The parent company provides all these group companies with a portion of the products they deal with.
Other	A number of related companies are responsible for wholesaling, transportation and facilities construction, etc. and include Chiyoda Kaihatsu Co., Ltd., Miyako Kagaku Co., Ltd., Seifu Co., Ltd., Kyowa Engineering Co., Ltd., and Chiyoda Unyu Co., Ltd. and provide services and supply equipment and raw materials to Kyowa Hakko and some of its related companies. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications, and Musashino Chemical Research Laboratory manufactures and sells organic chemical compounds. Kyowa America, Inc. is a U.S.-based holding company.

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



Pharmaceuticals Business: 18 Companies
(Mfg./Sales)
◎ Kyowa Medex Co., Ltd.
Other: 2 Companies
(Sales)
◎ Shinwa Pharmaceutical. Co., Ltd.
Kyowa Medical Promotion Co., Ltd.
◎ Kyowa Warehouse & Transportation Co., Ltd.
○ BioWa, Inc.
Other: 11 Companies
Bio-chemicals Business: 15 Companies
(Mfg./Sales)
◎ Biokyowa Inc.
○ Sakura Sake Brewing Co., Ltd.
Other: 6 companies
(Sales)
◎ Kyowa Wellness Co., Ltd.
◎ Kyowa Hakko U.S.A., Inc.
◎ Kyowa Hakko Europe GmbH
◎ Kyowa Hakko (H.K.) Co., Ltd.
◎ Kyowa Italiana Farmaceutici S.R.L.
Other: 2 Companies
Products
Raw Materials/ Products
Services
Products
Raw Materials/ Products
Raw Materials
Products
Raw Materials
Chemicals Business: 7 Companies
(Mfg./Sales)
◎ Kyowa Hakko Chemical Co., Ltd.
✳ Kurogane Kasei Co., Ltd.
✳ J-PLUS Co., Ltd.
Japan Ethyl Acetate Co. Ltd.
Other: 2 Companies
(Sales)
Kashiwagi Co., Ltd.
Services
Kyowa Hakko Kogyo Co., Ltd.
Food Business: 15 Companies
(Mfg./Sales)
◎ Riken Kagaku Co., Ltd.
◎ Kyowa F.D. Foods Co., Ltd.
◎ Kyowa Hifoods Co., Ltd.
◎ Ohland Foods Co., Ltd.
◎ Asahi Food Products Co., Ltd.
✳ Aji-Nihon Co., Ltd.
✳ Zenmi Foods Inc.
Houmi Foods Co., Ltd.
Other: 4 Companies
(Sales)
◎ Kyushu Kyowa Shokuhin Hanbai Co. Ltd.
Sanoh Shouji Co., Ltd.
Other: 1 Company
Products
Raw Materials
Products
Other Business: 13 Companies
(Mfg./Sales)
◎ Miyako Kagaku Co., Ltd.
◎ Chiyoda Kaihatsu Co., Ltd.
◎ Seifu Co., Ltd.
◎ Kyowa Engineering Co., Ltd.
◎ Kyowa America, Inc.
○ Chiyoda Transportation Co., Ltd.
✳ Japan Synthetic Alcohol Co., Ltd.
✳ Musashino Chemical Research Laboratory
Other: 5 Companies
Products
Services, Equipment, Raw Materials
◎ Consolidated Subsidiary
○ Non-Consolidated Subsidiary
✳ Affiliate accounted for by the equity method
(no mark) Affiliate not accounted for by the equity method

2. Management Policies

(1) Basic management policies

The Kyowa Hakko Group's fundamental management policy is to contribute to the health and wellbeing 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.

Our business aim is 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 swiftly discloses accurate, timely and objective information. At the same time, by fulfilling our corporate social responsibilities including legal and other compliance and maintaining product quality, we are striving to be a company that earns the broad trust of society.

(2) Basic policy on Profit Distribution

Kyowa Hakko regards the return of profits to it 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 sufficient internal reserves to strengthen our financial structure, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders' equity. Kyowa Hakko aims to respond flexibly and expeditiously in its share buyback policy while retaining sufficient reserves to make the investments in facilities and research and development that are required to fund new growth.

(3) Policy on reducing the size of share-trading units

Kyowa Hakko believes that it is important to encourage a wide variety of investors, including individual investors, to participate in the stock market. The Company will formulate its policies after carefully considering factors such as its earnings, stock price, and the costs and benefits of reducing the share-trading unit.

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

The Kyowa Hakko Group chose 2002 to be the first fiscal year of a drive to select and focus on specific businesses, based on its 8th medium-term three year plan "*Kyowa Bio-Innovator"*, and actively engaged in business restructuring and other administrative reforms. In fiscal 2004, the final year of the plan, we recorded net sales of ¥358.9 billion and operating income of ¥33.5 billion, slightly below the plan targets we had set. However, as a result of our success of our efforts to improve the earnings structure of the Group, all of our business segments achieved profitability, the balance sheet was significantly strengthened and we achieved an ROA of 9.1% in fiscal 2004, well in excess of our 8% target.

In April 2005, the Kyowa Hakko Group shifted to a holding company system with Pharmaceuticals and Bio-Chemicals as its twin pillars. In this way Kyowa Hakko aims to become "*Kyowa Bio-Innovator*", a holding company built on a biotechnology base. Furthermore, through separation of our Chemicals and Food businesses we have established a corporate structure that can more accurately and speedily respond to customer needs.

Fiscal 2005 marks the first year of Kyowa Hakko's three year 9th medium-term business plan. The 9th medium-term plan takes "*Growth and Development"* as its basic policy, under which we aim to take bold steps to further advance our research and development, invest in production facilities, promote sales growth and implement cost reductions.

As regards the Pharmaceuticals business, the Japanese National Health Insurance reimbursement price revisions for ethical drugs in fiscal 2006 and increased competition from overseas pharmaceuticals manufacturers are expected to accelerate the restructuring of the domestic pharmaceuticals industry. In response, Kyowa Hakko will promote research and development aimed at the early launch of anti-Parkinson’s disease agents, anti-urinary incontinence agents, and anticancer agents, and also prepare to sell our in-house developed products in the Chinese market, steadily implementing measures focused on growth and development. In addition, we will aim for sustained growth by maximizing product value through seeking expanded applications for new products, further strengthening the domestic and overseas business, and promoting cost reductions.

In Bio-Chemicals, increased competition from Chinese and Korean makers in the amino acids market and expansion and increased competition in the health foods market is expected. As a leader in fermented bulk products such as amino acids and nucleic acids and related compounds we will aim to strengthen our competitive position through introducing innovative technology and reducing costs. Furthermore, in the healthcare business, the Group will strengthen its marketing strategy by concentrating on such areas as sales to individuals.

At Kyowa Hakko Chemicals Co., Ltd. (established in April 2004), despite concerns over fluctuations in the prices of raw materials, continued growth is expected in environmentally friendly products. Under the 9th medium-term plan, we aim to maintain profits in the existing bulk business against the background of firmly based growth in the Chinese market. In functional products, where we are particularly strong, we will actively invest in production facilities to increase capacity and steadily implement preparations for future growth and development.

Kyowa Hakko Specialty Foods Co., Ltd. was established in April 2005, amid increasing consumer awareness of food safety and a trend of increasingly strict regulation. Against this background, and whilst paying full attention to product quality assurance, it is focusing on developing distinctive new products based on our own proprietary fermentation technology, such as natural seasonings, bread improvers and flavor enhancers, while striving to develop overseas markets.

As described above, the next three years will focus on forward-looking investment aiming for sustained growth. Under the 9th medium-term plan, profits in the first two years are forecast to below the level seen in fiscal 2004, but in fiscal 2007, the final year of the plan, we expect new products, measures to expand sales, and the effects of cost reductions to contribute to results, leading to sales of ¥350.0 billion and operating income of ¥34.0 billion, a similar level to fiscal 2004. In addition, we are aiming for a more effective utilization of group assets, and have introduced return on invested capital (ROIC) as a management indicator.

(5) Corporate Governance Policies and Achievements

1. Overview of managerial decision making, management organization concerned with execution and supervision, and other corporate governance systems

Kyowa Hakko’s basic policy towards corporate governance is to realize its management philosophy by setting up the appropriate organizational structure and then implementing the necessary policies. The Company’s management system is based upon a Board of Directors and a Board of Auditors as set

forth in the Japanese Commercial Code for a *kabushiki kaisha* (joint stock corporation). The Company's Board of Directors consists of eight directors (as of March 31, 2005) who make decisions regarding business policies and other important matters. The Board oversees the directors as they carry out their duties. The Board of Auditors consists of four auditors (as of March 31, 2005, of which three are auditors from outside the Company). In accordance with the auditing policies and other guidelines formulated by the Board of Auditors, the auditors oversee the performance of the directors by attending meetings of the Board of Directors and other important gatherings, and monitor the Company's operations and its financial state.
In addition, in order to systematically separate the execution of business and the supervision of business execution, an executive officer system has been introduced.

The Company has organized a Management Meeting to make accurate and effective administrative decisions from a strategic perspective in matters that are of overall concern to business. The Company has set up an Advisory Board including four advisors from outside the Company, to consider management issues affecting the Kyowa Hakko Group from an outside perspective. The objective of the Advisory Board is to strengthen the Company's administrative structure and to enhance administrative transparency and soundness. In addition, the Company has established various in-house committees that meet to consider basic policies relating to managerial issues and to respond to various inherent risks. Once a year, the activities of these committees are reported to the Board of Directors. An outline of these committees is as follows:

Corporate Ethics Committee:
Deliberates on legal compliance, the establishment and enhancement of corporate ethics, and the soundness and appropriateness of corporate activities to secure the trust of society.

Environmental Safety Committee:
Acting as a consultative body to the President, deliberates on basic policies towards environmental conservation and safety.

Quality Assurance Committee:
Acting as a consultative body to the President, deliberates on basic policies towards product quality assurance.

Information Disclosure Committee:
Deliberates comprehensively on basic policies for information and on important items regarding public disclosure of information.

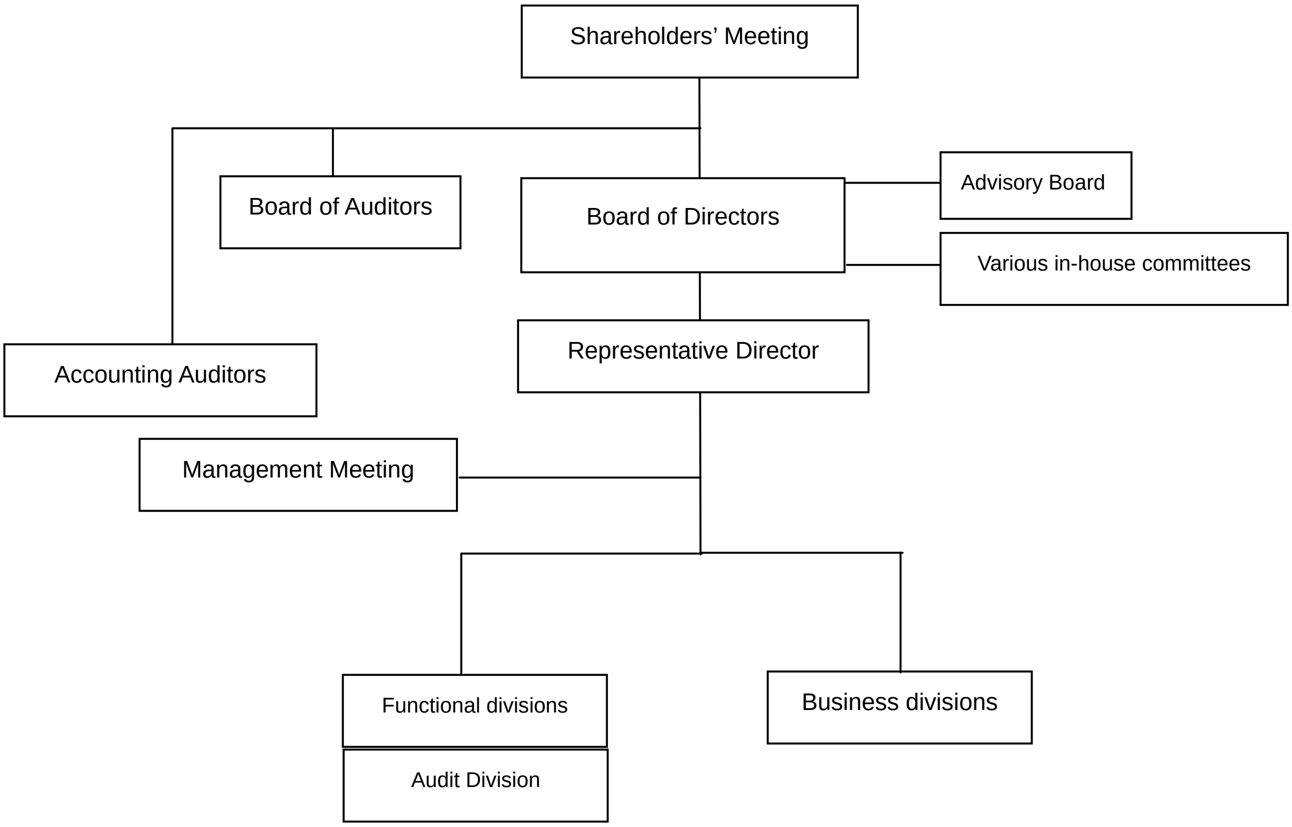
Financial Management Committee:
Deliberates on the efficiency of financial activities and the risks associated with them.

Information Security Committee:
Deliberates on basic policies concerning confidential information held by the Group and basic policies for its handling.

In addition, on April 1, 2005, the Company reorganized the Corporate Compliance Division to create supervisory offices separated by function in the Corporate Compliance, Product Quality Assurance and Environmental Safety departments as well as creating a separate Auditing Department. The Auditing

Division oversees the Group's internal auditing functions, and coordinates with the corporate auditors to check that the internal coordination systems have been correctly established and are properly functional.

This diagram shows Kyowa Hakko's corporate governance structure:



The three certified public accountants that execute Kyowa Hakko's accounting audit business are Setsuo Higuchi, Takeshi Shiba and Hiroaki Kagami, and they are employed by the Chuo Aoyama Audit Corporation. Mr. Higuchi has audited Kyowa Hakko's accounts for a continuous period of 15 years and three months (accounting periods from that ending December 1990 to that ending March 2005). In addition, other assistants involved in the auditing of our accounts include 5 certified public accountants, five assistant certified public accountants and two others.

2. Outline of beneficial relationships between Kyowa Hakko and external auditors in respect of personal, capital, transactions and other matters.

Kyowa Hakko's external auditors have no personal relationship with Kyowa Hakko's directors or corporate auditors and no beneficial relationship with the company in regard to capital, transactions or other matters.

3. Initiatives taken to strengthen corporate governance in the past year.

The Board of Directors met fifteen times during fiscal 2004 and made decisions on important matters of corporate policy and supervised the directors' execution of their duties. The Executive Committee met 17 times and deliberated on and made decisions in regard to important matters affecting the overall

business of Kyowa Hakko. The Audit Committee met 13 times and deliberated and made decisions on audit policy and oversaw the execution of business by the Board of Directors.
The Advisory Board met twice, and from an objective viewpoint deliberated on broad themes related to the overall operations of Kyowa Hakko.

4. Remuneration of Directors and Auditors
Remuneration of Directors and Corporate Auditors:

	Millions of yen
Directors' remuneration	249
Auditors' remuneration	82
Total	332

Note: The above amounts include bonuses paid from retained profits (directors ¥40 million, corporate auditors ¥6 million) and retirement allowances approved by general meeting of shareholders (directors ¥13 million, corporate auditors ¥22 million) but for those employed as directors and employees does not include employee salary equivalent amounts.

Auditors remuneration:

	Millions of yen
Audit certification cost	41
Costs other than those stated above	0
Total	41

(6) Items related to Parent Company
No items

(7) Other necessary management items
No items

3. Operating Results and Financial Position (Consolidated)

I. Summary of Operating Results

(1) Operating results for the fiscal year

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	358.9	348.8	10.1
Operating income	33.5	26.8	6.6
Recurring income	32.3	24.7	7.5
Net income	17.9	10.0	7.9

In fiscal 2004 (April 1, 2004 – March 31, 2005), an improvement in corporate earnings and increase in capital expenditure led to an overall improvement in the domestic economy, but the future outlook remained unclear owing to sources of uncertainty such as the large rise in crude oil prices.

In regard to the business areas in which the Kyowa Hakko Group operates, competition between companies has further intensified in our core businesses. In Pharmaceuticals, a reduction in the Japanese National Health Insurance reimbursement prices for prescription drugs was implemented in April 2004, and in Bio-Chemicals, demand for health-food use amino acids failed to demonstrate the strong growth shown in the previous fiscal year. In Chemicals, the increase in price of raw materials affected our business but against the backdrop of growth in the Chinese economy, the domestic and overseas markets were strong. The difficult business environment continued in Food, as consumption remained lackluster and prices declined throughout the industry.

Amidst this environment, Kyowa Hakko improved earnings by actively expanding sales through the strategic expansion of business activities and the implementation of cost reductions, while developing new products and reforming its business structure.

As a result, consolidated net sales for the fiscal year ending March 31, 2005 were ¥358.9 billion, an increase of ¥10.1 billion (2.9%) from the previous fiscal year, and operating income increased ¥6.6 billion (24.9%) to ¥33.5 billion. Compared to the previous fiscal year, recurring income increased ¥7.5 billion (30.6%) to ¥32.3 billion and net income climbed ¥7.9 billion (79.0%) to ¥17.9 billion.

(2) Segmental Review

(As the segmental allocation has been partly revised from fiscal 2004 the figures shown below for fiscal 2003 have been restated in accordance with the revised segmental classification.)

Pharmaceuticals

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	156.4	142.8	13.5
Operating Income	18.1	11.9	6.1

Despite the effects of a reduction in National Health insurance reimbursement prices for ethical pharmaceuticals in April 2004, continued growth in core products led to increased sales compared to the previous fiscal year. By product, *Allelock*, an antiallergic agent (generic name – *olopatadine hydrochloride*); *Durotep Patch*, an analgesic for persistent cancer pain and *Depakene*, an antiepileptic agent, all saw increases in sales. Volume sales of *Coniel*, a treatment for hypertension and angina pectoris; *Nauzeline*, an agent for improving gastrointestinal function; and Neu-up, a recombinant human G-CSF derivative each increased.

Bulk exports and technology out-licensing steadily improved, with an increase in sales of antiallergic agent (*olpatadine hydrochloride*). In March 2004, we received approval to sell *Coniel* as an imported drug in China, and in September a locally incorporated company was established in Jiangsu, China to prepare for the construction of a production facility.

Kyowa Medex Co., Ltd., a subsidiary involved in the manufacture and sale of *in vitro* medical devices, showed a decrease in sales of biochemical reagents due to intense competition, but newly introduced products and products such as *Determiner* HbA1c, a diabetes reagent, made contributions, leading to overall sales greater than those of the previous fiscal year.

As a result of these factors, consolidated net sales in the Pharmaceuticals segment rose to ¥156.4 billion, an increase of ¥13.5 billion compared to fiscal 2003 (9.5%). Operating income was ¥18.1 billion, an increase of ¥6.1 billion (51.6%) from the previous fiscal year.

In new drug development, we have filed applications for additional indications for *Activacin*, a thrombolytic agent and for *Navelbine*, an anti-cancer drug, as well as filing NDAs for MM-Q01, an MRI contrast medium for the gastro-intestinal tract and for KW-6485, an antiepileptic agent. KW-2246, a treatment for chronic cancer pain and others are currently undergoing clinical trials.

Overseas, KW-6002, a Parkinson’s disease treatment, began phase III clinical trials in the United States and Europe from July 2004 onwards and development of antibody drug KW-2871 for the treatment of malignant melanoma, is being carried out in the United States.

Bio-Chemicals

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	57.7	69.1	(11.4)
Operating Income	6.8	8.8	(1.9)

In the fields of pharmaceuticals, foods, and industrial materials that center on amino acids, nucleic acids and related compounds, sales were significantly lower than in the previous fiscal year. This was due to inventory adjustments of raw material products for pharmaceuticals in Japan, and a slackening of domestic demand for beverage-use amino acids. In overseas markets the influence of intensified price competition from Chinese and Korean manufacturers was also felt.

Kyowa Wellness Co., Ltd., a subsidiary involved in the manufacture and sales of health care products, established in April 2004 steadily increased sales.

In the farming and fisheries business, sales of products for the livestock industry were broadly unchanged from the previous fiscal period. However, sales to the fisheries industry were affected by consecutive typhoons and a concentration of domestic shipments of agrochemicals in the previous fiscal year led to lower overall sales.

In the alcohol business, sales of alcohol for industrial use increased, but due to the longstanding decline in consumption of refined sake and a boom in distilled spirits (*shochu*), overall sales showed a decline compared to the previous fiscal year.

Agroferm Hungarian-Japanese Fermentation Industries Ltd., which is involved in the manufacture and sales of feed-use amino acids, was sold to Degussa AG of Germany in June 2004.

As a result of these factors, sales in the Bio-Chemicals segment declined ¥11.4 billion (16.5%) to ¥57.7 billion. Operating income also decreased ¥1.9 billion (22.1%) to ¥6.8 billion.

In R&D, we are progressing the development of amino acid production technologies that can significantly improve productivity and reduce costs. We are also developing new industrial production technologies for dipeptides (dimeic amino acids), which are expected to be a core product after amino acids. As a first practical example we have established industrial production techniques for Alanyl Glutamine, for which a large market is expected in the field of I.V. solutions. The healthcare business is also actively developing applications and is achieving successes in amino acid preparations and taste improvement technologies.

Chemicals

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	77.9	66.8	11.0
Operating Income	5.3	2.8	2.4

In the domestic business, both sales volumes and sales revenues increased year on year. This was a result of efforts to increase sales of core solvents and functional products as well as product price revisions carried out following an increase in the price of raw materials.

In the export business, export shipment volumes declined slightly compared to the previous fiscal year, but export sales value improved significantly, due to good conditions in the overseas market reflecting strong demand in China.

In solvents, sales of high purity solvents for the IT industry increased, and in functional products, we also successfully expanded sales, particularly of raw materials for CFC-substitute refrigerant oils that contribute to environmental conservation, and of squaric acid derivatives that are used as raw materials for information recording media.

As a result of these factors, sales in the Chemicals segment were ¥77.9 billion, an increase of ¥11.0 billion (16.6%) compared to the previous fiscal year. Operating income increased ¥2.4 billion (84.5%), rising to ¥5.3 billion.

In addition, the joint venture established in August 2003 with Showa Denko K.K., Japan Ethyl Acetate Co., Ltd., commenced production from April 2004.

Food

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	44.4	45.9	(1.4)
Operating Income	1.6	1.6	0

Amid increasing awareness of the assurance of food safety, and lack of growth in the food materials market, competition between companies increased. In such an environment, we pursued the launch of new products and applied solution-based marketing, but overall sales declined compared to the previous fiscal year.

In the seasonings business sales decreased compared to the previous fiscal year despite growth in brewed seasonings, as sales of certain extracts, amino acid seasonings and *umami* seasonings to the chain restaurant trade declined. In processed foods, OEM products showed a decline, and sales decreased compared to the previous fiscal year
In the bakery products and ingredients business, sales of processed milk products and bread improvers and flavor enhancers grew but a poor performance in premixes led to a fall in overall sales compared to the previous fiscal year.

As a result of these factors, sales in the Food segment decreased to ¥44.4 billion, a decline of ¥1.4 billion (3.1%) compared to the previous fiscal year. Operating income was ¥1.6 billion, a 0.5% increase from the previous fiscal year.

In addition, in April 2005 all shares held in subsidiary Asahi Food Products Co., Ltd. were sold to Kokubu & Co., Ltd.

Other

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Net Sales	57.7	62.9	(5.1)
Operating Income	1.6	1.7	(0.1)

Sales in the segment were ¥57.7 billion, a decrease of ¥5.1 billion (8.1%) from the previous fiscal year. Operating income also declined, by ¥0.1 billion (7.5%) to ¥1.6 billion.

(3) Profit Distribution

Management plans to pay a year-end dividend of ¥6.25 per share. Combined with the interim dividend, the total for the year is expected to be ¥10.00 per share.

II. Outlook for Fiscal 2005

Billions of yen

	Forecast	(Compared to Fiscal Year 2004)	
		Change	%
Net sales	360.0	1.0	0.3
Operating income	24.0	(9.5)	(28.4)
Recurring income	25.0	(7.3)	(22.8)
Net income	13.0	(4.9)	(27.5)

(Assuming an exchange rate of ¥105/US$)

Supported by improvements in corporate profits and growth in capital investments, Japan's economy is expected to remain firmly based, but the pace of recovery is slowing. In addition, global economic trends and the rapid rise in crude oil prices are sources of uncertainty. We thus expect the operating environment to remain challenging.

In this environment, the Kyowa Hakko group is aiming to pursue growth through active research and development and capital investment. In addition, in our sales activities, we intend to strengthen investment to expand sales as we strive to maintain our profit base.

We expect consolidated sales for the next fiscal year to grow compared to fiscal 2004, but, as explained above, due to rises in research and development and marketing costs, operating income, recurring income and net income are each expected to decrease.

In Pharmaceuticals, through aggressive sales activity, we expect to grow sales volume of core products and increase sales compared to fiscal 2004. However, due to an increase in research and development costs related to such drugs under development as KW-6002, segmental operating income is expected to decline.

In Bio-Chemicals, a rise in sales is forecast. However, due to expenses associated with the development of our strategy to expand sales focused on the healthcare business, operating income is expected to decline in fiscal 2005.

In Chemicals, there is a risk of overseas market conditions softening, but, through an increase in sales volumes, it is forecast that sales will increase compared to the previous fiscal year. Due to the influence of the rapid increase in oil prices, it is expected that operating income will decline.

In Food, sales are predicted to remain flat. However, through drastic cost reductions, it is expected that operating income will increase compared to fiscal 2004.

(*The above forecasts are based on information available and assumptions made about a number of uncertain factors at the time of release of this document 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) Overview of financial position for the fiscal year ended March 31, 2005

1) Assets, Liabilities and Capital Summary

Total assets as of March 31, 2005 were ¥374.4 billion, an increase of ¥13.3 billion from end of the previous fiscal year. Current assets increased by ¥16.2 billion as cash and deposits, and marketable securities increased, while as a result of a decline in tangible assets, fixed assets declined by ¥2.8 billion.

Of liabilities, current liabilities increased by ¥4.5 billion, largely as a result of an increase in accounts and notes payable but long-term liabilities declined by ¥1.6 billion, mainly as a result of a reduction in the reserve for retirement benefit allowances, and overall liabilities increased by ¥2.9 billion. Shareholders' equity increased by ¥10.3 billion as net income of ¥17.9 billion was included but was partially offset by factors such as dividend payments and the buyback of shares in the company as decided by the Board of Directors.

	Billions of yen		
	FY ended March 31, 2005	**FY ended March 31, 2004**	**Change**
Cash flows from operating activities	30.1	34.2	(4.1)
Cash flows from investing activities	(8.1)	10.4	(18.5)
Cash flows from financing activities	(9.1)	(44.2)	35.1
Cash and cash equivalents at end of period	37.8	24.9	12.9

2). Cash Flow Summary

Net cash from operating activities totaled ¥30.1 billion. Compared to the previous fiscal year, income before income taxes and minority interests was up ¥14.5 billion and the cash inflow resulting from gains and losses on sales of marketable securities was also up ¥12.8 billion. On the other hand compared to the previous fiscal year changes in the retirement allowances resulted in a net cash outflow of ¥19.6 billion and corporation tax paid also increased by ¥10.5 billion. As a result of these factors cash flow provided by operating activities was ¥4.1 billion lower than in the previous fiscal year.

Net cash used in investing activities was ¥8.1 billion. The major factor was payments for acquisition of tangible fixed assets of ¥7.2 billion. Compared to the previous fiscal year, payments for the acquisition of tangible fixed assets declined by ¥1.9 billion but as the inflow from the sale of investment securities declined by ¥15.4 billion and inflows from the sale of tangible fixed assets were ¥4.3 billion lower, cash from investing activities declined by ¥18.5 billion compared to the cash inflow of ¥10.4 billion recorded last fiscal year.

Net cash used in financing activities totaled ¥9.1 billion. The buyback of treasury shares was the primary expense at ¥5.5bn, and dividend payments totaled ¥3.2 billion. Compared to the previous fiscal year, cash used in the purchase of treasury shares increased by ¥3.7 billion, but with the absence of the ¥33.6 billion used last fiscal year to repay corporate bonds and a decline of ¥5.1 billion in the repayment of long- and short- term loans, cash used in investing activities of declined by ¥35.1billion.

Key Shareholders’ Equity and Cash Flow Indicators

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Shareholders’ equity ratio (%)	49.2	59.4	62.3	62.9
Shareholders’ equity (market price base) ratio (%)	69.1	59.4	82.1	92.7
Years to debt redemption	4.4	2.9	0.4	0.4
Interest coverage ratio	5.2	9.7	31.7	124.4

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

*All ratios based on consolidated figures.
*Market capitalization based on closing stock price at the end of the period, multiplied by the number of shares issued and outstanding at the end of the period (net of 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 borrowings and corporate bonds.
*For interest payments, the ‘Interest payments’ figure in the consolidated statements of cash flows is used.

(2) Fiscal 2005 Outlook for Financial Position

Cash flows from operating activities: Income before income taxes and minority interests is expected to decrease compared to fiscal 2004, and despite an expected decrease in the amount of corporate taxes paid, overall we forecast a lower operating cash inflow than in fiscal 2004.

Cash flows from investing activities: in fiscal 2005 payments for the acquisition of property, plant and equipment are expected to increase slightly compared to fiscal 2004. Cash inflow from the sale of investment securities is expected to increase compared to fiscal 2004 due to the planned sale to Asahi Breweries, Ltd. of shares held by Kyowa Hakko in affiliated company Asahi-Kyowa Liquor Manufacturing Co., Ltd.

Cash flows from financing activities: As an increase in the final dividend for fiscal 2004 is planned the dividend payment amount is expected to increase compared to fiscal 2004. In regard to financial activities such as fund raising, the repayment of borrowings and the purchase of treasury shares, a flexible stance will be maintained while considering the economic and financial conditions.

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

III. Business and Other Risks

With respect to Kyowa Hakko Group's business result and financial condition, the risks that may significantly affect investors' judgments include but are not limited to those described below. Kyowa Hakko recognizes the possibility of the occurrence of risk and with respect to items that are under its control, strives to avoid risks though its risk management system and to make all efforts to effectively respond to risks that do occur.
Items in this section dealing with future events reflect the judgment of Kyowa Hakko as of the end of fiscal year 2004 (March 31st, 2005).

Risks associated with the operating environment in the domestic pharmaceuticals industry
In Kyowa Hakko Group's core pharmaceuticals operations, under the domestic public pharmaceuticals price system, when ethical pharmaceutical prices are revised, the selling prices of the majority of pharmaceuticals are regularly reduced. As a result, it is inevitable that Kyowa Hakko will be affected by price declines in the products it manufactures and sells. With each price reduction prices of our existing pharmaceutical products will come under downward pressure. Since a large portion of our pharmaceutical product sales prices will fall, in cases where a price reduction cannot be compensated for by an increase in volumes, Kyowa Hakko Group's operating results and financial condition could be adversely affected.

Risk 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 Kyowa Hakko's main pharmaceuticals business, the importance of future growth being based upon the success of ground breaking new drugs cannot be over exaggerated. Typical new drug development requires several years and significant investment. 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 recognized and R&D will be halted or cases where successfully developed 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 has been placed on the market etc., and for a variety of reasons investment in R&D may not be recovered.

Furthermore, in businesses other than pharmaceuticals, efforts to further develop our fermentation technology and biotechnology are central to Kyowa Hokko activities. Yet, despite investments in R&D and plans to differentiate new technologies and products from those of competitors, just as in the pharmaceuticals business, final results are not guaranteed.
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 operating results and financial condition may also be adversely affected.

Legal regulation risks
In pursuit of its business in each of the countries in which the Kyowa Hakko Group operates there are a variety of laws and regulations that should be observed.
For example, at each level of the pharmaceuticals business, including new product development, manufacturing, import and export, sales, distribution and usage, in Japan and overseas, Kyowa Hakko is subject to pharmaceutical business regulations and must comply with a large number of laws and business practices. In addition a variety of approval systems and regulatory systems have been

established. In order to ensure compliance with such laws, etc. Kyowa Hakko has established internal control functions including operational auditing procedures. However there still exists the possibility that in the execution of its business Kyowa Hakko could contravene such laws and regulations. In cases where Kyowa Hakko fails to comply with such laws and regulations product development could be delayed or stopped, and production or sales could be restricted possibly affecting the group's credibility. In such cases, Kyowa Hakko's operating results and financial condition could be negatively impacted. Furthermore, in the future, if laws and regulations that must be observed in Japan and overseas change, Kyowa Hakko group's operating results and financial condition could be adversely affected.

Risk of significant crude oil price fluctuations on profit margin

In Kyowa Hakko group's Chemicals product business the prices of products that are derived from refined crude oil products such as naphtha, ethylene and propylene, are very sensitive to crude oil price fluctuations. Apart from global demand and weather conditions, unpredictable factors such as war and terrorism have caused large fluctuations in the price of crude oil and should be expected to do so in the future. If the rise of raw materials prices cannot be reflected in the sale price of products in a timely manner, or cannot be absorbed though cost reduction measures, Kyowa Hakko's operating results and financial condition could be adversely affected.

Disaster and accident related risks

To minimize the negative effects of halting manufacturing line activities, Kyowa Hakko Group performs routine accident prevention checks and inspections of all of their facilities. However, there is no guarantee that there will not be power outages or boiler breakdowns or other such incidents. 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.

Furthermore, Kyowa Hakko is involved in the production of dangerous and highly flammable products such as petrochemical products and alcohol for raw material use. While we strive to keep daily operating procedures as safe as possible, in the event of an accident such as a fire production facilities and the surrounding area could be damaged.

In addition to this Kyowa Hakko 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 stored and managed strictly according to regulations, 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's position of trust in society. Additionally, the group's operating results and financial condition could be adversely affected.

4. Consolidated Financial Statements

Consolidated Balance Sheets

	Millions of yen		
	As of March 31, 2005	As of March 31, 2004	Change
ASSETS			
Current assets:			
Cash and time deposits	36,138	25,239	
Accounts and notes receivable	106,555	106,726	
Marketable securities	999	—	
Inventories	50,489	50,494	
Deferred tax assets	6,867	6,529	
Other current assets	9,496	5,234	
Less: allowance for doubtful accounts	(207)	(163)	
	210,341	**194,062**	**16,279**
Fixed assets:			
Tangible fixed assets			
Buildings and structures	40,408	43,604	
Machinery and equipment	22,605	23,584	
Land	21,662	21,819	
Construction in progress	1,647	2,035	
Other	5,310	5,640	
	91,635	**96,684**	**(5,049)**
Intangible fixed assets	212	300	(88)
Investments and other assets			
Investment securities	61,507	59,632	
Long-term loans	2,011	2,114	
Deferred tax assets	2,237	1,957	
Other investments and other assets	8,218	7,345	
Allowance for doubtful accounts	(1,219)	(796)	
Allowance for investment valuations	(451)	(205)	
	72,303	**70,047**	**2,255**
Total Fixed Assets	**164,151**	**167,033**	**(2,882)**
Total Assets	**374,492**	**361,095**	**13,396**

Consolidated Balance Sheets (continued)

	Millions of yen		
	As of March 31, 2005	As of March 31, 2004	Change
LIABILITIES			
Current liabilities:			
Accounts and notes payable	49,845	47,783	
Short-term bank loans	12,106	13,231	
Accrued expenses	15,077	14,789	
Expenses payable	4,317	3,941	
Income taxes payable.....................................	8,176	8,767	
Reserve for sales rebates.............................. .	1,230	956	
Reserve for sales returns................................	54	94	
Reserve for sales promotion expenses	901	795	
Reserve for fixed asset disposal expenses..	1,030	1,157	
Reserve for loss on business reorganization....	1,224	—	
Other current liabilities	9,523	7,397	
	103,489	**98,914**	**4,574**
Long-term liabilities:			
Long-term debt	86	125	
Deferred tax liabilities	2,009	86	
Retirement benefit allowance	30,570	33,768	
Directors' retirement benefit allowance	841	781	
Reserve for fixed asset disposal expenses ...	277	669	
Reserve for losses on debt guarantees..........	17	—	
Other long-term liabilities.................................	303	320	
	34,105	**35,751**	**(1,645)**
TOTAL LIABILITIES	**137,595**	**134,665**	**2,929**
Minority interests..	**1,458**	**1,388**	**69**
SHAREHOLDERS` EQUITY:			
Common stock..	26,745	26,745	-
Capital surplus	43,184	43,182	2
Retained earnings...	159,587	144,926	14,660
Valuation difference on other marketable securities...	15,307	14,636	670
Foreign exchange adjustment account............	(1,564)	(2,135)	571
Treasury stock	(7,821)	(2,313)	(5,507)
	235,439	**225,041**	**10,397**
Total Liabilities, Minority Interests and Shareholders' Equity	**374,492**	**361,095**	**13,396**

Consolidated Statements of Income

	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004	Change
	Millions of yen		
Net sales	**358,963**	**348,838**	**10,124**
Cost of sales	226,890	219,361	7,528
Gross profit	132,072	129,476	
Reversal of reserve for sales returns	94	124	
Addition to reserve for sales returns	54	94	
Adjusted gross profit	132,112	129,506	2,605
Selling, general and administrative expenses:			
Transportation	4,677	4,872	
Sales promotion	7,015	8,103	
Addition to reserve for sales promotion expense	901	795	
Salaries	17,341	17,449	
Bonuses	7,786	7,091	
Addition to allowance for directors' retirement benefits	172	187	
Employee retirement benefit expense	1,959	4,564	
Depreciation	868	1,031	
Research and development	28,324	28,723	
Others	29,557	29,850	
	98,605	102,670	(4,064)
Operating income	**33,506**	**26,836**	**6,670**
Other income:			
Interest income	100	114	
Dividend income	585	666	
Currency exchange gain	202	–	
Dividend on insurance	380	404	
Profit from purchasing power differential of inflation accounting method	—	188	
Income from equity method investments	563	552	
Others	2,313	1,406	
	4,145	3,333	812
Other expenses:			
Interest expense	239	803	
Unrealized loss on securities	0	18	
Currency exchange loss	—	1,309	
Expense on removal of fixed assets	225	128	
Loss on sale of fixed assets	843	456	
Loss on sale of inventories	2,028	1,512	
Others	1,947	1,148	
	5,285	5,377	(92)
Recurring income	**32,366**	**24,792**	**7,574**

Consolidated Statements of Income (continued)

	Millions of yen		
	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004	Change
Extraordinary income:			
Realized profit on investments in securities	141	12,998	
Gain on sale of fixed assets	115	3,954	
Reversal of allowance for doubtful accounts	0	78	
	257	17,031	(16,774)
Extraordinary losses:			
Loss on sale of affiliates shares	(1,224)	–	
Loss on sale of fixed assets	(387)	–	
Addition to reserve for fixed asset disposal expenses	(277)	–	
Losses related to disposal of affiliates shares	(265)	–	
Addition to investment appraisal reserve	(254)	–	
Extraordinary write-off expenses	(164)	–	
Appraisal loss on affiliates' shares	(59)	–	
Fixed asset disposal expenses	(59)	–	
Addition to reserve for losses on debt guarantees	(17)	–	
Realized loss on investments in securities	(11)	(21)	
One-off amortization of actuarial differences arising from dissolution of retirement trust	–	(16,227)	
Loss on sale of fixed assets associated with restructuring	–	(3,224)	
Loss on recall of products	–	(2,085)	
Fine related to European lysine sales	–	(1,900)	
Employees' early retirement expenses	–	(1,464)	
Loss on restructuring of foreign business	–	(842)	
Loss on redemption on bonds	–	(680)	
	(2,721)	(26,446)	(23,725)
Income (loss) before income taxes	29,903	15,377	14,526
Corporate, local, and enterprise taxes	11,333	9,462	
Corporate tax adjustment	569	(3,935)	6,376
Minority interests in consolidated subsidiaries	67	(167)	234
Net income	**17,931**	**10,017**	**7,914**

Consolidated Statements of Surplus

	Millions of yen	
	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004
Capital surplus		
Balance at beginning of period	43,182	43,180
Increase in capital surplus:		
Gain on disposal of treasury stock	2	1
Balance at end of period	**43,184**	**43,182**
Retained earnings		
Balance at beginning of period	144,926	138,225
Increase in retained earnings:		
Net income	17,931	10,017
Amount due to increase in number of consolidated subsidiaries	40	—
Increase due to inflation accounting at consolidated subsidiary in Mexico	—	6
Decrease in retained earnings:		
Dividend payments	3,228	3,239
Directors' bonuses	83	82
Balance at end of period	**159,587**	**144,926**

Consolidated Statements of Cash Flows

	Millions of Yen	
	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004
Cash flows from operating activities:		
Income before income taxes	29,903	15,377
Depreciation and amortization	10,565	11,358
Income from equity method investments	(563)	(552)
Write down of investment securities	59	18
Increase (decrease) in retirement benefit allowance	(3,200)	16,408
Increase (decrease) in reserve for of fixed asset disposal expenses	(518)	1,826
Increase (decrease) in investment appraisal allowance	254	—
Increase (decrease) in debt guarantee loss allowance	17	—
Increase (decrease) in business restructuring loss	1,224	—
Increase (decrease) in allowance for directors' retirement	60	(31)
Increase (decrease) in allowance for bad debts	474	(152)
Loss (gain) on sales of marketable securities	(130)	(12,977)
Loss (gain) on sales of tangible fixed assets	779	(2,431)
Loss on restructuring of overseas businesses	—	842
Loss on recall of products	—	2,085
Fine related to European lysine sales	—	1,900
Employees' early retirement expenses	—	1,464
Loss on redemption of bonds	—	680
Loss on disposal of affiliates shares	265	—
Interest and dividend income	(686)	(780)
Interest expenses	239	803
(Increase) decrease in trade receivables	(361)	1,791
(Increase) decrease in inventories	(374)	407
Increase (decrease) in trade payables	2,175	1,553
Directors' bonus payments	(93)	(90)
Increase (decrease) in consumption tax payable	267	(182)
Others	3,565	1,017
Sub-total	43,925	40,337
Interest and dividend income	772	833
Interest payments	(241)	(1,079)
Compensation paid for recall of products	(1,897)	(358)
Payment of fine related to European lysine sales	—	(2,074)
Payment of premium severance for early retirement	—	(1,453)
Corporate etc. tax payments	(12,453)	(1,940)
Net cash provided by operating activities	**30,104**	**34,264**

Consolidated Statements of Cash Flows (continued)

	Millions of Yen	
	April 1, 2004 to March 31, 2005	April 1, 2003 to March 31, 2004
Cash flows from investing activities:		
Increase in time deposits	(448)	(399)
Decrease in time deposits	456	632
Payments for purchase of property, plant & equipment	(7,264)	(9,202)
Proceeds from sale of property, plant, and equipment	370	4,714
Payments for purchase of investment securities	(137)	(227)
Proceeds from sale of investment securities	178	15,612
Proceeds from sale of subsidiaries' shares	793	—
Payments for sale of subsidiaries' shares	—	(520)
Net increase in short-term loans receivable	(260)	113
Increase in long-term loans receivable	—	(238)
Decrease in long-term loans receivable	64	320
Others	(1,857)	(329)
Net cash (used in) provided by investing activities	**(8,104)**	**10,476**
Cash flows from financing activities:		
Net increase (decrease) in short-term debt	(319)	(4,006)
Repayment of long-term debt	(45)	(1,513)
Payment for bond redemption	—	(33,680)
Payment for purchase of treasury stock	(5,524)	(1,790)
Proceeds from sale of treasury stock	20	17
Dividends paid	(3,233)	(3,243)
Dividends paid to minority interests	(13)	(9)
Net cash used in financing activities	**(9,116)**	**(44,226)**
Cash and cash equivalents translation differences	**14**	**(192)**
Increase in cash and cash equivalents	**12,897**	**322**
Cash and cash equivalents at the beginning of the period	**24,911**	**24,588**
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	**9**	—
Cash and cash equivalents at the end of the period	**37,817**	**24,911**

5. Segment information

Segment information by business type

1. Fiscal year: April 1, 2004 – March 31, 2005

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales								
(1) Sales to external customers	155,870	50,354	73,147	39,265	40,325	358,963	—	358,963
(2) Inter-segment sales and transfers	556	7,412	4,835	5,233	17,458	35,496	(35,496)	—
Total	156,426	57,767	77,982	44,499	57,783	394,459	(35,496)	358,963
Operating expenses	138,325	50,879	72,644	42,838	56,150	360,838	(35,381)	325,456
Operating income	18,100	6,887	5,338	1,661	1,633	33,621	(114)	33,506
II. Assets, Depreciation expenses and Capital outlays								
Assets	116,538	73,799	66,540	32,959	37,535	327,374	47,118	374,492
Depreciation expenses	4,371	2,684	2,344	1,075	108	10.584	(19)	10,565
Capital outlays	2,732	2,215	1,622	490	586	7,648	(1)	7,646

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko group. The main products of each segment are as follows:
   Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners
   Bio-chemicals: Pharmaceutical raw materials, healthcare products, agrochemicals and products for livestock and fisheries industries, raw material alcohol
   Chemicals: Solvents, plasticizers, plasticizer raw materials, and specialty chemicals
   Food: Seasonings, bakery products and ingredients, and processed food
   Other: Transportation, design and installation of equipment
   The segmental classification was formerly presented based on each company and corporate within the internal company system. As a result of the separation of the Chemicals business division into a separate company in April 2004 the presentation has changed.
2. Entire company assets included within Elimination/Corporate are ¥58,831 million and mainly comprise excess working capital (cash and marketable securities), long-term investments (investment securities) and deferred tax assets.
3. In regard to segmental classification of businesses, as a result of the group’s organization change in connection with the change to a holding company system from April 2005 the raw material alcohol business which was included in the Food segment is now included in the Bio-chemicals segment.

Figures for the previous consolidated fiscal year reflecting the new segmental classification are as follows:

Previous fiscal year: April 1, 2003– March 31, 2004

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales:								
(1) Sales to external customers	141,382	60,904	61,829	41,393	43,327	348,838	-	348,838
(2) Inter-segment sales and transfers	1,498	8,290	5,069	4,518	19,578	38,955	(38,955)	-
Total	142,881	69,194	66,899	45,912	62,906	387,793	(38,955)	348,838
Operating expenses	130,937	60,347	64,005	44,258	61,139	360,688	(38,687)	322,001
Operating income	11,943	8,846	2,893	1,653	1,767	27,104	(268)	26,836
II. Assets, Depreciation expenses and Capital outlays								
Assets	120,085	72,130	59,494	34,102	32,471	318,284	42,811	361,095
Depreciation expenses	4,576	3,016	2,658	1,009	113	11,373	(15)	11,358
Capital outlays	3,601	1,875	1,758	1,769	101	9,105	(64)	9,041

Segment information by location

April 1, 2004– March 31, 2005

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	12,883	16,563	23,655	924	54,026
(2) Consolidated sales					358,963
(3) Overseas sales as a percentage of consolidated sales	3.6%	4.6%	6.6%	0.3%	15.1%

April 1, 2003 – March 31, 2004

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	19,711	17,716	20,629	210	58,268
(2) Consolidated sales					348,838
(3) Overseas sales as a percentage of consolidated sales	5.6%	5.1%	5.9%	0.1%	16.7%

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.