KYOWA

Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

Fiscal 2006

(April 1, 2006 - March 31, 2007)

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

For The Fiscal Year Ended March 31, 2007

Kyowa Hakko Kogyo Co., Ltd. **April 27, 2007**

Stock Code:	4151	Listed exchanges:	Tokyo, 1st section
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Scheduled date of General Meeting of Shareholders: June 20, 2007
Scheduled date of submission of Securities Report: June 20, 2007
Scheduled start date of dividend payment: June 21, 2007

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2007

(Amounts less than 1 million yen have been ignored)

1) Consolidated Operating Results

Millions of yen

	FY Ended March 31, 2007		FY Ended March 31, 2006	
		Change (%)		Change (%)
Net sales	354,274	0.2	353,439	(1.5)
Operating income	30,698	20.2	25,534	(23.8)
Recurring income	30,901	9.5	28,219	(12.8)
Net income	12,694	(22.0)	16,273	(9.2)
Net income per share (¥)	¥31.32		¥38.36	
Fully diluted net income per share (¥)	¥31.31		¥38.35	
Return on equity (%)	5.1%		6.6%	
Recurring income to total capital ratio (%)	8.1%		7.4%	
Operating income to sales ratio (%)	8.7%		7.2%	

Note: Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY ended March 31, 2007: ¥831 million FY ended March 31, 2006: ¥679 million

2) Consolidated Financial Position

	As of March 31, 2007	As of March 31, 2006
Total assets (millions of yen)	378,870	384,381
Net assets (millions of yen)	244,082	255,807
Equity ratio (%)	63.8%	66.6%
Net assets per share (¥)	¥607.49	¥604.92

Note: Shareholders' equity: At end March 2007: ¥241,717 million; At end March 2006: ¥255,807 million

3) Consolidated Cash Flows

Millions of yen

	FY Ended March 31, 2007	FY Ended March 31, 2006
Net cash provided by operating activities	23,380	14,303
Net cash used in investing activities	(8,493)	(1,795)
Net cash used in financing activities	(24,417)	(5,139)
Cash and cash equivalents at end of period	36,613	45,820

2. Dividends

	FY Ended March 31, 2006	FY Ended March 31, 2007	FY Ending March 31, 2008 (forecast)
Dividend per share:			
Interim	¥5.00	¥5.00	¥5.00
Year-end	¥5.00	¥5.00	¥5.00
Annual	¥10.00	¥10.00	¥10.00
Total annual dividend amount	¥4,229 million	¥3,980 million	--
Dividend payout ratio	26.1%	31.9%	15.9%
Ratio of dividends to net assets	1.7%	1.6%	--

3. Consolidated Results Forecasts for the Fiscal Year Ending March 31, 2008

Millions of yen

	Interim		Full year	
		Change %		Change %
Net Sales	187,000	8.0	380,000	7.3
Operating income.......................	13,000	(10.8)	34,000	10.8
Recurring income.......................	14,000	(7.5)	34,000	10.0
Net income................................	9,000	125.9	25,000	96.9
Net income per share	¥22.62		¥62.83	

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

4. Other

1) Transfer of important subsidiaries during the period (Transfers of certain subsidiaries resulting in changes in the scope of consolidation): No

2) Changes in accounting principles, procedures and presentation in the preparation of these financial statements

(1) Changes in accordance with revision to accounting standards: Yes

(2) Other changes: Yes

3) Number of shares outstanding (ordinary shares)

(1) Number of shares outstanding at end of period (including treasury shares):

March 31, 2007: 399,243,555 shares   March 31, 2006: 434,243,555 shares

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

March 31, 2007: 1,351, 220 shares   March 31, 2006: 11,447,609 shares

The above forecasts are based on the information available and assumptions made at the time of release of this document about a number of uncertain factors that may affect results in the future. Actual results can differ materially from these projections for a wide variety of reasons. For more information regarding our business forecasts, please refer to page 8, "2. Outlook for Fiscal 2007".

1. Operating Results and Financial Position

I. Summary of Operating Results

1) Operating results for the fiscal year ended March 31, 2007

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	354.2	353.4	0.8
Operating income	30.6	25.5	5.1
Recurring income	30.9	28.2	2.6
Net income	12.6	16.2	(3.5)

During the consolidated fiscal year under review, the Japanese economy witnessed some weakness in personal consumption, but the economy continued to recover as capital expenditure increased, and employment improved against a background of improvements in corporate profits.

As regards the business environment in which Kyowa Hakko operates, in the Pharmaceuticals business, global competition in sales and new drug development became more severe as the generic drugs market expanded and major U.S. and European pharmaceutical companies intensified their activities, while prescription pharmaceutical prices in Japan were reduced in April by an industry average of 6.7%. In the Bio-Chemicals business, the environment remained harsh as raw material and fuel prices increased, and price competition in Japan and overseas grew more intense. In the Chemicals business, product prices generally remained at high levels in both overseas and domestic markets as a result of increased oil prices. In the Food business, market conditions continued to require us to respond rapidly to changes in market structure resulting from the diversifying food lifestyles of consumers.

Against this background Kyowa Hakko implemented its ninth-medium term business plan for ‘Growth and Development’. In order to increase our competitiveness we implemented proactive investment for future growth, a strategic sales growth policy and comprehensive cost-cutting measures.

Consolidated net sales in the fiscal year ended March 31, 2007 were ¥354.2 billion, an increase of 0.2% from fiscal 2005. Operating income was ¥30.6 billion, an increase of 20.2% and recurring income was ¥30.9 billion, an increase of 9.5%. Net income was affected by extraordinary losses including losses on the sale of subsidiaries’ shares and asset impairment losses and decreased by 22%to ¥12.6 billion.

Consolidated R&D expenses for the period were ¥33.3 billion, an increase of 1.4% compared to fiscal 2005 and the R&D expense to net sales ratio was 9.4%, an increase of 0.1 percentage points.

2) Segmental Review

Pharmaceuticals

	Billions of yen Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	131.5	149.5	(18.0)
Operating income	15.7	14.2	1.5

Despite strong volume growth in core ethical pharmaceutical products, sales were affected by pharmaceutical price cuts of 6.7% introduced in April 2006 and a large fall in sales of antimycological agent *Itrizole* after the ending of a distribution agreement in March 2006. Sales of *Coniel*, a treatment for hypertension and angina pectoris, were lower than in the previous fiscal year, but sales of *Allelock (olopatadine hydrochloride)* an antiallergic agent*, Durotep,* an analgesic for persistent cancer pain, and *Navelbine*, an anticancer agent, each increased. Meanwhile, *Patanol*, an antiallergic ophthalmic solution, which was launched in October 2006, rapidly penetrated its market and contributed to sales.

In the licensing-out of technologies and export of pharmaceutical products, sales of antiallergic agent *Olopatadine* continued to perform very well.

At the Kyowa Hakko subsidiary Kyowa Medex Co., Ltd., which is responsible for the manufacture and sale of diagnostic reagents, increased competition led to lower sales of clinical chemistry diagnostic reagents but sales of immunological reagents increased, and overall sales were higher than in the previous fiscal year.

As a result Pharmaceuticals business net sales declined 12.0%, to ¥131.5 billion, while operating income increased by 10.6%, to ¥15.7 billion.

In new drug development in Japan, *Bothdel*, the contrast medium for MRI, received approval in April 2006 and sales commenced in September, while the antiepileptic KW-6485 is currently in the NDA application stage. Kyowa Hakko is also carrying out Phase II clinical trials in Japan on KW-6002, an anti-Parkinson’s disease treatment and KW-2246, an analgesic for cancer pain, while KW-0761, a therapeutic antibody that utilizes our Potelligent® technology, is in Phase I clinical trials as a blood cancer treatment. In addition, inflammatory bowel disease agent *Asacol,* for which we agreed a joint development and sales contract with Zeria Pharmaceutical Co., Ltd. in January 2007, is in Phase III clinical trials.

Overseas, KW-6002 has completed Phase III clinical trials in North America and Europe as an anti-Parkinson’s disease treatment and application in the U.S. for its approval as a new drug was made in April 2007. In North America, anticancer agent KW-2449 is in Phase I trials, and in Europe therapeutic antibody KW-0761 is in Phase I trials as an antiallergic agent. In September 2006, our U.S. subsidiary Biowa, Inc. commenced Phase I clinical trials of BIW-8405, an anti-asthma agent incorporating Kyowa Hakko’s Potelligent® technology and in December 2006, BIW-8405 was outlicensed to MedImmune of the U.S. Meanwhile, in China Phase III clinical trials are underway for *Allelock,* an antiallergic agent, and for additional indications for *Coniel* as a treatment for angina pectoris.

Bio-Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	67.1	57.4	9.6
Operating income	4.1	4.0	0.0

Sales of pharmaceuticals and industrial raw materials, including amino acids, nucleic acids, and related compounds, were up sharply reflecting increased overseas demand and increased sales in Japan of raw materials for generic pharmaceuticals. In healthcare products sales increased, as mail-order sales in Japan of the *Remake* series grew strongly and sales in overseas markets of amino acids used as dietary supplements also increased, offsetting weak sales of raw materials in a sluggish domestic health foods market.

Sales of agrochemicals and products for the livestock and fisheries industry decreased due to the effects of our withdrawal from the fertilizer business and the effects of increased competition in overseas agrochemical markets
Despite continued poor conditions in the raw material market for the alcohol beverage industry, sales of alcohol were higher as the deregulated industrial-use alcohol business increased volume sales significantly.

As a result net sales in the Bio-Chemicals business increased 16.9%, to ¥67.1 billion, while operating income increased by 0.7% to ¥4.1 billion.

In pursuit of the development of production facilities on a global basis, following the start of production at a leading-edge plant in February 2006, Shanghai Kyowa Amino Acid Co., Ltd. became a consolidated subsidiary.

In R&D, Kyowa Hakko continued to pursue research in fermentation production technology aimed at reducing the production cost of amino acids and also focused on developing applications for a wide-range of amino acids, nucleic acids and related compounds at the Healthcare Products Development Center established in July 2006.

Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	98.6	85.8	12.8
Operating income	7.9	4.5	3.4

In Japan, firm demand underpinned an increase in shipment volumes, while revisions of core product prices were implemented as further rises in the naphtha and crude oil markets led to a background of higher raw materials and fuel prices. As a result, sales showed a large increase compared to the previous fiscal year. Export shipment volumes were lower, but strong overseas demand for plasticizer raw materials and solvents led to an increase in sales. By product category, sales of high-purity solvents to the IT industry were strong and specialty chemicals products recorded sales growth in Japan and overseas, driven by a strong performance from core refrigerant oil raw materials.

As a result of these factors, net sales in the Chemicals business increased 14.9%, to ¥98.6 billion, while operating income increased by 77.2%, to ¥7.9 billion.

Food

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	42.5	42.4	0.1
Operating income	1.8	1.6	0.2

In seasonings, sales of natural seasonings increased as sales of fermented seasonings to the food service market expanded, and sales volumes of *Umami* seasonings also increased, leading to higher overall sales.

In bakery products and ingredients, sales of core yeasts, flavor enhancers and baking improvers increased but milk preparations and premixes declined, leading to a decline in sales. In processed foods, sales of instant noodle ingredients and soups increased leading to an increase in sales.

As a result net sales in the Food business increased 0.4%, to ¥42.5 billion, while operating income decreased 14.3%, to ¥1.8 billion.

Other

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Net sales	48.4	55.3	(6.8)
Operating income	0.9	1.1	(0.1)

In the Other business segment, sales decreased 12.4%, to ¥48.4 billion, while operating income decreased 16.2% to ¥0.9 billion.

2. Outlook for Fiscal 2007

	Billions of yen		%
	FORECAST Fiscal Year ending March 31, 2008	Change compared to the previous fiscal year	
Net sales	380.0	25.7	7.3%
Operating income	34.0	3.3	10.8%
Recurring income	34.0	3.0	10.0%
Net income	25.0	12.3	96.9%

(These figures assume an average exchange rate of ¥115 to the U.S. dollar and ¥150 to the Euro)

While the Japanese economy is generally expected to continue its gentle recovery, trends in crude oil prices and the outlook for the economy of the United States remain unclear and our business environment is expected to remain uncertain.

Amidst such an environment, Kyowa Hakko is looking towards future growth by carrying out active investments while implementing comprehensive cost-cutting measures. We will also increase investment in marketing to expand sales as we strive to build the foundations for future profits.

In fiscal 2007, we expect increased sales and profits compared to fiscal 2006. We forecast net sales will increase by 7.3% to ¥380.0 billion and that operating income will increase by 10.8% to ¥34.0 billion. Recurring income is forecast to grow by 10.0% to ¥34.0 billion and net income to increase by 96.9% to ¥25.0 billion.

In the Pharmaceuticals business, fiscal 2007 net sales and operating income are each forecast to increase as core products including *Allelock* continue to grow, and new product *Patanol* contributes to growth. We also expect increased licensing-out of technologies and export of pharmaceutical products, in particular of *Olopatadine*.

In the Bio-Chemicals business, sales volumes are expected to grow as we fully develop our sales strategy for amino acids, Coenzyme Q10, and mail-order sales of the *Remake* series. The consolidation of Daiichi Fine Chemical Co., Ltd. following our planned acquisition of shares in June should also contribute, leading to increased sales and operating income in the Bio-Chemicals business.

In the Chemicals business, sales and operating income are forecast to decline as overseas market prices soften somewhat following a long period of strength in the previous fiscal year.

In the Food business, as we actively utilize solutions-based marketing and introduce new products, sales volumes of natural seasonings, particularly sauces, and of bread ingredients such as baking improvers, are expected to increase and net sales and operating income are forecast to be higher than in fiscal 2006.

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

II. Summary of Financial Position

1) Assets, Liabilities, and Net Assets

Total assets at the close of fiscal 2006 stood at ¥378.8 billion, ¥5.5 billion lower than at the end of the previous fiscal year. Current assets increased by ¥1.3 billion as despite decreases in commercial paper (in 'Marketable securities') and trust beneficiary rights (in 'Other current assets') used for short-term fund management purposes resulting from a repurchase of ¥20.4 billion of our own shares implemented in July, the last day of the fiscal year was a holiday resulting in increases in accounts and notes receivable. Fixed assets decreased by ¥6.8 billion as an increase in tangible fixed assets resulting from capital investment was offset by a decrease in investment securities caused by the sale of shares in affiliates and declines in the share prices of holdings of listed equity securities.

Liabilities increased by ¥7.8 billion to ¥134.7 billion as despite a decline in long-term liabilities such as retirement benefit allowances and deferred tax liabilities, current liabilities, including accounts and notes payable and income taxes payable, increased. Net assets at the end of the period were ¥244.0 billion as the decline in profit reserve resulting from the purchase and cancellation of treasury shares exceeded the net income of ¥12.6 billion recorded for the period. As a result the consolidated equity ratio as of the end of the fiscal year was 63.8%, a decrease of 2.8 percentage points compared to the end of the previous fiscal year.

2) Cash Flow Summary

	Billions of yen		
	Consolidated results for the period ended March 31, 2007	Consolidated results for the period ended March 31, 2006	Change
Cash flows from operating activities	23.3	14.3	9.0
Cash flows from investing activities	(8.4)	(1.7)	(6.6)
Cash flows from financing activities	(24.4)	(5.1)	(19.2)
Cash and cash equivalents at end of period	36.6	45.8	(9.2)

Net cash provided by operating activities was ¥23.3 billion, ¥9.0 billion higher than in the previous fiscal year, despite a decline in net income before income taxes. The main reason for this was a decline in corporate and other taxes paid compared to the previous fiscal year.

Net cash used in investing activities was ¥8.4 billion, ¥6.6 billion more than in the previous fiscal year. The main outflow was ¥13.0 billion for the acquisition of tangible fixed assets, but this was partially offset by an inflow of ¥3.9 billion from the sale of marketable investment securities.

Net cash used in financing activities was ¥24.4 billion, ¥19.2 billion more than in the previous fiscal year. The main factor was a ¥20.5 billion increase in payments for the purchase of our own shares compared to fiscal 2005.

As a result of the above factors, the balance of cash and cash equivalents as of March 31, 2007 was ¥36.6 billion, a decrease of ¥9.2 billion compared to the end of the previous fiscal year.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
Shareholders' equity ratio (%)	59.4	62.3	62.9	66.6	63.8
Shareholders' equity (market price base) ratio (%)	59.4	82.1	92.7	94.6	114.5
Interest bearing debt/ Cash flow ratio (%)	285.7	39.0	40.5	85.4	56.2
Interest coverage ratio (times)	9.7	31.7	124.4	84.8	106.3

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

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

3) Fiscal 2007 Outlook for Financial Position

Cash flows from operating activities: Payments of corporate and other taxes are expected to increase but net income before income and other taxes is expected to increase significantly compared to fiscal 2006 and so fiscal 2007 cash flows from operating activities are expected to be higher than in fiscal 2006.

Cash flows from investing activities: An inflow is expected in October from the sale of land used for warehousing in Nishinomiya City, Hyogo Prefecture but increased expenditure on facilities investment including new manufacturing facilities for antibodies used in clinical trials, and payment (scheduled for June) for the purchase of shares in Daiichi Fine Chemical Co., Ltd. are expected to result in increased outflows compared to fiscal 2006.

Cash flows from financing activities: Compared to fiscal 2006 in which ¥20.7 billion was spent on the purchase of our own shares, outflows are expected to decline. Financial activities such as the procurement of funds, repayment of borrowings and acquisition of treasury shares will be considered flexibly in the light of economic and financial conditions.

As a result, cash and cash equivalents as of the end of fiscal 2007 are expected to be at a similar level to the end of fiscal 2006.

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

III. Basic Policy on Profit Distribution and Fiscal 2007 dividends

Kyowa Hakko regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy while maintaining fully adequate internal reserves, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders' equity. Kyowa Hakko aims to respond flexibly and expeditiously in its share buyback policy with the aim of enhancing capital efficiency, while retaining sufficient reserves to make the investments in facilities and research and development that are required to fund new growth. In accordance with this basic policy we expect to pay a final dividend for fiscal 2006 of ¥5 per share, the same as in the previous fiscal year. As a result, along with the interim dividend payment of ¥5 per share, the annual dividend per share for fiscal 2006 is expected to be ¥10 per share, the same as in fiscal 2005. In respect of fiscal 2007 the annual dividend payment is currently expected to be ¥10 per share (interim ¥5, final ¥5).

IV. Business Risks and Other Risks

With respect to Kyowa Hakko Group's business performance and financial position, the major risks that may significantly affect investors' judgments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event. Items in this section dealing with future events reflect the judgment of Kyowa Hakko Group as of the end of fiscal year to March 31, 2007.

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

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

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

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

In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies that are expected to differentiate the Group from its competitors by making use of key technologies, such as its core fermentation technologies and biotechnologies. There is no guarantee these investments will produce results. As stated above, in cases where expected R&D

results are not realized, Kyowa Hakko Group's future growth and profitability may decline and our business performance and financial position may also be adversely affected.

Risks related to Intellectual Property Assets

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

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

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

Legal regulation risks

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

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

Risk of defective products

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

Disaster-related and accident-related risks

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

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

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

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

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

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

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

Potential risks for overseas business activities

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

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

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

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

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

Risk of significant crude oil price fluctuations on profit margin

In the Chemicals business the main raw materials of its products are derived from refined crude oil products such as naphtha-derived ethylene and propylene that are highly sensitive to crude oil price fluctuations. Global demand and supply and unpredictable factors such as changes in weather conditions, war and terrorism have caused large fluctuations in the price of crude oil and should be expected to do so in the future. If the rise of raw materials prices cannot be reflected in the selling price of products in a timely manner, or cannot be absorbed though cost reduction measures, the Group's business performance and financial position could be adversely affected.

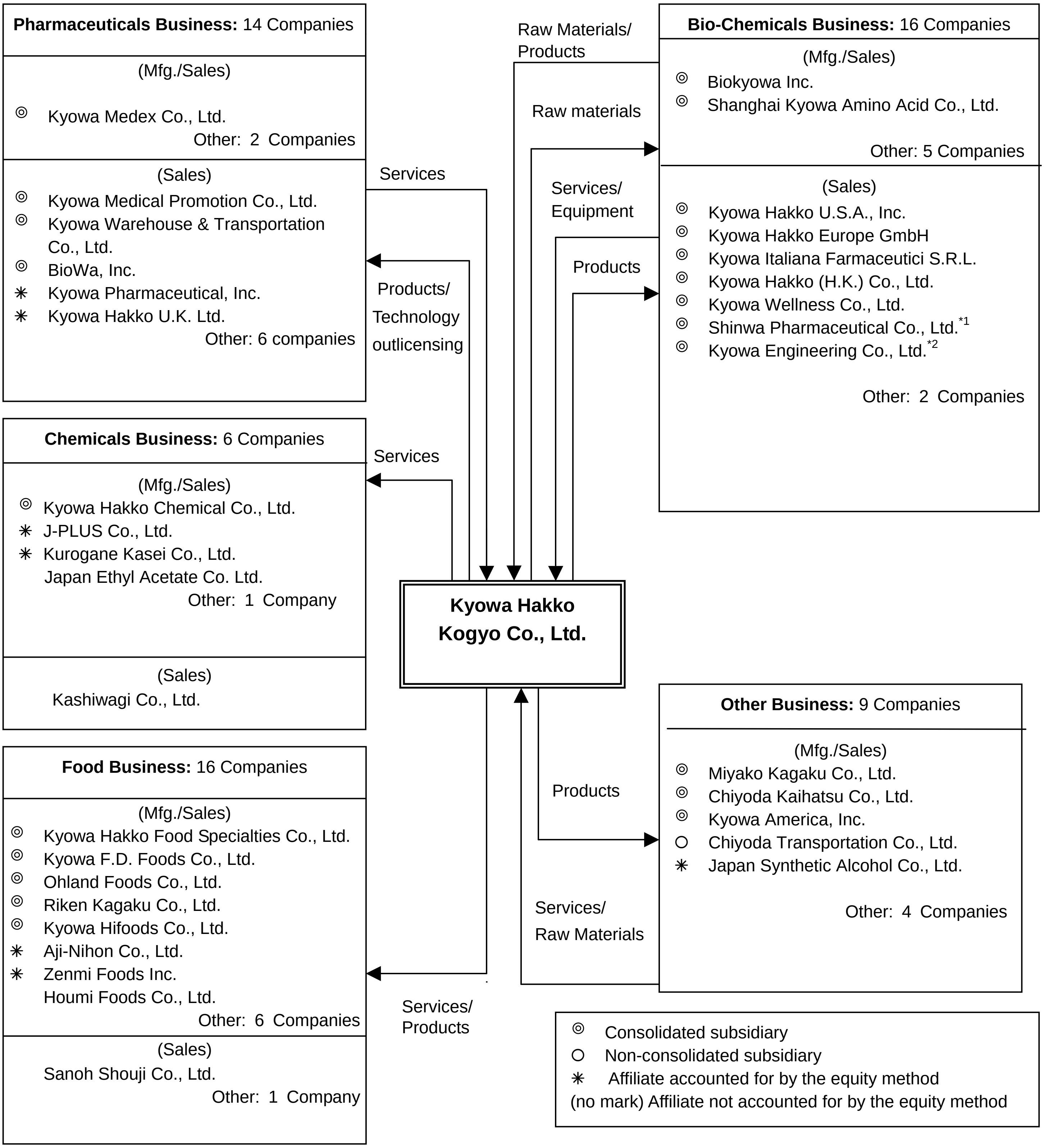
2. Group Status

The Kyowa Hakko Group is composed of the parent company (KYOWA HAKKO KOGYO CO., LTD.) also referred to as "the Company"), 41 subsidiaries and 20 affiliates. The major operating activities of the company and the main group companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Pharmaceuticals Business	Prescription pharmaceuticals are manufactured and sold predominantly by the parent company and Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities of Kyowa Hakko products. Overseas, BioWa, Inc. pursues the out-licensing of antibody technology and development of therapeutic antibodies developed by the Company and is also involved in the strategic development of Kyowa Hakko's therapeutic antibody business. Kyowa Pharmaceutical, Inc. handles the development in the U.S. of new drug candidates created by the parent company, and Kyowa Hakko U.K. Ltd. handles the development in Europe of new drug candidates created by the parent company and the sales of parent company products. Manufacturing and sales of diagnostic reagents are the responsibility of Kyowa Medex Co., Ltd. Also, the liquidation of Kyowa Warehouse and Transportion Co. was ongoing at the end of this fiscal year following the decision made to dissolve the company in December 2006.
Bio-Chemicals Business	The Company, Biokyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture raw materials for pharmaceuticals and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. These are sold directly by these three companies and also by overseas subsidiaries such as Kyowa Hakko U.S.A., Inc., Kyowa Hakko Europe GmbH, Kyowa Italiana Farmaceutici S.R.L., and Kyowa Hakko (H.K.) Co., Ltd. Healthcare products for the domestic market are sold by Kyowa Wellness Co., Ltd. Shinwa Pharmaceutical Co., Ltd. sells herbal medicines, health foods, etc. Agrochemicals and products for the livestock and fisheries industries, and alcohol, are primarily manufactured and sold by Kyowa Hakko. Kyowa Engineering Co., Ltd. designs and constructs facilities, and provides services and supplies equipment to Kyowa Hakko and certain related companies.
Chemicals Business	Chemical products such as solvents, plasticizers and their raw materials, and specialty chemicals are mainly manufactured and sold by Kyowa Hakko Chemical Co., Ltd., and partly by J-PLUS Co., Ltd., Kurogane Kasei Co., Ltd., and Japan Ethyl Acetate Co., Ltd. Kyowa Hakko Chemical Co., Ltd. also sells products provided by such companies, supplies raw materials to certain related companies, and receives services from Kyowa Hakko. The Kashiwagi Co., Ltd. primarily sells products supplied by Kyowa Hakko Chemical Co., Ltd. and goods purchased from third parties.
Food Business	The manufacture and sale of seasonings, bakery products and ingredients and processed foods is mainly performed by Kyowa Hakko Food Specialties Co., Ltd., and partly by Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Riken Kagaku Co., Ltd., Kyowa Hifoods Co., Ltd., Aji-Nihon Co., Ltd., Zenmi Foods Co., Ltd., and Houmi Foods Co., Ltd. Kyowa Hakko Food Specialties Co., Ltd. provides each of these companies with some of their raw materials and also sells finished products supplied by them. Kyowa Hakko Food Specialties Co., Ltd. is supplied with products and services by the Company. Sanoh Shouji Co., Ltd. is mainly involved in the sales of products supplied by Kyowa Hakko Food Specialties Co., Ltd., and of goods purchased from other companies.
Other Business	A number of related companies including Miyako Kagaku Co., Ltd., Chiyoda Kaihatsu Co., Ltd., and Chiyoda Unyu Co., Ltd. are responsible for activities including wholesale and distribution, and provide services and supply raw materials to Kyowa Hakko and some of its related companies. Kyowa America, Inc. is a U.S.-based holding company. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications.

Note: Unless specifically stated otherwise, in this document 'the Group' refers to the parent company and its 22 consolidated subsidiaries.

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



*1. From this period the segmental classification of Shinwa Pharmaceutical Co., Ltd. has changed from the Pharmaceuticals Business to the Bio-Chemicals Business.

*2. From this period the segmental classification of Kyowa Engineering Co., Ltd. has changed from Other Business to the Bio-Chemicals Business.

3. Management Policies

(1) Basic Management Policies

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

Our businesses aim to provide products, services, and information that deliver superior quality and performance in line with our focus on customer satisfaction. In addition, we are working to build a highly transparent and healthy corporate management that swiftly discloses accurate and objective information. At the same time, by fulfilling our corporate social responsibilities including legal and other compliance, and maintaining product quality assurance, we are striving to be a company that earns the broad trust of society.

(2) Management Targets

With the aim of utilizing its business resources more efficiently and enhancing profitability the Kyowa Hakko Group has designated return on invested capital (ROIC) as a management indicator in its 9th medium-term business plan.

Numerical targets for the final year of the 9th medium-term plan (the year to March 2008) are net sales of ¥350 billion, operating income of ¥34 billion and ROIC of at least 12%.

Trends in these figures (consolidated) are as follows:

Billions of yen

	FY to March, 2006 Results	FY to March, 2007 Results	FY to March, 2008 Forecast	FY to March, 2008 Target
Net Sales	353.4	354.2	380.0	350.0
Operating income	25.5	30.6	34.0	34.0
ROIC	9.2%	11.1%	12%	above 12%

Note: ROIC = Operating income/ Fixed assets + Working capital

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

Kyowa Hakko Group has identified the three-year period of its 9th medium-term business plan, from fiscal 2005 to fiscal 2007, as a period during which it will actively pursue investment, including research and development expenses, with the aim of achieving sustained growth, while also expanding sales of existing businesses and pursuing wide-ranging cost reductions. Through strengthening the Group's growth capabilities and competitiveness by steadily implementing this plan, we aim to further enhance corporate value.

As regards the Pharmaceuticals business, in an environment characterized by reform of the Japanese National Health Insurance system based on the control of medical treatment costs, we are facing intensified competition from European and U.S. pharmaceuticals manufacturers, and an expanding market for generic pharmaceutical products. In response, Kyowa Hakko Group will strive to strengthen its domestic sales activities to expand sales of core products, and actively promote research and development aimed at the early launch of anti-Parkinson's disease agents, anticancer agents and

others. We will also steadily implement measures aimed at future growth and development including the strategic development of the therapeutic antibody business centered on our leading-edge antibody production technology, the licensing-in of products developed by others and preparations to expand sales of in-house developed products in the Chinese market.

In the Bio-Chemicals business, despite participation in the amino acids market by Chinese and Korean makers and intensified competition in the health foods market, we will aim to strengthen our competitive position in core amino acid products introducing innovative production methods in fermentation production and drastically reducing production costs. We will also strengthen our synthetics capabilities through the acquisition of Daiichi Fine Chemical Co., Ltd., and are aiming to enhance our operating base, focusing mainly on pharmaceutical raw materials and intermediates. Furthermore, through restarting in-house production of the coenzyme Q10 and developing new products such as dipeptides we aim to create a future source of core profits, while we will also strengthen our market strategy by focusing on expanding mail-order sales of the *Remake* series in the healthcare business.

In the Chemicals business, we aim to maintain profits in the existing bulk business supported by firmly based growth in the Chinese market, though continued high prices of fuel and raw materials are a cause for concern. With attention to environmental concerns, we are also steadily implementing measures to secure future growth and development including the expansion of the specialty chemicals business focused on environmentally friendly products and active capital investment to increase production.

Our Food business is paying full attention to product quality assurance against a background of increasing consumer awareness of food safety and a trend towards stricter regulation. We are also focusing on using our fermentation technology and other original technologies to develop distinctive new products such as natural seasonings, flavor enhancers and bread improvers, while our customer strategy will focus on an enhanced commitment to the market for prepared foods.

4. Consolidated Financial Statements

Consolidated Balance Sheets

	Millions of yen		
	As of March 31, 2007	As of March 31, 2006	Change
ASSETS			
Current assets:			
Cash and time deposits	28,895	26,019	
Accounts and notes receivable	107,458	97,828	
Marketable securities	6,998	15,494	
Inventories	56,015	55,485	
Deferred tax assets	5,803	6,365	
Other current assets	9,281	11,981	
Less: allowance for doubtful accounts	(100)	(189)	
	214,352	**212,985**	**1,367**
Fixed assets:			
Tangible fixed assets			
Buildings and structures	35,608	37,222	
Machinery and equipment	24,994	22,403	
Land	20,364	20,268	
Construction in progress	5,123	2,782	
Other	5,157	5,511	
	91,248	**88,188**	**3,060**
Intangible fixed assets	510	402	107
Investments and other assets:			
Investment securities	62,387	72,244	
Long-term loans	1,849	2,534	
Deferred tax assets	313	343	
Other investments and other assets	9,189	9,293	
Allowance for doubtful accounts	(980)	(1,160)	
Allowance for investment valuations	--	(449)	
	72,759	**82,804**	**(10,045)**
Total Fixed Assets	**164,518**	**171,396**	**(6,877)**
Total Assets	**378,870**	**384,381**	**(5,510)**

Consolidated Balance Sheets (continued)

	Millions of yen		
	As of March 31, 2007	As of March 31, 2006	Change
LIABILITIES			
Current liabilities:			
Accounts and notes payable	52,249	46,869	
Short-term bank loans	12,822	12,203	
Accrued expenses	17,556	16,100	
Expenses payable	--	634	
Income taxes payable	7,079	3,828	
Reserve for sales rebates	947	1,072	
Reserve for sales returns	44	38	
Reserve for sales promotion expenses	716	718	
Reserve for periodic repairs	967	--	
Reserve for bonuses	3,140	3,303	
Other current liabilities	10,976	9,378	
	106,501	**94,148**	**12,353**
Long-term liabilities:			
Long-term debt	314	12	
Deferred tax liabilities	5,592	7,382	
Retirement benefit allowance	21,402	24,516	
Directors' retirement benefit allowance	108	92	
Other long-term liabilities	868	738	
	28,287	**32,742**	**(4,455)**
TOTAL LIABILITIES	**134,788**	**126,890**	**7,898**
Minority interests	**--**	**1,683**	**(1,683)**
SHAREHOLDERS` EQUITY:			
Common stock	--	26,745	(26,745)
Capital surplus	--	43,186	(43,186)
Retained earnings	--	170,718	(170,718)
Valuation difference on other marketable securities	--	24,338	(24,338)
Foreign exchange adjustment account	--	(1,152)	1,152
Treasury stock	--	(8,028)	8,028
	--	**255,807**	**(255,807)**
Total Liabilities, Minority Interests and Shareholders' Equity	**--**	**384,381**	**(384,381)**

Consolidated Balance Sheets (continued)

Millions of yen

	As of March 31, 2007	As of March 31, 2006	Change
NET ASSETS			
Shareholders' equity:			
Common stock	26,745	--	26,745
Capital surplus	43,180	--	43,180
Retained earnings	151,565	--	151,565
Treasury stock	(1,062)	--	(1,062)
Total shareholders' equity	220,428	--	220,428
Valuation and translation adjustments			
Valuation difference on other marketable securities	21,785	--	21,785
Deferred gains on hedges	5	--	5
Foreign exchange adjustment account	(502)	--	(502)
Total valuation and translation adjustments	21,289	--	21,289
Subscription rights to shares	65	--	65
Minority interests	2,299	--	2,299
Total net assets	244,082	--	244,082
Total liabilities and net assets	378,870	--	378,870

Consolidated Statements of Income

	Millions of yen		
	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006	Change
Net sales	**354,274**	**353,439**	**834**
Cost of sales	222,844	226,472	(3,627)
Gross profit	131,430	126,967	
Reversal of reserve for sales returns	38	54	
Addition to reserve for sales returns	44	38	
Adjusted gross profit	131,424	126,982	4,441
Selling, general and administrative expenses:			
Transportation	3,947	4,061	
Sales promotion	8,474	8,186	
Addition to reserve for sales promotion expense	716	718	
Salaries	16,887	17,017	
Bonuses	5,522	5,980	
Addition to bonus reserve	1,734	1,895	
Addition to allowance for directors' retirement benefits	39	79	
Employee retirement benefit expense	1,559	1,724	
Depreciation	689	794	
Research and development	32,687	32,317	
Others	28,465	28,673	
	100,725	101,448	(722)
Operating income	**30,698**	**25,534**	**5,164**
Other income:			
Interest income	325	61	
Dividend income	841	932	
Currency exchange gain	349	454	
Dividend on insurance	297	359	
Investment return from anonymous association	--	2,221	
Income from equity method investments	831	679	
Others	1,179	1,544	
	3,825	6,254	(2,428)
Other expenses:			
Interest expense	239	186	
Expense on removal of fixed assets	502	407	
Loss on sale of fixed assets	676	724	
Loss on sale of inventories	1,047	401	
Others	1,156	1,848	
	3,622	3,569	52
Recurring income	**30,901**	**28,219**	**2,682**

Consolidated Statements of Income (continued)

	Millions of yen		
	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006	Change
Extraordinary income:			
Gain on sale of fixed assets………….	666	1,655	
Gains on disposal of affiliates' shares	55	--	
Reversal of allowance for doubtful accounts............. .	44	13	
Realized profit on investments in securities.............. .	32	96	
Reversal of reserve for expenses on disposal of fixed assets..	--	587	
	800	2,352	(1,552)
Extraordinary losses:			
Losses on disposal of affiliates' shares........ .	2,626	--	
Asset impairment losses..	2,405	1,060	
Addition to reserve for prior year periodic repairs	1,016	--	
Industrial water obligation fee	777	--	
Expense related to early retirement support system...	389	4,639	
Expense related to restructuring of affiliates	267	--	
Other expenses	693	--	
	8,176	5,700	
Income before income taxes	23,525	24,871	(1,345)
Corporate, local, and enterprise taxes..	10,455	6,887	
Corporate tax adjustment	413	1,602	
Income (loss) in minority interests in consolidated subsidiaries	(38)	108	(146)
Net income	**12,694**	**16,273**	**(3,579)**

Consolidated Statements of Surplus

	Millions of yen
	April 1, 2005 to March 31, 2006
Capital surplus	
Balance at beginning of period……………………………………………	43,184
Increase in capital surplus:	
Gain on disposal of treasury stock………………………………………	1
Balance at end of period…………………………………………………	**43,186**
Retained earnings	
Balance at beginning of period…………………………………………...	159,587
Increase in retained earnings:	
Net income…………………………………………………………………...	16,273
Decrease in retained earnings:	
Dividend payments……………………………………………………….	4,759
Directors' bonuses ......……………………………………………………...	98
Amount due to increase in number of consolidated subsidiaries	284
Balance at end of period	**170,718**

Consolidated Statements of Changes in Net Assets

(April 1, 2006 to March 31, 2007))

Millions of yen

	Shareholders' Equity				
	Common stock	Capital surplus	Retained surplus	Treasury stock	Total shareholders' equity
Balances as of March 31, 2006	26,745	43,186	170,718	(8,028)	232,621
Changes in period ended March 31, 2007:					
Cash dividends paid..			(4,105)		(4,105)
Bonuses to directors and statutory auditors........			(40)		(40)
Net income..			12,694		12,694
Acquisition of treasury stock				(20,755)	(20,755)
Disposal of treasury stock..................................		(6)	(5)	29	18
Retirement of treasury stock………………….			(27,671)	27,671	--
Decrease in retained earnings due to increase in consolidated subsidiaries			(25)		(25)
Decrease in treasury stock due to decrease in equity-method affiliates				20	20
Net changes in items other than shareholders' equity					
Total changes in period ended March 31, 2007	--	(6)	(19,152)	6,966	(12,193)
Balances as of March 31, 2007	26,745	43,180	151,565	(1,062)	220,428

Millions of yen

	Valuation, Translation Adjustments and Others				Subscription rights to shares	Minority Interests	Total Net Assets
	Unrealized holding gain on securities	Unrealized gain from hedging instruments	Translation adjustments	Total valuation, translation adjustments and others			
Balances as of March 31, 2006	24,338	--	(1,152)	23,186	--	1,683	257,490
Changes in period ended March 31, 2007:							
Cash dividends paid..................							(4,105)
Bonuses to directors and statutory auditors							(40)
Net income................................							12,694
Acquisition of treasury stock							(20,755)
Disposal of treasury stock..........							18
Retirement of treasury stock…..							--
Decrease in retained earnings due to increase in consolidated subsidiaries							(25)
Decrease in treasury stock due to decrease in equity-method affiliates.....................................							20
Net changes in items other than shareholders' equity..................	(2,553)	5	650	(1,896)	65	615	(1,215)
Total changes in period ended March 31, 2007	(2,553)	5	650	(1,896)	65	615	(13,408)
Balances as of March 31, 2007	21,785	5	(502)	21,289	65	2,299	244,082

Consolidated Statements of Cash Flows

	Millions of Yen	
	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Cash flows from operating activities:		
Income before income taxes	23,525	24,871
Depreciation and amortization	10,006	9,788
Asset impairment losses	2,405	1,060
Decrease in retirement benefit allowance	(3,123)	(6,053)
Decrease in allowance for directors' retirement	--	(743)
(Decrease) increase in reserve for bonus payments	(162)	3,303
Decrease in reserve for fixed asset disposal expenses	--	(1,308)
Decrease in allowance for bad debts	(274)	(23)
Interest and dividend income	(1,167)	(994)
Interest expenses	239	186
Income from equity method investments	(831)	(679)
Income from investments in anonymous associations		(2,221)
Gain on sales of tangible fixed assets	(82)	(958)
Loss (gain) on sales of marketable securities	2,537	(96)
Employees' early retirement expenses	389	4,639
(Increase) decrease in trade receivables	(9,274)	8,665
Decrease (increase) in inventories	38	(4,641)
Increase (decrease) in trade payables	4,689	(3,176)
Directors' bonus payments	--	(109)
Decrease in consumption tax payable	--	(491)
Others	749	(4,825)
Sub-total	29,666	26,193
Interest and dividend income	1,469	1,302
Interest payments	(219)	(168)
Cash distributions received from anonymous associations	--	2,590
Payment of premium severance for early retirement	(528)	(4,317)
Corporate etc. tax payments	(7,007)	(11,296)
Net cash provided by operating activities	**23,380**	**14,303**

Consolidated Statements of Cash Flows (continued)

	Millions of Yen	
	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Cash flows from investing activities:		
Increase in time deposits	--	(402)
Decrease in time deposits	--	430
Payments for purchase of property, plant & equipment	(13,040)	(9,001)
Proceeds from sale of property, plant, and equipment	1,632	3,215
Payments for purchase of investment securities	(68)	(62)
Proceeds from sale of investment securities	3,951	4,117
Proceeds from sale of subsidiaries' shares	--	1,182
Net increase in short-term loans receivable	(117)	(439)
Increase in long-term loans receivable	--	(168)
Decrease in long-term loans receivable	23	331
Others	(875)	(999)
Net cash (used in) provided by investing activities	**(8,493)**	**(1,795)**
Cash flows from financing activities:		
Net increase (decrease) in short-term debt	169	(141)
Proceeds from long-term borrowing	281	--
Repayment of long-term debt	(7)	(11)
Payment for purchase of treasury stock	(20,755)	(233)
Proceeds from sale of treasury stock	18	16
Dividends paid	(4,105)	(4,755)
Dividends paid to minority interests	(18)	(13)
Net cash used in financing activities	**(24,417)**	**(5,139)**
Cash and cash equivalents translation differences	**238**	**381**
Increase in cash and cash equivalents	**(9,292)**	**7,749**
Cash and cash equivalents at the beginning of the period	**45,820**	**37,817**
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	**85**	**253**
Cash and cash equivalents at the end of the period	**36,613**	**45,820**

5. Segment information

1. Segment information by business type

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

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales:								
(1) Sales to external customers	130,878	57,055	92,098	38,446	35,794	354,274	--	354,274
(2) Inter-segment sales and transfers	646	10,065	6,550	4,142	12,686	34,091	(34,091)	--
Total	131,525	67,121	98,649	42,589	48,480	388,365	(34,091)	354,274
Operating expenses	115,779	63,008	90,676	40,757	47,512	357,733	(34,158)	323,575
Operating income	15,745	4,112	7,973	1,831	968	30,631	66	30,698
II. Assets, Depreciation expenses and Capital outlays								
Assets	117,778	85,870	83,522	34,775	22,631	344,578	34,291	378,870
Depreciation expenses	3,605	3,181	2,301	799	129	10,018	(12)	10,006
Loss on disposal	814	940	137	513	--	2,405	--	2,405
Capital outlays	3,680	6,628	3,622	886	29	14,847	(350)	14,497

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko group. The main products of each segment are as follows:

Pharmaceuticals:	Pharmaceuticals and diagnostic and related products for medical practitioners
Bio-Chemicals:	Pharmaceutical and industrial-use raw materials, healthcare products, products for livestock and fisheries industries, and alcohol
Chemicals:	Solvents, plasticizer raw materials, and specialty chemicals
Food:	Seasonings, bakery products and ingredients, and processed food
Other:	Wholesale and distribution

2. Entire company assets included within Elimination/Corporate are ¥46,403 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.
3. From the fiscal year ended March 31, 2007 a Reserve for periodic Repairs ahs been accounted for. As a result of this change and compared to the previous accounting treatment, operating income of the Chemicals business has increased by ¥230 million.
4. Following business restructuring, business administrative divisions have been changed at certain subsidiaries in the Pharmaceuticals and Other businesses. These companies have now been included in the Bio-Chemical business.

Revised segmental information for the previous fiscal year according to the business administrative divisions employed in the fiscal year under review is displayed below.

Previous fiscal year (Revised): April 1, 2005 – March 31, 2006

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales								
(1) Sales to external customers	148,593	52,740	80,231	37,929	33,945	353,439	--	353,439
(2) Inter-segment sales and transfers	345	10,500	5,603	4,510	12,004	32,965	(32,965)	--
Total	148,939	63,241	85,834	42,440	45,949	386,405	(32,965)	353,439
Operating expenses	134,671	58,899	81,334	40,838	45,239	360,982	(33,077)	327,905
Operating income	14,267	4,341	4,500	1,602	710	25,422	111	25,534
II. Assets, Depreciation expenses and Capital outlays								
Assets	118,800	82,422	73,380	31,962	27,547	334,113	50,268	384,381
Depreciation expenses	3,912	2,642	2,283	805	159	9,802	(14)	9,788
Loss on disposal	738	--	322	--	--	1,060	--	1,060
Capital outlays	3,898	2,317	3,406	1,216	31	10,870	(11)	10,859

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

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales							--	¥
(1) Sales to external customers	149,146	48,346	80,231	37,929	37,785	353,439	--	353,439
(2) Inter-segment sales and transfers	388	9,077	5,603	4,510	17,582	37,162	(37,162)	--
Total	149,545	57,423	85,834	42,440	55,368	390,602	(37,162)	353,439
Operating expenses	135,305	53,340	81,334	40,838	54,212	365,031	(37,125)	327,905
Operating income	14,230	4,083	4,500	1,602	1,155	25,571	(36)	25,534
II. Assets, Depreciation expenses and Capital outlays								
Assets	118,980	76,213	73,380	31,962	34,290	334,826	49,554	384,381
Depreciation expenses	3,913	2,617	2,283	805	184	9,803	(15)	9,788
Loss on disposal	738	--	322	--	--	1,060	--	1,060
Capital outlays	3,898	2,272	3,406	1,216	76	10,870	(11)	10,859

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 and industrial raw materials, healthcare products, products for livestock and fisheries industries, alcohol
   Chemicals: Solvents, plasticizer raw materials, plasticizers and functional products
   Food: Seasonings, bakery products and ingredients, and processed food
   Other: Wholesale, distribution, design and installation of equipment
2. Entire company assets included within Elimination/Corporate are ¥61,384 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.

2. Segment information by location

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

April 1, 2005 – March 31, 2006
As Japan represents over 90% of total sales and assets this information is omitted.

3. Overseas Sales

April 1, 2006– March 31, 2007

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	19,363	15,789	28,618	424	64,196
(2) Consolidated sales					354,274
(3) Overseas sales as a percentage of consolidated sales	5.5%	4.5%	8.1%	0.1%	18.1%

April 1, 2005 – March 31, 2006

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	15,138	13,608	25,548	643	54,938
(2) Consolidated sales					353,439
(3) Overseas sales as a percentage of consolidated sales	4.3%	3.9%	7.2%	0.2%	15.5%

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.