



# **Kyowa Hakko Kogyo Co., Ltd.**

## **Consolidated Financial Summary**

**Fiscal 2006 First Quarter**

**(April 1, 2006 – June 30, 2006)**

This document is an English translation of parts of the Japanese-language original. All financial information has been prepared in accordance with generally accepted accounting principles in Japan. 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 fluctuations in exchange rates, changing economic conditions, legislative and regulatory developments, delays in new product launches, and pricing and product initiatives of competitors.



## First Quarter Performance Update For The Year Ending March 31, 2006

**Kyowa Hakko Kogyo Co., Ltd.**

**July 25, 2006**

Stock Code: 4151	Listed Exchanges: 1 <sup>st</sup> Section of the Tokyo Stock Exchange
Telephone: +81 3 3282 0009	President: Yuzuru Matsuda
URL: www.kyowa.co.jp/eng/index.htm	Inquiries: Testuro Kuga General Manager, Corporate Communications Department

### 1. Notes relating to the preparation etc., of quarterly business performance updates

- a) Simplified accounting treatments were adopted  
No adjustments for cost variance were applied
- b) There were no changes to accounting treatments from the previous year.
- c) There was one change to the scope of consolidation and one change to equity method accounting  
Details of changes:  
Shanghai Kyowa Amino Acid Co., Ltd. was newly included in the scope of consolidation  
Musashino Chemical Laboratory, Ltd. was excluded from the scope of equity method accounting

### 2. Results for the three months ended June 30, 2006

- (1) Progress of consolidated business performance

*Amounts less than 1 million yen have been ignored*

*Millions of yen*

	Three months to June 30, 2006	Change (%)	Three months to June 30, 2005	Change (%)	FY ended March 31, 2006
Net sales	85,692	(3.1)	88,403	(0.4)	353,439
Operating income	8,168	3.6	7,886	(8.7)	25,534
Recurring income	8,442	7.0	7,893	(13.7)	28,219
Net income	2,054	(51.8)	4,260	(12.9)	16,273
Net income per share (¥)	¥4.86	--	¥10.07		¥38.36
Fully diluted net income per share (¥)	¥4.86	--	¥10.07		¥38.35

Notes: Percentages for net sales, and operating income, etc., show changes compared to the comparable period of the previous fiscal year.



## Summary of business performance

For the three-month period ended June 30, 2006, net sales were ¥85.6 billion, down ¥2.7 billion, or 3.1% from the first quarter of the previous fiscal year. However, these results represent steady progress towards our interim and full-year forecasts for the fiscal year ending March 31, 2007.

In the Pharmaceuticals Business, against the background of National Health reimbursement price reductions implemented in April 2006 at an average of 6.7% across the industry, sales continued to be robust, due to higher volume sales of core products including *Coniel*, a treatment for hypertension and angina pectoris, and *Depakene*, an anti-epileptic agent, and additional indications for *Navelbine*, an anti-cancer drug resulting in improved sales. However, due to a ¥6.5 billion decline in sales of *Itrizole*, an anti-mycological agent, following the termination of a distribution agreement at the end of March 2006, overall sales in the Pharmaceutical Business decreased compared to the first quarter of fiscal 2005. In the Bio-Chemicals Business, sales of amino acids, nucleic acids, mail-order sales of the *Remake* series of healthcare products, and related compounds for pharmaceuticals and industrial-use performed well and overall sales were up from the previous comparable period as sales of industrial-use alcohol increased following deregulation in April 2006. In the Chemicals Business, increased product prices following increases in raw material and fuel prices led to increased sales, driven in particular by higher sales of core solvents products. In the Food Business, sales of *umami* seasonings increased but overall sales remained at similar levels to the first three months of the previous fiscal year.

With regard to profits, the effects of increased raw material and fuel prices were especially felt in the Chemicals Business but a decrease in SG&A expenses such as Pharmaceuticals Business R&D expenses and personnel costs resulted in first quarter operating income of ¥8.1 billion, up ¥0.2 billion, or 3.6%, from the previous comparable fiscal period. Recurring income was ¥8.4 billion, an increase of ¥0.5 billion, or 7.0% from the first quarter of the previous fiscal year. As a result of extraordinary losses including the loss on sales of equity in related companies of ¥2.6 billion, net income for the period was ¥2.0 billion, a decrease of ¥2.2 billion or 51.8%.

## (2) Changes in consolidated financial position

	<i>Millions of yen</i>		
	As of June 30, 2006	As of June 30, 2005	As of March 31, 2006
Total assets	376,668	374,888	384,381
Net assets	255,676	237,286	255,807
Shareholders' equity (%)	67.3%	63.3%	66.6%
Net assets per share (¥)	¥599.14	¥560.97	¥604.92

Note: Figures for June 30, 2005 and March 31, 2006 are those recorded formerly as "Shareholders' equity", "Equity ratio" and "Shareholders' equity per share" respectively.



## Consolidated cash flows

*Millions of yen*

	April 1, 2006 to June 30, 2006	April 1, 2005 to June 30, 2005	April 1, 2005 to March 31, 2006
Cash flows from operating activities	1,609	(328)	14,303
Cash flows from investing activities	493	(2,011)	(1,795)
Cash flows from financing activities	(1,378)	(1,937)	(5,139)
Cash and cash equivalents at end of period	46,644	33,829	45,820

## Summary of financial position

Total assets as of June 30, 2006 were ¥376.6 billion, a decrease of ¥7.7 billion from the end of the March 2006. The main reasons were, in current assets, cash and deposits increased ¥2.9 billion whereas marketable securities decreased ¥2.5 billion, deferred tax assets decreased ¥2.0 billion, and accounts and notes receivable decreased ¥1.4 billion. In fixed assets, while tangible assets increased ¥2.6 billion, investment securities decreased by ¥9.7 billion.

In liabilities, the reserve for bonuses, income tax payable, and accounts and notes payable decreased ¥3.2 billion, ¥3.0 billion and ¥1.2 billion respectively, resulting in a total of ¥120.9 billion, a decrease of ¥5.8 billion from the end of March 2006.

Because of a ¥2.5 billion decrease in valuation difference in other marketable securities, net assets were ¥255.6 billion.

As a result of the above factors, the equity ratio at the end of the first quarter of the fiscal year ending March 31, 2007 was 67.3%, an increase of 0.7 percentage points from the end of the previous fiscal year.

Cash flow from operating activities was ¥1.6 billion. The main positive factors were net income before reduction in the income taxes of ¥5.6 billion and depreciation expense of ¥2.2 billion. The main negative factors were a decrease in the reserve for bonuses of ¥3.2 billion and ¥2.9 billion in income tax payments. Cash flow from investing activities was ¥0.4 billion, resulting from ¥1.6 billion in payments for the acquisition of tangible fixed assets property offset by proceeds of ¥1.7 billion from the sale of marketable securities.

Cash flow from financing activities was a negative figure of ¥1.3 billion largely due to dividend payments of ¥1.7 billion.

As a result of the above factors, the balance of cash and deposits at the end of the first quarter of the fiscal year ending March 31, 2007 was ¥46.6 billion, an increase of ¥0.8 billion from the end of the previous fiscal year.



### 3. Forecasts for the fiscal year ending March 31, 2007

*Millions of yen*

	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Net sales	165,000	340,000
Operating income	11,000	26,000
Recurring income	10,500	25,000
Net Income	4,000	13,000

Forecast net income per share (full year): ¥30.75

#### **Summary of forecasts**

Results for the first quarter of the fiscal year ending March 31, 2007 were largely according to plan and no changes have been made to the interim and full-year forecasts announced on April 28, 2006.

\*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.



## 1. Consolidated balance sheets

Millions of yen

	As of June 30, 2006	As of June 30, 2005	Change		As of March 31, 2006
			(% )		
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and time deposits.....	29,009	32,215			26,019
Accounts and notes receivable.....	96,387	105,777			97,828
Marketable securities.....	12,993	--			15,494
Inventories.....	55,396	56,851			55,485
Deferred tax assets.....	4,314	4,924			6,365
Other current assets.....	15,879	11,876			11,981
(Less) Allowance for doubtful accounts.....	(187)	(198)			(189)
<b>Total current assets</b>	<b>213,793</b>	<b>211,447</b>	<b>2,346</b>	<b>1.1</b>	<b>212,985</b>
<b>Fixed assets:</b>					
<b>Tangible fixed assets:</b>					
Buildings and structures.....	37,424	38,744			37,222
Machinery and equipment.....	22,738	22,489			22,403
Land.....	20,264	20,960			20,268
Construction in progress.....	4,800	2,320			2,782
Other.....	5,567	5,377			5,511
<b>Total tangible fixed assets</b>	<b>90,794</b>	<b>89,892</b>	<b>901</b>	<b>1.0</b>	<b>88,188</b>
Intangible fixed assets.....	590	189	400	210.9	402
<b>Investments and other assets:</b>					
Investments in securities.....	62,487	62,154			72,244
Long-term loans.....	2,547	1,998			2,534
Deferred tax assets.....	420	2,185			343
Other investments and other assets.....	7,645	8,605			9,293
Allowance for doubtful accounts.....	(1,163)	(1,126)			(1,160)
Allowance for investment valuations.....	(448)	(458)			(449)
<b>Total investments and other assets.....</b>	<b>71,489</b>	<b>73,359</b>	<b>(1,869)</b>	<b>(2.5)</b>	<b>82,804</b>
<b>Total fixed assets.....</b>	<b>162,874</b>	<b>163,441</b>	<b>(566)</b>	<b>(0.3)</b>	<b>171,396</b>
<b>Total assets.....</b>	<b>376,668</b>	<b>374,888</b>	<b>1,799</b>	<b>0.5</b>	<b>384,381</b>



Millions of yen

	As of June 30, 2006	As of June 30, 2005	Change (%)	As of March 31, 2006
<b>LIABILITIES:</b>				
<b>Current liabilities:</b>				
Accounts and notes payable.....	45,634	57,124		46,869
Short-term bank loans.....	12,920	12,295		12,203
Accrued expenses.....	18,085	17,785		16,100
Income taxes payable.....	778	1,428		3,828
Reserve for sales rebates.....	815	1,035		1,072
Reserve for sales returns.....	38	53		38
Reserve for sales promotion expenses....	635	810		718
Reserve for bonuses.....	63	--		3,303
Reserve for fixed asset disposal.....	--	1,014		--
Other current liabilities .....	11,296	11,435		10,013
Total current liabilities.....	90,267	102,984	(12,716) (12.3)	94,148
<b>Long-term liabilities</b>				
Long-term debt.....	9	21		12
Deferred tax liabilities.....	6,260	2,618		7,382
Retirement benefit allowance.....	23,411	29,466		24,516
Directors' retirement benefit allowance.....	79	75		92
Reserve for fixed asset disposal expenses.....	--	277		--
Other long-term liabilities.....	963	690		738
Total long-term liabilities.....	30,724	33,149	(2,425) (7.3)	32,742
<b>TOTAL LIABILITIES.....</b>	<b>120,992</b>	<b>136,133</b>	<b>(15,141) (11.1)</b>	<b>126,890</b>



	<i>Millions of yen</i>			
	As of June 30, 2006	As of June 30, 2005	Change  (%)	As of March 31, 2006
<b>NET ASSETS:</b>				
<b>Shareholders' equity:</b>				
Common stock.....	26,745	--		--
Capital surplus.....	43,180	--		--
Retained earnings.....	170,585	--		--
Treasury stock.....	(8,019)	--		--
Total shareholders' equity.....	232,490	--	--	--
<b>Valuation and differences due to foreign exchange:</b>				
Valuation difference on other marketable securities.....	21,767	--		--
Gain on deferred hedge accounting.....	1	--		--
Foreign exchange adjustment account.....	(920)	--		--
Total valuation and differences due to foreign exchange.....	20,848	--	--	--
New share contract rights.....	6	--	--	--
Minority interests.....	2,331	--	--	--
<b>TOTAL NET ASSETS.....</b>	<b>255,676</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>TOTAL LIABILITIES AND NET ASSETS.....</b>	<b>376,668</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Minority interests:</b>				
Minority interests.....	--	1,468	--	1,683
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock.....	--	26,745	--	26,745
Capital surplus.....	--	43,184	--	43,186
Retained earnings.....	--	160,820	--	170,718
Valuation difference on other marketable securities.....	--	15,922	--	24,338
Foreign exchange adjustment account.....	--	(1,535)	--	(1,152)
Treasury stock.....	--	(7,851)	--	(8,028)
<b>Total shareholders' equity.....</b>	<b>--</b>	<b>237,286</b>	<b>--</b>	<b>255,807</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity.....</b>	<b>--</b>	<b>374,888</b>	<b>--</b>	<b>384,381</b>

Note: Under the previously employed accounting standards, the figure for shareholders' equity in the period under review would be ¥253,337 million. Further, in the previous comparable fiscal period, the amount corresponding to total net assets would have been ¥238,760 million, and in fiscal 2006, would have been ¥257,493 million.





## 2. Consolidated statements of income

	<i>Millions of yen</i>				
	April 1, 2006 to June 30, 2006	April 1, 2005 to June 30, 2005	Change	(Reference)	(Reference)
			(%)	to March 31, 2006	to March 31, 2006
<b>Net sales</b> .....	<b>85,692</b>	<b>88,403</b>	<b>(2,711)</b>	<b>(3.1)</b>	<b>353,439</b>
Cost of sales .....	53,484	55,455	(1,970)	(3.6)	226,472
Gross profit.....	32,207	32,948			126,967
Reversal of reserve for sales returns.....	38	54			54
Addition to reserve for sales returns.....	38	53			38
Adjusted gross profit.....	32,208	32,949	(740)	(2.2)	126,982
Selling, general and administrative expenses...	24,040	25,062	(1,022)	(4.1)	101,448
<b>Operating income</b> .....	<b>8,168</b>	<b>7,886</b>	<b>281</b>	<b>3.6</b>	<b>25,534</b>
Other income.....	965	1,035	(70)	(6.8)	6,254
Interest and dividend income.....	584	454			994
Income from equity method investments.....	217	193			679
Others.....	163	387			4,580
Other expenses.....	690	1,028	(338)	(32.9)	3,569
Interest expenses.....	49	45			186
Others.....	641	983			3,383
<b>Recurring income</b> .....	<b>8,442</b>	<b>7,893</b>	<b>549</b>	<b>7.0</b>	<b>28,219</b>
Extraordinary income.....	583	23	560	2,429.8	2,352
Gain on sales of fixed assets.....	582	13			1,655
Reversal of allowance for doubtful accounts..	0	9			13
Reversal of reserve for expenses on disposal of fixed assets.....	--	--			587
Realized profit on investments in securities...	--	--			96
Extraordinary losses.....	3,403	738	2,665	361.0	5,700
Losses related to disposal of affiliate shares.....	2,626	--			--
Payment for water used in production.....	777	--			--
Expenses on support for employees' early retirement.....	--	--			4,639
Asset impairment losses.....	--	738			1,060
<b>Income before income taxes</b> .....	<b>5,622</b>	<b>7,178</b>	<b>(1,555)</b>	<b>(21.7)</b>	<b>24,871</b>
Corporate, local, and enterprise taxes.....	1,059	701	357	51.0	6,887
Corporate tax adjustment.....	2,485	2,187	297	13.6	1,602
Minority interests in consolidated subsidiaries..	22	27	(4)	(17.8)	108
<b>Net income</b> .....	<b>2,054</b>	<b>4,260</b>	<b>(2,206)</b>	<b>(51.8)</b>	<b>16,273</b>



### 3. Consolidated Statements of Cash Flows

	<i>Millions of Yen</i>		
	April 1, 2006 to June 30, 2006	April 1, 2005 to June 30, 2005	(Reference) April 1, 2005 to March 31, 2006
<b>Cash flows from operating activities:</b>			
Income before income taxes.....	5,622	7,178	24,871
Depreciation and amortization.....	2,227	2,214	9,788
Decrease in retirement benefit allowance.....	(1,106)	(1,103)	(6,053)
(Decrease) increase in reserve for bonus payments.....	(3,239)	--	3,303
Decrease in trade receivables.....	1,644	453	8,665
Decrease (increase) in inventories.....	639	(6,363)	(4,641)
(Decrease) increase in trade payables.....	(1,601)	7,433	(3,176)
Corporate etc. tax payments.....	(2,954)	(7,619)	(11,296)
Others.....	377	(2,520)	(7,158)
<b>Net cash provided by (used in) operating activities.....</b>	<b>1,609</b>	<b>(328)</b>	<b>14,303</b>
<b>Cash flows from investing activities:</b>			
Payments for purchase of property, plant & equipment...	(1,667)	(1,514)	(9,001)
Proceeds from sale of investment securities.....	1,765	20	4,117
Others.....	395	(517)	3,088
<b>Net cash provided by (used) in investing activities.....</b>	<b>493</b>	<b>(2,011)</b>	<b>(1,795)</b>
<b>Cash flows from financing activities:</b>			
Dividends paid.....	(1,724)	(2,107)	(4,755)
Others.....	346	169	(383)
<b>Net cash used in financing activities.....</b>	<b>(1,378)</b>	<b>(1,937)</b>	<b>(5,139)</b>
<b>Cash and cash equivalents translation differences...</b>	<b>13</b>	<b>35</b>	<b>381</b>
<b>(Decrease) increase in cash and cash equivalents....</b>	<b>738</b>	<b>(4,241)</b>	<b>7,749</b>
<b>Cash and cash equivalents at the beginning of the period.....</b>	<b>45,820</b>	<b>37,817</b>	<b>37,817</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period.....</b>	<b>85</b>	<b>253</b>	<b>253</b>
<b>Cash and cash equivalents at the end of the period.....</b>	<b>46,644</b>	<b>33,829</b>	<b>45,820</b>



#### 4. Segment information

##### Fiscal 2006 Q1 Segment information by business type (April 1, 2006 – June 30, 2006)

	<i>Millions of yen</i>							
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated
Net sales								
(1) Sales to external customers	33,286	14,698	19,390	9,307	9,009	85,692	--	85,692
(2) Inter-segment sales and transfers	79	2,435	1,449	934	2,921	7,820	(7,820)	--
<b>Total sales</b>	<b>33,366</b>	<b>17,134</b>	<b>20,840</b>	<b>10,241</b>	<b>11,931</b>	<b>93,513</b>	<b>(7,820)</b>	<b>85,692</b>
Operating expenses	27,450	16,198	20,206	9,780	11,791	85,428	(7,903)	77,524
<b>Operating income</b>	<b>5,915</b>	<b>935</b>	<b>633</b>	<b>460</b>	<b>140</b>	<b>8,085</b>	<b>82</b>	<b>8,168</b>

##### Fiscal 2005 Q1 Segment information by business type (April 1, 2005 – June 30, 2005)

	<i>Millions of yen</i>							
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated
Net sales:								
(1) Sales to external customers	39,038	13,235	17,714	9,345	9,068	88,403	--	88,403
(2) Inter-segment sales and transfers	84	2,290	1,222	1,151	3,599	8,348	(8,348)	--
<b>Total sales</b>	<b>39,123</b>	<b>15,526</b>	<b>18,937</b>	<b>10,497</b>	<b>12,668</b>	<b>96,752</b>	<b>(8,348)</b>	<b>88,403</b>
Operating expenses	34,660	14,065	17,730	9,966	12,503	88,925	(8,408)	80,517
<b>Operating income</b>	<b>4,463</b>	<b>1,461</b>	<b>1,206</b>	<b>531</b>	<b>164</b>	<b>7,827</b>	<b>59</b>	<b>7,886</b>

##### Fiscal 2005 Segment information by business type (April 1, 2005 - March 31, 2006)

	<i>Millions of yen</i>							
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated
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)	--
<b>Total sales</b>	<b>149,535</b>	<b>57,423</b>	<b>85,834</b>	<b>42,440</b>	<b>55,368</b>	<b>390,602</b>	<b>(37,162)</b>	<b>353,439</b>
Operating expenses	135,305	53,340	81,334	40,838	54,212	365,031	(37,125)	327,905
<b>Operating income</b>	<b>14,230</b>	<b>4,083</b>	<b>4,500</b>	<b>1,602</b>	<b>1,155</b>	<b>25,571</b>	<b>(36)</b>	<b>25,534</b>



### Segment information by location

#### April 1, 2006 – June 30, 2006

As Japan represents over 90% of the total sales of each segment, this information has been omitted.

#### April 1, 2005 – June 30, 2005

As quarterly segment information by location has only been presented from the first quarter of the fiscal year ending March 31, 2007, this date has been omitted.

#### April 1, 2005 – March 31, 2006

As Japan represents over 90% of the total sales of each segment, this information has been omitted.

### Overseas Sales

April 1, 2006– June 30, 2006

*Millions of yen*

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	5,419	4,120	5,067	174	14,782
(2) Consolidated sales					85,692
(3) Overseas sales as a percentage of consolidated sales	6.3	4.8	5.9	0.2	17.3

#### April 1, 2005 – June 30, 2005

As quarterly segment information by overseas sales has only been presented from the first quarter of the fiscal year ending March 31, 2007, this date has been omitted.

#### 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