

Kyowa Hakko Kogyo Co, Ltd

Consolidated Financial Summary

Fiscal 2007 First Quarter

(April 1, 2007 – June 30, 2007)

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, 2008

Kyowa Hakko Kogyo Co, Ltd

July 27, 2007

Stock Code: 4151	Listed Exchanges: 1st 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. Results for the three months ended June 30, 2007

(1) Consolidated business performance

(Millions of yen rounded down)

	Three months to June 30, 2007	Change (%)	Three months to June 30, 2006	Change (%)	FY ended March 31, 2007
Net sales	94,978	10.8	85,692	(3.1)	354,274
Operating income	7,568	(7.3)	8,168	3.6	30,698
Recurring income	8,372	(0.8)	8,442	7.0	30,901
Net income	5,319	159.0	2,054	(51.8)	12,694
Net income per share (¥)	¥13.37		¥4.86	--	¥31.32
Fully diluted net income per share (¥)	¥13.36		¥4.86	--	¥31.31

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

Summary of business performance

For the three-month period ended June 30, 2007, net sales were ¥94.9 billion, an increase of ¥9.2 billion, (or 10.8%) from the first quarter of the previous fiscal year. This strong performance, mainly by the Pharmaceuticals business also represents progress ahead of our plan towards interim and full year forecasts for the fiscal year ending March 31, 2008.

In the Pharmaceuticals business, sales increased compared to the first quarter of last fiscal year due to strong sales of *Allelock (Olopatadine hydrochloride)*, an antiallergic agent, and were supported by sales of *Patanol*, an antiallergic ophthalmic solution launched in October 2006. In exports and out-licensing, sales of *Olopatadine hydrochloride* increased.

In the Bio-Chemicals business, sales increased significantly as a result of strong sales of core amino acids, nucleic acids, and related compounds primarily overseas, and as Daiichi Fine Chemical Co., Ltd. was consolidated from the first quarter of this fiscal year.

In the Chemicals business, sales volumes remained broadly unchanged but sales increased as the sharp rise in fuel and raw material prices led to generally strong product prices in domestic and foreign markets.

In the Food business, sales increased largely as a result of growth in sales of bakery products and ingredients.

With regard to profits, gross profit increased ¥4.3 billion supported by the increase in net sales, however operating income decreased ¥0.6 billion (or 7.3%) to ¥7.5 billion, due to a significant rise in R&D expenses, including a one-time payment for the in-licensing of anti-cancer drug ARQ197. Recurring income was ¥8.3



billion (down 0.8%) and net income was ¥5.3 billion, an increase of ¥3.2 billion (or 159%) compared to the first quarter of last year in which an extraordinary loss of ¥3.4 billion was recorded.

(2) Consolidated financial position

Millions of yen rounded down

	As of June 30, 2007	As of June 30, 2006	As of March 31, 2007
Total assets	389,394	376,668	378,870
Net assets	248,077	255,676	244,082
Shareholders' equity (%)	63.1%	67.3%	63.8%
Net assets per share (¥)	¥617.36	¥599.14	¥607.49

(3) Consolidated cash flows

Millions of yen rounded down

	April 1, 2006 to June 30, 2007	April 1, 2006 to June 30, 2006	April 1, 2005 to March 31, 2007
Cash flows from operating activities	(1,577)	1,609	23,380
Cash flows from investing activities	(7,389)	493	(8,493)
Cash flows from financing activities	(5,367)	(1,378)	(24,417)
Cash and cash equivalents at end of period	22,080	46,644	36,613

Summary of financial position

Total assets as of June 30, 2007 were ¥389.3 billion, an increase of ¥10.5 billion compared to the end of the last fiscal year largely due to the consolidation of Daiichi Fine Chemical Co, Ltd.

Current assets decreased ¥2.6 billion as accounts and notes receivable and inventories increased while cash and time deposits and marketable securities decreased. Fixed assets increased ¥13.1 billion largely due to an increase in tangible fixed assets.

Liabilities increased ¥6.5 billion to ¥141.3 billion due to an increase in commercial paper and accounts and notes payable, while income taxes payable and the reserve for bonuses decreased.

Net assets increased ¥3.9 billion to ¥248.0 billion as net income of ¥5.3 billion was recorded.

As a result of the above factors, the equity ratio at the end of the first quarter was 63.1%, a decrease of 0.7 percentage points from the end of the previous fiscal year.

Cash flow from operating activities was a negative figure of ¥1.5 billion, compared to a positive figure of ¥1.6 billion in the first quarter of the previous fiscal year resulting in a difference of ¥3.1 billion. This is primarily the result of a ¥4.5 billion increase in corporate, etc. tax payments.

Cash flow from investing activities was a negative figure of ¥7.3 billion compared to a positive figure of ¥0.4 billion in the first quarter of the previous fiscal year resulting in a difference of ¥7.8 billion. Important factors included payments such as ¥3.7 billion for the acquisition of tangible fixed assets in addition to a ¥2.2 billion payment for the acquisition of shares of a subsidiary following changes to the scope of consolidation.

Cash flow from financing activities was a negative figure of ¥5.3 billion a decrease of ¥3.9 billion compared



to the first quarter of the previous fiscal year. Main positive contributing factors were a ¥5.0 billion yen increase from the issuance of commercial paper while the main negative contributing factor was a ¥8.0 billion repayment of short-term debt.

As a result of the above factors, the balance of cash and cash equivalents at the end of the first quarter of the fiscal year ending March 31, 2008 was ¥22.0 billion, a decrease of ¥14.5 billion from the end of the previous fiscal year.

2. Forecasts for the fiscal year ending March 31, 2008

Results for the first three months of fiscal 2007 were ahead of plan, driven mainly by strong performances from the Pharmaceuticals and Chemicals businesses. As a result, our forecasts for fiscal 2007 that were announced with the full year results for fiscal 2006 on April 27, 2007, have been revised upwards.

Consolidated forecasts for the fiscal year ending March 31, 2008

Millions of yen rounded down

	April 1, 2007 to September 30, 2007	Change	April 1, 2007 to March 31, 2008	Change
Net sales	193,000	11.5%	395,000	11.5%
Operating income	15,000	2.9%	36,000	17.3%
Recurring income	16,000	5.7%	36,000	16.5%
Net income	10,000	151.0%	26,000	104.8%
Net income per share	¥25.13	—	¥65.35	—

Notes: Percentage change show changes compared to the same period of the previous fiscal year.

3. Other

(1) Changes to subsidiaries during the period (Changes to the scope of consolidation following changes to specific subsidiaries):

On June 1, 2007 all issued shares of Daiichi Fine Chemical Co, Ltd, a wholly owned subsidiary of Daiichi Sankyo Co, Ltd, were acquired. As a result of our acceptance of shares in a third party capital increase by Daiichi Fine Chemical, its capital exceeded 10% of Kyowa Hakko's and so on the same day it became a specific subsidiary of Kyowa Hakko.

(2) Use of simplified accounting methods:

There have been no adjustments of cost variance.

(3) Changes from accounting methods used in most recent consolidated fiscal year:

Depreciation methods used for tangible fixed assets acquired after April 1, 2007 have been changed following changes to the Corporation Tax Law. The effects of this change on operating income, recurring income and income before income taxes are negligible.



4. Consolidated balance sheets

Millions of yen

	As of June 30, 2007	As of June 30, 2006	Change Amount	(%)	As of March 31, 2007
ASSETS					
Current assets:					
Cash and time deposits	23,253	29,009			28,895
Accounts and notes receivable	113,728	96,387			107,458
Marketable securities	—	12,993			6,998
Inventories	60,656	55,396			56,015
Deferred tax assets	4,221	4,314			5,803
Other current assets	9,954	15,879			9,281
(Less) Allowance for doubtful accounts ...	(115)	(187)			(100)
Total current assets	211,697	213,793	(2,095)	(1.0)	214,352
Fixed assets:					
Tangible fixed assets:					
Buildings and structures	37,796	37,424			35,608
Machinery and equipment	30,980	22,738			24,994
Land	21,733	20,264			20,364
Construction in progress	3,231	4,800			5,123
Other	5,641	5,567			5,157
Total tangible fixed assets	99,383	90,794	8,589	9.5	91,248
Intangible fixed assets	512	590	(78)	(13.2)	510
Investments and other assets:					
Investments in securities	64,979	62,487			62,387
Long-term loans	1,879	2,547			1,849
Deferred tax assets	632	420			313
Other investments and other assets	11,286	7,645			9,189
Allowance for doubtful accounts	(977)	(1,163)			(980)
Allowance for investment valuations	—	(448)			—
Total investments and other assets	77,800	71,489	6,310	8.8	72,759
Total fixed assets	177,696	162,874	14,822	9.1	164,518
Total assets	389,394	376,668	12,726	3.4	378,870



Millions of yen

	As of June 30, 2007	As of June 30, 2006	Change		As of March 31, 2007
			Amount	(%)	
LIABILITIES					
Current liabilities:					
Accounts and notes payable	57,148	45,634			52,249
Short-term bank loans.....	12,821	12,920			12,822
Commercial paper.....	5,000	—			—
Accrued expenses	20,936	18,085			17,556
Income taxes payable	2,051	778			7,079
Reserve for sales rebates	855	815			947
Reserve for sales returns	46	38			44
Reserve for sales promotion expenses.....	691	635			716
Periodic restoration expenses.....	392	—			967
Reserve for bonuses	509	63			3,140
Other current liabilities	12,486	11,296			10,976
Total current liabilities.....	112,939	90,267	22,671	25.1	106,501
Long-term liabilities:					
Long-term debt	314	9			314
Deferred tax liabilities.....	5,420	6,260			5,592
Retirement benefit allowance.....	21,812	23,411			21,402
Directors' retirement benefit allowance.....	182	79			108
Other long-term liabilities.....	648	963			868
Total long-term liabilities.....	28,377	30,724	(2,346)	(7.6)	28,287
Total liabilities	141,317	120,992	20,325	16.8	134,788



Millions of yen

	As of June 30, 2007	As of June 30, 2006	Change		As of March 31, 2007
			Amount	(%)	
NET ASSETS					
Shareholders' equity:					
Common stock.....	26,745	26,745			26,745
Capital surplus.....	43,180	43,180			43,180
Retained earnings.....	154,780	170,585			151,565
Treasury stock.....	(1,099)	(8,019)			(1,062)
Total shareholders' equity.....	223,606	232,490	(8,883)	(3.8)	220,428
Valuation and differences due to foreign exchange:					
Valuation difference on other marketable securities.....	22,540	21,767			21,785
Gain on deferred hedge accounting.....	10	1			5
Foreign exchange adjustment account.....	(524)	(920)			(502)
Total valuation and differences due to foreign exchange.....	22,026	20,848	1,178	5.7	21,289
Share subscription rights.....	77	6	71	1,177.2	65
Minority interests.....	2,366	2,331	35	1.5	2,299
Total net assets.....	248,077	255,676	(7,598)	(3.0)	244,082
Total liabilities and net assets.....	389,394	376,668	12,726	3.4	378,870



5. Consolidated statements of income

	<i>Millions of yen</i>				
	April 1, 2007 to June 30, 2007	April 1, 2006 to June 30, 2006	Change		(Reference) April 1, 2006 to March 31, 2007
			Amount	(%)	
Net sales	94,978	85,692	9,285	10.8	354,274
Cost of sales	58,447	53,484	4,963	9.3	222,844
Gross profit.....	36,530	32,207			131,430
Reversal of reserve for sales returns	44	38			38
Addition to reserve for sales returns	46	38			44
Adjusted gross profit	36,528	32,208	4,319	13.4	131,424
Selling, general and administrative expenses.....	28,960	24,040	4,919	20.5	100,725
Operating income	7,568	8,168	(600)	(7.3)	30,698
Other income:					
Interest and dividend income	786	584			1,167
Income from equity method investments	312	217			831
Others.....	845	163			1,827
Total other income.....	1,944	965	979	101.5	3,825
Other expenses:					
Interest expenses	86	49			239
Others.....	1,053	641			3,382
Total other expenses.....	1,139	690	449	65.0	3,622
Recurring income	8,372	8,442	(70)	(0.8)	30,901
Extraordinary income:					
Gain on sale of fixed assets	328	582			666
Gain on sale of shares of affiliate companies	—	—			55
Reversal of allowance for doubtful accounts.....	—	0			44
Realized profit on investments in securities	—	—			32
Total extraordinary income	328	583	(254)	(43.6)	800
Extraordinary losses:					
Losses related to disposal of affiliate shares	—	2,626			2,626
Asset impairment losses	—	—			2,405
Addition to reserve for periodic restoration expenses	—	—			1,016
Payment for water used in production	—	777			777
Expenses on support for employees' early retirement	—	—			389



Expenses related to the reorganization of affiliate companies.....	—	—			267
Other.....	—	—			693
Total extraordinary losses.....	—	3,403	(3,403)	—	8,176
Income before income taxes	8,701	5,622	3,079	54.8	23,525
Corporate, local, and enterprise taxes	2,209	1,059	1,149	108.5	10,455
Corporate tax adjustment.....	1,134	2,485	(1,350)	(54.4)	413
Minority interests in consolidated subsidiaries.....	37	22	14	66.3	(38)
Net income	5,319	2,054	3,265	159.0	12,694



6. Consolidated Statements of Cash Flows

	<i>Millions of Yen</i>		
	April 1, 2007 to June 30, 2007	April 1, 2006 to June 30, 2006	(Reference) April 1, 2006 to March 31, 2007
Cash flows from operating activities:			
Income before income taxes	8,701	5,622	23,525
Depreciation and amortization.....	3,148	2,227	10,006
Decrease in retirement benefit allowance	(167)	(1,106)	(3,123)
Decrease in reserve for bonus payments.....	(2,901)	(3,239)	(162)
(Increase) decrease in trade receivables	(1,318)	1,644	(9,274)
(Increase) decrease in inventories	(505)	639	38
Increase (decrease) in trade payables	2,193	(1,601)	4,689
Corporate etc. tax payments	(7,524)	(2,954)	(7,007)
Others	(3,200)	377	4,688
Net cash (used in) provided by operating activities	(1,577)	1,609	23,380
Cash flows from investing activities:			
Payments for purchase of property, plant & equipment.....	(3,737)	(1,667)	(13,040)
Proceeds from sale of fixed assets.....	399	663	1,632
Proceeds from sale of investment securities	4	1,765	3,951
Payment for acquisition of shares of subsidiary following changes to the scope of consolidation.....	(2,263)	—	—
Others	(1,791)	(268)	(1,037)
Net cash (used in) provided by investing activities.....	(7,389)	493	(8,493)
Cash flows from financing activities:			
Net (decrease) increase in short-term debt	(8,000)	392	169
Net increase (decrease) in commercial paper.....	5,000	—	—
Payment for acquisition of treasury shares	(88)	(28)	(20,755)
Dividends paid.....	(1,663)	(1,724)	(4,105)
Others	(615)	(17)	273
Net cash used in financing activities.....	(5,367)	(1,378)	(24,417)
Cash and cash equivalents translation differences	(26)	13	238
(Decrease) increase in cash and cash equivalents	(14,361)	738	(9,292)
Cash and cash equivalents at the beginning of the period	36,613	45,820	45,820
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	—	85	85
Decrease in cash and cash equivalents following consolidated eliminations.....	(172)	—	—
Cash and cash equivalents at the end of the period	22,080	46,644	36,613



7. Segment information

Fiscal 2007 Q1 Segment information by business type (April 1, 2007 – June 30, 2007)

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net sales								
(1) Sales to external customers	34,366	20,179	21,922	9,510	9,000	94,978	—	94,978
(2) Inter-segment sales and transfers	153	2,255	1,783	961	3,024	8,178	(8,178)	—
Total sales	34,519	22,434	23,705	10,472	12,024	103,156	(8,178)	94,978
Operating expenses	31,496	20,422	21,822	10,056	11,855	95,653	(8,242)	87,410
Operating income	3,023	2,011	1,883	416	168	7,503	64	7,568

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

Millions of yen

	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)	—
Total sales	33,366	17,134	20,840	10,241	11,931	93,513	(7,820)	85,692
Operating expenses	27,450	16,198	20,206	9,780	11,791	85,428	(7,903)	77,524
Operating income	5,915	935	633	460	140	8,085	82	8,168

Fiscal 2006 Segment information by business type (April 1, 2006 - March 31, 2007)

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
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 sales	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



Segment information by location

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

Overseas Sales

April 1, 2007– June 30, 2007

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	6,904	5,054	5,844	389	18,192
(2) Consolidated sales					94,978
(3) Overseas sales as a percentage of consolidated sales	7.3	5.3	6.2	0.4	19.2

April 1, 2007– June 30, 2007

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, 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