



Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

Fiscal 2004 Interim

(April 1, 2004 – September 30, 2004)

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.

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

For the interim period ended September 30, 2004

Kyowa Hakko Kogyo Co. Ltd.

November 10, 2004

Stock Code: 4151	Listed exchanges: Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
URL: http://www.kyowa.co.jp/	Inquiries: Corporate Communications Dept.
President: Dr. Yuzuru Matsuda	Tetsuo Hanai
Date of the meeting of the Board of Directors: November 10, 2004	Telephone: 81 3 3282 0009
U.S. GAAP Accounting Principles: Not adopted	

1. Consolidated Financial Results for the Six-Month Period Ended September 30, 2004

Amounts less than ¥1 million have been ignored

1) Consolidated Operating Results	<i>Millions of yen</i>				
	April 1, 2004 to September 30, 2004		April 1, 2003 to September 30, 2003		April 1, 2003 to March 31, 2004
		Change %		Change %	
Net sales	180,161	1.5	177,572	(4.2)	348,838
Operating income	15,670	23.8	12,660	61.5	26,836
Recurring income	16,091	37.8	11,677	142.6	24,792
Net income	9,297	-	(4,070)	-	10,017
Net income per share (¥)	¥21.60		(¥9.41)		¥23.00
Fully diluted earnings per share (¥)	-		-		-

(1) Gain from investments in subsidiaries and affiliates accounted for by the equity method:

April 1, 2004 to September 30, 2004	258 million yen	April 1, 2003 to September 30, 2003	182 million yen	April 1, 2003 to March 31, 2004,	552 million yen
--	-----------------	--	-----------------	-------------------------------------	-----------------

(2) Average number of shares outstanding (consolidated) during the period:

April 1, 2004 to September 30, 2004	430,362,776 shares	April 1, 2003 to September 30, 2003	432,528,596 shares	April 1, 2003 to March 31, 2004,	431,497,240 shares
--	--------------------	--	--------------------	-------------------------------------	--------------------

(3) Changes to accounting treatment: Yes

(4) Percentages for interim net sales, operating income, recurring income and net income represent changes from the previous interim period

2) Consolidated Financial Position

	<i>Millions of yen</i>		
	As of September 30, 2004	As of September 30, 2003	As of March 31, 2004
Total assets	375,635	393,464	361,095
Shareholders' equity	231,915	216,120	225,041
Equity ratio (%)	61.7%	54.9%	62.3%
Shareholders' equity per share (¥)	¥538.97	¥502.01	¥522.63

(1) Shares outstanding (consolidated) at:

September 30, 2004: 430,296,350 shares	September 30, 2003: 430,511,873 shares	March 31, 2004: 430,417,021 shares
--	--	------------------------------------

3) Consolidated Cash Flows

	<i>Millions of yen</i>		
	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Net cash provided by (used in) operating activities ..	17,296	20,674	34,264
Net cash provided by (used in) investing activities ...	(3,211)	(593)	10,476
Net cash provided by (used in) financing activities ...	(1,695)	(7,604)	(44,226)
Cash and cash equivalents at end of period	37,307	37,114	24,911

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

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

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

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

2. Consolidated Results Forecast for the Fiscal Year Ending March 31, 2005

	<i>Millions of yen</i>
	April 1, 2004 to March 31, 2005
Net Sales	355,000
Recurring Income	28,000
Net Income	15,000

(Note) Net income per share forecast for the fiscal year ending March 31, 2005 (consolidated): ¥34.86

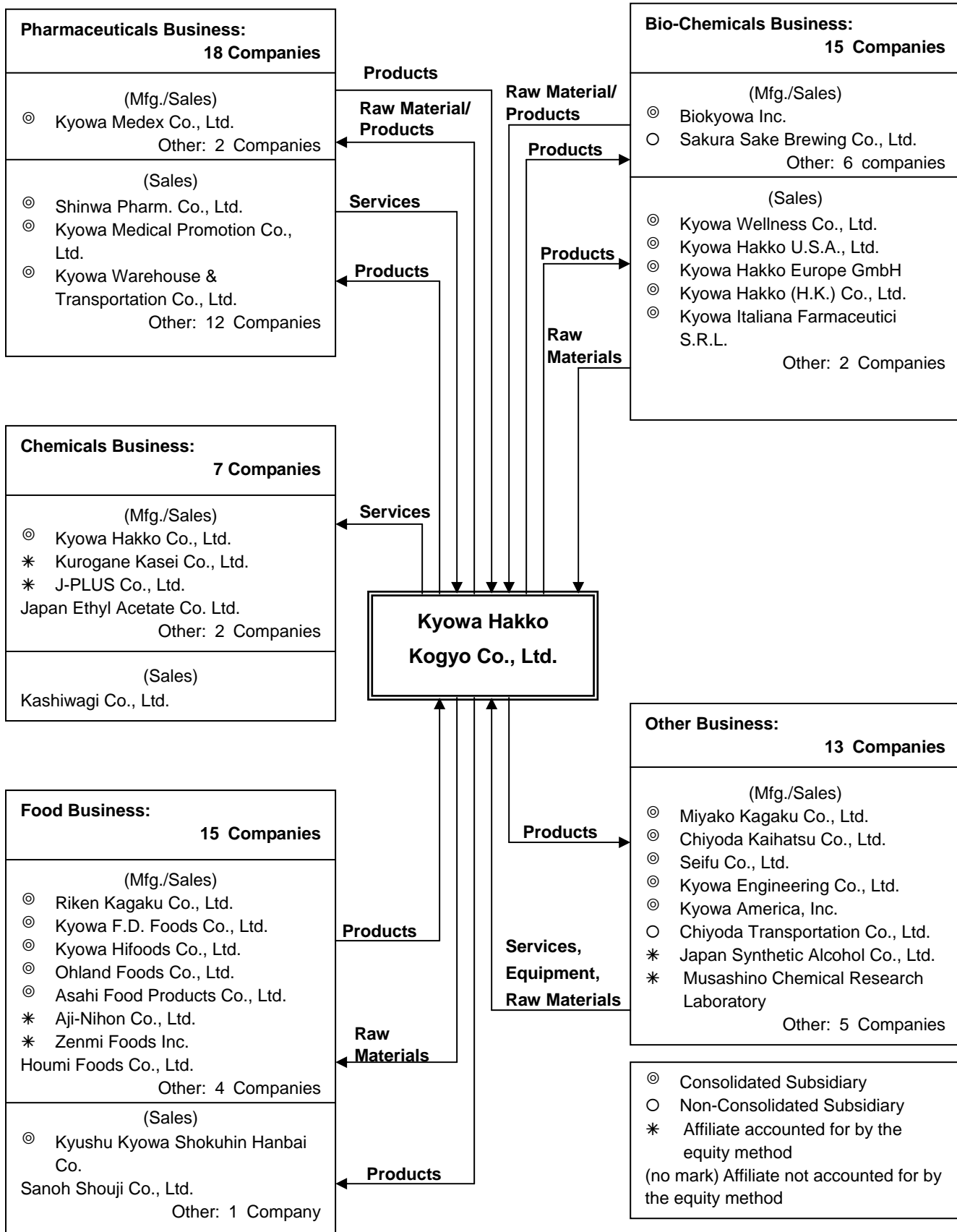
The forecasts above are based on the information available to management on the date of their announcement. Actual results can differ materially from these projections for a wide variety of reasons. Please consult page 13 of the attached materials for further information concerning these forecasts.

1. Group Status

The Kyowa Hakko Group is composed of the parent company (Kyowa Hakko Kogyo Co., Ltd., also referred to as “the Company”), 46 subsidiaries and 22 affiliates. The major operating activities of the companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

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

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



2. 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 we are striving to be a company that earns the broad trust of society.

(2) Basic Policy on Profit Distribution

The basis of the Company's profit distribution policy is to deliver stable, sustainable dividends while also maintaining sufficient internal reserves for future capital investment and research and development.

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

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

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

The Kyowa Hakko Group chose 2002 to be the first fiscal year of a drive to select and focus on specific businesses, based on its 8th medium-term 3-year plan "*Kyowa Bio-Innovator*", and actively engaged in business restructuring and other administrative reforms. Although it will be difficult to achieve the management indicators prescribed for the final fiscal year of the plan, management is working steadily to improve the earnings structure of the Group and has extensively improved its financial structure and returned all business segments to profitability.

In April 2005, the Kyowa Hakko Group will undergo a major structural change, from the present in-house company system to a holding company system. In April 2004, the Chemicals Business was split off into a separate wholly-owned subsidiary, Kyowa Hakko Chemical Co., Ltd., and in April 2005,

the Food Business will become a separate incorporated entity. In this way, Kyowa Hakko can become “*Kyowa Bio-Innovator*”, a holding company built on a biotechnology base with strong Pharmaceuticals and Bio-chemicals Businesses and separation of our Chemicals and Foods Businesses establishes a corporate structure that can more accurately and speedily respond to customer needs. By adopting this holding company structure we aim to enhance the overall competitiveness and growth potential of the Kyowa Hakko Group and further raise corporate value.

□ **Pharmaceuticals Business**

While Kyowa Hakko works to strengthen its domestic sales capabilities, it will utilize its technological advantages and expertise in specific fields such as cancer, allergic ailments and therapeutic antibodies, and forge ahead with the research and development of innovative and safe pharmaceuticals that will contribute to the advancement of medicine. We are also developing our pharmaceuticals business to maximize the value of its products and in September 2004, Kyowa Hakko established an overseas affiliate in China as a step towards the creation of a local production facility.

□ **Bio-Chemicals Business**

It is important for Kyowa Hakko to further secure its position in the global market as a leading producer of bulk fermented products such as amino acids and nucleic acid-related products. We are seeking to strengthen cost competitiveness through such actions as the development of new products and the optimization of global production facilities, and focusing our energies on supplying higher value-added fields, including health foods and pharmaceutical raw materials.

In April 2004, Kyowa Hakko integrated its health and nutrition-related businesses into the Bio-chemicals Business aiming to create an original healthcare business within the Kyowa Hakko Group.

□ **Chemicals Business**

Kyowa Hakko Chemical Co., Ltd., inaugurated in April 2004, is striving to open up markets and deepen its business activities by bringing together the functions of research, development, production and sales in a seamless organization. The new subsidiary is reducing manufacturing and transportation costs to strengthen the cost competitiveness of its existing bulk businesses, while expanding its line-up of high value-added functional products, for example through developing products that are more environmentally friendly and those with applications in the IT field.

□ **Food Business**

Kyowa Hakko aims to respond appropriately to the diverse needs of its customers, and is striving to offer safe and high-quality products that will contribute to improving the health and diets of consumers. On the one hand, Kyowa is developing new products, such as natural seasonings, bread flavorings, and enhancers, that stand out from others thanks to our own proprietary fermentation technology; while on the other hand, we are taking steps to raise levels of product quality assurance and reduce costs.

(5) Corporate Governance Policies and Achievements

Kyowa Hakko's basic policy towards corporate governance is to realize its management philosophy by setting up the appropriate organizational structure and then implementing the necessary policies. The Company's management system is based upon a Board of Directors and a Board of Auditors as set forth in the Japanese Commercial Code for a *kabushiki kaisha* (joint-stock corporation). The Company's Board of Directors consists of eight directors (as of September 30, 2004) who make decisions regarding business policies and other important matters. The Board oversees the directors as they carry out their duties. The Board of Auditors consists of four auditors (as of September 30, 2004, of which three are auditors from outside the Company). In accordance with the auditing policies and other guidelines formulated by the Board of Auditors, the auditors oversee the performance of the directors by attending meetings of the Board of Directors and other important gatherings, and monitor the Company's operations and its financial state.

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

On April 1, 2004, the Company established the Corporate Compliance Division to strengthen in-house control in the areas of group corporate ethics, quality assurance and environmental safety and to enhance corporate social responsibility (CSR) activities. From April 2005, Kyowa Hakko plans to switch over to a holding company system that will provide several advantages, including the further transfer of authority to each business, speedier business administration by allowing decisions to be made more quickly, and greater clarity of business responsibility.

3. Operating Results and Financial Position

I. Summary of Operating Results

(1) Operating results for the interim period

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	180.1	177.5	2.5
Operating income	15.6	12.6	3.0
Recurring income	16.0	11.6	4.4
Net income (loss)	9.2	(4.0)	13.3

During the consolidated interim period under review, steady economic recovery continued in Japan amid improved corporate earnings and expansion of capital investment. Overseas economies particularly those of the United States and Asia also performed well. However, the outlook for the future remains unclear with concerns over a downturn in foreign and domestic economies due to a sharp rise in crude oil prices, among other factors.

In regard to the business fields in which the Kyowa Hakko Group operates, in the Pharmaceuticals Business a reduction in National Health drug prices for prescription pharmaceuticals was implemented in April 2004. In the Bio-Chemicals Business, domestic demand for amino acids used in health and nutrition products (beverages) was not as strong as in the previous year. In the Chemicals Business, which is managed by our subsidiary Kyowa Hakko Chemical Co., Ltd. from the consolidated interim period under review, foreign and domestic market conditions have remained favorable, supported by economic growth in China. In the Food Business, safety awareness toward food products and health-consciousness are increasing.

Against this background, through the strategic development of sales activities the Kyowa Hakko Group has improved earnings with aggressive expansion of sales and cost reductions while also developing new products and achieving business structure reform.

As a result of these factors, net sales in the consolidated interim period under review rose ¥2.5 billion (1.5%) over the previous interim period to ¥180.1 billion. Operating income increased ¥3.0 billion (23.8%) to ¥15.6 billion and recurring income rose ¥4.4 billion to ¥16.0 billion (37.8%). Net income increased ¥13.3 billion to ¥9.2 billion.

(2) Segmental Review

As the segmental allocation has been partly revised from the interim period under review the figures for the previous interim period have been restated in accordance with the revised segmental classification.

Pharmaceuticals Business

	Billions of yen		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	80.6	71.7	8.9
Operating income	9.0	5.2	3.8

Despite the effects of a reduction in National Health drug prices for prescription pharmaceuticals in April 2004, sales exceeded the previous interim period due to growth in core products.

On a product basis, sales grew for *Allelock* (Generic name: *olopatadine hydrochloride*), an antiallergic agent, *Durotep Patch*, an analgesic for persistent cancer pain, and *Depakene*, an antiepileptic agent, and volume increased for *Coniel*, a treatment for hypertension and angina pectoris, and *Nauzelin* for improving gastrointestinal function.

In the licensing-out and export of pharmaceutical products, sales of antiallergic agents (*olopatadine hydrochloride*) increased and remained favorable. In March 2004, approval was obtained to import *Coniel* into China and in September a locally incorporated company was established in Jiangsu, China in preparation for the construction of a production facility.

Kyowa Medex Co., Ltd., a subsidiary involved in the manufacture and sale of *in vitro* medical devices, posted a decline in sales of biochemical reagents due to severe market trends. In immunological reagents however, contributions from newly introduced products and products including *Determiner HbA1c*, a diabetes reagent, led to overall sales at Kyowa Medex exceeding those of the previous interim period.

As a result of these factors, consolidated net sales in the interim period rose ¥8.9 billion (12.5%) to ¥80.6 billion compared to the previous interim period. Operating income surged ¥3.8 billion (72.8%) to ¥9.0 billion.

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

Overseas, phase III clinical trials for KW-6002, a treatment for Parkinson's disease started in July in the United States and also recently started in Europe. Development of KW-2871, (an antibody drug) for treating malignant melanoma is being conducted in the United States.

Bio-Chemicals Business

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	31.1	38.3	(7.1)
Operating income	3.8	4.5	(0.6)

In the fields of pharmaceuticals, foods, and industrial materials which center on amino acids and nucleic acids, domestic sales were down compared to the previous interim period due to a slackening of domestic demand for amino acid used in health foods (beverages). Sales for exports also declined, in particular in the United States market, due to intensified price competition.

Sales of products for the livestock industry increased slightly over the previous interim period, while sales of products for the fisheries industry declined with the added effects of consecutive typhoons. A concentration of domestic shipments of agrochemicals in the latter half of the previous fiscal period resulted in a decline in sales compared to the previous interim period. Sales of alcohol for refined sake and distilled spirit (*shochu*) manufacturers was sluggish resulting in a decline compared to the previous interim period. Amid intensified competition in the health care business, sales were level with the previous interim period.

At overseas subsidiaries, Agroferm Hungarian-Japanese Fermentation Industries Ltd. (Agroferm) was sold to Degussa AG of Germany.

As a result of these factors, net sales in the consolidated interim period under review fell by ¥7.1 billion (18.6%) to ¥31.1 billion over the previous period. Operating income declined by ¥0.6 billion (15.4%) to ¥3.8 billion.

In R&D, in addition to the development of fermentation production technology aimed at cost reductions and the development of production technologies for dipeptides, we have also continued to develop further applications in the health care business.

Chemicals Business

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	35.8	33.0	2.8
Operating income	1.1	1.4	(0.3)

With the effects of high growth in China driving the global economy and amid revitalization of foreign and domestic demand for petrochemical products, domestic sales for subsidiary Kyowa Hakko Chemical Co., Ltd. increased over the previous interim period due to increases in shipment volumes and product prices.

Although export shipment volumes declined slightly compared to the previous interim period, sales increased due to good conditions in foreign markets. In functional products, sales expanded mainly due to growth in raw materials for refrigerants that contribute to environmental conservation and are used as CFC substitutes.

Operating income declined slightly compared with the previous interim period following a sharp increase in the cost of raw materials such as naphtha and other products despite efforts to revise both domestic and imported product prices.

As a result of these factors, net sales in the consolidated interim period under review rose by ¥2.8 billion (8.5%) to ¥35.8 billion over the previous interim period. Operating income decreased by ¥0.3 billion (20.8%) to ¥1.1 billion.

In addition, Japan Ethyl Acetate Co., Ltd., a joint venture established with Showa Denko K.K., commenced commercial operations in April 2004.

Food Business

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	21.7	23.2	(1.5)
Operating income	0.8	0.7	0.1

Amid increasing consumer awareness toward the assurance of food safety and lack of growth in the food materials market, competition intensified. Under these conditions, despite efforts to expand sales of core products and market release of new products that utilize differentiation technologies to produce rich and full-bodied tastes, overall sales declined compared to the previous interim period due to the negative effects of an extremely hot summer.

In our core natural seasonings business, sales declined slightly from the previous interim period as sales of extracts and savory premixes declined, despite growth in brewed seasonings. Although sales of bread and cake ingredients and flavorings increased, yeast products, premixes, and bread improvers struggled in the market. Overall, sales of bakery products and ingredients were down from the previous interim period. Sales of processed foods also declined, as sales of OEM products were lower.

Consolidated net sales were ¥21.7 billion in the interim period under review representing a decline of ¥1.5 billion (6.5%) over the previous interim period. Operating income increased by ¥0.1 billion (23.5%) to ¥0.8 billion.

Other Business

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Net sales	27.8	30.0	(2.1)
Operating income	0.7	0.6	0

Consolidated net sales for the subsidiaries that comprise Other business were ¥27.8 billion, a decline of ¥2.1 billion yen (7.1%) compared to the interim period of the previous fiscal year. Operating income was ¥0.7 billion, an increase of 9.3%.

Profit Distribution

Cash dividends for the period under review are unchanged from the previous interim period, at ¥3.75 per share.

(2) Outlook for the Full Year

	<i>Billions of yen</i>		
	Forecast	(Compared to Fiscal Year 2003)	
Net sales	355.0	+6.1	+1.8%
Operating income	28.0	+1.1	+4.3%
Recurring income	28.0	+3.2	+12.9%
Net income	15.0	+4.9	+49.7%

(These figures assume an exchange rate of ¥107 to the U.S. dollar)

In the Japanese economy corporate revenues and earnings are rising and capital investment is expanding. However, trends in employment and personal consumption still lack vigor. In the United States, which greatly shapes trends in the global economy, prospects are unclear, while the rapid rise in crude oil prices is a further source of uncertainty. We thus expect the operating environment to remain very challenging.

In this environment the Kyowa Hakko Group will strive to expand sales and reduce costs in order to grow profits, develop new products and continue to reform its business operations. We expect consolidated sales for the full year to grow compared to the previous year, and we also forecast growth in operating income, recurring income and net income.

In the Pharmaceuticals Business, as sales of core products offset the effects of the reduction in National Health drug prices, we forecast net sales and operating income to exceed those of the previous fiscal year. In the Bio-Chemicals Business, foreign and domestic sales of amino acids and related compounds used in pharmaceuticals, foods, and industrial-use raw materials are lackluster compared to the previous fiscal year and sales are forecast to decline compared to fiscal 2003, and we also expect operating income for the segment to decline. In the Chemicals Business, market conditions remain strong despite large increases in raw material prices and other sources of uncertainty. We forecast growth in the solvents and functional products range, and both net sales and operating income are forecast to exceed those of the previous fiscal year. In the Food Business, both net sales and operating income are forecast to decline compared to the previous fiscal year. In Other businesses, sales revenues will likely decrease whereas operating income is forecast to maintain a similar level to the previous fiscal year.

Annual Dividends

Management plans to pay a year-end cash dividend of ¥3.75 per share. Combined with the interim dividend of ¥3.75, the total for the year is expected to be ¥7.50 per share.

Note: The above outlook is based on information available to management at the time of writing. Results may differ significantly from projections due to fluctuations in exchange rates and many other factors.

II. Summary of Financial Position

(1) Summary of Interim Financial Position

1) Assets, Liabilities, and Capital Summary

Total assets stood at ¥375.6 billion at the close of the first half of fiscal 2004, up ¥14.5 billion from the end of March 2004. Fixed assets declined by ¥1.7 billion as a result of declines in tangible fixed assets and investment securities but current assets increased by ¥16.3 billion largely as a result of increases in cash and deposits, marketable securities and accounts and notes receivable. Liabilities increased by ¥7.6 billion mainly as a result of an increase in accounts and notes payable. Shareholders' equity increased by ¥6.8 billion as a result of the net income recorded for the interim period and other factors.

2) Cash Flow Summary

	<i>Billions of yen</i>		
	Consolidated results for the period ended September 30, 2004	Consolidated results for the period ended September 30, 2003	Change
Cash flows from operating activities	17.2	20.6	(3.3)
Cash flows from investing activities	(3.2)	(0.5)	(2.6)
Cash flows from financing activities	(1.6)	(7.6)	5.9
Cash and cash equivalents at end of period	37.3	37.1	0.1

Net cash provided by operating activities totaled ¥17.2 billion. Compared to the previous interim period, Income before income taxes and minority interests was up ¥21.6 billion. Offsetting this, however, was the impact of an increase in the reserve for retirement benefits, which resulted in a cash outflow of ¥19.7 billion compared to the previous interim period, Income taxes paid increased by ¥7.6 billion and as a result of these factors operating cash flow declined by ¥3.3 billion.

Net cash used in investing activities was ¥3.2 billion. Major factors included ¥3.0 billion for the acquisition of tangible fixed assets. Compared to the previous interim period payments for the acquisition of tangible fixed assets declined by ¥1.1 billion but the inflow from the sale of marketable investment securities declined by ¥3.1 billion so as a result cash used in investing activities increased by ¥2.6 billion.

Net cash used in financing activities was ¥1.6 billion, down ¥5.9 billion compared to the first half of fiscal 2003. Dividend payments were unchanged at ¥1.6 billion but the main causes of the decline in outflow were a reduction in the outflow resulting from the repayment of long-term borrowings of ¥4.2 billion and a decline in payments to acquire treasury stock of ¥1.6 billion.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004 (Interim)
Shareholders' equity ratio (%)	49.2	59.4	62.3	61.7
Shareholders' equity (market price base) ratio (%)	69.1	59.4	82.1	82.4
Years to debt redemption	4.4	2.9	0.4	-
Interest coverage ratio	5.2	9.7	31.7	141.4

Notes:

Shareholders equity ratio = Shareholders' equity / Total assets

Shareholders' equity (market price base) ratio = Market capitalization / Total assets

Years to debt redemption = Interest-bearing debt / Operating cash flow (Not shown for interim period)

Interest coverage ratio = Operating cash flow / Interest payments

*All ratios based on consolidated figures.

*Market capitalization based on closing stock price at end of period, multiplied by number of shares issued and outstanding at end of period (net of treasury stock).

*Operating cash flow is the figure for cash flows from operating activities in the consolidated statements of cash flows. Of the borrowings on the consolidated balance sheet, interest-bearing debt includes borrowings and corporate bonds.

*For interest payments, the 'Interest payments figure in the consolidated statements of cash flows is used.

(2) Fiscal 2004 Outlook for Financial Position

Cash flows from operating activities: Management expects income before income taxes and minority interests to increase in fiscal 2004. However, the large increase in the allowance for retirement benefits will result in a cash outflow compared to fiscal 2003. This, along with an increase in corporation and other tax payments will result in a lower cash inflow than in fiscal 2003.

Cash flows from investing activities: In fiscal 2004 we estimate that acquisitions of property, plant and equipment will be at a similar level to those in fiscal 2003. However, proceeds from the sale of fixed assets and investment securities are expected to be much lower than in the previous year, and thus expect a cash outflow from investing activities rather than the inflow seen in fiscal 2003.

Cash flows from financing activities: Total payments in respect of dividends should be similar to last fiscal year. We intend to maintain an active stance towards funds raising, the repayment of borrowings and the purchase of treasury stock but in fiscal 2004 the outflow from the redemption of corporate bonds will decline so we expect an overall decline in the outflow of cash from financing activities compared to fiscal 2003.

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

4. Consolidated Financial Statements

Consolidated Balance Sheets

	<i>Millions of yen</i>		
	As of September 30, 2004	As of September 30, 2003	As of March 31, 2004
ASSETS			
Current assets:			
Cash and time deposits.....	36,738	37,515	25,239
Accounts and notes receivable	107,328	107,326	106,726
Marketable securities	999	-	-
Inventories.....	50,141	53,031	50,494
Deferred tax assets	6,106	5,426	6,529
Other current assets.....	9,212	9,960	5,234
Less: allowance for doubtful accounts	(161)	(195)	(163)
	210,365	213,065	194,062
Fixed assets:			
Tangible fixed assets			
Buildings and structures.....	41,842	45,580	43,604
Machinery and equipment.....	22,997	25,665	23,584
Land	21,745	21,652	21,819
Construction in progress	1,297	1,410	2,035
Other	5,702	5,954	5,640
Intangible fixed assets.....	257	428	300
	93,586	100,263	96,684
Investments and other assets:			
Investment securities	57,921	64,087	59,632
Long-term loans	2,036	2,101	2,114
Deferred tax assets	3,849	6,671	1,957
Other investments and other assets	8,575	8,001	7,345
Allowance for doubtful accounts	(751)	(984)	(796)
Allowance for investment valuations.....	(205)	(170)	(205)
	71,426	79,707	70,047
Total Assets.....	375,635	393,464	361,095

Consolidated Balance Sheets (continued)

	<i>Millions of yen</i>		
	As of September 30, 2004	As of September 30, 2003	As of March 31, 2004
LIABILITIES			
Current liabilities:			
Accounts and notes payable	57,872	49,450	47,783
Short-term bank loans	13,219	14,512	13,231
Accrued expenses	12,755	12,729	14,789
Expenses payable	3,928	4,156	3,941
Income taxes payable	6,620	8,250	8,767
Reserve for sales rebates	1,066	955	956
Reserve for sales returns	47	94	94
Reserve for sales promotion expenses.....	704	462	795
Reserve for fixed asset disposal expenses...	1,028	-	1,157
Other current liabilities	9,201	11,237	7,397
	106,445	101,850	98,914
Long-term liabilities:			
Bonds	-	33,000	-
Long-term debt	103	124	125
Deferred tax liabilities	1,673	398	86
Retirement benefit allowance	32,442	36,008	33,768
Directors' retirement benefit allowance.....	754	698	781
Reserve for loss on business restructuring...	-	3,229	-
Reserve for fixed asset disposal expenses ..	578	-	669
Other long-term liabilities	289	468	320
	35,842	73,928	35,751
TOTAL LIABILITIES.....	142,287	175,778	134,665
Minority interests	1,432	1,565	1,388
SHAREHOLDERS' EQUITY:			
Common stock	26,745	26,745	26,745
Capital surplus	43,183	43,181	43,182
Retained earnings	152,567	132,454	144,926
Valuation difference on other marketable securities	13,512	17,095	14,636
Foreign exchange adjustment account	(1,686)	(1,105)	(2,135)
Treasury stock	(2,405)	(2,249)	(2,313)
	231,915	216,120	225,041
Total Liabilities, Minority Interests and Shareholders' Equity.....	375,635	393,464	361,095

Consolidated Statements of Income

Millions of yen

	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Net sales	180,161	177,572	348,838
Cost of sales	116,609	112,453	219,361
Gross profit	63,552	65,119	129,476
Reversal of reserve for sales returns	94	124	124
Addition to reserve for sales returns.....	47	94	94
Adjusted gross profit	63,598	65,149	129,506
Selling, general and administrative expenses:			
Transportation	2,277	2,481	4,872
Sales promotion	2,903	3,549	8,103
Addition to reserve for sales promotion expense.....	704	462	795
Salaries	8,739	8,854	17,449
Bonuses	3,838	3,568	7,091
Addition to allowance for directors retirement benefits.....	86	89	187
Employee retirement benefit expense	994	2,748	4,564
Depreciation	397	596	1,031
Research and development.....	13,630	15,060	28,723
Others.....	14,354	15,078	29,850
	47,928	52,488	102,670
Operating income	15,670	12,660	26,836
Other income:			
Interest income.....	46	67	114
Dividend income.....	439	434	666
Currency exchange gain.....	367	-	-
Dividend on insurance.....	380	404	404
Profit from purchasing power differential of inflation accounting method.....	-	188	188
Income from equity method investments	258	182	552
Others.....	1,392	718	1,406
	2,884	1,997	3,333
Other expenses:			
Interest expense.....	127	609	803
Unrealized loss on securities.....	0	0	18
Currency exchange loss.	-	1,062	1,309
Expense on removal of fixed assets.....	163	47	128
Loss on sale of fixed assets	326	164	456
Loss on sale of inventories	984	564	1,512
Others.....	861	531	1,148
	2,464	2,980	5,377
Recurring income	16,091	11,677	24,792

Consolidated Statements of Income (continued)

Millions of yen

	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Extraordinary income:			
Gain on sale of fixed assets.....	49	267	3,954
Reversal of allowance for doubtful accounts.....	6	13	78
Realized profit on investments in securities..	-	3,577	12,998
	55	3,858	17,031
Extraordinary losses:			
Loss on sale of affiliates shares	(264)	-	-
Loss on sale of fixed assets	(59)	-	-
Realized loss on investments in securities ..	(11)	(18)	(21)
One-off amortization of actuarial differences arising from dissolution of retirement trust.....	-	(16,227)	(16,227)
Loss on sale of fixed assets associated with restructuring	-	-	(3,224)
Loss on recall of products.....	-	-	(2,085)
Fine related to European lysine sales	-	(1,900)	(1,900)
Employees' early retirement expenses.....	-	-	(1,464)
Loss on restructuring of foreign business	-	(3,190)	(842)
Loss on redemption on bonds	-	-	(680)
	(334)	(21,336)	(26,446)
Income (loss) before income taxes	15,812	(5,800)	15,377
Corporate, local, and enterprise taxes.....	5,887	7,532	9,462
Corporate tax adjustment.....	579	(9,323)	(3,935)
Minority interests in consolidated subsidiaries	48	61	(167)
Net income	9,297	(4,070)	10,017

Consolidated Statements of Surplus

Millions of yen

	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Capital surplus			
Balance at beginning of period	43,182	43,180	43,180
Increase in capital surplus:			
Gain on disposal of treasury stock	1	1	1
Balance at end of period.....	43,183	43,181	43,182
Retained earnings			
Balance at beginning of period	144,926	138,225	138,225
Increase in retained earnings:			
Net income.....	9,297	-	10,017
Amount due to increase in number of consolidated subsidiaries	40	-	-
Increase due to inflation accounting at consolidated subsidiary in Mexico	-	6	6
Decrease in retained earnings:			
Dividend payments	1,614	1,624	3,239
Directors' bonuses.....	83	82	82
Interim net loss	-	4,070	-
Balance at end of period.....	152,567	132,454	144,926

Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Cash flows from operating activities:			
Income before income taxes	15,812	(5,800)	15,377
Depreciation and amortization	5,082	5,485	11,358
Income from equity method investments	(258)	(182)	(552)
Write down of investment securities	0	0	18
Increase (decrease) in retirement benefit allowance	(1,325)	18,418	16,408
Increase (decrease) in reserve for of fixed asset disposal expenses	(220)	-	1,826
Increase (decrease) in allowance for directors retirement benefits	(26)	(114)	(31)
Increase (decrease) allowance for bad debts	(41)	(4)	(152)
Loss (gain) on sales of marketable securities	11	(3,559)	(12,977)
Loss (gain) on sales of tangible fixed assets	371	(106)	(2,431)
Loss on restructuring of overseas businesses	-	3,190	842
Loss on recall of products	-	-	2,085
Fine related to European lysine sales	-	1,900	1,900
Employees' early retirement expenses	-	-	1,464
Loss on redemption on bonds	-	-	680
Loss on disposal of affiliates shares	264	-	-
Interest and dividend income	(485)	(502)	(780)
Interest expenses	127	609	803
(Increase) decrease in trade receivables	(1,145)	1,154	1,791
(Increase) decrease in inventories	(94)	(1,223)	407
Increase (decrease) in trade payables	10,319	3,293	1,553
Directors' bonus payments	(93)	(90)	(90)
Increase (decrease) in consumption tax payable	18	(62)	(182)
Others	(1,205)	1,100	1,017
Sub-total	27,110	23,507	40,337
Interest and dividend income	530	547	833
Interest payments	(122)	(654)	(1,079)
Compensation paid for recall of products	(1,897)	-	(358)
Payment of fine related to European lysine sales	-	(2,073)	(2,074)
Payment of premium severance for early retirement	-	-	(1,453)
Corporate etc. tax payments	(8,325)	(652)	(1,940)
Net cash provided by operating activities	17,296	20,674	34,264

Consolidated Statements of Cash Flows (continued)

Millions of Yen

	April 1, 2004 to September 30, 2004	April 1, 2003 to September 30, 2003	April 1, 2003 to March 31, 2004
Cash flows from investing activities:			
Increase in time deposits	(257)	(166)	(399)
Decrease in time deposits	155	327	632
Payments for purchase of property, plant & equipment...	(3,080)	(4,264)	(9,202)
Proceeds from sale of property, plant, and equipment	91	399	4,714
Payments for purchase of investment securities	(34)	(61)	(227)
Proceeds from sale of investment securities	1	3,102	15,612
Proceeds from sale of subsidiaries' shares.....	793	-	-
Payments for sale of subsidiaries' shares.....	-	-	(520)
Net increase in short-term loans receivable	(225)	46	113
Increase in long-term loans receivable	-	(111)	(238)
Decrease in long-term loans receivable	40	215	320
Others.....	(696)	(80)	(329)
Net cash (used in) provided by investing activities.....	(3,211)	(593)	10,476
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	49	(2,791)	(4,006)
Repayment of long-term debt	(23)	(1,464)	(1,513)
Payment for bond redemption	-	-	(33,680)
Payment for purchase of treasury stock	(98)	(1,717)	(1,790)
Proceeds from sale of treasury stock	8	7	17
Dividends paid	(1,617)	(1,629)	(3,243)
Dividends paid to minority interests	(13)	(9)	(9)
Net cash used in financing activities	(1,695)	(7,604)	(44,226)
Cash and cash equivalents translation differences	(1)	50	(192)
Increase in cash and cash equivalents.....	12,387	12,525	322
Cash and cash equivalents at the beginning of the period.....	24,911	24,588	24,588
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period.....	9	-	-
Cash and cash equivalents at the end of the period	37,307	37,114	24,911

5. Segment information

Segment information by business type

1. Interim period: April 1, 2004 – September 30, 2004

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales:								
(1) Sales to external customers	79,827	27,239	33,643	19,485	19,965	180,161	-	180,161
(2) Inter-segment sales and transfers	862	3,944	2,196	2,276	7,921	17,200	(17,200)	-
Total	80,689	31,183	35,839	21,761	27,887	197,362	(17,200)	180,161
Operating expenses	71,629	27,347	34,688	20,867	27,159	181,691	(17,200)	164,491
Operating income	9,059	3,835	1,150	894	728	15,670	0	15,670

Note: The main products of each business are as follows:

Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

Bio-chemicals: Pharmaceutical raw materials, agrochemicals and products for livestock and fishing industries, raw material alcohol

Chemicals: Solvents, plasticizers, plasticizer raw materials, and specialty chemicals

Food: Seasonings, bakery ingredients and products, processed food

Other: Transportation, industrial machinery sales

2. Changes to business segment classification

In regard to segmental classification of businesses the group's organization has changed in connection with the planned change to a holding company system from April 2005 and the raw material alcohol business which was included in the food segment is now included in the bio-chemicals segment. Figures for the previous interim consolidated period and previous consolidated fiscal year reflecting the new segmental classification are as follows:

Previous interim period: April 1, 2003 – September 30, 2003

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales								
(1) Sales to external customers	71,156	33,745	30,262	21,118	21,289	177,572	-	177,572
(2) Inter-segment sales and transfers	551	4,582	2,762	2,147	8,740	18,783	(18,783)	-
Total	71,707	38,327	33,024	23,266	30,030	196,356	(18,783)	177,572
Operating expenses	66,465	33,794	31,570	22,542	29,363	183,735	(18,823)	164,912
Operating income	5,242	4,533	1,454	724	666	12,620	40	12,660

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

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
Net Sales								
(1) Sales to external customers	141,382	60,904	61,829	41,393	43,327	348,838	-	348,838
(2) Inter-segment sales and transfers	1,498	8,290	5,069	4,518	19,578	38,955	(38,955)	-
Total	142,881	69,194	66,899	45,912	62,906	387,793	(38,955)	348,838
Operating expenses	130,937	60,347	64,005	44,258	61,139	360,688	(38,687)	322,001
Operating income	11,943	8,846	2,893	1,653	1,767	27,104	(268)	26,836

Segment information by location

April 1, 2004 – September 30, 2004

<i>Millions of yen</i>					
	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	8,073	9,938	10,899	555	29,466
(2) Consolidated sales					180,161
(3) Overseas sales as a percentage of consolidated sales	4.5%	5.5%	6.1%	0.3%	16.4%

April 1, 2003 – September 30, 2003

<i>Millions of yen</i>					
	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	14,692	9,365	10,000	104	34,163
(2) Consolidated sales					177,572
(3) Overseas sales as a percentage of consolidated sales	8.3%	5.3%	5.6%	0.1%	19.2%

April 1, 2003 – March 31, 2004

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

Notes:

1. The regions have been classified geographically.
2. Regions other than Japan are as follows:
 - America..... (North America and Latin America)
 - Europe..... (All of Europe)
 - Asia.....(All of Asia)
 - Other Regions.... (Oceania and Africa)
3. Overseas sales comprise sales by Kyowa Hakko and its consolidated subsidiaries to customers outside of Japan.