



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

## **Consolidated Financial Summary**

**Fiscal 2005 Third Quarter**

**(April 1, 2005 - December 31, 2005)**

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.



## Third Quarter Performance Update For The Year Ending March 31, 2005

(Nine-month period from April 1, 2005 to December 31, 2005)

Kyowa Hakko Kogyo Co., Ltd.		January 30, 2006	
Stock Code:	4151	Listed Exchanges:	Tokyo
URL	www.kyowa.co.jp/eng/index.htm	Inquiries:	Tetsuo Hanai
President	Yuzuru Matsuda		General Manager, Corporate Communications Department
		Telephone:	+81 3 3282 0009

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

- Simplified accounting treatments were adopted  
No adjustments for cost variance were applied
- There were the following changes to the accounting treatments from the previous fiscal year  
From the third quarter period (April 1, 2005 to December 31, 2005), the accounting standards regarding impairment of fixed assets set out in the 'Report Concerning Establishment of Accounting Standards for Impairment of Fixed Assets' (Business Accounting Council, August 9, 2002) and the 'Guidelines for the Application of Accounting Standards for the Impairment of Fixed Assets' (ASB Guidance No. 6, Accounting Standards Board of Japan, October 31, 2003) have been applied, resulting in an impairment loss of ¥738 million and in consequence net income before adjustment for tax has also decreased by the same amount.
- There were five changes to the scope of consolidation and no changes to equity method accounting  
Details of changes:  
Kyowa Hakko Food Specialties Co., Ltd. and BIOWA INC. were newly included in the scope of consolidation.  
Kyushu Kyowa Shokuhin Hanbai Co., Ltd., Asahi Food Products Co., Ltd. and Seifu Co., Ltd. were excluded from the scope of consolidation.

### 2. Results for the nine months ended December 31, 2005

(1) Progress of consolidated business performance

*Amounts less than 1 million yen have been ignored*

	<i>millions of yen</i>				
	Nine Months to December 31, 2005	YOY Change (%)	Nine Months to December 31, 2004	YOY Change (%)	FY ended March 31, 2005
Net sales	272,258	(1.0%)	274,881	1.8%	358,963
Operating income	22,878	(12.3%)	26,099	18.1%	33,506
Recurring income	25,983	(0.4%)	26,081	--	32,366
Net income	14,661	(4.2%)	15,305	--	17,931
Net income per share (¥)	¥34.67	--	¥35.66	--	¥41.68
Fully diluted net income per share (¥)	¥34.66	--	--	--	--

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

### Summary of business performance:

For the nine-month period ended December 31, 2005 net sales were ¥272.2 billion, a decrease of ¥2.6 billion, or 1.0% compared to the first nine months of the previous fiscal year. Operating income was ¥22.8 billion, a decline of ¥3.2 billion, or 12.3% but the Group is making good progress towards our full-year forecasts.

In the Pharmaceuticals Business, prescription pharmaceuticals *Allelock*, an antiallergic agent, *Durotep Patch*, an analgesic for persistent cancer pain, and *Navelbine* an anticancer agent each performed well and recorded growth in sales. Sales of *Coniel*, a treatment for hypertension and angina pectoris, and *Depakene*, an antiepileptic agent were maintained at levels similar to those achieved in the first nine months of last fiscal year. However, sales of antimycological agent *Itrizole*, which is sold through a distribution agreement, declined significantly resulting in an overall decline in Pharmaceuticals Business sales. In the Bio-Chemicals Business, sales declined compared to the comparable period of last fiscal year as domestic demand for beverage-use amino acids declined, price competition led to poor market conditions for amino acids, nucleic acids and related compounds, and also due to the disposal of an overseas feed-use amino-acids subsidiary last fiscal year. In the Chemicals Business, shipment volumes declined slightly compared to the comparable period of the previous fiscal year but sales, mainly of core solvents products, increased sharply as product price increases for core products were implemented in response to rapid rises in the prices of fuel and raw materials. In the Food Business despite continued growth in sales of bakery products and ingredients, overall sales declined, partly reflecting the disposal of consolidated subsidiary Asahi Food Products Co., Ltd. in April 2005.

Operating income for the period under review was ¥22.8 billion, a decline of ¥3.2 billion compared to the first nine months of last fiscal year, mainly resulting from increased R&D expenses in respect of KW-6002, a treatment for Parkinson's disease. Recurring income was ¥25.9 billion, a decline of 0.4%, and net income declined by ¥0.6 billion, or 4.2%, to ¥14.6 billion, reflecting extraordinary losses for early retirement support expenses and appraisal losses on fixed assets.

Research and development expenses for the nine-month period were ¥23.8 billion, an increase of ¥2.9 billion, or 14.2% compared to the first nine months of fiscal 2004, and representing a ratio of R&D expenses to net sales of 8.8%.

### (2) Changes in consolidated financial position

	<i>millions of yen</i>		
	As of December 31, 2005	As of December 31, 2004	As of March 31, 2005
Total assets	390,945	379,336	374,492
Shareholders' equity	251,587	232,326	235,439
Equity ratio (%)	64.4%	61.2%	62.9%
Shareholders' equity per share (¥)	¥595.03	¥549.07	¥556.28



## Consolidated cash flows

millions of yen

	April 1, 2005 to December 31, 2005	April 1, 2004 to December 31, 2004	April 1, 2004 to March 31, 2005
Cash flows from operating activities	6,581	--	30,104
Cash flows from investing activities	963	--	(8,104)
Cash flows from financing activities	(5,052)	--	(9,116)
Cash and cash equivalents at end of period	40,732	--	37,817

Note: As consolidated cash flows have only been disclosed on a quarterly basis since the first quarter of the fiscal year ending March 31, 2006, third quarter figures for the previous fiscal year are not recorded.

### Summary of financial position:

Total assets as of December 31, 2005 were ¥390.9 billion, an increase of ¥16.4 billion from March 31, 2005. The main changes in assets were a ¥10.9 billion increase in marketable securities, a ¥8.5 billion increase in accounts and notes receivable, a ¥6.8 billion increase in investment securities and a ¥3.3 billion increase in inventories. On the other hand, cash and time deposits and tangible fixed assets each decreased, by ¥11.7 billion and ¥3.9 billion respectively.

In liabilities, accounts and notes payable and deferred tax liabilities each increased, by ¥9.7 billion and ¥4.4 billion respectively, but as income taxes payable decreased by ¥5.1 billion, accrued retirement liabilities decreased by ¥4.5 billion, and accrued expenses for the payment of winter bonuses decreased by ¥4.0 billion, total liabilities increased by ¥0.1 billion.

Shareholders' equity increased ¥16.1 billion to ¥251.5 billion due to net income of ¥14.6 billion recorded in the nine months ended December 31, 2005 and other factors. As a result of this, the shareholders' equity ratio increased 1.5 percentage points from the end of March 2005 to 64.4%.

Consolidated cash flow: Cash flow from operating activities for the first nine months of the fiscal year ending March 31, 2006 was ¥6.5 billion as ¥24.0 billion of income before income taxes was partially offset by corporation tax payments of ¥11.5 billion and a decrease of ¥4.5 billion in the retirement benefit allowance. Cash flow from investment activities was ¥0.9 billion as payments for the purchase of tangible fixed assets of ¥5.4 billion was offset by income from the sale of investment securities of ¥4.0 billion and income from the sales of tangible fixed assets of ¥3.1 billion and other factors. Cash flow from financing activities was an outflow of ¥5.0 billion due to dividend payments of ¥4.7 billion and other factors.

As a result of the above, cash and cash equivalents at the end of December 31, 2005 were ¥40.7 billion, an increase of ¥2.9 billion from March 31, 2005.



### 3. Consolidated forecasts for the fiscal year ending March 31, 2006

*millions of yen*

	FY ending March 31, 2006
Net sales	360,000
Operating income	26,000
Recurring income	27,000
Net Income	15,000
Net income per share (¥)	¥35.47

Results for the nine-month period are broadly in accordance with plans and there are no changes to the consolidated forecasts announced on October 31, 2005.

\*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**

	<i>Millions of yen</i>		
	As of December 31, 2005	As of March 31, 2005	As of December 31, 2004
<b>ASSETS</b> .....	<b>390,945</b>	<b>374,492</b>	<b>379,336</b>
<b>Current assets</b> .....	<b>223,444</b>	<b>210,341</b>	<b>213,618</b>
Cash and time deposits.....	24,360	36,138	31,393
Accounts and notes receivable.....	115,078	106,555	114,555
Marketable securities.....	11,999	999	999
Inventories.....	53,812	50,489	49,986
Deferred tax assets.....	5,301	6,867	4,544
Other current assets.....	13,088	9,496	12,303
Allowance for doubtful accounts.....	(196)	(207)	(164)
<b>Fixed assets</b> .....	<b>167,501</b>	<b>164,151</b>	<b>165,718</b>
Tangible fixed assets.....	87,728	91,635	92,928
Property, plant and equipment.....	37,894	40,408	41,175
Machinery and equipment.....	22,541	22,605	22,828
Land.....	20,159	21,662	21,676
Construction in progress.....	1,760	1,647	1,729
Other.....	5,372	5,310	5,518
Intangible fixed assets.....	180	212	241
Investments and other assets.....	79,591	72,303	72,547
Investments in securities.....	68,359	61,507	60,034
Long-term loans .....	2,602	2,011	2,055
Deferred tax assets .....	475	2,237	3,016
Other investments and other assets.....	9,701	8,218	8,423
Allowance for doubtful accounts.....	(1,078)	(1,219)	(775)
Allowance for investment valuations.....	(469)	(451)	(205)
<b>Total assets</b> .....	<b>390,945</b>	<b>374,492</b>	<b>379,336</b>

	<i>Millions of yen</i>		
	As of December 31, 2005	As of March 31, 2005	As of December 31, 2004
<b>LIABILITIES</b> .....	<b>137,718</b>	<b>137,595</b>	<b>145,529</b>
<b>Current liabilities</b> .....	<b>104,501</b>	<b>103,489</b>	<b>110,013</b>
Accounts and notes payable.....	59,563	49,845	64,262
Short-term bank loans.....	12,205	12,106	12,503
Accounts payable.....	15,938	15,077	13,963
Expenses payable.....	302	4,317	321
Income taxes payable.....	3,017	8,176	5,151
Reserve for accrued sales rebates.....	1,318	1,230	1,269
Reserve for accrued sales returns.....	44	54	44
Reserve for accrued sales promotion expenses...	867	901	898
Reserve for fixed asset disposal.....	1,107	1,030	939
Reserve for losses on business reorganization.....	--	1,224	--
Other current liabilities .....	10,134	9,523	10,660
<b>Long-term liabilities</b> .....	<b>33,217</b>	<b>34,105</b>	<b>35,516</b>
Long-term debt.....	14	86	98
Deferred tax liabilities.....	6,473	2,009	1,784
Accrued retirement liabilities.....	25,975	30,570	31,543
Accrued directors' retirement benefits.....	83	841	800
Reserve for fixed asset disposal.....	--	277	578
Reserve for debt guarantee losses.....	--	17	--
Other long-term liabilities.....	670	303	712
<b>Minority interests</b> .....	<b>1,639</b>	<b>1,458</b>	<b>1,480</b>
<b>SHAREHOLDERS' EQUITY</b> .....	<b>251,587</b>	<b>235,439</b>	<b>232,326</b>
Common stock .....	26,745	26,745	26,745
Capital surplus.....	43,185	43,184	43,184
Retained earnings.....	169,106	159,587	156,960
Valuation difference on other marketable securities..	21,941	15,307	14,661
Foreign exchange adjustment account .....	(1,390)	(1,564)	(1,478)
Treasury stock.....	(8,000)	(7,821)	(7,746)
<b>Total liabilities, minority interests, and shareholders' equity</b> .....	<b>390,945</b>	<b>374,492</b>	<b>379,336</b>



## 2. Consolidated statements of income

	<i>Millions of yen</i>		
	April 1, 2005 to December 31, 2005	April 1, 2004 to December 31, 2004	(Reference) April 1, 2004 to March 31, 2005
Net sales .....	272,258	274,881	358,963
Cost of sales .....	174,013	176,568	226,890
Gross profit.....	98,244	98,313	132,072
Recovery of reserve for accrued sales returns.....	54	94	94
Addition to reserve for accrued sales returns.....	44	44	54
Adjusted gross profit.....	98,254	98,363	132,112
Selling, general and administrative expenses.....	75,375	72,264	98,605
<b>Operating income.....</b>	<b>22,878</b>	<b>26,099</b>	<b>33,506</b>
Other income.....	5,220	3,277	4,145
Interest and dividend income.....	851	604	686
Income from equity method investments.....	545	426	563
Others.....	3,824	2,246	2,895
Other expenses.....	2,115	3,294	5,285
Interest expenses.....	141	183	239
Others.....	1,974	3,111	5,046
<b>Recurring income.....</b>	<b>25,983</b>	<b>26,081</b>	<b>32,366</b>
Extraordinary income.....	1,674	217	257
Extraordinary losses.....	3,569	334	2,721
<b>Income before taxes.....</b>	<b>24,088</b>	<b>25,964</b>	<b>29,903</b>
Corporate, local, and enterprise taxes.....	6,015	8,268	11,333
Corporate tax adjustment.....	3,318	2,308	569
Minority interests in consolidated subsidiaries..	93	83	67
<b>Net income.....</b>	<b>14,661</b>	<b>15,305</b>	<b>17,931</b>





### 3.Consolidated Statements of Cash Flows

Millions of Yen

	April 1, 2005 to December 31, 2005	(Reference) April 1, 2004 to March 31, 2005
<b>Cash flows from operating activities:</b>		
Income before income taxes.....	24,088	29,903
Depreciation and amortization.....	7,118	10,565
Decrease in retirement benefit allowance.....	(4,593)	(3,200)
Increase in trade receivables.....	(8,824)	(361)
Increase in inventories.....	(3,223)	(374)
Increase in trade payables.....	9,837	2,175
Corporate etc. tax payments.....	(11,523)	(12,453)
Others.....	(6,297)	3,850
<b>Net cash provided by operating activities.....</b>	<b>6,581</b>	<b>30,104</b>
<b>Cash flows from investing activities:</b>		
Payment for purchase of property, plant and equipment.....	(5,487)	(7,264)
Proceeds from sale of property, plant and equipment.....	3,149	370
Proceeds from sale of investment securities.....	4,023	178
Others.....	(721)	(1,389)
<b>Net cash provided by (used in) investing activities.....</b>	<b>963</b>	<b>(8,104)</b>
<b>Cash flows from financing activities:</b>		
Payment for purchase of treasury stock.....	(185)	(5,524)
Dividends paid.....	(4,718)	(3,233)
Others.....	(148)	(357)
<b>Net cash used in financing activities.....</b>	<b>(5,052)</b>	<b>(9,116)</b>
<b>Cash and cash equivalents translation differences.....</b>	<b>169</b>	<b>14</b>
<b>Increase in cash and cash equivalents.....</b>	<b>2,661</b>	<b>12,897</b>
<b>Cash and cash equivalents at the beginning of the period.....</b>	<b>37,817</b>	<b>24,911</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period.....</b>	<b>253</b>	<b>9</b>
<b>Cash and cash equivalents at the end of the period.....</b>	<b>40,732</b>	<b>37,817</b>



#### 4. Segment information

##### Segment information by business type (April 1, 2005- December 31, 2005)

								<i>Millions of yen</i>	
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated	
Net sales:									
(1) Sales to external customers	118,734	35,886	59,948	28,919	28,768	272,258	--	272,258	
(2) Inter-segment sales and transfers	263	6,777	4,026	3,525	12,317	26,910	(26,910)	--	
<b>Total sales</b>	<b>118,998</b>	<b>42,663</b>	<b>63,974</b>	<b>32,445</b>	<b>41,085</b>	<b>299,168</b>	<b>(26,910)</b>	<b>272,258</b>	
Operating expenses	105,103	39,851	60,367	30,913	40,142	276,379	(27,000)	249,379	
<b>Operating income</b>	<b>13,894</b>	<b>2,812</b>	<b>3,606</b>	<b>1,531</b>	<b>943</b>	<b>22,788</b>	<b>89</b>	<b>22,878</b>	

##### Segment information by business type (April 1, 2004- December 31, 2004)

								<i>Millions of yen</i>	
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated	
Net sales:									
(1) Sales to external customers	119,791	39,159	54,300	30,125	31,505	274,881	--	274,881	
(2) Inter-segment sales and transfers	1,054	5,788	3,364	3,985	12,567	26,760	(26,760)	--	
<b>Total sales</b>	<b>120,845</b>	<b>44,947</b>	<b>57,664</b>	<b>34,110</b>	<b>44,072</b>	<b>301,641</b>	<b>(26,760)</b>	<b>274,881</b>	
Operating expenses	106,056	39,569	54,597	32,473	42,766	275,462	(26,680)	248,782	
<b>Operating income</b>	<b>14,789</b>	<b>5,378</b>	<b>3,067</b>	<b>1,637</b>	<b>1,306</b>	<b>26,179</b>	<b>(79)</b>	<b>26,099</b>	

##### Segment information by business type (April 1, 2004- March 31, 2005)

								<i>Millions of yen</i>	
	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/Corporate	Consolidated	
Net sales:									
(1) Sales to external customers	155,870	50,354	73,147	39,265	40,325	358,963	--	358,963	
(2) Inter-segment sales and transfers	556	7,412	4,835	5,233	17,485	35,496	(35,496)	--	
<b>Total sales</b>	<b>156,426</b>	<b>57,767</b>	<b>77,982</b>	<b>44,499</b>	<b>57,783</b>	<b>394,459</b>	<b>(35,496)</b>	<b>358,963</b>	
Operating expenses	138,325	50,879	72,644	42,838	56,150	360,838	(35,381)	325,456	
<b>Operating income</b>	<b>18,100</b>	<b>6,887</b>	<b>5,338</b>	<b>1,661</b>	<b>1,633</b>	<b>33,621</b>	<b>(114)</b>	<b>33,506</b>	