KYOWA

Kyowa Hakko Kogyo Co., Ltd.

Consolidated Financial Summary

Fiscal 2005

(April 1, 2005 - March 31, 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.

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

For The Fiscal Year Ended March 31, 2006

Kyowa Hakko Kogyo Co., Ltd. **April 28, 2006**

Stock Code:	4151	Listed exchanges:	Tokyo, 1st section
URL:	www.kyowa.co.jp	Inquiries:	Tetsuro Kuga, General Manager
President	Yuzuru Matsuda		Corporate Communications Department
Date of the meeting of the board of directors:	April 28, 2006	Telephone:	813 3282-0009
U.S. GAAP Accounting Principles:	Not adopted		

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2006

Amounts less than 1 million yen have been ignored

1) Consolidated Operating Results

Millions of yen

	FY Ended March 31, 2006		FY Ended March 31, 2005	
		Change (%)		Change (%)
Net sales	353,439	(1.5)	358,963	2.9
Operating income	25,534	(23.8)	33,506	24.9
Recurring income	28,219	(12.8)	32,366	30.6
Net income	16,273	(9.2)	17,931	79.0
Net income per share (¥)	¥38.36		¥41.608	
Fully diluted net income per share (¥)	¥38.35		—	
Return on equity (%)	6.6%		7.8%	
Recurring income to total capital ratio (%)	7.4%		8.8%	
Recurring income to sales ratio (%)	8.0%		9.0%	

Notes: (1) Gain from investments in subsidiaries and affiliates accounted for by the equity method:
FY ended March 31, 2006 679 million yen FY ended March 31, 2005: 563 million yen
(2) Average number of shares outstanding (consolidated) during the period:
FY ended March 31, 2006 422,919,680 shares FY ended March 31, 2005: 427,635,631 shares
(3) Changes to accounting treatment: Yes
(4) Percentages for net sales, operating income, recurring income and net income represent changes from the previous fiscal year.

2) Consolidated Financial Position

Millions of yen

	As of March 31, 2006	As of March 31, 2005
Total assets	384,381	374,492
Shareholders' equity	255,807	235,439
Equity ratio (%)	66.6%	62.9%
Shareholders' equity per share (¥)	¥604.92	¥556.28

Notes (1) Number of shares outstanding at fiscal year end FY ended March 31, 2006: 422,795,946 shares
FY ended March 31, 2005: 423,033,261 shares

3) Consolidated Cash Flows

Millions of yen

	FY Ended March 31, 2006	FY Ended March 31, 2005
Net cash provided by (used in) operating activities	14,303	30,104
Net cash provided by (used in) investing activities	(1,795)	(8,104)
Net cash provided by (used in) financing activities	(5,139)	(9,116)
Cash and cash equivalents at end of period	45,820	37,817

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

Number of consolidated subsidiaries	21
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:	2	Excluded	3
Companies accounted for by the equity method	Newly included:	0	Excluded	0

2. Consolidated Results Forecast for the Fiscal Year Ending March 31, 2007

Millions of yen

	Interim	Full year
Net sales	165,000	340,000
Operating income	11,000	26,000
Recurring income	10,500	25,000
Net income	4,000	13,000

Reference: Net income per share forecast for the fiscal year ending March 31, 2007 (consolidated): ¥30.75

Note: 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 12 of this document for further information concerning these forecasts.

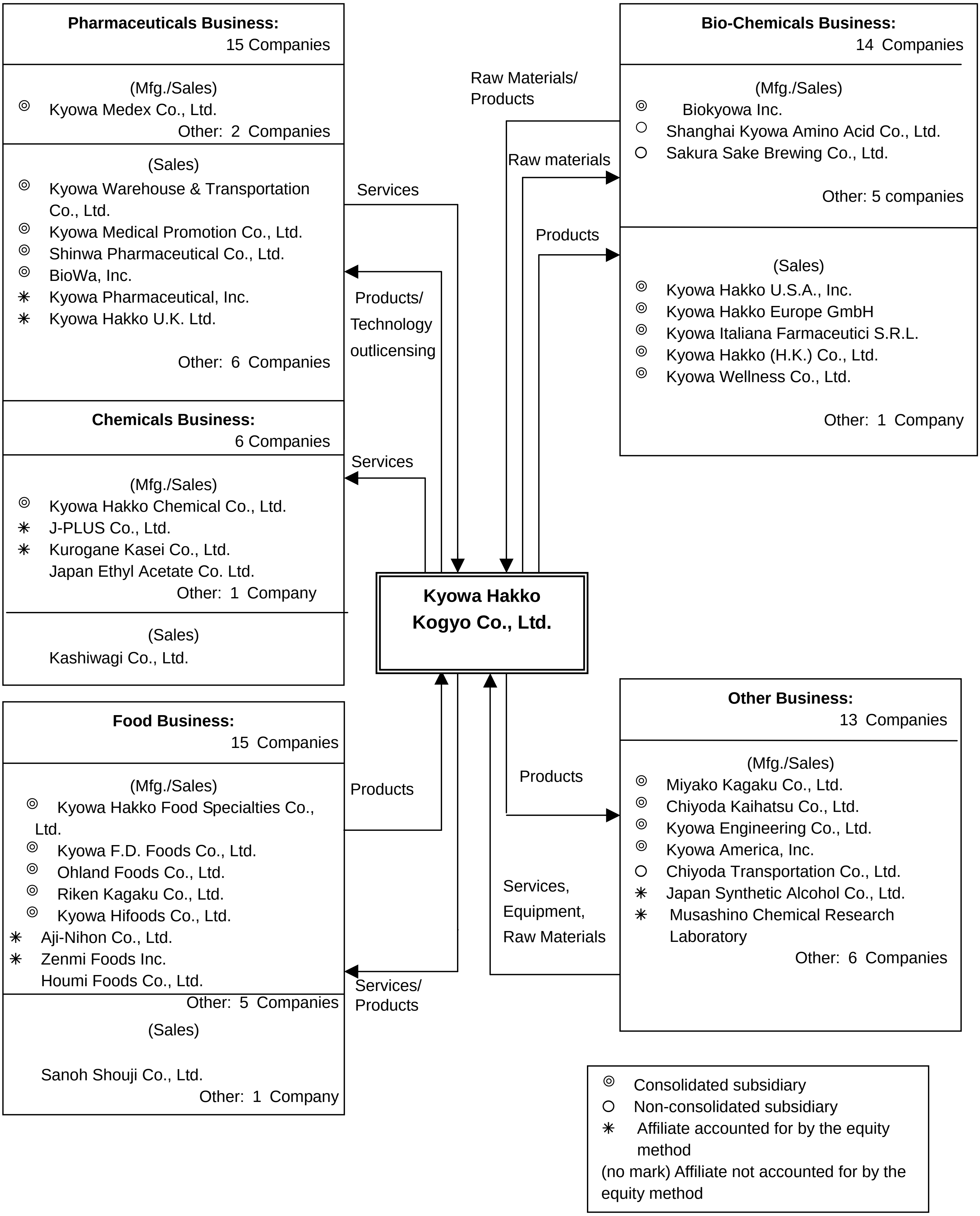
1. Group Status

The Kyowa Hakko Group is composed of the parent company (Kyowa Hakko Kogyo Co., Ltd., also referred to as "the Company"), 43 subsidiaries and 20 affiliates. The major operating activities of the company and the main group companies are outlined below. The categories used here are the same as those found in the Industry Segment Information.

Pharmaceuticals Business	Prescription pharmaceuticals are manufactured and sold predominantly by the parent company and distribution of these is performed by Kyowa Warehouse & Transportation Co., Ltd., while Kyowa Medical Promotion Co., Ltd. carries out sales promotion activities on behalf of Kyowa Hakko. Shinwa Pharmaceutical Co., Ltd. sells herbal medicines, health foods, etc. Overseas, BioWa, Inc. pursues the out-licensing and development in the U.S. and Europe of antibody technology developed by the company and is also involved in the strategic development of Kyowa Hakko's antibody technology business. Kyowa Pharmaceutical, Inc. handles the development in the U.S. of new drug candidates created by the parent company, and Kyowa Hakko U.K. Ltd. handles the development in Europe of new drug candidates created by the parent company and the sales of parent company products. Manufacturing and sales of diagnostic and reagents are the responsibility of Kyowa Medex Co., Ltd.
Bio-Chemicals Business	The Company, Biokyowa Inc. and Shanghai Kyowa Amino Acid Co., Ltd. manufacture raw materials for pharmaceuticals and industrial use, including amino acids, nucleic acids and related compounds, and healthcare products. These are sold directly by these three companies and also by overseas subsidiaries such as Kyowa Hakko Europe GmbH, Kyowa Italiana Farmaceutici S.R.L., and Kyowa Hakko (H.K.) Co., Ltd. Healthcare products for the domestic market are sold by Kyowa Wellness Co., Ltd. Agrochemicals and products for the livestock and fisheries industries are primarily manufactured and sold by Kyowa Hakko. The parent company also manufactures and sells raw material alcohol and delivers a portion of its products as raw materials to the Sakura Sake Brewery Co., Ltd., and others.
Chemicals Business	Chemical products such as solvents, plasticizers and their raw materials, and functional products are mainly manufactured and sold by Kyowa Hakko Chemical Co., Ltd., and partly by J-PLUS Co., Ltd., Kurogane Kasei Co., Ltd., and Japan Ethyl Acetate Co., Ltd. Kyowa Hakko Chemical Co., Ltd. also sells products provided by such companies and receives services from Kyowa Hakko. The Kashiwagi Co., Ltd. primarily sells products supplied by Kyowa Hakko Chemical Co., Ltd. and goods purchased from third parties.
Food Business	The manufacture and sale of seasonings, bakery products and ingredients and processed foods is mainly performed by Kyowa Hakko Food Specialties Co., Ltd., and partly by Kyowa F.D. Foods Co., Ltd., Ohland Foods Co., Ltd., Riken Kagaku Co., Ltd., Kyowa Hifoods Co., Ltd., Aji-Nihon Co., Ltd., Zenmi Foods Co., Ltd., and Houmi Foods Co., Ltd. Kyowa Hakko Food Specialties Co., Ltd. provides each of these companies with some of their raw materials and also sells finished products supplied by them. Kyowa Hakko Food Specialties Co., Ltd. is supplied with products and services by the Company. Sanoh Shouji Co., Ltd. is mainly involved in the sales of products supplied by Kyowa Hakko Food Specialties Co., Ltd., and of goods purchased from other companies.
Other Business	A number of related companies are responsible for wholesale, distribution and constructing facilities, and include Miyako Kagaku Co., Ltd., Chiyoda Kaihatsu 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. Kyowa America, Inc. is a U.S.-based holding company. In addition, Japan Synthetic Alcohol Co., Ltd. produces alcohol for industrial applications, and Musashino Chemical Research Laboratory, Ltd. manufactures and sells organic synthetic chemicals.

Note: Unless specifically stated otherwise, in this document 'the Group' refers to the parent company and 21 consolidated subsidiaries.

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


Pharmaceuticals Business:
15 Companies
(Mfg./Sales)
◎ Kyowa Medex Co., Ltd.
Other: 2 Companies
(Sales)
◎ Kyowa Warehouse & Transportation Co., Ltd.
◎ Kyowa Medical Promotion Co., Ltd.
◎ Shinwa Pharmaceutical Co., Ltd.
◎ BioWa, Inc.
✳ Kyowa Pharmaceutical, Inc.
✳ Kyowa Hakko U.K. Ltd.
Other: 6 Companies
Chemicals Business:
6 Companies
(Mfg./Sales)
◎ Kyowa Hakko Chemical Co., Ltd.
✳ J-PLUS Co., Ltd.
✳ Kurogane Kasei Co., Ltd.
Japan Ethyl Acetate Co. Ltd.
Other: 1 Company
(Sales)
Kashiwagi Co., Ltd.
Food Business:
15 Companies
(Mfg./Sales)
◎ Kyowa Hakko Food Specialties Co., Ltd.
◎ Kyowa F.D. Foods Co., Ltd.
◎ Ohland Foods Co., Ltd.
◎ Riken Kagaku Co., Ltd.
◎ Kyowa Hifoods Co., Ltd.
✳ Aji-Nihon Co., Ltd.
✳ Zenmi Foods Inc.
Houmi Foods Co., Ltd.
Other: 5 Companies
(Sales)
Sanoh Shouji Co., Ltd.
Other: 1 Company
Services
Products/
Technology
outlicensing
Services
Products
Services/
Products
Kyowa Hakko
Kogyo Co., Ltd.
Raw Materials/
Products
Raw materials
Products
Products
Services,
Equipment,
Raw Materials
Bio-Chemicals Business:
14 Companies
(Mfg./Sales)
◎ Biokyowa Inc.
○ Shanghai Kyowa Amino Acid Co., Ltd.
○ Sakura Sake Brewing Co., Ltd.
Other: 5 companies
(Sales)
◎ Kyowa Hakko U.S.A., Inc.
◎ Kyowa Hakko Europe GmbH
◎ Kyowa Italiana Farmaceutici S.R.L.
◎ Kyowa Hakko (H.K.) Co., Ltd.
◎ Kyowa Wellness Co., Ltd.
Other: 1 Company
Other Business:
13 Companies
(Mfg./Sales)
◎ Miyako Kagaku Co., Ltd.
◎ Chiyoda Kaihatsu Co., Ltd.
◎ Kyowa Engineering Co., Ltd.
◎ Kyowa America, Inc.
○ Chiyoda Transportation Co., Ltd.
✳ Japan Synthetic Alcohol Co., Ltd.
✳ Musashino Chemical Research Laboratory
Other: 6 Companies
◎ Consolidated subsidiary
○ Non-consolidated subsidiary
✳ Affiliate accounted for by the equity method
(no mark) Affiliate not accounted for by the equity method

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

Kyowa Hakko regards the return of profits to its shareholders as one of its key priorities. Regarding dividends, we consider the delivery of stable and sustainable dividends to be the basis of our policy while maintaining fully adequate internal reserves, and considering factors such as our consolidated results, the dividend payout ratio and the dividend return on shareholders' equity. Kyowa Hakko aims to respond flexibly and expeditiously in its share buyback policy while retaining sufficient reserves to make the investments in facilities and research and development that are required to fund new growth. Following the enactment of pending changes to Japanese commercial law in respect of dividends no change is planned to this dividend policy.

(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

In April 2005, the Kyowa Hakko Group shifted to a holding company system creating a reborn Kyowa Hakko with core businesses in Pharmaceuticals and Bio-Chemicals as its twin pillars. With our foundations in biotechnology, and through leveraging the synergies between these two core businesses, we aim to pursue sustained growth and development as a unique life sciences group that is distinctly different from pure pharmaceuticals companies. Furthermore, through separation of our Chemicals and Food businesses into the independent subsidiaries Kyowa Hakko Chemical Co., Ltd. and Kyowa Hakko Food Specialties Co., Ltd. we have established a corporate structure that can more accurately and speedily respond to customer needs.

During the period of Kyowa Hakko Group's 9th medium-term business plan, which covers the three-year period to March 2008 we will make the investments required to achieve sustained growth. We plan to take bold steps to further advance our research and development, invest in production facilities, promote sales growth and implement cost reductions. The Kyowa Hakko Group also aims to utilize its business resources more efficiently and has designated return on invested capital (ROIC) as a management indicator in the ninth medium-term business plan.

As regards the Pharmaceuticals business, the Japanese National Health Insurance implemented reimbursement price revisions for ethical drugs in April 2006, competition from European and US pharmaceuticals manufacturers is expected to intensify and the market for generic pharmaceutical products is forecast to expand. In response, Kyowa Hakko Group will aim to preserve its competitiveness through strengthening its sales activities and ensuring stable product supply, quality control and the preservation of its intellectual property rights, while aiming for sustained growth through the launch of new products and the pursuit of cost reductions. The Group will also promote research and development aimed at the early launch of anti-Parkinson’s disease agents, anti-urinary incontinence agents, and anticancer agents. We will also steadily implement measures aimed at growth and development including the strategic development of the biopharmaceutical business centered on our leading-edge antibody production technology and preparations to expand sales of in-house developed products in the Chinese market.

In the Bio-Chemicals business, as a leader in fermented bulk products including amino acids and nucleic acids and related compounds, despite participation in the amino acids market by Chinese and Korean makers and expansion and intensified competition in the health foods market, we will aim to strengthen the competitive position of our production bases in Japan and overseas through introducing innovative technology and reducing costs. Furthermore, through pursuing in-house production of the coenzyme Q10 and developing new products such as dipeptides we aim to reinforce the development of our business. In the healthcare business, the Group will strengthen its marketing strategy by concentrating on such areas as mail order sales to individuals.

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

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

(5) Items related to the parent company

No items.

(6) Other important management items

No items.

3. Operating Results and Financial Position

I. Summary of Operating Results

(1) Operating results for the fiscal year ending March 31, 2006

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	353.4	358.9	(5.5)
Operating income	25.5	33.5	(7.9)
Recurring income	28.2	32.3	(4.1)
Net income	16.2	17.9	(1.6)

During the consolidated fiscal year under review, the Japanese economy showed a gentle recovery benefiting from a recovery in personal consumption as well as improvements in corporate profits and an expansion in capital expenditure. However, there were still sources of uncertainty, such as the rapid rise in crude oil prices.

As regards the business environment in which the Kyowa Hakko Group operates, in Pharmaceuticals, global competition in sales and new drug development intensified as prices for prescription pharmaceuticals were further controlled, major U.S. and European pharmaceuticals companies continued to pose a threat and industry consolidation progressed, while the burden of investment in research and development increased. In Bio-Chemicals, the severe business climate continued as domestic demand for amino acids used in health and nutrition products (beverages) decreased and the entry of Chinese and South Korean manufacturers into the amino acid market led to intensified international price competition. In Chemicals, although high prices for raw materials and fuel were sustained throughout the period, domestic and overseas markets remained favorable, supported by expanding demand in China. Market conditions in Food continued to require us to respond rapidly to changes in market structure resulting from the diversifying food lifestyles of consumers.

Against such a background Kyowa Hakko began its ninth medium-term business plan which will run over three years and is based on ‘Growth and Development’. The plan seeks to improve the Group’s business competitiveness through developing new products and increasing profits by strategically increasing sales and implementing comprehensive cost cuts, while also carrying out full-scale research and development and investment into facilities to seize opportunities for long-term growth.

Net sales in the fiscal year ended March 31, 2006 were ¥353.4 billion, a decrease of 1.5% from fiscal 2004. Due to an increase in R&D expense mainly related to the anti-Parkinson’s disease treatment KW-6002, operating income was ¥25.5 billion, a decrease of 23.8%. Further, recurring income was ¥28.2 billion, a decrease of 12.8%, and net income for fiscal 2005 was ¥16.2 billion, a decrease of 9.2%, due to extraordinary losses for employees’ early retirement expenses and asset impairment losses.

Consolidated R&D expense for the period under review was ¥32.8 billion, an increase on 14.3% from fiscal 2004, and the R&D expense to sales ratio was 9.3%.

(2) Segmental Review

Pharmaceuticals

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	149.5	156.4	(6.8)
Operating income	14.2	18.1	(3.8)

Core prescription pharmaceuticals performed well, but the large sales decline in *Itrizole*, which is sold through a distribution agreement, meant that overall sales of prescription pharmaceuticals declined from the previous fiscal year.

Allelock, an antiallergic agent (olopatadine hydrochloride), *Durotep Patch,* an analgesic for persistent cancer pain, and *Navelbine*, an anticancer agent, each recorded growth in sales. Sales of *Coniel*, a treatment for hypertension and angina pectoris, and *Depakene*, an antiepileptic agent, were maintained at similar levels to those recorded in the previous fiscal year.

In the licensing-out of technologies and export of pharmaceutical products, the antiallergic agent *Olopatadine hydrochloride* performed well and patents were granted in the U.S. for the POTELLIGENT™ technology that enhances monoclonal antibody activity, and as a result of active promotion by U.S. subsidiary BioWa, the number of licensing-out contracts is increasing steadily.

At the Kyowa Hakko subsidiary Kyowa Medex Co., Ltd., which is responsible for the manufacture and sale of *in vitro* medical devices, sales of immunological reagents such as *Determiner HbA1c*, a diabetes testing reagent, and *Determiner BNP,* a myocardial marker, increased and along with the new contribution from sales of *Uropiace S,* a urine test paper, overall sales were higher than in the previous fiscal year.

As a result of these factors, sales were ¥149.5 billion, a decline of 4.4% from the previous fiscal year, while operating income was ¥14.2 billion, a decline of 21.4%.

In the development of new drugs in Japan, *Navelbine*, an anticancer agent, and *Activacin*, a treatment for acute myocardial infarction, received approval for additional indications in May 2005 and October 2005 respectively, and *Bothdel (MM-Q01)*, the contrast medium for MRI, received approval in April 2006. Further, the antiepileptic KW-6485 is currently in the NDA application stage. Kyowa is also carrying out clinical trials on KW-6002, an anti-Parkinson’s disease treatment, KW-2246, an analgesic for cancer pain, and KW-7158, a treatment for overactive bladder.

Overseas, KW-6002 has completed Phase III clinical trials in North America and Europe as an anti-Parkinson’s treatment and is expected to receive US FDA approval in the latter half of 2006. KW-6002 is also undergoing clinical trials in North America for Restless Leg Syndrome applications and biopharmaceutical KW-0761 is currently in European clinical trials as an antiallergic agent. *Allelock,* an antiallergic agent, and *Coniel,* a treatment for hypertension and angina pectoris, are undergoing Phase III clinical trials in China.

Bio-Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	57.4	57.7	(0.3)
Operating income	4.0	6.8	(2.8)

Sales of raw materials for pharmaceuticals and industrial use, including amino acids, nucleic acids, and related compounds were affected by intensified price competition in overseas markets but this was largely offset by increased domestic sales of raw materials for generic pharmaceutical products and sales were broadly maintained at the level of the previous fiscal year.

In healthcare products, despite weak domestic demand for beverage-use amino acids, in overseas markets amino acids used in health foods showed growth, and expanded domestic mail-order sales of the *Remake* series led to increased sales compared to the previous fiscal year.

With the withdrawal from the overseas feed-use amino acids business and a worsening of the domestic market, sales of agrochemicals and products for the livestock and fisheries industries decreased from the previous fiscal year.

Despite a decrease in sales of alcohol for the alcohol beverage industry, shipments of industrial-use alcohol increased significantly in the lead up to deregulation in April 2006, leading to higher overall sales levels of alcohol than in fiscal 2004.

As a result of these factors, sales in the Bio-chemicals segment were ¥57.4 billion, a decline of 0.6% compared to the previous fiscal year, while operating income was ¥4.0 billion, a decline of 40.7% due to increased price competition and a sharp rise in raw materials prices.

In R&D, Kyowa Hakko established the fermentation production technology aimed at a major reduction in the production cost of amino acids and continued practical research for new health-food use materials. We also continued to focus on discovering functionality and developing applications for a wide-range of amino acids, nucleic acids and related compounds.

Chemicals

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	85.8	77.9	7.8
Operating income	4.5	5.3	(0.8)

In Japan, rising crude oil prices and the resulting increased fuel and raw material prices led to a rise in product prices of core products, and in consequence sales were significantly greater than in the previous fiscal year. However, as a result of a decrease in the volume of plasticizer raw materials and inventory adjustments at purchasers of raw materials for refrigerant oils, there was a decline in shipment volumes, causing pressure on profits.

On the other hand, shipment volumes in the export business were slightly lower than in fiscal 2004, but as a result of higher product prices, export sales were higher than the previous fiscal year.

By product area, there was growth in the high-purity solvents for the IT industry and exports of functional products also greatly increased. Further, sales of squaric acid derivatives that are used as raw materials for information recording media have been steadily increasing.

As a result of these factors, sales were ¥85.8 billion, an increase of 10.1% compared to the previous fiscal year, while operating income was ¥4.5 billion, a decline of 15.7%.

Food

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	42.4	44.4	(2.0)
Operating income	1.6	1.6	(0.0)

In seasonings, sales of natural seasonings such as *Kokumi* seasoning and extract-type seasonings for prepared foods were higher than in fiscal 2004 but sales slightly decreased overall. Due to a higher market share, both sales volumes and sales of *umami* seasonings were up on the previous fiscal year.

In bakery products and ingredients, sales improved from fiscal 2004 due to increased sales of sweet bread premixes, bread flavor enhancers and milk preparations. Further, sales of processed foods declined compared to the previous fiscal year due to a decrease in sales of OEM products. In addition, in April 2005 all shares held in subsidiary Asahi Food Products Co., Ltd. were sold.

As a result of these factors, sales were ¥42.4 billion, a decline of 4.6%, while operating income was ¥1.6 billion, a decline of 3.6%.

Other

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Net sales	55.3	57.7	(2.4)
Operating income	1.1	1.6	(0.4)

In the Other business, sales were ¥55.3 billion, a decline of 4.2% compared to the previous fiscal year, while operating income was ¥1.1 billion, a decline of 29.3%.

(3) Profit Distribution

A year-end dividend of ¥5.00 per share (¥6.25 for the previous fiscal year) is planned. Combined with the interim dividend of ¥5.00 per share (¥3.75 for the previous fiscal year), the total dividend for the fiscal year is expected to be ¥10.00 per share, the same as for the previous fiscal year.

2. Outlook for the Full Year

	Billions of yen		%
	FORECAST Fiscal Year ending March 31, 2007	Change compared to the previous fiscal year	
Net sales	340.0	(13.4)	(3.8%)
Operating income	26.0	0.4	1.8%
Recurring income	25.0	(3.2)	(11.4%)
Net income	13.0	(3.2)	(20.1%)

(These figures assume an average exchange rate of ¥115 to the U.S. dollar and ¥140 to the Euro)

While the Japanese economy is generally expected to continue its gentle recovery, further rises in crude oil prices and increases in long-term interest rates are sources of concern and the outlook for the economies of the United States and China is also unclear. We thus expect the operating environment to remain unpredictable.

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

In fiscal 2006, net sales are forecast to decline to ¥340.0 billion due to the termination of the distribution agreement for antimycological agent *Itrizole* with Janssen Pharmaceuticals K.K. and operating income is expected to remain at ¥26.0 billion, a similar level to fiscal 2005. Recurring income and net income are forecast to decline to ¥25.0 billion and ¥13.0 billion respectively.

In the Pharmaceuticals business, sales are forecast to significantly decline due to factors such as the termination of the distribution agreement for *Itrizole*, and the reduction in National Health reimbursement prices implemented in April 2006. Segmental operating income is also forecast to decline compared to fiscal 2005, despite a decrease in R&D expenses due to the conclusion of overseas Phase III clinical trials of KW-6002.

In the Bio-Chemicals business, both sales and operating income are forecast to increase in fiscal 2006 as a result of the development of full-scale strategies to broaden sales of amino acids, Coenzyme Q10, and healthcare products, including mail order sales to individuals, as well as continued growth in sales volumes of industrial-use alcohol following deregulation in April 2006.

In the Chemicals business, whilst sales are expected to increase due to increases in product prices, operating income is forecast to remain at a similar level to that recorded in fiscal 2005 due to rises in the price of fuel and raw materials.

In the Foods business, due to the full-scale deployment of solutions-based marketing, sales volumes of natural seasonings for the prepared foods and food service industries are forecast to increase, leading to increases in sales and operating income compared to fiscal 2005.

In Other businesses sales and operating income are expected to decline compared to fiscal 2005.

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

II. Summary of Financial Position

(1) Summary of Fiscal Year End Financial Position

1) Assets, Liabilities, and Capital Summary

Total assets at the close of fiscal 2005 stood at ¥384.3 billion, up ¥9.8 billion from the end of the previous fiscal year. Current assets increased by ¥2.6 billion as a result of increases in commercial paper (in 'Marketable securities') and trust beneficiary rights (in 'Other current assets') used for short-term fund management purposes and an increase in inventories, and despite decreases in cash and deposits, and accounts and notes receivable. Fixed assets increased by ¥7.2 billion as a decline in tangible fixed assets partly resulting from the recording of asset impairment losses was offset by an increase in investment securities caused by the rise in share prices of holdings of listed equity securities.

Liabilities declined by ¥10.7 billion, reflecting a decline in retirement benefit allowances which resulted from declines in special contributions to the corporate pension fund and the implementation of an early retirement benefit system, and also as a result of declines in corporation tax payable, accounts and notes payable, the reserve for losses on business reorganization and the reserve for fixed asset disposal expenses.

Shareholders' equity increased by ¥20.3 billion as a decline resulting from dividend payment was offset by ¥16.2 billion of net income recorded for the period, supplemented by an increase in unrealized gains on available-for-sale securities resulting from a rise in share prices.

As a result the consolidated equity ratio as of the end of the fiscal year was 66.6%, an increase of 3.7 percentage points compared to the end of the previous fiscal year.

2) Cash Flow Summary

	Billions of yen		
	Consolidated results for the period ended March 31, 2006	Consolidated results for the period ended March 31, 2005	Change
Cash flows from operating activities	14.3	30.1	(15.8)
Cash flows from investing activities	(1.7)	(8.1)	6.3
Cash flows from financing activities	(5.1)	(9.1)	3.9
Cash and cash equivalents at end of period	45.8	37.8	8.0

Net cash provided by operating activities was ¥14.3 billion, ¥15.8 billion lower than in the previous fiscal year. This was a result of income before income taxes ¥5.0 billion lower than in the previous fiscal year and other factors causing a decline in operating cash flow were a decline in reserves for retirement benefits, an increase in inventories and a decline in trade payables.

Net cash used in investing activities was ¥1.7 billion, ¥6.3 billion lower than the ¥8.1 billion used in investing activities in fiscal 2004. The main outflow was ¥9.0 billion for the acquisition of tangible fixed assets, but this was partially offset by inflows of ¥4.1 billion from the sale of marketable investment securities and ¥3.2 billion from the sale of tangible fixed assets.

Net cash used in financing activities was ¥5.1 billion, ¥3.9 billion lower than the ¥9.1 billion used in financing activities in fiscal 2004. The main factors were a ¥5.2 billion decline in payments for the acquisition of treasury stock, which was partially offset by an increase of ¥1.5 billion in dividend payments resulting from an increase in the final dividend for fiscal 2004.

As a result of the above factors, the balance of cash and cash equivalents as of March 31, 2006 was ¥45.8 billion, an increase of ¥8.0 billion compared to the end of the previous fiscal year.

Key Shareholders' Equity and Cash Flow Indicators

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Shareholders' equity ratio (%)	59.4	62.3	62.9	66.6
Shareholders' equity (market price base) ratio (%)	59.4	82.1	92.7	94.6
Years to debt redemption	2.9	0.4	0.4	0.9
Interest coverage ratio	9.7	31.7	124.4	84.8

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
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 2006 Outlook for Financial Position

Cash flows from operating activities: Management expects a slight decline in income before income taxes and minority interests compared to the previous fiscal year but, as trade receivables and inventories are each expected to decline as a result of lower sales in the Pharmaceuticals business, consolidated cash flow from operating activities in fiscal 2006 is forecast to be higher than in fiscal 2005.

Cash flows from investing activities: In fiscal 2006 income from the sale of shares in affiliates is expected but the implementation of an active capital expenditure program, including new investment in manufacturing facilities for the coenzyme Q10, is expected to result in increased expenditure and overall outflows are expected to be higher than in fiscal 2005.

Cash flows from financing activities: The main outflow expected is the payment of dividends. Financial activities such as the procurement of funds, repayment of borrowings and acquisition of treasury shares will be considered flexibly in the light of economic and financial conditions.

As a result, cash and cash equivalents as of the end of fiscal 2006 are expected to increase compared to the end of fiscal 2005.

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

III. Business and Other Risks

With respect to Kyowa Hakko Group's business performance and financial position, the major risks that may significantly affect investors' judgments include, but are not limited to, those described below. The Group recognizes that these risk events may occur, and the Group uses a risk management system to prevent the occurrence of those risk events that can be controlled by the Group. At the same time, the Group will do its utmost to respond in the event of the occurrence of a risk event.
Items in this section dealing with future events reflect the judgment of Kyowa Hakko Group as of the end of fiscal year to March 31, 2006.

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

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

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

In addition, in non-pharmaceutical operations, the Group invests R&D resources in the development of new products and new technologies that are expected to differentiate the Group from its competitors by making use of key technologies, such as its core fermentation technologies and biotechnologies. There is no guarantee these investments will produce results.
As stated above, in cases where expected R&D results are not realized, Kyowa Hakko Group's future growth and profitability may decline and our business performance and financial position may also be adversely affected.

Risks related to Intellectual Property Assets

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

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

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

Legal regulation risks

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

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

Risk of defective products

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

Disaster-related and accident-related risks

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

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

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

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

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

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

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

Potential risks for overseas business activities

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

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

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

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

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

Risk of significant crude oil price fluctuations on profit margin

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

4. Consolidated Financial Statements

Consolidated Balance Sheets

	Millions of yen		
	As of March 31, 2006	As of March 31, 2005	Change
ASSETS			
Current assets:			
Cash and time deposits	26,019	36,138	
Accounts and notes receivable	97,828	106,555	
Marketable securities	15,494	999	
Inventories	55,485	50,489	
Deferred tax assets	6,365	6,867	
Other current assets	11,981	9,496	
Less: allowance for doubtful accounts	(189)	(207)	
	212,985	**210,341**	**2,643**
Fixed assets:			
Tangible fixed assets			
Buildings and structures	37,222	40,408	
Machinery and equipment	22,403	22,605	
Land	20,268	21,662	
Construction in progress	2,782	1,647	
Other	5,511	5,310	
	88,188	**91,635**	**(3,446)**
Intangible fixed assets	402	212	189
Investments and other assets:			
Investment securities	72,244	61,507	
Long-term loans	2,534	2,011	
Deferred tax assets	343	2,237	
Other investments and other assets	9,293	8,218	
Allowance for doubtful accounts	(1,160)	(1,219)	
Allowance for investment valuations	(449)	(451)	
	82,804	**72,303**	**10,501**
Total Fixed Assets	**171,396**	**164,151**	**7,245**
Total Assets	**384,381**	**374,492**	**9,888**

Consolidated Balance Sheets (continued)

	Millions of yen		
	As of March 31, 2006	As of March 31, 2005	Change
LIABILITIES			
Current liabilities:			
Accounts and notes payable	46,869	49,845	
Short-term bank loans	12,203	12,106	
Accrued expenses	16,100	15,077	
Expenses payable	634	4,317	
Income taxes payable	3,828	8,176	
Reserve for sales rebates	1,072	1,230	
Reserve for sales returns	38	54	
Reserve for sales promotion expenses	718	901	
Reserve for bonuses	3,303	--	
Reserve for fixed asset disposal expenses	--	1,030	
Reserve for loss on business reorganization	--	1,224	
Other current liabilities	9,378	9,523	
	94,148	**103,489**	**(9,341)**
Long-term liabilities:			
Long-term debt	12	86	
Deferred tax liabilities	7,382	2,009	
Retirement benefit allowance	24,516	30,570	
Directors' retirement benefit allowance	92	841	
Reserve for fixed asset disposal expenses	--	277	
Reserve for losses on debt guarantees	--	17	
Other long-term liabilities	738	303	
	32,742	**34,105**	**(1,363)**
TOTAL LIABILITIES	**126,890**	**137,595**	**(10,704)**
Minority interests	**1,683**	**1,458**	**225**
SHAREHOLDERS` EQUITY:			
Common stock	26,745	26,745	--
Capital surplus	43,186	43,184	1
Retained earnings	170,718	159,587	11,130
Valuation difference on other marketable securities	24,338	15,307	9,031
Foreign exchange adjustment account	(1,152)	(1,564)	411
Treasury stock	(8,028)	(7,821)	(207)
	255,807	**235,439**	**20,368**
Total Liabilities, Minority Interests and Shareholders' Equity	**384,381**	**374,492**	**9,888**

Consolidated Statements of Income

	Millions of yen		
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005	Change
Net sales	**353,439**	**358,963**	**(5,523)**
Cost of sales	226,472	226,890	(418)
Gross profit	126,967	132,072	
Reversal of reserve for sales returns	54	94	
Addition to reserve for sales returns	38	54	
Adjusted gross profit	126,982	132,112	(5,129)
Selling, general and administrative expenses:			
Transportation	4,061	4,677	
Sales promotion	8,186	7,015	
Addition to reserve for sales promotion expense	718	901	
Salaries	17,017	17,341	
Bonuses	5,980	7,786	
Addition to bonus reserve	1,895	--	
Addition to allowance for directors' retirement benefits	79	172	
Employee retirement benefit expense	1,724	1,959	
Depreciation	794	868	
Research and development	32,317	28,324	
Others	28,673	29,557	
	101,448	98,605	2,842
Operating income	**25,534**	**33,506**	**(7,972)**
Other income:			
Interest income	61	100	
Dividend income	932	585	
Currency exchange gain	454	202	
Dividend on insurance	359	380	
Investment return from anonymous association	2,221	—	
Income from equity method investments	679	563	
Others	1,544	2,313	
	6,254	4,145	2,109
Other expenses:			
Interest expense	186	239	
Unrealized loss on securities	--	0	
Expense on removal of fixed assets	407	225	
Loss on sale of fixed assets	724	843	
Loss on sale of inventories	401	2,028	
Others	1,848	1,947	
	3,569	5,285	(1,715)
Recurring income	**28,219**	**32,366**	**(4,147)**

Consolidated Statements of Income (continued)

	Millions of yen		
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005	Change
Extraordinary income:			
Gain on sale of fixed assets………….	1,655	115	
Reversal of reserve for expenses on disposal of fixed assets	587	--	
Realized profit on investments in securities............. .	96	141	
Reversal of allowance for doubtful accounts............ .	13	0	
	2,352	257	2,095
Extraordinary losses:			
Expense related to early retirement support system...	4,639	--	
Asset impairment losses..	1,060	--	
Addition to reserve for losses on business reorganization	--	1,224	
Addition to reserve for doubtful accounts...................	--	387	
Addition to reserve for fixed asset disposal expenses	--	277	
Losses related to disposal of affiliates shares	--	265	
Addition to investment appraisal reserve	--	254	
Extraordinary write-off expenses	--	164	
Appraisal loss on affiliates' shares.............................	--	59	
Loss on disposal on fixed assets	--	59	
Addition to reserve for losses on debt guarantees......	--	17	
Loss on sale of investment securities	--	11	
Income (loss) before income taxes..................................	**24,871**	**29,903**	**(5,031)**
Corporate, local, and enterprise taxes..	6,887	11,333	
Corporate tax adjustment	1,602	569	
Minority interests in consolidated subsidiaries......................	108	67	40
Net income	**16,273**	**17,931**	**(1,658)**

Consolidated Statements of Surplus

	Millions of yen	
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005
Capital surplus		
Balance at beginning of period	43,184	43,182
Increase in capital surplus:		
Gain on disposal of treasury stock	1	2
Balance at end of period	**43,186**	**43,184**
Retained earnings		
Balance at beginning of period	159,587	144,926
Increase in retained earnings:		
Net income	16,273	17,931
Amount due to increase in number of consolidated subsidiaries	--	40
Decrease in retained earnings:		
Dividend payments	4,759	3,228
Directors' bonuses	98	83
Amount due to increase in number of consolidated subsidiaries	284	--
Balance at end of period	**170,718**	**159,587**

Consolidated Statements of Cash Flows

	Millions of Yen	
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005
Cash flows from operating activities:		
Income before income taxes	24,871	29,903
Depreciation and amortization	9,788	10,565
Decrease in retirement benefit allowance	(6,053)	(3,200)
(Decrease) increase in allowance for directors' retirement	(743)	60
Increase in reserve for bonus payments	3,303	--
Decrease in reserve for fixed asset disposal expenses	(1,308)	(518)
Increase in reserve for losses on debt guarantees	--	17
Increase in business reorganization loss allowance	--	1,224
Increase in investment appraisal allowance	--	254
(Decrease) increase in allowance for bad debts	(23)	474
Interest and dividend income	(994)	(686)
Interest expenses	186	239
Income from equity method investments	(679)	(563)
Income from investments in anonymous associations	(2,221)	--
Asset impairment losses	1,060	--
Write down of marketable securities	--	59
(Gain) loss on sales of tangible fixed assets	(958)	779
(Gain) on sales of marketable securities	(96)	(130)
Loss on disposal of affiliates shares	--	265
Employees' early retirement expenses	4,639	--
Decrease (increase) in trade receivables	8,665	(361)
Increase in inventories	(4,641)	(374)
(Decrease) increase in trade payables	(3,176)	2,175
Directors' bonus payments	(109)	(93)
(Decrease) increase in consumption tax payable	(491)	267
Others	(4,825)	3,565
Sub-total	26,193	43,925
Interest and dividend income	1,302	772
Interest payments	(168)	(241)
Cash distributions received from anonymous associations	2,590	--
Payment of premium severance for early retirement	(4,317)	--
Compensation paid for recall of products	--	(1,897)
Corporate etc. tax payments	(11,296)	(12,453)
Net cash provided by operating activities	**14,303**	**30,104**

Consolidated Statements of Cash Flows (continued)

	Millions of Yen	
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005
Cash flows from investing activities:		
Increase in time deposits	(402)	(448)
Decrease in time deposits	430	456
Payments for purchase of property, plant & equipment	(9,001)	(7,264)
Proceeds from sale of property, plant, and equipment	3,215	370
Payments for purchase of investment securities	(62)	(137)
Proceeds from sale of investment securities	4,117	178
Proceeds from sale of subsidiaries' shares	1,182	793
Net (increase) in short-term loans receivable	(439)	(260)
Increase in long-term loans receivable	(168)	--
Decrease in long-term loans receivable	331	64
Others	(999)	(1,857)
Net cash used in investing activities	**(1,795)**	**(8,104)**
Cash flows from financing activities:		
Net increase (decrease) in short-term debt	(141)	(319)
Repayment of long-term debt	(11)	(45)
Payment for purchase of treasury stock	(233)	(5,524)
Proceeds from sale of treasury stock	16	20
Dividends paid	(4,755)	(3,233)
Dividends paid to minority interests	(13)	(13)
Net cash used in financing activities	**(5,139)**	**(9,116)**
Cash and cash equivalents translation differences	**381**	**14**
Increase in cash and cash equivalents	**7,749**	**12,897**
Cash and cash equivalents at the beginning of the period	**37,817**	**24,911**
Cash and cash equivalents of newly consolidated subsidiaries at the beginning of the period	**253**	**9**
Cash and cash equivalents at the end of the period	**45,820**	**37,817**

5. Segment information

Segment information by business type

1. Fiscal year: April 1, 2005 – March 31, 2006

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. Net Sales								
(1) Sales to external customers	149,146	48,346	80,231	37,929	37,785	353,439	--	353,439
(2) Inter-segment sales and transfers	338	9,077	5,603	4,510	17,582	37,162	(37,162)	--
Total	149,535	57,423	85,834	42,440	55,368	390,602	(37,162)	353,439
Operating expenses	135,305	53,340	81,334	40,838	54,212	365,031	(37,125)	327,905
Operating income	14,230	4,083	4,500	1,602	1,155	25,571	(36)	25,534
II. Assets, Depreciation expenses and Capital outlays:								
Assets	118,980	76,213	73,380	31,962	34,290	334,826	49,554	384,381
Depreciation expenses	3,913	2,617	2,283	805	184	9,803	(15)	9,788
Loss on disposal	738	--	322	--	--	1,060	--	1,060
Capital outlays	3,898	2,272	3,406	1,216	76	10,870	(11)	10,859

Notes:

1. The segmental classification is based on the business administration divisions of the Kyowa Hakko Group. The main products of each segment are as follows:
   Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners
   Bio-chemicals: Pharmaceutical and industrial raw materials, healthcare products, products for livestock and fisheries industries, alcohol
   Chemicals: Solvents, plasticizer raw materials, plasticizers and functional products
   Food: Seasonings, bakery products and ingredients, and processed food
   Other: Wholesale, distribution, and design and installation of equipment
2. Entire company assets included within Elimination/Corporate are ¥61,384 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.
3. To clarify the segmental classification of assets part of deferred tax assets that was included within Elimination/Corporate in the previous fiscal year have been reclassified in the respective segment. Segmental information for last fiscal year restated to reflect this change is as follows:

Previous fiscal year: April 1, 2004– March 31, 2005 (Restated)

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. 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	17,458	35,496	(35,496)	--
Total	156,426	57,767	77,892	44,499	57,783	394,459	(35,496)	358,963
Operating expenses	138,325	50,879	72,644	42,838	56,150	360,838	(35,381)	325,456
Operating income	18,100	6,887	5,338	1,661	1,633	33,621	(114)	33,506
II. Assets, Depreciation expenses and Capital outlays:								
Assets	128,723	75,862	66,975	33,188	37,838	342,587	31,904	374,492
Depreciation expenses	4,371	2,684	2,344	1,075	108	10,584	(19)	10,565
Capital outlays	2,732	2,215	1,622	490	586	7,648	(1)	7,646

Note: Entire company assets included within Elimination/Corporate are ¥44,014 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.

Previous fiscal year prior to change in segmental classifications: April 1, 2004 – March 31, 2005

Millions of yen

	Pharmaceuticals	Bio-Chemicals	Chemicals	Food	Other	Total	Elimination/ Corporate	Consolidated
I. 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	17,458	35,496	(35,496)	--
Total	156,426	57,767	77,982	44,499	57,783	394,459	(35,496)	358,963
Operating expenses	138,325	50,879	72,644	42,838	56,150	360,838	(35,381)	325,456
Operating income	18,100	6,887	5,338	1,661	1,633	33,621	(114)	33,506
II. Assets, Depreciation expenses and Capital outlays:								
Assets	116,538	73,799	66,540	32,959	37,535	327,374	47,118	374,492
Depreciation expenses	4,371	2,684	2,344	1,075	108	10,584	(19)	10,565
Capital outlays	2,732	2,215	1,622	490	586	7,648	(1)	7,646

Notes:

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

   Pharmaceuticals: Pharmaceuticals and diagnostic and related products for medical practitioners

   Bio-chemicals: Pharmaceutical raw materials, healthcare products, products for livestock and fisheries industries, raw material alcohol

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

   Food: Seasonings, bakery products and ingredients, and processed food

   Other: Transportation, and design and installation of equipment

2. The segmental classification was formerly based on the internal company system and recorded according to each company and ‘Corporate’. The segmental classification of the group’s businesses changed in connection with the separation of the Chemicals business from April 2004.

3. Entire company assets included within Elimination/Corporate are ¥58,831 million and mainly comprise excess working capital (cash and marketable securities) at the parent company, long-term investments (investment securities) and deferred tax assets.

Segment information by location

April 1, 2005 – March 31, 2006

As Japan represents over 90% of the total sales and assets of each this information is omitted.

April 1, 2004 – March 31, 2005

As Japan represents over 90% of the total sales and assets of each this information is omitted.

Overseas Sales

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%

April 1, 2004 – March 31, 2005

Millions of yen

	America	Europe	Asia	Other Regions	Total
(1) Overseas sales	12,883	16,563	23,655	924	54,026
(2) Consolidated sales					358,963
(3) Overseas sales as a percentage of consolidated sales	3.6%	4.6%	6.6%	0.3%	15.1%

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.