



FOR IMMEDIATE RELEASE

**Kyowa Hakko Reports Strong Recovery in Operating Income:
Improved Performance in Bio-Chemicals, Chemicals and Food**

Tokyo, November 12, 2003 – Kyowa Hakko Kogyo Co., Ltd. (Kyowa Hakko) today announced that consolidated operating income for the six months to September 30, 2003 rose 61.5 percent to 12.6 billion yen because of improved earnings in its Bio-Chemicals, Chemicals, and Food businesses. Net sales declined 4.2 percent to 177.5 billion yen, largely as the result of the sale of its alcoholic beverage business in September 2002.

Kyowa Hakko also took further steps to improve its financial position and focus on the core businesses of each segment as it prepares to move to a holding company system in April 2005. During the period it resolved to dissolve its feed-grade amino acid subsidiary in Mexico and also cancel the employee pension trust. These steps led to extraordinary losses that contributed to a net loss of 4 billion yen for the half year. However, the cancellation of the employee pension trust is expected to reduce future expenditures relating to labor costs.

“We are pleased that concerted efforts by the Bio-Chemicals, Chemicals, and Foods businesses to improve their profit structure has led to increased operating income for the group,” said Dr. Yuzuru Matsuda, President of Kyowa Hakko. “We have significantly refocused the group on its core businesses and we are moving rapidly to bring our unique biotechnology-based products to market quicker, increase our market presence, and secure growth for the long term.”

For the fiscal year to March 2004 Kyowa Hakko expects net sales of 348 billion yen, lower than the year before, because of the sale of its alcohol beverage operations. However, consolidated operating income is forecast to rise to 26 billion yen, an increase of 61.6% over fiscal 2002. Net income is expected to decline to 6 billion yen as the Company will record extraordinary losses mainly from the planned write off of redundant fixed assets prior to the scheduled reorganizations on and after April 2004, and also from the cancellation of the employee pension trust.

With the aim of securing long-term growth by more effective leverage of our unique technology, Kyowa Hakko plans to shift to a holding company system in April 2005 that will be focused on pharmaceuticals and bio-products.

Prior to this our health and nutrition ingredients operations, which are currently located in several different businesses, will be brought together into the Bio-Chemicals business, fully integrated, and then developed through close cooperation with our pharmaceuticals and Food business.

The Chemicals business and the Food business will be made into separate operating units in April 2004 and April 2005 respectively to speed up decision making and improve competitiveness in these important group businesses. Through the establishment of a holding company structure Kyowa Hakko aims to steadily improve growth of the whole group and increase corporate value.

Results by segment:

In the first half of fiscal 2003 sales in the Pharmaceuticals business rose 200 million yen, or 0.4%, to 71.6 billion yen, while operating income fell 2.4 billion yen to 5.2 billion yen because of increased competition particularly from overseas pharmaceuticals makers, government policies to reduce medical costs, and an increase in research and development costs.

Sales of *Coniel*, a treatment for hypertension and angina pectoris, were unchanged. However, sales of *Allelock*, an antiallergic agent, *Durotep Patch*, a transdermal analgesic agent, and *Depakene*, an antiepileptic agent, all rose.

Revenues from exports and licensing of the antiallergic agent olopatadine hydrochloride also grew. In August, we began selling *Allelock* overseas for the first time, in South Korea. We expect full-year sales and operating income in this segment to increase as we start joint marketing of *Allelock* and bolster our marketing capabilities to increase sales volumes.

Sales in the Bio-Chemicals business increased 3.7 billion yen, or 12.4%, to 33.7 billion yen while operating income jumped 597.4% to 4.5 billion yen boosted by strong sales of amino acids for use in health foods, pharmaceuticals and pharmaceutical raw materials. Loss-making overseas subsidiaries that manufacture amino acids also returned to profit as Biokyowa Inc. of the United States switched to the production of high value-added products, and we resolved to liquidate Fermentaciones Mexicana, S.A. de C.V. We expect sales and operating income in this business to continue growing on the back of strong demand in Japan and overseas for amino acids for use in pharmaceuticals, foods, and industrial applications.

Sales in the Chemicals business rose 2.4 billion yen, or 8.0%, to 33.0 billion yen. Operating income totaled 1.6 billion yen compared with an operating loss of 200 million yen the year before. These improvements were mainly result of product price increases, increased sales of solvents, and cost cutting.

Sales in the Food Business fell 14.7 billion yen, or 34.4%, to 28.1 billion yen mainly because of the effects of the sale of the alcoholic beverage business but also because of sluggish consumer spending, declining prices, and unseasonably cool summer weather.

In Other Businesses sales decreased 1.5 billion yen, or 5.0%, to 30.1 billion yen and operating income fell 500 million yen, or 44.9%, to 600 million yen.

The Company will pay a cash dividend for the six months of 3.75 yen per share, unchanged from the year before. The dividend for the second half of the year is also expected to be 3.75 yen per share, bringing the total dividend for the year to 7.50 yen per share.

Consolidated Net Sales

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	177.5	185.3	(7.8)
Operating income	12.6	7.8	4.8
Recurring income	11.6	4.8	6.8
Net (loss) income	(4.0)	5.8	(9.9)

Pharmaceutical Business

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	71.6	71.4	2.0
Operating income	5.2	7.6	(2.4)

Bio-Chemicals Business

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	33.7	29.9	3.7
Operating income	4.5	0.6	3.8

Chemicals Business

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	33.0	30.5	2.4
Operating income	1.4	(0.2)	1.6

Food Business

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	28.1	42.9	(14.7)
Operating income	0.7	(1.4)	2.1

Other Businesses

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Net sales	30.1	31.7	(1.5)
Operating income	0.6	1.2	(0.5)

Cash Flow Summary

	<i>Billions of yen</i>		
	First half of fiscal 2003	First half of fiscal 2002	Change
Cash flows from operating activities	20.6	9.7	10.9
Cash flows (used in) from investing activities	(0.5)	10.3	(10.9)
Cash flows from financing activities	(7.6)	(25.4)	(17.8)
Cash and cash equivalents at end of period	37.1	36.0	1.0

Key Shareholders' Equity and Cash Flow Indices

	<i>Billions of yen, unless otherwise indicated</i>			
	Fiscal 2000	Fiscal 2001	Fiscal 2002	First half of fiscal 2003
Shareholders' equity ratio	45.1%	49.2%	59.4%	54.9%
Market value shareholders' equity ratio	80.7%	69.1%	59.4%	71.6%
Debt redemption (years)	3.0	4.4	2.9	2.3
Interest coverage ratio	8.7	5.2	9.7	31.6

Notes:

Shareholders equity ratio = Shareholders' equity / Total assets

Market value shareholders' equity ratio = Market capitalization / Total assets

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).

About Kyowa Hakko:

Kyowa Hakko (TSE:4151) is an industry leading global supplier to the food, pharmaceutical and chemical industries, with net sales in the fiscal year ending March 31, 2003 of 359



billion yen. The Company was established in 1949 and is headquartered in Tokyo, Japan. Areas of expertise include the development and application of fermentation technology, and new forms of biotechnology. Kyowa Hakko's core pharmaceutical research focuses on drug discovery using antibody-based technologies and on developing therapeutic agents for cancer and allergies.

Kyowa Hakko has distributed this press release to facilitate timely disclosure of information to its customers, stockholders, and investors. Under the "First Recipient of Insider Information" of the Japanese Securities and Exchange Law and regulations ("Laws"), those who view this information are prohibited from trading the Company's issued securities including stocks and bonds until 3:00 a.m., November 13, 2003 (Japan Time), twelve hours after the information is released. Any person who violates such prohibition is subject to punishment under the Laws. 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.