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Kyowa Hakko Reports Strong Profit Growth in Fiscal 2004 and Details of Fiscal 2005-2007 Strategy and Targets

Tokyo, May 11, 2005 --- Kyowa Hakko Kogyo Co., Ltd. (Kyowa Hakko) today announced consolidated operating income of ¥33.5 billion for the year ended March 31, 2005, a 24.9% increase compared to the previous fiscal year. Consolidated net sales grew by 2.9% to ¥358.9 billion, and net income increased by 79.0% to ¥17.9 billion. Kyowa Hakko announced a planned final dividend of ¥6.25 per share, making a total fiscal 2004 dividend of ¥10 per share, up 33.3% compared to fiscal 2003. Kyowa Hakko also announced details of the strategy and targets of its fiscal 2005-2007 business plan, including significant investment into research and development, production facilities and sales expansion measures, and cost reductions.

Commenting on the 2005-2007 plan Dr. Yuzuru Matsuda, President of Kyowa Hakko said, 'Kyowa Hakko's long term aim is to grow as the world's leading fermentation technology based biotech company. Over the last three years we have rebuilt our profitability and financial strength, exited non-core businesses, and created the foundations for sustained long-term growth in profits. Our results for fiscal 2004 reflect the progress we have made. Now we must invest to accelerate the launch of key products under development, expand production in Japan and overseas, and maintain our lead in key areas of research such as antibody development. In fiscal 2005 and 2006, the costs of these programs and the effects of National Health Insurance reimbursement price reductions scheduled for April 2006 will result in a decline in profits. We will strive to limit these effects through measures to increase sales and with a wide-ranging efficiency drive. In fiscal 2007, we target strong growth in profits and we expect our investments to produce sustained growth in shareholder value in the medium- and long-term.'

For the fiscal year ending March 31, 2006 (fiscal 2005) Kyowa is forecasting declines in operating income, recurring income and net income of 28.4%, 22.8% and 27.5% respectively. Commenting on the forecasts Dr. Matsuda said, 'Our fiscal 2004 profits were boosted by a severe hay fever season in Japan and very strong pricing for chemical products. In fiscal 2005 we do not expect these benefits to recur and profits will be significantly affected by investments to accelerate our development program.'

I. Fiscal 2004 Results

Results for the fiscal year ended March 31, 2005

(Billions of Yen)

	FY ended March 31, 2005	FY ended March 31, 2004	YOY Change (%)
Net sales	358.9	348.8	+2.9%
Operating income	33.5	26.8	+24.9%
Recurring income	32.3	24.7	+30.6%
Net income	17.9	10.0	+79.0%
Net income per share (¥)	41.67	22.99	+ 81.3%

Segmental results for the fiscal year ended March 31, 2005

As the segmental allocation has been partly revised from fiscal 2004 the figures shown below for fiscal 2003 have been restated in accordance with the revised segmental classification.

Sales

(Billions of Yen)

	FY ended March 31, 2005	FY ended March 31, 2004	YOY Change (%)
Pharmaceuticals	156.4	142.8	+9.5%
Bio-Chemicals	57.7	69.1	-16.5%
Chemicals	77.9	66.8	+16.6%
Food	44.4	45.9	-3.1%
Other	57.7	62.9	-8.1%

Operating Income

(Billions of Yen)

	FY ended March 31, 2005	FY ended March 31, 2004	YOY Change (%)
Pharmaceuticals	18.1	11.9	+51.6%
Bio-Chemicals	6.8	8.8	-22.1%
Chemicals	5.3	2.8	+84.5%
Food	1.6	1.6	+0.5%
Other	1.6	1.7	-7.6%

Fiscal 2004 Segmental Review

Sales in the Pharmaceuticals business, rose ¥13.5 billion to ¥156.4 billion, while operating income rose ¥6.1 billion to ¥18.1 billion. Despite reductions in Japan's National Health standard prices for ethical pharmaceuticals, results benefited from strong sales of core products such as *Allelock*, an antiallergic agent, and *Durotep Patch*, an analgesic for persistent cancer pain, as well as from increases in volume sales of *Coniel*, a treatment for hypertension and angina pectoris. Licensing-out of technologies and export of pharmaceuticals also showed growth, with an increase in sales of the antiallergic agent olopatadine, which has been licensed-out to the U.S. company, Alcon Laboratories, Inc.

In the Bio-Chemicals business, sales decreased from ¥69.1 billion to ¥57.7 billion and operating income decreased from ¥8.8 billion to ¥6.8 billion. Significant factors in these results were inventory adjustments in Japan of raw materials for pharmaceuticals, and a slackening in demand for beverage-use amino acids. In overseas markets for dietary supplement-use amino acids, increased competition from Chinese and Korean manufacturers also had a negative effect on results.

In the Chemicals business, sales increased to ¥77.9 billion from ¥66.8 billion and operating income rose to ¥5.3 billion from ¥2.8 billion. Sales of functional products such as high-purity solvents for the IT industry and raw materials for CFC-substitute refrigerant oils were strong. In the domestic business, following a jump in the price of raw materials such as naphtha, product price revisions were implemented, and sales and volumes rose. In the export business, market conditions improved along with an increase in demand in the Chinese market, and export sales increased significantly compared to the previous fiscal year.

In the Food business, sales decreased to ¥44.4 billion from ¥45.9 billion and operating income was ¥1.6 billion, the same level as the year before. Major factors in these results were a decline in sales in the core seasonings, and bakery products and ingredients areas. In the seasonings business, there was growth in brewed seasonings but sales of extracts, amino acid seasonings and *umami* seasonings declined compared to the previous fiscal year. A slump in sales of premixes in the bakery products and ingredients area also had a significant effect.

In the Other business segment, sales declined to ¥57.7 billion from ¥62.9 billion in the previous fiscal year. Operating income declined by ¥0.1 billion from ¥1.7 billion to ¥1.6 billion.

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II. Forecasts for the Fiscal Year ending March 31, 2006*

(Billions of Yen)

	Forecast	
	Fiscal Year ending March 31, 2006	YOY Change (%)
Net sales	360	+0.3%
Operating income	24	-28.4%
Recurring income	25	-22.8%
Net income	13	-27.5%

Forecast net income per share for the year ending March 31, 2006: ¥30.73

Despite a number of uncertainties surrounding global economic growth and the rapid rise in crude oil prices, we forecast growth in net sales in fiscal 2005. However, in pursuit of long-term growth Kyowa Hakko plans to invest actively in research, development, and production facilities, and in marketing to increase sales. As a result we are forecasting declines in operating income, recurring income and net income for fiscal 2005.

In Pharmaceuticals, while we expect to grow sales of core products through aggressive sales activity, an increase in development expenses for products such as KW-6002 is expected to lead to a decline in operating income. In Bio-Chemicals, we are also forecasting an increase in sales and a decline in operating income as a result of increases in sales expenses associated with the development of our sales strategy in the healthcare business. In Chemicals, we are forecasting an increase in sales but the rapid rise in raw materials costs is likely to lead to a decline in operating income. In Food, sales are expected to decrease compared to fiscal 2004, but thorough cost-cutting should result in an increase in operating income for the segment compared to fiscal 2004.

**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.*

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III. Kyowa Hakko Medium-Term Business Plan Fiscal 2005-2007

Investing in Growth

In the previous three-year plan that covered the period from fiscal 2002 to 2004, Kyowa Hakko restored each of its core businesses to profitability and reduced interest-bearing debt from ¥74.3bn to ¥12.2bn. At the same time, Kyowa Hakko maintained R&D investment in its unique biotechnologies, while exiting commodity-type businesses.

The business plan for fiscal 2005–2007 will focus on investing in Kyowa Hakko's key strengths in its core business areas of Pharmaceuticals, Bio-Chemicals, Chemicals and Food in order to build the foundations for sustained, profitable growth.

Basic Strategy

The 2005-2007 business plan has three key strategic pillars:

- **Active investment in research, development, and production facilities to seize long term growth opportunities**

Key investments in the period of the plan include development and launch expenses for KW-6002, and KW-7158 products, continued investment in antibody research and development, and investment in increased production capacity for raw materials for CFC-substitute refrigerant oils.

- **Maintain sales growth in existing businesses**

Key initiatives include the expansion of domestic pharmaceutical sales through continued promotion of the SMART (Sales and Marketing Transformation) program, expanding sales of selected products in key overseas markets, and leveraging synergies between each business area (Pharmaceuticals, Bio-Chemicals, Chemicals and Food).

- **Implement broad-ranging cost reductions**

Kyowa Hakko plans to reduce staff numbers by 700 (from approx. 4,500 in fiscal 2004 to 3,800 in fiscal 2007) on a non-consolidated basis, by implementing an early retirement program, restraining recruitment and through the retirement of approximately 230 staff who will reach normal retirement date during the period; We will also implement a business review to reduce and reallocate staff and introduce base salaries that flexibly reflect regional and business characteristics.

Financial strategy and Shareholder returns

Kyowa Hakko's financial strategy will focus on maintaining an equity ratio at around current levels (60% or above).

Our core policy in regard to creating shareholder value is to pursue organic growth in core businesses, increase profitability and corporate value, and so raise shareholder value.

Following a dividend increase of ¥2.5 per share in fiscal 2004, our policy is to maintain an annual dividend of ¥10 per share and emphasize dividend stability. Share buybacks will also be considered in the light of cash flow and investment plans and we aim to respond flexibly to emergence of large lot sales.

Targets for the fiscal years ending March 31, 2006, 2007 and 2008

Group Targets

(Billions of Yen)

	Fiscal Year ended March 31, 2005 (Actual)	Fiscal Year ending March 31, 2006	Fiscal Year ending March 31, 2007	Fiscal Year ending March 31, 2008
Net sales	358.9	360	340	350
Operating income	33.5	24	24	34
ROIC	12.3%	-	-	Over 12%

The fiscal 2004 results included significant positive effects resulting from unusually high sales of anti-hay fever products and very strong market conditions for certain chemical products. Targets for fiscal 2005, 2006 and 2007 assume no significant positive effects from such factors.

Segmental targets

(Billions of Yen)

	Fiscal 2007 (Targets)		
	Fiscal Year ending March 31, 2008		
	Sales	Operating income	ROIC
Pharmaceuticals	133.0	16.0	17%
Bio-Chemicals	68.0	9.0	15%
Chemicals	83.0	4.0	6%
Food	46.0	3.0	11%
Other	20.0	2.0	-

Segmental strategy Fiscal 2005-2007

Pharmaceuticals

Our Pharmaceuticals strategy is to take strategic steps to secure medium to long-term growth while absorbing R&D costs and drug price cuts. During fiscal 2005-2007 our strategic initiatives will focus on three key areas:

- **Increase sales volume to offset the effects of revisions to pharmaceutical prices**

Increase sales of core products through implementation of the SMART marketing program; Further strengthen alliances with business partners; Implement cost reductions.

- **Implement the POC Fast strategy**

Early POC acquisitions (for KW-7158, new indications for KW-6002, etc.) and early NDA application (KW-6002 in Europe and America).

- **Grow overseas businesses**

Promote *Coniel* and launch *Allelock* in the Chinese market; Increase licensing of Potelligent™ technology through US subsidiary BioWa, Inc.

Bio-Chemicals

In Bio-Chemicals we aim to reinforce our foundations in the fermented bulk products business and utilize our unique strengths to grow in the healthcare market. During fiscal 2005-2007 our strategic initiatives will focus on three key areas:

- **Improve cost- competitiveness in amino acids**

Develop overseas production focused on China; Implement drastic cost reductions in Japan.

- **Strengthen the development of our healthcare business**

Focus particularly on sales to individuals in Japan and sales in the U.S.

- **Create a new source of income through new product development**

In di-peptides, move to the early launch of Alanyl-glutamine; Increase our presence in the market for raw materials for pharmaceuticals.

Chemicals

The Chemicals business will continue to expand and strengthen its position as it develops growth markets, especially in the specialty chemicals area. During fiscal 2005-2007 our strategic initiatives will focus on two key areas:

- **Specialty chemicals - Develop growth markets**

Focus on two product areas: High-purity solvents for the IT industry; raw materials for CFC-substitute refrigerant oils.

- **Commodity-type chemicals - Strengthen and develop alliances with other companies**

Food

The Food business will seek to leverage the merits of its restructuring into a separate company from April 2005. During fiscal 2005-2007 our strategic initiatives will focus on two key areas:

- **Establish a leading position as a B to B supplier in the extracts, amino acids and brewed seasoning areas**

Develop overseas markets focusing on China; Develop new natural seasonings products.

- **Increase our share with major bread makers**

Focus on bread improvers and flavor enhancers.

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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.