

FOR IMMEDIATE RELEASE

Kyowa Hakko Interim Operating Income up 18.4%

Tokyo, October 30, 2006-- Kyowa Hakko Kogyo Co., Ltd. (Kyowa Hakko) (TOKYO: 4151) today announced its consolidated financial results for the interim period of fiscal 2006 (the six-month period ended September 30, 2006).

Consolidated net sales for the interim period were mainly affected by the ending of the distribution agreement for antimycological agent *Itrazole* and reductions in pharmaceutical prices and declined to ¥173.1 billion, 2.4% lower than in the interim period of the previous fiscal year. A strong performance from core pharmaceutical products and a decline in personnel costs and R&D expenses led to operating income of ¥14.5 billion (up 18.4%) and recurring income of ¥15.1 billion (up 5.2%). Consolidated net income was affected by extraordinary losses, including losses on the sale of subsidiaries' shares and asset impairment losses, and declined by 47.5% to ¥3.9 billion.

R&D spending during the interim period was ¥15.2 billion, a decline of 6.4% compared to the first half of the previous fiscal year, and represented 8.8% of net sales, 0.4 percentage points less than in the first half of last fiscal year.

Commenting on the results, Dr. Yuzuru Matsuda, President of Kyowa Hakko said, 'A strong performance by core pharmaceutical products, along with our success at reducing costs, has resulted in strong growth in interim operating income. The operating environment remains challenging but for the full-year we expect to increase operating income in our core Pharmaceuticals business, and to record double-digit growth in consolidated operating income. In fiscal 2005, the first year of our business plan, we exceeded our operating income target and we expect to do so again in fiscal 2006.'

Summary of operating results for the interim period

	Billions of yen		%
	Consolidated results for the period ended September 30, 2006	Consolidated results for the period ended September 30, 2005	
Net sales	173.1	177.3	-2.4%
Operating income	14.5	12.3	+18.4%
Recurring income	15.1	14.3	+5.2%
Net income	3.9	7.5	-47.5%
Net income per share	¥9.66	¥17.95	-46.2%

Segmental performance

Net sales in the Pharmaceuticals business were ¥65.1 billion, a decline of 16.3% compared to the first half of last fiscal year, but lower R&D expenses and cost reductions led to operating income of ¥9.9 billion, an increase of 37%. Despite strong volume growth in core products, sales were affected by a large fall in sales of antimycological agent *Itrazole* after the ending of a distribution agreement in March 2006 and pharmaceutical price cuts introduced in April 2006. Operating income benefited from lower R&D expenses and reduced costs. Sales of prescription pharmaceuticals such as *Coniel*, a treatment for hypertension and angina pectoris, and *Allelock (olopatadine hydrochloride)*, an antiallergic agent, were lower than in the first half of last fiscal year but sales of *Durotep Patch*, an analgesic for persistent cancer pain, and *Navelbine*, an anticancer agent, each increased. In the licensing-out of technologies and export of pharmaceutical products, sales of antiallergic agent *Olopatadine* continued to perform very well.

In new drug development in Japan, *Bothdel (MM-Q01)*, the contrast medium for MRI, received approval in April 2006 and sales commenced in September, while the antiepileptic KW-6485 is currently in the NDA application stage. Kyowa is also carrying out clinical trials in Japan on KW-6002, an anti-Parkinson's disease treatment and KW-2246, an analgesic for cancer pain. Overseas, KW-6002 has completed Phase III clinical trials in North America and Europe as an anti-Parkinson's treatment and we are aiming for its early approval as a new drug. In North America, KW-6002 is undergoing Phase II clinical trials for Restless Legs Syndrome and cancer treatment KW-2449 is in Phase I trials. In Europe, therapeutic antibody KW-0761 is currently in Phase I clinical trials as an antiallergic agent, while in China, Phase III clinical trials are underway for *Allelock*, an antiallergic agent, and for additional indications for *Coniel* as a treatment for angina pectoris.

In the Bio-Chemicals business, sales increased 17.6%, to ¥33.3 billion, while operating income decreased 8.1%, to ¥1.5 billion, reflecting increased price competition and higher raw material and fuel prices. Sales volumes of pharmaceuticals and industrial materials including amino acids, nucleic acids, and related compounds increased despite being affected by intensified price competition in domestic and overseas markets and sales increased compared to the first half of last fiscal year. In Japan, raw materials for generic pharmaceuticals were boosted by changes to the medical insurance system and contributed to sales growth. In healthcare products, sluggish demand for domestic beverage-use amino acids continued; however, mail-order sales of the *Remake* series grew strongly and sales in overseas markets of amino acids used as dietary supplements showed growth, while overall sales remained similar to the first half of last fiscal year.

In the Chemicals business, sales increased 11.2%, to ¥45.8 billion, while operating income was affected by higher raw material and fuel prices and increased distribution costs and decreased 13.5%, to ¥1.6 billion. Domestic shipment volumes declined somewhat but increases in product prices reflecting the higher price of raw materials and fuels led to a large increase in sales compared to the first half of last fiscal year. Export shipment volumes were lower but strong overseas demand for plasticizer raw materials and others led to a small increase in sales compared to the first half of last fiscal year. By product category, sales of high-purity solvents to the IT industry were strong and specialty chemicals products recorded sales growth in Japan and overseas, driven by a strong performance from core refrigerant oil raw materials.

In the Food business, sales increased 0.3%, to ¥20.9 billion, while operating income decreased 5.7%, to ¥0.8 billion. In seasonings, sales of natural seasonings including fermented seasonings and customer-specified extract-type seasonings were higher than in the first half of last fiscal year. Sales of *Umami* seasonings also increased leading to higher overall sales of seasonings.

In the Other business segment, sales decreased 7.3%, to ¥24.2 billion, while operating income decreased 6.6% to ¥0.4 billion.

Forecasts for the fiscal year ending March 31, 2007*

	<i>Billions of Yen</i>	%
	FORECAST	Change compared to the
	Fiscal Year ending March 31, 2007	previous fiscal year
Net sales	353.0	-0.1%
Operating income	29.0	+13.6%
Recurring income	29.0	+2.8%
Net income	12.0	-26.3%
Net income per share	¥30.14	-21.4%

In fiscal 2006, the second year of its three-year business plan, Kyowa Hakko is pursuing 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, we expect net sales to remain at a similar level to last fiscal year due to a decline in sales of antimycological agent *Itrazole* (fiscal 2005 sales: ¥21.5 billion) following

the termination of a distribution agreement in March 2006. Operating income and recurring income are each forecast to increase, to ¥29 billion, driven by a strong performance by core products and contributions from new products, along with declines in R&D expenses and personnel costs, while net income is forecast to decline to ¥12.0 billion.

**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.*

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Contact: Mr. Kenshiro Honda

Tel: 81 3 3282 0969

Corporate Communications Department

kenshiro.honda@kyowa.co.jp

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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.