KYOWA HAKKO GROUP

SUSTAINABILITY REPORT 2006

The English edition of the Kyowa Hakko Sustainability Report is now distributed online only.

KYOWA

The Kyowa Hakko Group's Business Activities

■ Corporate Philosophy

Kyowa Hakko will contribute to the health and well-being of people worldwide by creating new value with the pursuit of advancements in life science and technology.

■ Corporate Data

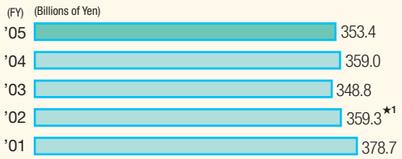
Corporate Name	Kyowa Hakko Kogyo Co., Ltd.
Established	July 1, 1949
Paid-in Capital	¥26,745 million (at March 31, 2005)
Representatives	President and CEO: Dr. Yuzuru Matsuda
Head Office	1-6-1 Otemachi, Chiyoda-ku, Tokyo 100-8185, Japan TEL: +81 (3) 3282-0007

Activities

- Manufacture and sale of pharmaceuticals and clinical diagnostic reagents
- Manufacture and sale of fine chemicals, such as amino acids for pharmaceuticals and industrial use, healthcare products, agrochemicals, livestock and fishery products and alcohol
- Manufacture and sale of solvents, plasticizers, plasticizer raw materials and specialty chemicals
- Manufacture and sale of seasonings, baking products, such as premixes, and baking ingredients

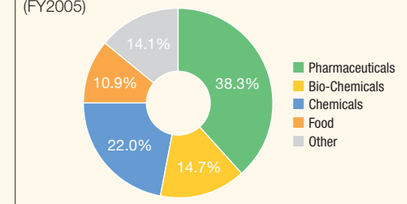
■ Consolidated Financial Data

● Net Sales

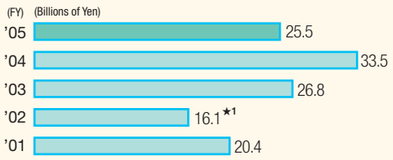


● Net Sales Composition by Business Operations

(FY2005)

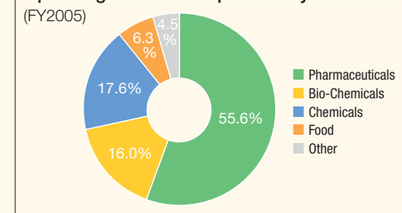


● Operating Income

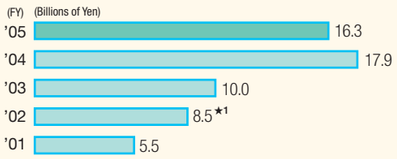


● Operating Income Composition by Business Operations

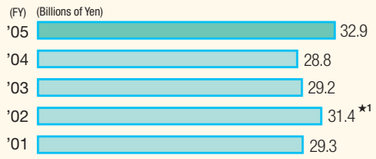
(FY2005)



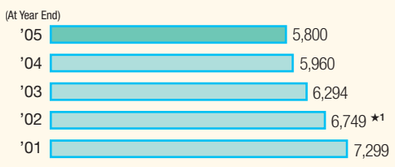
● Net Income



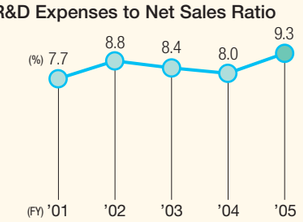
● R&D Expenses



● Number of Employees



● R&D Expenses to Net Sales Ratio



★1 Liquor operations were transferred to Asahi Breweries, Ltd. in September 2002.

Kyowa Hakko Kogyo Co., Ltd.

PHARMACEUTICALS

We will use our original technology and ideas to create products that will enhance the lives of individuals.

Focusing primarily on cancer, allergies and central nervous system diseases, Kyowa Hakko is using antibody technology and other advanced technologies to create revolutionary therapeutic agents through research and clinical development activities on a global scale.

BIO-CHEMICALS

Biotechnology is helping to enhance the vitality and beauty of life.

Kyowa Hakko supplies many industries with amino acids, nucleic acids and other products, using its world-class fermentation technology. Amino acids are produced under a global production network with facilities in Japan, the United States and China.

Kyowa Hakko Chemical Co., Ltd.

CHEMICALS

Our mission is to create environment-friendly materials so that we can continue to live in harmony with the Earth.

Kyowa Hakko Food Specialties Co., Ltd.

FOOD

We will continue to enhance food flavor and safety by exploring the fundamental characteristics of foods.

■ BUSINESS BASES

Principal Production Bases

<In Japan>

Kyowa Hakko Kogyo Co., Ltd.★2
Fuji, Sakai, Yokkaichi (Pharmaceuticals)
Tsuchiura (Healthcare), Hofu, Ube

- Principal Consolidated Subsidiaries
  Kyowa Hakko Chemical Co., Ltd. Chiba Plant
  Kyowa Hakko Chemical Co., Ltd. Yokkaichi Plant
  Kyowa Hakko Food Specialties Co., Ltd. Tsuchiura Plant
  Kyowa Medex Co., Ltd. Fuji Plant
- Other Consolidated Subsidiaries
  Ohland Foods Co., Ltd. Chiba and Tsuchiura Plants
  Riken Kagaku Co., Ltd. (Itabashi, Tokyo)
  Kyowa F. D. Foods Co., Ltd. (Hofu, Yamaguchi)
  Kyowa Hifoods Co., Ltd. Ube Plant

<Outside Japan>

BioKyowa, Inc. (Missouri, U.S.A.)
Select Supplements, Inc. (California, U.S.A.)
Shanghai Kyowa Amino Acid Co., Ltd. (Shanghai, China)
Wuxi Kyowa Food Co., Ltd. (Wuxi, China)

Principal Sales Bases

<In Japan>

Kyowa Hakko Kogyo Co., Ltd.
Sapporo, Tohoku, Tokyo, Nagoya, Osaka, Chugoku, Shikoku and Kyushu branches

<Outside Japan>

Kyowa Hakko U.S.A., Inc. (New York, U.S.A.)
Kyowa Hakko Europe GmbH (Dusseldorf, Germany)
Kyowa Hakko U.K. Ltd. (Berkshire, U.K.)
Kyowa Italiana Farmaceutici S.R.L. (Milan, Italy)
Kyowa Hakko (H.K.) Co., Ltd.
Kyowa Pharmaceutical (H.K.) Co., Ltd.
Kyowa Hakko Industry (Singapore) Pte Ltd.
Kyowa Hakko (Malaysia) Sdn Bhd.

Principal Laboratories

<In Japan>

Kyowa Hakko Kogyo Co., Ltd.
Pharmaceutical Research Center (Fuji Plant/Shizuoka)
BioFrontier Laboratories (Machida, Tokyo)
Healthcare Products Development Center (Tsukuba, Ibaraki)
Technical Research Laboratories (Hofu Plant/Yamaguchi)

Kyowa Hakko Chemical Co., Ltd.
Yokkaichi Research Laboratories (Yokkaichi Plant/Mie)

Kyowa Hakko Food Specialties Co., Ltd.
Food Creation Center (Tsuchiura Plant/Ibaraki)

Kyowa Medex Co., Ltd.
Research Laboratories (Fuji Plant/Shizuoka)

<Outside Japan>

Kyowa Pharmaceutical, Inc. (New Jersey, U.S.A.)
BioWa, Inc. (New Jersey, U.S.A.)
Kyowa Hakko U.K. Ltd. (Berkshire, U.K.)

★2 Throughout the report "Kyowa Hakko" means "Kyowa Hakko Kogyo Co., Ltd."

Highlights, Editorial Policy, Areas and Period Covered by Report

Corporate Governance

- Kyowa Hakko has put in place a highly transparent management structure and strengthened management supervision P7

Special Features

- Kyowa Hakko is conducting research on anti-Parkinson's disease agents, anti-allergy agents and leukemia/lymphoma treatment agents P15
- A look at the activities of medical representatives (MRs) P17
- Advances in the use of the amino acid ornithine and dipeptide manufacturing technology P19

Social Performance

- Emphasis on providing greater employment opportunities for people with disabilities and the vitalization of women P21
- More than 50 Bio-adventure classes conducted to date P26

Environmental Performance

- CO_2 emissions are reduced by 14% from the 1990 base year level P36
- Zero emissions status is maintained P39

Eco-friendly Products

- Livestock feed enzymes Phytase and Driselase® contribute to livestock farming and the environment P40
- Kyowa Hakko Chemical contributes to ozone layer protection with CFC-substitute products P41

Communication

- Kyowa Hakko obtained opinions from stakeholders at a stakeholder meeting centered on a tour of the Fuji Plant, the principal pharmaceuticals plant P46

Editorial Policy

The information contained in the Kyowa Hakko Group's "Sustainability Report 2006" refers primarily to the performance of Kyowa Hakko Kogyo Co., Ltd., Kyowa Hakko Chemical Co., Ltd., Kyowa Hakko Food Specialties Co., Ltd., Kyowa Medex Co., Ltd. and the domestic consolidated production subsidiaries listed on Page 2. In May 2006, we held a stakeholder meeting with representatives of nonprofit organizations. The aim of this initiative was to develop concepts for the report and obtain input that could be used to enhance its content. Third-party verification was used to improve the reliability of information contained in this report. We also sought expert opinions about the overall concept of the report. In compiling this report, we referred to the Environmental Reporting Guideline of the Ministry of the Environment and the Responsible Care Code. The report is also based on the approach contained in the Sustainability Reporting Guidelines 2002 of the Global Reporting Initiative (GRI). From the viewpoint of corporate social responsibility (CSR), we have also included material concerning business ethics, interaction with society and communities, voluntary initiatives by employees, and the social significance of our business operations.

To maintain continuity with past reports and because of differences in the ways which emissions are attributed, information pertaining to the four companies responsible for production activities in other countries has been compiled separately from the data for our Japanese operations.

Areas and Periods Covered by Report

The information contained in this report covers production, R&D and sales sites in Japan, and production, development and sales sites in other countries (Page 2).

Environmental loads and other data were gathered from production and R&D sites in Japan and production sites in other countries. Green Office Plan data have been integrated for sales sites in Japan and sales and development sites in other countries.

Japanese statistics in this report cover fiscal 2005 (April 2005-March 2006), while statistics from outside Japan refer to calendar 2005 (January-December 2005). Some information pertaining to 2006, such as the results of initiatives, is also included.

Returning to the Founding Principle—Contributing to the Well-being of People

The year 2006 marks a milestone for Kyowa Hakko: the fiftieth year since the first industrial production of amino acids by means of fermentation. Looking back on developments at Kyowa Hakko in fiscal 2005, I would describe it as a year in which new businesses germinated throughout the Group on the basis of major organizational change in the form of corporate separation. Some notable developments that occurred during the year included the research and development of KW-6002★1 and other new drugs, the global antibody technology business and expanded sales of our products in China in the pharmaceuticals business. Others included the strengthening of healthcare operations in the bio-chemicals business and the commercialization of dipeptides and other new products manufactured using a revolutionary manufacturing method, the growth by Kyowa Hakko Chemical of eco-friendly products and the specialty chemicals business—an area of particular expertise—and the development at Kyowa Hakko Food Specialties of natural seasonings and other new products differentiated from the competition by fermentation technology and other proprietary technologies. In these circumstances, the Kyowa Hakko Group aims to achieve further expansion. We believe that we must once again rekindle the spirit of founder Dr. Benzaburo Kato, who was brimming with business drive, and aggressively strive to create new customer value.

Aspiring to Benefit Society

A company is not something that is born naturally. The passion imbuing the words of Kyowa Hakko founder Dr. Benzaburo Kato, “I want to eradicate tuberculosis from Japan,” fueled Kyowa Hakko’s success in becoming the first company to mass produce streptomycin in Japan soon after the Second World War. This ambition lives on in the words that form Company Guiding Principle *Jinbun Ritsuyo* (Self-knowledge and Service), which means “contribution of your full initiative and capability to progress of the Company and society.” The Principle expresses our conviction that the very act of putting forth our utmost effort in our occupation is beneficial to society. Some people suggested that corporate separation would weaken the Kyowa Hakko Group’s sense of unity. I maintain that, corporate separation has instead resulted in a corporate structure that facilitates adhering to the spirit of the Company Guiding Principles by enabling our business operations to know their own capabilities in their respective business environments, do their utmost to assert their independence and render service to society. It is precisely a corporate profile by which strengthened businesses assemble under the Kyowa Hakko Brand, respect each other, encourage each other and support each other in times of difficulty that embodies *Wachu Kyodo* (Harmonious Cooperation), which, in the context of our work means “mutual respect, close relations and positive cooperation prevailing among all employees will assure excellent performance.” I believe that extending this concept of mutual respect is the way to germinate the buds of new cross-organizational businesses and ensure growth as a corporate group.

By no means does a company exist only for its shareholders; it also exists for the benefit of its employees, customers and host communities. A company is a public institution that is allowed to exist by society. The belief that a company does not merely obey the law, but also engages in business activities within the framework of society and benefits society reflects the spirit of Self-knowledge and Service. As you would expect, people are the core element of this Principle. Kyowa Hakko believes that self-knowledge and service to society are possible only for a company blessed with highly capable employees. Accordingly, we have declared in our management guidelines, “We will create a work environment that fosters both mental and physical health.” Acting on this belief, since fiscal 2005 we have provided support for the mental and physical health of employees at all workplaces in accordance with our “Lively Workplace Creation Proclamation—Be Mindful of Mental and Physical Health.”

Contributing to a Better Tomorrow—“Kyowa Hakko, the Bio-Leader”

Companies make social contributions through their primary business activity: the provision of products and services. Kyowa Hakko has contributed to the quality of life of people worldwide by continuing to supply for many years more than half the global market for long-selling pharmaceuticals Mitomycin C, Leunase® and other products. Production is the lifeline of manufacturers, which must regard safe operation, cost reduction and quality assurance as eternal tasks and constantly seek improvements in these areas. It is the duty of manufacturers to pay attention to the natural environment and engage in production so as to avoid leaving negative legacies such as climate change risk and water or air pollution to coming generations.

In recent years, however, society has required companies to make direct beneficial contributions in ways other than through primary corporate activities, and Kyowa Hakko engages in various social contribution activities at its head office and other business sites. Above all, we devote effort to the Bio-Adventure Mobile Laboratory program that provides classes at schools, science classrooms at business sites, the science essay competition and other activities designed to impart the joy of science to the children who will be tomorrow’s leaders.

According to a simulation conducted by Japan Association of Corporate Executives, if no action is taken the Japan of 2050 will no longer have sufficient funds for food and energy purchases. No doubt various measures are necessary to avoid such a dire predicament, and research and development is one area where I think it is necessary for Japan to devote still greater effort; we must bring about innovation with respect to issues that bear on life science, the environment and food production, and increase productivity per person. I believe that providing as many opportunities as possible for children to come into contact with science and technology through initiatives such as the Bio-Adventure Mobile Laboratory program and fostering the development of young people who will drive innovation is a contribution to Japan’s future befitting “Kyowa Hakko, the Bio-Leader.”

Capitalizing on the Group’s Strengths to Meet Expectations

Far greater things are expected of bio-leader Kyowa Hakko than we imagine. Without doubt, the curtain has been raised on a true era of biotechnology characterized by genome deciphering. We see this in the deciphering of the base sequence of the human genome by an international joint research team and the accumulation of vast volumes of biological information, such as three-dimensional protein structures exceeding 35,000 elements. Surely the mission of bio-leader Kyowa Hakko is to contribute to the future of the world by concretely applying biotechnology in new technologies and products, proposing a vision of the future through those technologies and products and providing technologies and products from which people can realize the progress and benefits obtainable from biotechnology in the human activities of living, eating and earning a livelihood.

Kyowa Hakko, a globally unique biotechnology company powered by the twin engines of its pharmaceuticals business and bio-chemicals business, will continue to develop its business capabilities. At the same time, Kyowa Hakko Chemical and Kyowa Hakko Food Specialties will increase their competitive strength as important companies that support the activities of the Group. In this way, we seek to bring about a second founding of the Kyowa Hakko Group. I ask your continued guidance and encouragement in the coming years.

September 2006

Dr. Yuzuru Matsuda
President & Chief Executive Officer
Kyowa Hakko Kogyo Co., Ltd.

Corporate Philosophy

Kyowa Hakko will contribute to the health and well-being of people worldwide by creating new value with the pursuit of advancements in life science and technology.

(Amended in March 1999)

Company Guiding Principles

Wachu Kyodo (Harmonious Cooperation)
Kappatsu Hatchi (Energy and Vitality)
Jinbun Ritsuyo (Self-knowledge and Service)

★1 An anti-Parkinson’s disease agent

The Basic Approach to Corporate Governance

Kyowa Hakko's corporate philosophy is to contribute to the health and well-being of people worldwide by creating new value with the pursuit of advancements in life sciences and technology. We have established the management organization and structures and are implementing the measures needed to realize this philosophy. We recognize that increasing the transparency of management and strengthening management supervision are important for continuously increasing corporate value and are working to enhance corporate governance.

Strengthening Corporate Governance

The Board of Directors and the Board of Auditors are the foundation of Kyowa Hakko's system of management institutions. The Board of Auditors consists of four corporate auditors (as of June 28, 2006), of whom three are outside auditors. In accordance with audit policies determined by the Board of Auditors, auditors attend important meetings, including meetings of the Board of Directors. They also audit the performance of the directors' duties by surveying corporate operations and finances. To strengthen the performance of operations, the Company has established the Management Meeting and introduced an executive officer system to ensure efficient management decisions and rapid decision-making.

The Company's Audit Department controls internal auditing. The department works with the auditors to coordinate the internal audit functions of the Kyowa Hakko Group and check that internal governance systems are properly structured and functional. In April 2006, the Company reorganized the Audit Department into an organization that reports directly to the president, putting in place a structure for the independent and impartial auditing of the legality and reasonableness of business execution.

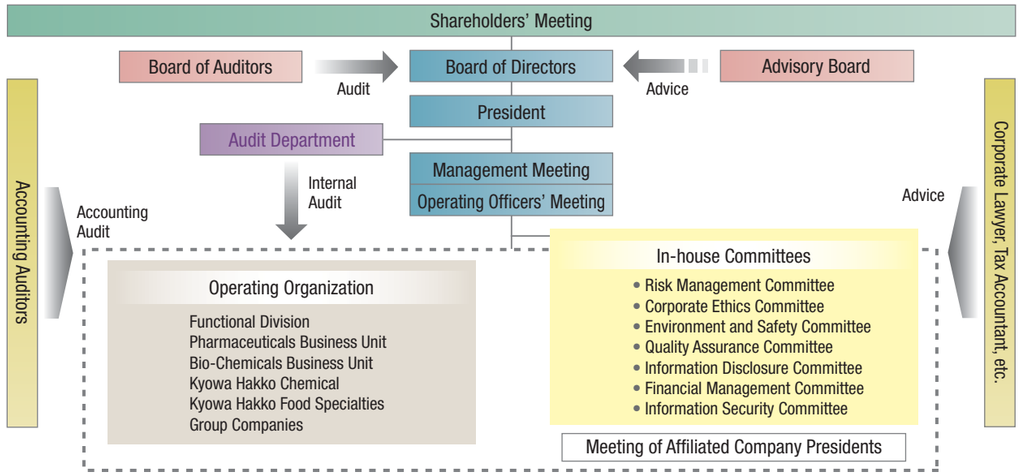
Managing Risk through In-house Committees

Kyowa Hakko has established in-house committees to deliberate basic policies on management issues and develop responses to a variety of potential risk factors. These committees submit annual reports on their activities to the Board of Directors.

Establishment of Advisory Board

Kyowa Hakko has established an Advisory Board made up of four outside advisors. Its role is to strengthen management culture and improve management transparency and soundness by providing outside perspectives on Group management issues and other matters. The board receives opinions on human resource development and the mid-term management plan.

■ Corporate Governance Organization



Basic Policy and Implementation Structure

The Kyowa Hakko Group regards compliance as a top management priority and strives to promote corporate ethics and ensure rigorous compliance with the law. We have established the Kyowa Hakko Ethical Principles and the Kyowa Hakko Codes of Ethical Conduct for Employees, and we promote awareness and observance among employees by distributing guidebooks and posting information on the intranet website. We have established the Corporate Ethics Committee and set up the "Ethics Hotline" as an internal compliance-related reporting system. The Corporate Ethics Department plays a central role in efforts to ensure the observance of corporate ethics and compliance throughout the Group in Japan.

The Corporate Ethics Committee was established in July 1998. It is chaired by the director responsible for compliance and is made up of corporate officers, general managers and others. The committee periodically discusses the basic activities policy for the Kyowa Hakko Group, individual problems and other ethics-related issues.

The structure for promoting corporate ethics at the Kyowa Hakko Group is shown below.

Education and Awareness Activities

We periodically engage in education and awareness activities to ensure that all employees, including corporate officers, recognize the importance of corporate ethics and acquire correct knowledge about ethics. Specifically, each year we periodically hold corporate ethics lectures for corporate officers, business site managers and general managers. These lectures are conducted by attorneys, university professors and other instructors. We also provide ethical instruction by means of collective instruction at individual business sites and e-learning.

Establishment and Operation of a Hotline

The "Ethics Hotline" is a system available for use not only by Kyowa Hakko corporate officers and employees, but also by occasional employees, part-time workers and temporary staff of Kyowa Hakko Group in Japan. It was launched as a system to resolve problems immediately by reporting them to the Director of Ethics directly, if someone in the office is discovered to be behaving or planning to behave against the law, including the Kyowa Hakko Ethical Principles. The means of reporting were expanded and procedures for reporting outside advisors and the Corporate Ethics Group were established later.

Distribution of Kyowa Hakko Ethics Card

To ensure awareness of corporate ethics and compliance and publicize the hotline, we have distributed to all personnel served by the hotline a wallet-size Kyowa Hakko Ethics Card.

Group-wide (in Japan)
Ethics Card

Personal Information Protection

We are putting in place systems that comply with the Act on the Protection of Personal Information and various guidelines concerning the protection of personal information. At the same time, we are establishing personal information protection policies, personal information management regulations and various rules governing the handling of personal information.

Management Guideline & Points — Extracts from the "Kyowa Hakko Ethical Principles"

Management Guideline:
We will respect corporate ethics and also fulfill social responsibilities.

Key Points:
- The Company will comply with the law, self-imposed restrictions and the highest ethical principles in all business practices.
- While the Company is a for-profit organization, it will not seek to realize gain or advantage that cannot be obtained without violating the law or compromising its ethical principles.
- The Company will engage in fair, transparent and free competition and transactions in all business activities. The Company will maintain sound and proper relationships with political or administrative organizations and any other interested parties.

Management Guidelines for Social Responsibility

Kyowa Hakko has drafted seven management guidelines based on its Corporate Philosophy that bear on operations; its relationships with customers, shareholders and employees as well as society; its corporate ethics; and the environment and safety. (Introduced in March 1999)

Management Guidelines for Safety and the Environment

"Work to protect the environment and maintain safety and also provide products with consideration of the environment and safety." (Introduced in March 1999)

Declaration of Basic Policies for Health, Safety, the Environment and Product Safety

We declare with profound respect for all living things that, in accordance with the "Basic Policies for Health, Safety, the Environment and Product Safety," we will carry out Responsible Care activities extensively to preserve health, safety and the environment, as well as step up quality assurance to ensure the safety of consumers in our daily business activities. (Introduced in April 1996)

Basic Policy on Health, Safety, the Environment and Product Safety

Kyowa Hakko's policy formulated at its establishment is to "contribute to the health and well-being of people worldwide by creating new value with the pursuit of advancements in life science and technology." Based on this policy, we will exert ourselves to realize an affluent society by conducting business activities with scientific consideration for health, safety, the environment and product safety throughout the whole life cycles of our products, from research and development through production, marketing, use and disposal, as well as by making efforts to ensure the quality and safety of our products, taking the safety of consumers as a matter of the greatest importance.

Guidelines for Action

As our first rule, we should strictly control ourselves with profound respect for all living things and with modesty toward science, prove ourselves worthy of public confidence, and contribute to the growth of a healthy and affluent society. Therefore, we should advance our business activities under the following principles, with the protection of human beings and the environment, as well as the safety of consumers, as our first consideration.

1. Along with the establishment of the basic policies and control systems for health, safety, the environment and product safety as our highest principles in the management of Kyowa Hakko, we strive to enhance our employees' consciousness of health, safety, the environment and product safety by making these principles generally known to them and to advance our activities under these principles from a global standpoint.
2. We observe international regulations, as well as domestic laws, rules, regulations and agreements relevant to health, safety, the environment and product safety, in cooperation with relevant foreign and domestic agencies and organizations and make efforts to raise our level of control over these principles by observing our self-imposed control standards and utilizing auditing systems.
3. Together with our efforts to ensure the safety of our business activities and to reduce negative impact on the environment, we strive to ensure the quality of health, safety, the environment and product safety throughout the whole life cycles of our products by engaging in overseeing the purchase of raw materials; the production, transportation and sale of products; and the use and disposal of products by our consumers.
4. We carry out assessments of health, safety, the environment and product safety prior to the development of new technologies and products, the transfer of technologies and the start of novel businesses. These assessments enable us to ensure our products meet the highest standards with respect to such technologies throughout the whole life cycles of such products commencing in the planning stage.
5. We contribute to health, safety, the environment and product safety on a global scale by working actively toward the development of "earth-friendly" technologies and products as well as toward the development of energy-conservation and resource-conservation technologies.
6. We concentrate our efforts on research and development to keep abreast of scientific progress, and we strive to strictly assure the usefulness and safety of our products.

(Introduced in January 1996)

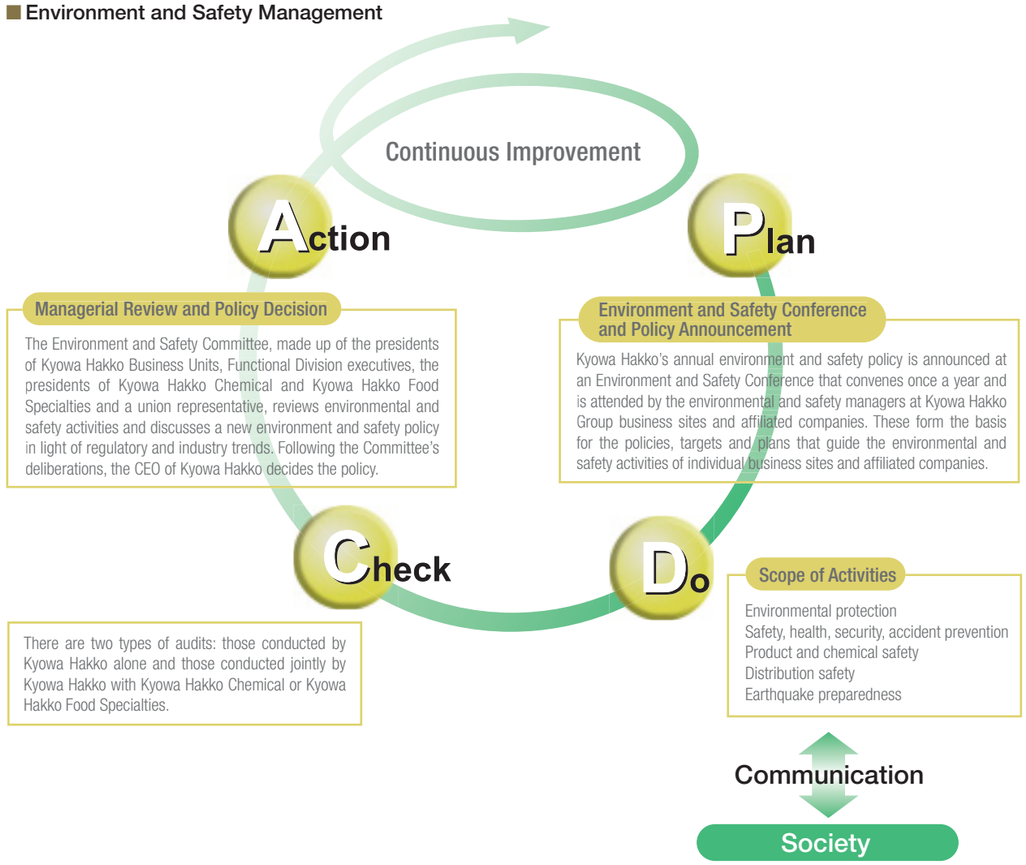
The Kyowa Hakko Group establishes annual environment and safety policies and decides objectives, targets and plans for the environment and safety on the basis of the Basic Policy on Health, Safety, the Environment and Product Safety, which was formulated in January 1996. The Group has built an environment and safety management system based on the integration of ISO 14001 and Occupational Safety and Health Management Systems (OSHMS).

Following discussion by the Environment and Safety Committee, the CEO of Kyowa Hakko determines the annual environment and safety policies. These policies are then announced at an Environment and Safety Conference attended by Kyowa Hakko Group managers with responsibility for environmental and safety matters. Based on these Group policies, respective environment and safety policies, targets and plans are then established and carried out according to the circumstances of individual business sites and affiliated companies★1. Progress is checked in environment and safety internal audits, the results are reported to the business site managers and the president of the business unit or the presidents of affiliated companies.

The management systems function effectively and reliably to improve environmental and safety performance by ensuring that the business sites and affiliated companies systematically make improvements in response to priorities identified at the time of internal environment and safety audits.

★1 In this report, "affiliated companies" refers to all Kyowa Hakko Group companies except Kyowa Hakko Chemical and Kyowa Hakko Food Specialties.

■ Environment and Safety Management



Business sites with ISO 14001 certification

Year of certification	Business sites
1999	Kyowa Hakko Hofu
2000	Kyowa Hakko Fuji, Ube, Sakai
	Kyowa Hakko Chemical Yokkaichi (including Pharmaceuticals), Chiba
	Kyowa Hakko Food Specialties Tsuchiura (including Healthcare)
2001	Kyowa Medex Fuji

Kyowa Hakko business sites conducting ISO 14001 certification (Self-declaration)

BioFrontier Laboratories, Healthcare Products Development Center

Consolidated subsidiaries that received certification along with the Kyowa Hakko business sites

Chiyoda Kaihatsu Fuji, Yokkaichi, Chiba

Consolidated and non-consolidated subsidiaries that constructed ISO 14001 certification (Self-declaration)

Riken Kagaku, Ohland Foods, Kyowa Hifoods, Kyowa Iryo Kaihatsu

A consolidated subsidiary conducting ISO 14001 certification (Self-declaration)

Kyowa F. D. Foods

Environmental and Safety Audits

Environmental and safety internal audits of Kyowa Hakko and affiliated companies are conducted by auditors from the Kyowa Hakko Quality Assurance, Environment and Safety Department and auditors from the sections in charge of the environment and safety at the business unit responsible for the business site or affiliated company or from Kyowa Hakko Chemical or Kyowa Hakko Food Specialties. The scope of the audits and audit items are described below.

■ Kyowa Hakko Group Environmental and Safety Audits

Scope	All sites of Kyowa Hakko, Kyowa Hakko Chemical and Kyowa Hakko Food Specialties (9 plants, 2 research laboratories, 8 sales bases, headquarters) 17 consolidated and non-consolidated subsidiaries (production, engineering, transportation)
Items	Progress with policies, objectives and targets; compliance with environment and safety laws; environmental safety-related risk management; progress with the Kyowa Eco-project, and other matters
Auditors	Environment and safety director, qualified ISO auditors, environment and safety officers of the business units, Kyowa Hakko Chemical and Kyowa Hakko Food Specialties, local union representatives
Frequency	Kyowa Hakko, consolidated and non-consolidated subsidiaries in Japan: once a year Overseas subsidiaries: once in three years

ISO 14001 renewal audit (Fuji Plant)

In fiscal 2005, the results of a total of 42 audits performed at all business sites of Kyowa Hakko and its consolidated subsidiaries, most business sites of non-consolidated subsidiaries and overseas business sites revealed no major legal infringements or environmental accidents. Major priorities identified through the audits are described below.

■ Major Priorities Identified through Kyowa Hakko Group Safety Audits

Improvement of outsourcing contracts (Fuji Plant, Kyowa Medex Fuji Plant)
Reinforcement of chemical substance management (Yokkaichi (Pharmaceuticals)
Improvement of risk assessment quality (Kyowa Hakko Food Specialties Tsuchiura Plant)
Improvement in utilization of the industrial physician (Healthcare Products Development Center)
Improvement of storage of disinfecting ethanol (food companies)

■ Major Priorities Identified through Kyowa Hakko Group Environmental Audits

Reinforcement of energy conservation measures (BioFrontier Laboratories, Kyowa Medex Fuji Plant, Kyowa F. D. Foods)
Improvement of wastewater raw data storage methods (Kyowa Hakko Food Specialties Tsuchiura Plant)
Reinforcement of VOC monitoring (Kyowa Hakko Chemical Chiba Plant)

Complaints

In fiscal 2005, nine complaints were received about Kyowa Hakko Group plants in Japan and overseas: five complaints about noise, three about odors and one about another matter. The number of complaints was about the same level as the previous year, and Kyowa Hakko regrets the inconvenience caused to residents in nearby areas. We took prompt action to correct these problems and strive to prevent the occurrence of further problems and reduce the number of complaints to zero.

▸▸ Shanghai Kyowa Amino Acid Co., Ltd.

Shanghai Kyowa Amino Acid was established in 1998 for the purpose of producing and selling high-quality amino acid for use as a raw material for intravenous fluids and other products. In February 2006, the company relocated to an industrial zone on the outskirts of Shanghai where it now manufactures at a new plant. Employee ages range from 18 to 58; the average age is 35.

Shanghai Kyowa Amino Acid Co., Ltd.

Joint Environmental and Safety Assessments

Results of the Joint Safety Assessment

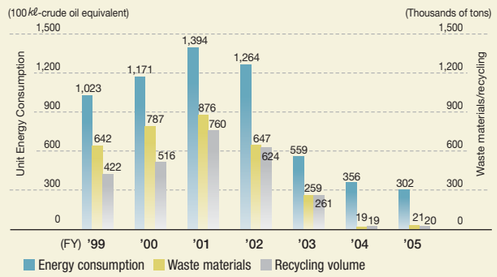
Shanghai Kyowa Amino Acid has decided as a high priority of its safety policy for fiscal 2006 to target reducing the number of occupational accidents to zero, and it is engaging in safety patrols, safety education and 5S activities. In April 2006, it established the Audit Department, putting in place an organization to engage in environmental and safety management. From the results of the joint assessment, Shanghai Kyowa confirmed the importance of reinforcing the PDCA (Plan, Do, Check, Action) cycle throughout the organization.

On-site safety patrol

Results of the Joint Environmental Assessment

Shanghai Kyowa obtains the electricity and steam used at the new plant from external suppliers. The water quality of plant wastewater is monitored by means of daily analysis and sent to the industrial zone joint-treatment facility for treatment. Although waste materials of about 200 tons, such as of mother liquor (produced as a byproduct of the manufacturing process), spent activated carbon and other waste is generated each year, the entire quantity is recycled as liquid fertilizers or by means of incineration recovery.

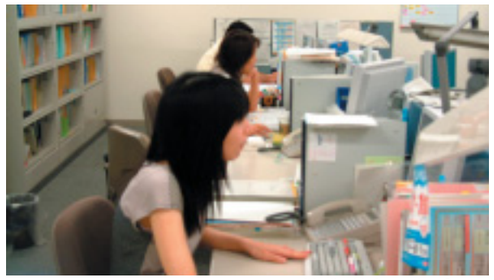
■ Energy Consumption, Waste Materials and Recycling Volumes at Four Production Sites Outside Japan★1



★1 Production sites are listed on Page 2.

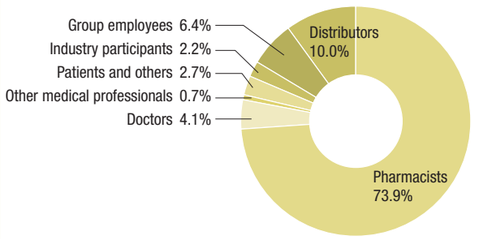
Ensuring the Appropriate Use of Pharmaceuticals

Kyowa Hakko provides information about the appropriate use of pharmaceuticals in various forms, including prescribing information, interview forms, product overviews and instruction sheets, as well as responses to telephone, e-mail and mail inquiries. This work is handled by the Medical Information Center. There has been a gradual increase in the number of inquiries handled, and the total number exceeded 25,000 in fiscal 2005. Recent trends reveal that approximately 75% of inquiries in fiscal 2005 were from pharmacists, while the previously low number of inquiries from patients and their families is increasing. This is yet another area where Kyowa Hakko must respond to changing social needs.

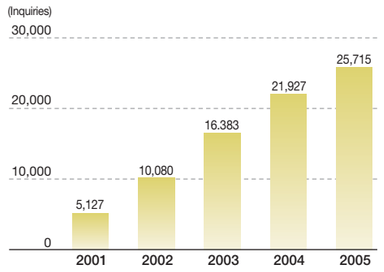


Medical Information Center

■ Number of Telephone Inquiries



■ Change in Number of Inquiries



International Assessment of Chemical Product Safety

Kyowa Hakko conducts international product safety assessments in cooperation with the Japan Plasticizer Industry Association (JPIA) and the Japan Chemical Industry Association. The Organization for Economic Cooperation and Development (OECD) plays a central role in conducting assessments of the safety of chemical substances on a global scale. Kyowa Hakko collaborates with chemical industry groups around the world in participating in the HPV program for acquiring and assessing safety data for high production-volume chemical substances for which such information is insufficient. Under this program, Kyowa Hakko has acted as the lead company in preparing assessment reports for two HPV products. One of these reports has been posted on the United Nations Environment Programme (UNEP) website. Kyowa Hakko has also acted as a supporting company for 11 products. Assessments for six of the products have already been completed and work on the remaining four products is progressing steadily by means of international collaboration.

Management Guideline & Points — **Customers**

Management Guideline:

We will provide products, services and information that are superior in terms of quality and function in accordance with a policy of placing top priority on customer satisfaction.

Points (Extract):

- We will create products, services and information that satisfy customers, are at the forefront of the era and have new value.
- We will seek to engage in consultative selling grounded in the point of view of our customer and provide high-quality information and heartfelt service.
- We will diligently work toward group-wide cooperation to disseminate customer feedback with the aim of quickly responding to customer needs and complaints.
- We will actively collect safety information and incorporate it into products, services and information while making the necessary disclosures to customers.
- We will closely examine raw materials and create quality through sophisticated manufacturing processes.
- We will implement such international quality assurance systems as GMP, ISO and HACCP to improve manufacturing and quality management.
- We will collaborate with outsourcing partners and suppliers and strive to ensure the quality of outsourced products and raw materials.

Quality Risk Management Systems

When there are serious product quality situations, such as product recalls, the Quality Assurance, Environment and Safety Department works closely with the business unit concerned (the Pharmaceuticals Business Unit, the Bio-Chemicals Business Unit, Kyowa Hakko Chemical and Kyowa Hakko Food Specialties). An emergency action committee is established to consider countermeasures, including the response to customers. Such situations are immediately reported to the President and the relevant executives to ensure consistency in the corporate response.

Environmental, Safety and Product Safety Assessments

We implement stringent assessment procedures at all stages of the product life cycle, from research and development through to use and disposal.

⏩ Safety Assessment of Plasticizers

The Japan Plasticizer Industry Association and plasticizer industry groups in Europe and North America contracted independent research organizations to conduct long-term tests involving the administration of diethylhexyl phthalate (DEHP) to young primates (marmosets). The aim of this program, which covered a two-year period starting in September 2000, was to carry out a comprehensive study of the safety of DEHP and its behavior inside the body, especially its effect on the testes. The findings, which were collated in January 2003, are summarized below. (The results of these tests were presented at the 42nd Annual Meeting of the Society of Toxicology.)

1) The testes of primates are not affected by DEHP, unlike those of rodents.
2) The behavior of DEHP in the bodies of primates differs significantly from its behavior in rodents. For example, there is no accumulation of the substance in the testes of primates.

Detailed testing of the distribution of DEHP in rodent and marmoset bodies shows that blood concentrations and transition from mothers to pre-born offspring were lower in marmosets.

■ Environmental, Safety and Product Safety Assessments

	Environmental Protection	Safety, Hygiene, Security, Accident Prevention	Product Safety Quality Assurance
Assessment at the R&D stage	• Environmental impact of raw materials • Environmental impact of processes and their elimination • Recycling of waste materials • Life cycle assessment • Environmental impact of products after use, et al.	• Hazard/toxicity of raw materials • Safety of sub-reaction products • Past examples of occupational injury • Process safety	• Safety of raw materials, impurities • Product safety and stability • Handling safety
Assessment at the manufacturing stage	• Environmental impact, capacity of removal facilities • Local impact of processes (Environmental impact of processes) • Compliance • Community dialog on important issues	• Occupational injury prevention measures • Process safety • Community dialog on important issues • Compliance • Change management	• Quality assurance • Change control • Product liability response • Compliance
Assessment at the sales and distribution stage	• Information about responses to leaks and other problems • Environmental impact of distribution	• Information about responses to fires and other contingencies • Compliance	• Preparation of product handling manuals
Assessment at the utilization and disposal stage	• Content of information provided to customers • Content of Labeling • Recycling	• Content of information provided to customers	• Provision of product information • Content of labeling • Responding to consumer requests and complaints
Reference: Systems and regulations	• Environment and safety management regulations, environmental and safety assessment regulations, environmental and safety standards for chemical substances		• Quality assurance regulations ISO 9000s, GMP

Relevant performance data P29 P23, P29 P13, P29

Special Features
Pharmaceuticals R&D

Wishing Good Health to the People of the World

Anti-Parkinson's Disease Agents

In people who suffer from Parkinson's disease, movement instructions issued by the brain do not reach their targets, and smooth muscular movement is prevented. The disease was named after British physician Dr. James Parkinson, who became the first to describe it in 1817. It is by no means an uncommon illness; in Japan, the number of Parkinson's disease patients is about 80 to 100 per 100,000 population, and the disease occurs in a wide range of ages from the 20s to about 80. Treatment is based on medication or surgery, medication being the primary method. The symptoms of Parkinson's can be mitigated and its development arrested through administration of the drug L-DOPA. However, as L-DOPA loses effectiveness when therapy is continued over a long period of time, alternative medications are being sought.

KW-6002, a compound Kyowa Hakko is currently developing, is a new type of anti-Parkinson's agent that has a different action from that of L-DOPA. KW-6002 is expected to be a new type of anti-Parkinson's disease agent that contributes to the improvement of symptoms experienced by Parkinson's disease patients whose symptom control is insufficient or for whom efficacy has been reduced due to long-term treatment with L-DOPA. We aim to file a new drug application for KW-6002 in the U.S. in the spring of 2007. Development in Japan is also progressing favorably, and Kyowa Hakko will file for approval in Japan after the new drug application filing in the U.S.

In another important development, in February 2006 Kyowa Hakko in-licensed from Britannia Pharmaceuticals Limited in the U.K. apomorphine injectable solution, a medication expected to improve symptoms in patients with comparatively advanced Parkinson's disease. Apomorphine injectable is expected to provide fast-acting relief for acute-phase symptoms such as sudden immobility.

By offering this drug in addition to KW-6002, Kyowa Hakko aims to enhance its line of anti-Parkinson's disease agents and make a greater contribution in the field of central nervous system disorders.

A Kyowa Hakko booth at the International Congress on Parkinson's Disease

A symposium hosted by Kyowa Hakko

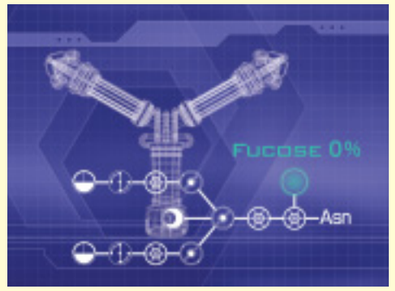
Anti-allergy Drug and Leukemia/Lymphoma Treatment Drug

KW-0761, developed by Kyowa Hakko, is a human antibody that specifically acts on immune cells using Potelligent™ technology, which enhances the function of antibodies. KW-0761 uses an organism's naturally occurring immune functions and acts by binding with a specific protein in the cell membrane.

As KW-0761 acts specifically on immune cells involved with allergic diseases, leukemia and lymphoma tumor cells, Kyowa Hakko is developing it for the treatment of these three types of diseases. In Europe, we have already commenced development for the treatment of allergic rhinitis and plan to proceed with development for the treatment of atopic dermatitis and asthma. In Japan, we are proceeding with development for use in the treatment of the blood cancers, leukemia and lymphoma, with the expectation that KW-0761 will embody Kyowa Hakko's proprietary biotechnology-based pharmaceuticals research and development capabilities.

Research in the manufacturing process of antibodies

• Potelligent™ Technology



Developed by Kyowa Hakko, Potelligent™ technology is a method of efficiently destroying cancer cells and other target cells by enhancing cytotoxicity activity through the reduction of the amount of fucose, a sugar chain naturally present in antibodies.

Special Features
Motivated MRs

Meeting at the sales office

Comments from a Sales Office Manager

Boosting Motivation

Yasukazu Yamashina
Manager, Kumamoto Sales Office, Kyushu Branch, Kyowa Hakko

We have 13 medical representatives (MRs), five in the Hospital Group and eight in the Medical Practitioner Group. Recently, we included four area representatives in the MR team. Kumamoto Prefecture is divided into 11 medical care zones, each having a core hospital. Because the prefecture's hospitals that treat myocardial infarction and cerebral infarction are concentrated in Kumamoto City, we focus MR activities on hospitals in Kumamoto City.

The mottos of the sales office are "Taking the Other Person's Perspective" and "Positive Thinking," which we apply both within and beyond the Company. The result is a lively office atmosphere in which employees can discuss any matter. Thanks to that environment, although five of our 13 MRs have less than five year's experience, they spur each other on and are brimming with vitality, and they recently have begun to demonstrate independence in their activities. Senior managers at our sales agents rate highly the MRs in our office for providing detailed information on Kyowa Hakko products, and on several occasions, our MRs have received the monthly "Most Valuable Player MR" (MVP-MR) Award by which customers rate manufacturers.

A typical scene at the office

Members of the Kumamoto Sales Office

Medical representatives (MRs) provide information about a wide range of pharmaceutical products to doctors and have the mission of contributing to the advancement of patient-focused medicine.

Comments from a Medical Representative

Expectations for Antibodies

Hirotake Hosotani (In charge of hospitals)
Manager, Ikebukuro No. 1 Sales Office, Tokyo Branch, Kyowa Hakko

At the time of market launch of highly novel pharmaceuticals such as antibody therapeutics, there is great enthusiasm in MR information provision activities as well as information feedback from doctors. Discussion between MRs and doctors continues in the post-market period on the basis of a series of announcements of clinical trial results. I think that through such activities, MRs increase doctors' trust and build confidence in their expertise. MRs feel a great sense of accomplishment and satisfaction when they can contribute to improving business results by winning the trust of doctors.

Antibody therapeutics are expected to produce results in the treatment of intractable illnesses, and I think societal expectations for this business are high. At the same time, we MRs have high hopes for the future development of the antibody business so that we can experience great challenges and rewards.

Rapid information provision with a mobile computer

Special Features
Motivated MRs

Special Features
Bio-Chemicals R&D

The Healthcare Business—Focusing Attention on Ornithine

Kyowa Hakko supplies various materials for health-support foods in which fermentation technology is applied. We recognize that safety, reliability and convincing data are important considerations in the business of materials supply and engage in R&D activities geared to meeting customer requirements.

One material that has recently been the subject of heightened attention is ornithine, a type of amino acid that is plentiful in the human body and in foods. Although various physiological functions of ornithine have been explained, actually measuring the effects of ingesting it and publishing data on those effects is to make it possible to increase conviction in, and expectations for, its efficacy. Accordingly, Kyowa Hakko conducted an ornithine experiment involving healthy male and female adults. To increase the accuracy of the experiment, a placebo group★1 was used for comparison. The experiment was conducted as a blind study in which the subjects in each group did not know whether they were taking ornithine or a placebo. Subjective evaluation by means of a questionnaire was quantified and verified. The results clearly showed that ingestion of ornithine can be expected to ease fatigue and subjective skin condition symptoms. In the coming years, we will continue R&D activities to appropriately meet the desires and expectations of our customers.

Healthcare information briefing

★1 A placebo is a substance without physiological effects that cannot be visually distinguished from the test substance (in this case, ornithine tablets).

Healthcare Information Resources

Kyowa Hakko has prepared 56 types of information resources for product development engineers, including materials on product bioactivity and safety and verifying papers.

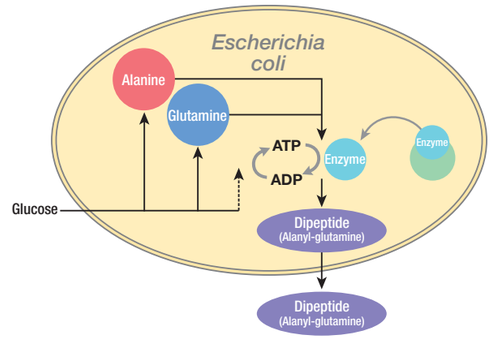
Dipeptide Manufacturing Technology and Its Application

Dipeptides are substances consisting of two amino acids connected in a peptide bond. Dipeptides occur in the human body in the protein decomposition process and are ultimately used as amino acids. Dipeptides have properties different from those of individual amino acids, and some also offer stability, solubility, gustatory properties and physiological functions unavailable in individual amino acids. Kyowa Hakko believes that the conversion of amino acids into dipeptides will greatly expand the scope of application of amino acids, first, by making it possible to use amino acids that previously could not be used owing to their physical properties, and by adding new functions to amino acids.

Kyowa Hakko has developed a revolutionary manufacturing process for producing dipeptides by directly linking two amino acids without chemical modification. This new dipeptide manufacturing method has made possible not only manufacturing using individual amino acids as raw materials, but also the manufacture of dipeptides from glucose by means of direct fermentation. Kyowa Hakko believes this manufacturing method will make possible the low-cost supply of alanyl-glutamine and contribute to the expanded use of this substance, which is expected to be widely applied in the medical and nutrition fields including water-soluble infusions and enteral nutrients.

Furthermore, the Kyowa Hakko-developed dipeptide manufacturing method can also be applied to dipeptides other than alanyl-glutamine. Kyowa Hakko seeks to promote the development of manufacturing methods and functions for various dipeptides jointly with researchers and other companies in Japan and overseas. We regard dipeptides as “amino acids that transcend the bounds of amino acids” and plan to develop new fields for their use.

■ Dipeptide Manufacturing Process



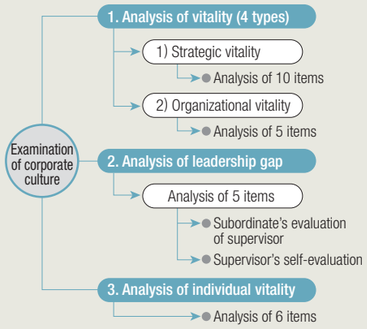
Awarded the “Most Improved Process/Plant/Facility” at the first “European Outsourcing Awards” for dipeptide manufacturing technology by fermentation

Corporate Culture Analysis

Corporate culture has an important bearing on employee motivation and business growth. In fiscal 2002 and 2005, Kyowa Hakko circulated a questionnaire survey among all employees to determine the level of morale. In fiscal 2003, “360-degree feedback” was sought from all managers, including executives, as the basis for the formulation of action plans for improving leadership through workshops in all divisions. Kyowa Hakko has addressed the improvement of corporate culture as a management priority, reflecting issues identified in the survey in education systems and organizational management. The results of the fiscal 2005 survey, while indicating improvement from the previous survey in organizational vitality (an organizational environment that is open and conducive to communication), reconfirmed the need for improvement in the areas of strategic vitality, based on the sharing of visions and targets, and management leadership. Accordingly, more detailed feedback was provided to each section compared to the previous survey. Corporate culture has a major impact on the power of human resources, and Kyowa Hakko will continue to devote effort to corporate culture analysis.

■ Framework for Corporate Culture Analysis

Corporate culture analysis involves both plotting, by means of vitality analysis, and activity analysis of 15 items that explain strategic and organizational vitality. To examine the influence of vitality in greater depth, detailed strengths and weaknesses of the corporate culture are ascertained through leadership gap analysis and analysis of individual vitality.



Employee Training

In parallel with these corporate culture reform initiatives, Kyowa Hakko also devotes considerable effort to human resource development. Employee training is broadly divided into rank-based training, upper management training, organizational culture reform, and support for employee upskilling. There are also numerous programs specific to individual business operations, including business upskilling courses. Kyowa Hakko regards human resource development as a key management priority and will continue to enhance and strengthen programs in this area.

There are also educational and training programs designed to raise employees’ environmental and safety awareness.

Labor-management Communication

Both management and labor recognize the importance of communication as the basis of labor-management relations in Kyowa Hakko, and there is a shared commitment to problem solving through proper consultation. The key forums for labor-management communication are the Management and Union Communication Councils at central and site levels, which are used to discuss issues relating to corporate management and operational policies. The forum for consultation on salaries and working conditions is the Remuneration Committee. Meetings of the Management and Union Communication Councils and Remuneration Committee are convened from time to time to facilitate the resolution of issues that arise in relation to reforms under the current medium-range management plan. Labor and management are working together in the spirit of cooperation to ensure the survival and growth of business operations as the source of employment.

Remuneration Committee

Employment of Workers with Disabilities

People with disabilities made up 1.54% of the Kyowa Hakko workforce as of June 2005. As a result of promotion through our website and increased cooperation with public employment security offices, the figure increased to 1.9% as of June 2006. This exceeds the standard set down in the Disabled Persons Employment Promotion Law. Kyowa Hakko will continue to implement workplace environment improvements consistent with the aptitudes and lifestyles of individual employees.

Award System

Kyowa Hakko presents a variety of awards, including the President’s Awards and awards for inventions, in recognition of especially meritorious achievement by employees. (For details, see page 18, Sustainability Report 2002.)

President’s Awards ceremony

Invention awardees

Active Challenge System (Internal Job-posting Program)

Kyowa Hakko operates an internal job-posting system and a free-agent (FA) system for its in-house companies. Job details are posted on an internal website. The aim of this recruitment method is to match the needs of the workplace with the ambitions and career goals of employees.

Report from Shanghai

Completion of New Plant Construction at Shanghai Kyowa Amino Acid Company, Ltd.

Susumu Shibata, President
Shanghai Kyowa Amino Acid Co., Ltd.

I was deeply moved when, at long last, the day of the ceremony to celebrate the completion of construction of our new plant arrived. We finally reached this milestone only after overcoming differences in legal systems, language, customs and ways of thinking. However, our final goal isn’t plant construction; it is to reliably function as one of three production bases in Japan, the United States and China and to contribute to the health and well-being of people worldwide. The real test lies ahead.

Mission & Action for Progress (MAP) System

In April 2005, Kyowa Hakko radically revised its existing skill-development programs and introduced a management tool named the “Mission & Action for Progress” (MAP) system. The aim of this management approach is to speed up the achievement of operational priorities through appropriately repeated plan-do-see (PDS) cycles. The MAP system is used as a tool to promote communication between employees and supervisors. Work targets and expectations about approaches to work are clearly defined and result assessments are clearly explained.

Women account for over 1% of the managers at Kyowa Hakko. Through the ∞URUOI (motivation) Project and other activities, Kyowa Hakko is seeking to expand opportunities for women.

Management Guideline & Points — Employees

Management Guideline:
We will establish a motivating workplace by promoting the enhancement of individuals’ abilities and creativity, as well as emphasizing fair evaluation and treatment of employees.

Points (Extract):

- We will nurture a corporate culture that encourages proactive and creative work by providing opportunities for employees to demonstrate these qualities.
- We will carry out thorough evaluations and award compensation based on work, special skills and performance.
- We will upgrade training programs and a self-improvement system.
- We will provide support programs for financial planning.
- We will ensure a safe and hygienic workplace.
- We will create a work environment that fosters both mental and physical health.
- We will create a work environment that enables every employee, including senior citizens, women, people with disabilities and foreigners, to demonstrate their abilities.
- We will create an environment in which employees can act as members of the community and participate in activities to improve the community.

Occupational Safety and Health

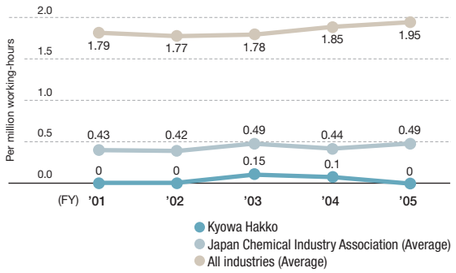
The Management Guidelines for Safety and the Environment of the Kyowa Hakko Group reflect its commitment to the protection of employees, families and the Company. Occupational safety and health activities include environmental and safety assessments for the startup of new business operations as well as risk assessments for the existing facilities and day-to-day operations.

Accident Statistics

In fiscal 2005 the number of accidents resulting in lost working days at Kyowa Hakko was zero, the occupational injury frequency rate (the number of injuries resulting in lost days per million working hours) was zero, and the severity rate (lost days per thousand working hours) was zero. For the Kyowa Hakko Group including Kyowa Hakko, the number of accidents resulting in lost working days was two, the occupational injury frequency rate (injuries resulting in lost days, per million working hours) was 0.21, and the severity rate (lost days per thousand working hours) was 0.0028.

The Yokkaichi Plant of Kyowa Hakko Chemical extended its industry-longest record of accident-free operation to 22.12 million hours. The Fuji Plant reached the Class 3 Safety Record threshold of 14 million hours in April 2005 and is continuing accident-free operation. Kyowa Hakko has further augmented support to affiliates where accidents have occurred and is implementing workplace environment improvement based on the motto “Safety and Security.”

Kyowa Hakko Occupational Injury Frequency Rate



Major Awards and Accident-free Records in Fiscal 2006 and 2005

2006

- **Minister of Health, Labour and Welfare Safety Award**
  Sakai Plant
- Ibaraki Prefecture Earth-friendly Company Award
  Kyowa Hakko Food Specialties Tsuchiura Plant

2005

- **Certificate awarded by the Japan Industrial Safety and Health Association (JISHA) in recognition of a new accident-free record for the organic chemical industry**
  Kyowa Hakko Chemical Yokkaichi Plant
- **Ministry of Health, Labour and Welfare Class 3 Safety Record (14 million accident-free hours)**
  Fuji Plant
- **Kyowa Hakko Healthcare Products Development Center**
  (17 years accident-free, since February 1989)
- **Kyowa Hifoods Ube Plant**
  (28 years accident-free, since August 1977)

Mental Health Initiatives

Kyowa Hakko recognizes that the fostering of mental health is an important management priority, has established the General Outline for Measures to Create Lively Workplaces, and it is implementing comprehensive initiatives based on four types of mental health care: self-care, care provided by line managers, care provided by industrial physicians and healthcare staff, and care utilizing external resources.

Kyowa Hakko provides industrial physician interviews and guidance to employees who work long hours and is endeavoring to maintain the physical and mental health of employees and augment measures to prevent overwork.

Traffic Safety

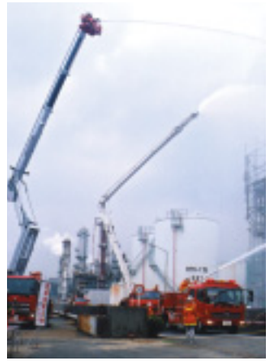
The Kyowa Hakko Group has 1,111 vehicles (as of March 2006) for use in sales activities. In fiscal 2005, there were 148 accidents resulting from negligence (including parking lot accidents), a reduction of 3% from the previous year. In fiscal 2006, we have set forth a traffic safety policy that calls for a 25% reduction in major accidents (such as injury accident) and measures to prevent rear-end collisions, and upper managers at each branch and site are leading concerted efforts to ensure traffic safety.

Accident Prevention Assessments

To prevent fires, explosions, and other safety-related accidents, the Kyowa Hakko Group implements safety activities centered on risk assessments. It is important for a manufacturing plant that is surrounded by residential areas to minimize the impact outside plant premises should a malfunction occur. Accordingly, Kyowa Hakko conducts rigorous accident prevention assessments and implements accident prevention measures. We hold briefings for residents of host communities to discuss important matters.

Resident briefing on product warehouse removal and new product warehouse building construction

Citizens’ Cooperative Comprehensive Emergency Drill (Petrochemical Complex)



On August 30, 2005, a citizens’ cooperative comprehensive emergency drill was conducted at the Yokkaichi Plant of Kyowa Hakko Chemical.

About 450 participants simulated a response as if a real fire had broken out, responding rapidly and appropriately.

A jet of water from a fire engine

Measures to Prepare for Major Earthquakes

The Kyowa Hakko Group is determined to fulfill its social responsibilities as a manufacturer, particularly its responsibilities as a supplier of pharmaceuticals. Since the second half of the 1970s, when it was predicted that an earthquake is imminent in the Tokai region, the Group has made preparations that include the dispersal of production and distribution operations, earthquake-proofing of buildings, and the preparation of manuals. We also conduct systematic reviews of these measures.

When a major earthquake occurs it is necessary to rapidly put in place a group-wide support system, and Kyowa Hakko has augmented its emergency communication system. For instance, we have installed satellite cellular telephones at all business sites, including sales offices, and engage in twice-monthly broadcast drills. We aim to improve the functionality of earthquake preparedness drills by upgrading from drills conducted at individual business sites to drills that link business sites to the head office.

The Fuji Plant engages in earthquake preparedness measures in preparation for an earthquake in the Tokai region. It prepares and updates a plan for the rapid resumption of production after an earthquake to ensure that Kyowa Hakko discharges its social responsibility as a pharmaceuticals manufacturer. Preparations include measures to ensure worker safety and home preparedness education.

Disaster drill (Fuji Plant)

Distribution Safety

The Kyowa Hakko Group maintains a 24-hour emergency response system to rapidly respond in case of emergency during the transportation of chemicals and alcohol. We have introduced the Yellow Card and Container Yellow Card systems and thoroughly instruct distribution and transportation workers in disaster response methods. There were no distribution-related accidents during fiscal 2005.

Emergency Action Guideline

Guideline for Action:
The basic principles for individual action are awareness of one’s role as an official member of society and consideration of how one should act in relation to society.

Points:

- Consideration for human life and health is the first priority.
- We will strive to minimize impacts on customers, shareholders, suppliers, consumers and communities.
- We will give priority to humanitarian and social contribution, even if this causes a temporary disadvantage to the Company.
- We will take all possible care to protect and conserve the environment.
- We will maintain a high standard of transparency and disclose accurate information as part of corporate governance.

Responsible Care (RC) Community Dialogs

Kyowa Hakko participates in community dialogs conducted by the Japan Responsible Care Council. In February 2006, four chemical companies jointly held their third Responsible Care Community Dialog meeting in the Ube-Onoda District. The meeting was attended by 54 people, including representatives of environmental non-governmental organizations, community groups, government officials and companies. The participants toured the Ube Plant and engaged in a lively exchange of opinions on environmental problems of concern to area residents.

Responsible Care Community Dialog in the Ube-Onoda District

Plant Tours

Each year about 400 people visit the Fuji Plant. Last year, 30% of the visitors were students, 25% were from companies or community associations, 17% were visitors from overseas, and 28% were employees from other business sites. International university students who toured the plant indicated keen interest in the manufacture of pharmaceuticals, enthusiastically exchanging opinions and actively participating in question and answer sessions.

International students from Tokyo Institute of Technology

Summer Junior Science School (Ube Plant)

In fiscal 2005, 70 primary school and junior high school students and parents participated in the science class. During a lecture titled "The Steps in Medicine Production" the children listened intently as the instructor provided an explanation of the long period of time it takes to develop pharmaceuticals and the rigorous quality control. The participants enjoyed a rare tour of a drug formulation plant, the highlight of a memorable day for the children.

Ube Plant Junior Science Classroom

Fuji Plant Children's Science Experiment classroom

Kyowa Hakko Table Tennis School (Kyowa Hakko Food Specialties Tsuchiura Plant)

The Tsuchiura Plant conducted a table tennis school sponsored by the Ami-Town Municipal Athletic Association.

A table tennis clinic

Management Guideline & Points — Society

Management Guideline:

We will strive for management that is open to society and also vigorously adopt thinking based on global standards.

Points (Extract):

- We will carry out corporate activities that aim to realize growth that is in harmony with the communities in which we have operations, thus contributing to the development of society and the economy.
- We will work to earn the understanding and trust of local communities through communications, including the exchange of information, and participation in social contribution activities.
- We will carry out social contribution activities that will provide the young people who will lead the next generation with guidance for their lives and dreams to follow.
- We will respect the culture and customs of the regions in which we operate—both inside and outside Japan.
- In the event of a disaster, we will work closely with the local community in aid activities as well as recovery and reconstruction.

Bio-adventure Mobile Laboratory Program

Kyowa Hakko operates a program to "deliver" instruction about genes and other science topics at local elementary schools and junior and senior high schools using a specially designed mobile laboratory filled with a variety of experimental equipment. This activity began as an expression of desire on the part of researchers of Biofrontier Laboratories to impart a sense of the wonders of science and provide opportunities for students to develop curiosity about science. Since 2000, more than 50 classes attended by a total of 2,000 students have been held.

Experiment classroom

The Bio-adventure

The Kato Memorial Bioscience Foundation

The Kato Memorial Bioscience Foundation was established in 1988 to fulfill the desire of Kyowa Hakko founder Dr. Benzaburo Kato to promote the advancement of science and technology and contribute to the development of society and the economy. The foundation engages in wide-ranging undertakings to promote the advancement of science, including the subvention of bioscience research, the fostering of international exchanges (the dispatch of researchers overseas), and the holding of academic conferences. The 22nd open symposium of the Kato Memorial Bioscience Foundation was held in October 2005 on the theme "Japanese Cedar Pollen Allergy—From Mechanism Elucidation to New Treatments."

The poster of the 22nd open symposium

The 22nd open symposium of the Kato Memorial Bioscience Foundation

Nippon Keidanren 1% Club

Kyowa Hakko participates in the activities of the Nippon Keidanren 1% Club, a group established by the Nippon Keidanren (the Japan Federation of Economic Organizations) for companies that devote at least 1% of their ordinary income to social contribution activities. One of these activities was the provision by Kyowa Hakko of about 10,000 boxes of the antibiotic Pasetocin via the Japanese Red Cross Society following the May 2006 Central Java Earthquake.

Eighteenth Asahi Young Session

Primary sponsor: Asahi Shimbun Newspaper
Co-sponsor: Kyowa Hakko

To peer into the microscopic world, Hitachi Fellow Dr. Akira Tonomura perfected an electron holography microscope that weighs 40 tons and is the size of a room. At the session, Dr. Tonomura spoke on the topic "We Advance Because We Are Curious," informing high school students and other youths about dreams, aspirations and guiding principles for life.

The 7th-annual Creating a Brighter Future in the 21st Century Through Science Essay Competition

Primary sponsor: Mainichi Shimbun Newspaper
Co-sponsor: Kyowa Hakko

The annual essay contest provides an opportunity for junior and senior high school students to think about science in a personal way. The number of entries was 6,863, and the contest winners were taken on a study tour of the National Aeronautics and Space Administration and the National Institute of Health in the United States.

Communication with Shareholders and Investors

The Kyowa Hakko Group regards investor relations as an important management priority and endeavors to provide shareholders and investors with business information in a manner that is timely, appropriate, and fair. We strive to communicate a wide variety of information about the Kyowa Hakko Group with the aim of engaging in sincere, highly transparent management.

Kyowa Hakko website: http://www.kyowa.co.jp/

Briefings

Kyowa Hakko holds briefings at which the CEO explains to institutional investors, securities analysts, and mass media representatives the business results in the half-year and full-year settlement of accounts.

Website for shareholders and investors:
http://ir.kyowa.co.jp/english

Corporate Advertising

To deepen people's understanding of Kyowa Hakko, we run corporate advertising that introduces technologies developed by Kyowa Hakko and their benefits. Each year we introduce new TV commercials in the "Nature as a Vast Hospital" series that began running in 1992, one year before the historic Earth Summit conference in Brazil. In 2005, this series received the Global Environmental Forum's Environmental Communication Award for encouragement in the television commercial category.

"Nature as a Vast Hospital"

Annual Report

Kyowa Hakko distributes a printed English-language annual report for overseas investors and posts the English version and Japanese version of the report on the corporate website.

Link for online annual report:
http://ir.kyowa.co.jp/english/library/annual_report.cfm

Annual Report 2006

Reader Opinions and Impressions of Sustainability Report 2005

Reader Requests from the Sustainability Report 2005 Reader Questionnaire and Our Responses

Q. As you appropriately include diagrams and photos, the report is easy to read. However, there are many foreign-language terms, and parts of the report are difficult for laymen to understand.

A. In the 2006 edition we have increased the type size in an effort to enhance readability. We have also included simple explanations of technical terms that may be unfamiliar to readers.

Q. I would like for the report to include information on aspects of recycling that Kyowa Hakko emphasizes.

A. In the 2006 edition we have tried to augment the content on recycling and have included case examples of waste recycling.

Environmental Performance

The Kakita River (Shizuoka Prefecture)

Bio-leader Kyowa Hakko, a company that harnesses the limitless power of life, cherishes and protects water, the source of life.

Duck pond in spring (Ube Plant)

Scene at a plant (Hofu Plant)

Beautification of the Kise River (Fuji Plant)

Goryu-no-taki Waterfall*

Akiyoshi-do Cave*

*Broadcast on the program Mizu Hyakkei on the TV Tokyo network

Action Plans and Performance in Fiscal 2005

Guideline for Action	Initiative	Target	Fiscal 2005 Performance (Status of Progress)	Kyowa Eco-Index 2004*1	Kyowa Eco-Index 2005*2	Evaluation*3	Medium-Term* Targets	Page
Guideline for Action ❶ **Expand the application of environmental management systems**	Establishment of ISO 14001 environmental management system	Kyowa Hakko, Kyowa Hakko Chemical, Kyowa Hakko Food Specialties, kyowa Medex: Introduction of environmental activities assessment	Continued renewal of ISO 14001 certification at 8 business sites, implementation of environmental activity assessments in internal audits			◎	Assessment of environmental activities	P10, 11
		Consolidated subsidiaries: Establishment of ISO 14001 system by fiscal 2007	Voluntary declaration system set up and launched at 4 companies			○	Qualitative improvement of environment and safety management systems	P10, 11
	Integration of ISO 14001 and Occupational Safety and Health Management System (OSHMS)	Kyowa Hakko, Kyowa Hakko Chemical, Kyowa Hakko Food Specialties, kyowa Medex: Operation of integrated management system	Environment and safety management systems in operation Risk assessments introduced at affiliated companies			◎	Expansion of ISO 14001, OSHMS systems into affiliated companies	P10, 11
	Audits of consolidated and non-consolidated subsidiaries	Engage in audits of 85% of Group companies annually	Audits of sites of consolidated and non-consolidated subsidiaries and sites in other countries.(100%)			◎	Audits of consolidated subsidiaries (100%) in fiscal 2005	P11
	Ensuring compliance	Zero legal infringements, zero complaints	Zero legal infringements Nine complaints (noise: 5, odors: 3, others: 1)			◎ ×	Zero legal infringements, zero complaints Secure compliance and establish a management and operation system for handling of waste materials and recycling	P11
	[Production and R&D]							
	Kyowa Eco-Project							
	• CO_2 emissions	Reduction of CO_2 emissions to 6% below fiscal 1990 levels or lower by fiscal 2010	601,000 tons, 14% reduction from fiscal 1990 levels	0.81	0.76	◎	Achieve fiscal 2010 CO_2 emissions at or below 6% from fiscal 1990 levels	P35, 36
	• Unit energy consumption	Reduction of unit energy consumption by 1% or more per annum	3.7% improvement from the previous year's level at 7 principal plants			◎	Average reduction in unit energy consumption of 1% or higher (seven plants)	P35, 36
	• Volume of waste disposal at landfill sites	Maintaining zero emissions, a target of 250 tons or lower	Continued zero emission status. 110 tons, 47% reduction from the previous year's levels	0.008	0.006	◎	125 tons lower in fiscal 2007	P39
	• Reduction in chemical substance emissions	50% reduction in chemical substance emissions from fiscal 2003 levels in fiscal 2007	12 chemical substances: 5.8 tons, 41% reduction from 2003 levels PRTR Class 1 chemical substances: 37.5 tons, 2% reduction from 2003 levels VOCs: 390 tons, 37% reduction from 2003 levels			○	Reduction of fiscal 2007 chemical substance emissions by 50% from fiscal 2003	P38
	Atmosphere							
Guideline for Action ❷ **Ensure compliance and continuously improve performance**	• SOx emissions	Below 2,595 tons★4	833 tons, 3% reduction from the previous year's levels	2.3	2.2	◎	Below 250 tons in fiscal 2007	P37
	• NOx emissions	Below 755 tons★4	548 tons, same as the previous year's levels	1.0	1.0	◎	Below 731 tons★4 in fiscal 2006	P37
	• Dust emissions	Below 323 tons★4	24.6 tons, 7% increase from the previous year's levels	0.60	0.64	○	Below 287 tons★4 in fiscal 2006	P37
	Water							
	• Fresh water usage volume	—	55.6 million tons, 5% reduction from the previous year's levels	3.6	3.4		Ongoing rationalization of water use	P37
	• COD levels	Below 920 tons★5	401 tons, 18% reduction from the previous year's levels	1.3	1.0	◎	Below 920 tons★5 in fiscal 2006	P37
	• Nitrogen levels	Below 950 tons★5	270 tons, 11% reduction from the previous year's levels	0.9	0.8	◎	Below 850 tons★5 in fiscal 2006	P37
	• Phosphorous levels	Below 29 tons★5	21.2 tons, 14% increase from the previous year's levels	0.8	0.8	○	Below 25 tons★5 in fiscal 2006	P37
	Disasters, accidents	Record no labor/work or environment- or safety-related accidents	Recorded zero labor/work accidents with absence and two accidents recorded at consolidated subsidiaries, and no environment or safety-related accidents			×	No labor/work accidents, no environmental or safety-related accidents	P23 P11
	Distribution environment and safety	Rationalization of distribution, assurance of environmental and safety in distribution	Continued distribution streamlining Low-emission cars accounted for 91% of cars in business use			◎	Rationalization of distribution, ensure environmental safety in distribution 100% of corporate sales vehicles to be low-emission vehicles by fiscal 2010	P36 P23
	[Administration]							
	Green Office Plan (GOP)	Reduction of at least 1% per annum in power consumption	5.3% reduction from the previous year's levels			◎	1% or higher reduction in electricity use per year	P35
		Reduction in copy paper use of 10% below fiscal 2003 levels over three years	5.5% reduction from the previous year's levels			◎	10% reduction in copy paper use from fiscal 2003 levels over 3 years	P35
		Promotion of green purchasing	Green purchasing of 70% of copy paper and office supplies			◎	Green purchasing of 70% in fiscal 2007	P35
Guideline for Action ❸ **Consider the environment throughout the entire product life cycle**	LCA/Material balance	Transparency and analysis in material balance at each business	LCA-type analyses of material balance and environmental loads, continued assessments of each company's resource efficiency and unit emissions			◎	Ongoing business assessments through LCA/material balance assessments	P31, 32, 33
	Green procurement	Implementation of environmental consideration inquiries at business partner companies	Implementation of environmental consideration inquiries made of 78 business partner companies			◎	Improve environment-related activities with business partners Preferential use of environment-supportive raw materials	
	Packaging materials	Application of Guidelines for Environment-supportive Packaging Materials	Continuously improving packaging materials for pharmaceutical products			◎	Promotion of streamlined packaging	
Guideline for Action ❹ **Upgrade environmental and safety assessments**	Thorough environmental, safety and product safety assessments	Thorough environmental and safety assessment, risk management	Expanded installation of satellite mobile telephones and augmentation of the emergency communication system for large-scale earthquake emergencies Start of education in comprehensive safety standards for machinery			◎	Thorough risk management, reduction of risk levels Implement activities to promote awareness of comprehensive safety standards for machinery	P23 P24
Guideline for Action ❺ **Develop new products and technologies**	Environment-conscious technology and product development	Realization of development of technologies and products	Development of fermentation production technology using woody biomass (national research project) Increased the supply of isononanoic acid and octylic acid			◎	Development of environmental business outside of Company Analysis of sales of environment-friendly products	P40, P41
Guideline for Action ❻ **Provide safe and useful products**	Assurance of consumer safety and product user-friendliness	Comprehensive product information and disclosure	Continuation of large-scale clinical trial of drugs targeted toward establishment of evidence-based medicine (EBM)			◎	Large-scale clinical trial for EBM Further improvement of product information services	

*From fiscal 2005 to fiscal 2007

★1 The figures were recalculated due to an input error regarding production value.

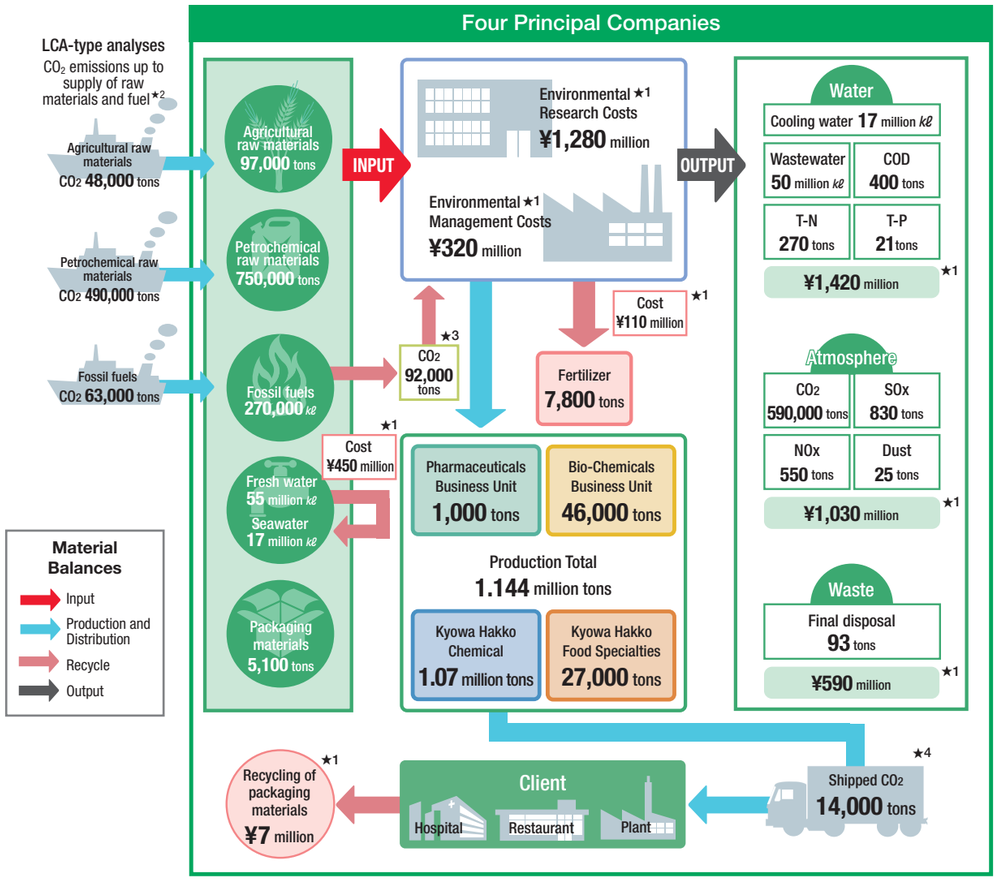
★2 Compares unit emissions with Japanese averages based on production values as follows:
- CO_2, Air-pollution, waste index = [Total emissions by the Kyowa Hakko Group / Total emissions in Japan] / [Total production value by the Kyowa Hakko Group / Japan's net domestic product]
  CO_2 emissions: Carbon dioxide emissions in fiscal 2004 (May 25, 2006 press release from the Ministry of the Environment website)
  SOx, NOx, dust emissions volume: Emissions in fiscal 2002, based on survey of fixed sources affecting the atmospheric environment (Environmental Statistics Book 2006, Environmental Policy Bureau, Ministry of the Environment, Japan)
  Waste emissions volume, landfill volume: Industrial waste volume, treatment status in fiscal 2003 (November 8, 2005, report from the Ministry of the Environment)
  Net domestic product: Statistical data (Economic and Social Research Institute, Cabinet Office, Government of Japan)
- Water pollution index = [Total emissions by the Kyowa Hakko Group / Total emissions into closed bodies of water] / [Total production value of the Kyowa Hakko Group / Net domestic product of prefectures surrounding closed bodies of water]
  COD, nitrogen, phosphorous: Volume occurring in fiscal 1999 in regions targeted by water regulations (Fiscal 2006 Environmental Statistics Book, edited by the Ministry of the Environment)
  Net domestic product of prefectures surrounding closed bodies of water: Fiscal 2003 Prefectural Economic Accounts (Economic and Social Research Institute, Cabinet Office, Government of Japan)
- Fresh water usage volume index = [the Kyowa Hakko Group's total usage volume/Japan's total usage volume]/[the Kyowa Hakko Group's total production value/Japan's net domestic product]
  Fresh water usage volume: Fiscal 2002 domestic non-commercial water (14.2 billion tons) + industrial water fresh water replacement volume (11.2 billion tons)
  (Data: Water Resources Department, Ministry of Land, Infrastructure and Transport in 2006)

★3 Evaluation ◎: Achieved target ○: Improved, but did not achieve target ×: Target not reached

★4 The target is 50% of the emission level conforming to the legally mandated concentration.

★5 The target is 50% below the site's self-imposed target level.

Material Balance by the Kyowa Hakko Group Business Operations

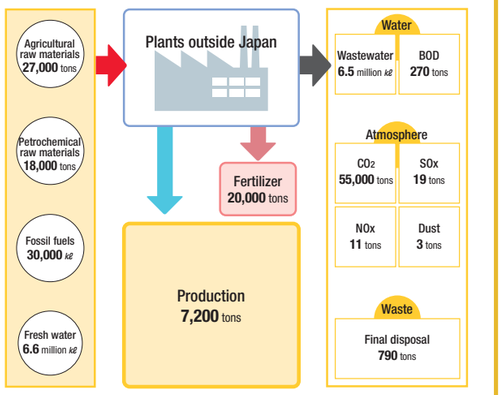


★1 The figures shown here were extracted from the environmental accounts.
★2 *JLCA-LCA Database 2004 (2nd Edition), An Introduction to LCA Administration*—Environmental Load of 4,000 Social Stocks, Japan Environmental Management Association for Industry (JEMAI) (1998)
★3 The amount of CO_2 fixed in products by means of the oxo process
★4 Only transport between business sites is calculated.

Inputs (raw materials, fuels, water, packaging materials) and outputs (products, byproducts, water and atmospheric emissions, waste products) have been totaled for plants operated by Kyowa Hakko, Kyowa Hakko Chemical, Kyowa Hakko Food Specialties and Kyowa Medex. Figures for individual business operations are also shown. Inputs and outputs for the four production plants (P2) outside Japan are shown separately from figures for Japan. CO_2 emissions during the manufacture of raw materials and fuels were ascertained as accurately as possible for the purpose of LCA-type analyses.

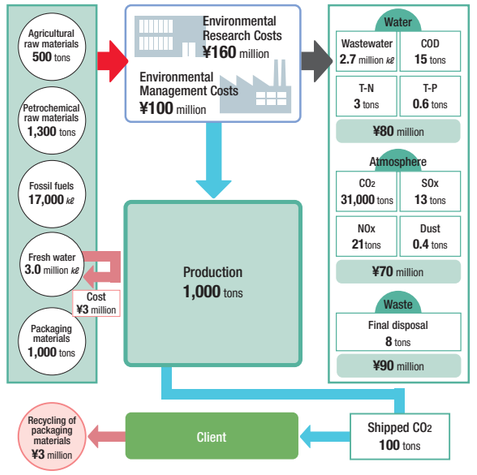
Material Balance in Non-Japan Production

CO_2 emissions are the equivalent of 9% of those of plants in Japan.



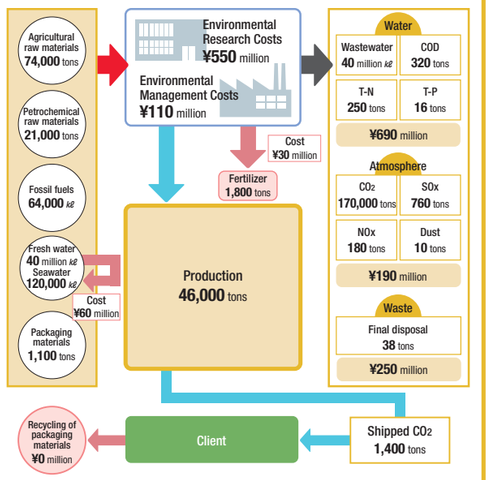
Pharmaceuticals Business Unit

Energy efficiency per unit of production volume is a priority. Emission loads are small.



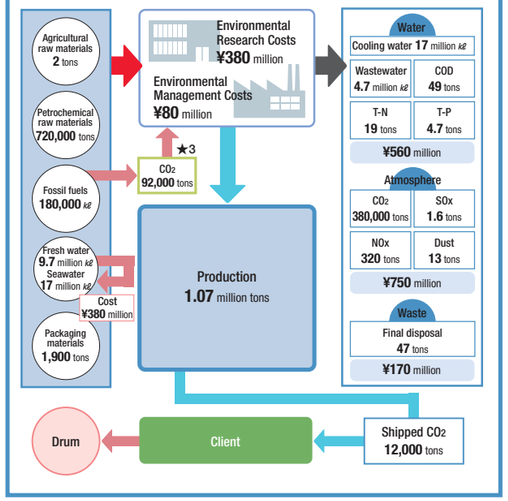
Bio-Chemicals Business Unit

Agricultural raw materials make up a high percentage of raw materials used, and recycling rates are high.



Kyowa Hakko Chemical

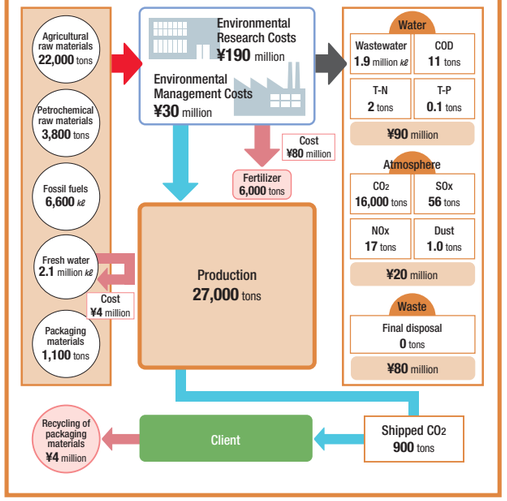
While substantial amounts of fossil fuels are used, efficiency is improving.



★3 The amount of CO_2 fixed in products by means of the oxo process

Kyowa Hakko Food Specialties

Agricultural raw materials make up a high percentage of raw materials used, and both resource efficiency and recycling rates are high.



Resource Efficiency

Year-on-year Evaluation/ ↗ : Deterioration →: Unchanged ↘ : Improvement

		Pharmaceuticals Business Unit	Bio-Chemicals Business Unit	Kyowa Hakko Food Specialties	Kyowa Hakko Chemical	Four Principal Companies
Resource Efficiency★1	tons/¥100 million sales	0.90 ↘	352 →	290 ↗	1,086 →	276 ↘
	tons/tons of production	1.79 ↘	2.08 ↗	0.96 →	0.68 ↗	0.74 ↗
Fuel Efficiency★2	kℓ/¥100 million sales	8.39 ↘	238 →	73.3 ↗	268 →	86.8 ↘
	kℓ/tons of production	16.7 ↘	1.4 ↘	0.24 ↗	0.17 →	0.23 →
Packaging Materials Efficiency	tons/¥100 million sales	0.47 ↘	4.2 ↗	12.5 ↗	2.9 ↗	1.7 ↘
	tons/tons of production	0.94 ↘	0.025 →	0.041 →	0.0018 ↗	0.005 ↗
Fresh Water Resource Efficiency	1,000kℓ/¥100 million sales	1.46 ↘	150 →	24 ↘	15 ↗	18 ↘
	1,000kℓ/tons of production	2.9 ↘	0.89 →	0.079 ↘	0.009 ↗	0.048 →

★1 Index of total usage of agricultural and petrochemical raw materials ★2 Index of crude oil conversion to express energy usage in kℓ

Resource efficiency and fuel efficiency rates in the Bio-Chemicals business, Kyowa Hakko Food Specialties and Kyowa Hakko Chemical decreased slightly owing to changes in the product mix, which shifted the focus to high-value-added products. In the Pharmaceuticals business, energy and resource conservation efforts increased efficiency.

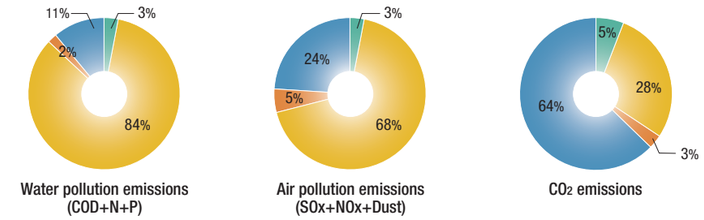
Unit Emissions

		Pharmaceuticals Business Unit	Bio-Chemicals Business Unit	Kyowa Hakko Food Specialties	Kyowa Hakko Chemical	Four Principal Companies
Unit CO_2 Emissions	tons/¥100 million sales	15.4 ↘	613 ↘	176 ↗	568 →	193 ↘
Unit Final Disposal	tons/¥100 million sales	0.004 →	0.14 →	0 →	0.07 ↘	0.030 ↘
Unit Water Pollution Emissions★3	tons/¥100 million sales	0.017 ↘	3.5 →	0.83 ↗	0.51 →	0.46 ↘
Unit Air Pollution Emissions★4	tons/¥100 million sales	0.01 ↘	2.2 →	0.14 ↘	0.11 ↘	0.22 ↘

★3 Index of total COD, N and P levels ★4 Index of total SOx, NOx and dust emissions

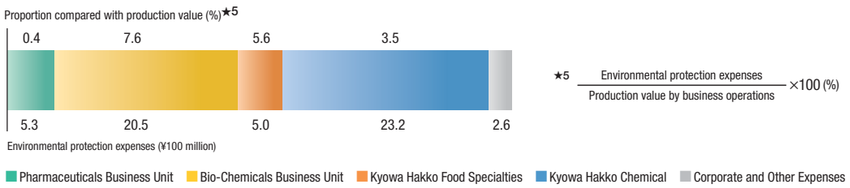
As a result of emission reduction efforts at the plants, CO_2 emissions, water pollution and unit final disposal at landfills improved. Although CO_2 emissions and air pollution increased slightly at Kyowa Hakko Food Specialties owing to an increase in products produced through highly energy-consuming processes, this business achieved an excellent score of 0 for unit final disposal (zero emissions).

Emission Load Ratios by Business Unit



An analysis of the results for the Kyowa Hakko Group reveals that the water and air pollution levels of the Bio-Chemicals Business Unit are high due to emissions from the fermentation industry, and additional reductions are necessary. With respect to greenhouse gases, although Kyowa Hakko Chemical, a chemical manufacturer, has adopted the oxo process for recovering and recycling CO_2 for some of its processes, its CO_2 emissions load is high and further energy conservation measures must be considered.

Breakdown of Environmental Protection Expenses (¥5.66 billion) by Business Unit



Environmental Protection Costs (¥ million)					Effect		
Classification/Principal Activities (FY2005)	FY2004		FY2005		Focus	FY2005	Comparison with FY2004
	Investment	Expense	Investment	Expense			
(1) In-Situ Operating Costs	**649**	**3,978**	**359**	**3,851**			
(1) –1 Pollution Control Costs ①Water pollution control **[Investment]** Installation of COD and nitrogen emission reduction facilities, etc. **[Expense]** Improvement and operation/maintenance of wastewater treatment facilities	**181**	**1,446**	**165**	**1,450**	• Total volume of wastewater • COD levels • Nitrogen levels • Phosphorous levels	48.7 million tons 401 tons 270 tons 21.2 tons	10% reduction 18% reduction 11% reduction 14% increase
②Air pollution control, etc. **[Investment]** Installation of xylene recovery facilities, etc. **[Expense]** The cost of operating and maintaining flue gas desulfurization and denitration facilities, exhaust gas facilities, deodorization facilities and pollution load levies	**319**	**574**	**57**	**544**	• SOx emissions • NOx emissions • Dust emissions	833 tons 548 tons 24.6 tons	3% reduction Unchanged 7% increase
(1) –2 Global Environmental Protection Costs **[Investment]** Conversion of boiler fuel to city gas, gas turbine maintenance **[Expense]** Purchase and use of CO_2 as a raw material for the oxo process, operation and maintenance of energy conservation facilities	**92**	**482**	**117**	**504**	Unit energy consumption (crude oil conversion) • Kyowa Hakko, Kyowa Medex, plus 5 other companies • Kyowa Hakko Chemical • CO_2 emissions • CO_2 usage volume (Kyowa Hakko Chemical)	57.7kℓ/¥100 million of production 167ℓ/ton of production 601,000 tons 92,000 tons	6% improvement 4% increase 5% reduction 15% increase
(1) –3 Resource Recycling Costs **[Investment]** Engineering work on waste recycling facilities and water reduction **[Expense]** Maintenance and management of water conservation facilities and waste recycling and treatment facilities, outside recycling and contracted disposal of waste	**57**	**1,476**	**20**	**1,353**	• Fresh water usage volume • Waste materials • Waste disposal at landfill sites	55.6 million tons 123,000 tons 110 tons	5% reduction 4% reduction 47% reduction
(2) Upstream and Downstream Costs **[Expense]** Promotion of green purchasing of office supplies Refurbishment contract charges under the Packaging Materials Recycling Law	**1**	**43**	**0**	**46**			
(3) Environmental Activities Costs **[Expense]** Operation of environmental management systems, measurement of environmental impact, preparation of environmental disclosure documents, environmental improvement, including nature conservation, greening, beautification and scenery preservation at offices and in surrounding areas	**23**	**495**	**30**	**456**			
(4) R&D Costs **[Expense]** R&D of environment-friendly products R&D aimed at controlling environmental impact at the production stage	**19**	**1,389**	**18**	**1,290**			
(5) Community Activities Costs **[Expense]** Membership in and cooperation with environmental protection and nature conservation activities	**0**	**14**	**0**	**14**			
(6) Environmental Damage Related Costs **[Expense]** Oil pollution liability insurance	**0**	**1**	**0**	**1**			
Total	**692**	**5,920**	**407**	**5,658**			

Breakdown

Item/Activities (FY2005)	Amount (¥ million)	
	FY2004	FY2005
Total Investment Installation of coenzyme Q10 manufacturing facilities, expansion of eco-friendly chemical product manufacturing facilities, etc.	**6,697**	**10,253**
Total R&D Costs R&D of new products and technologies	**28,790**	**32,536**
Sales of Items Related to Resource Recycling as in (1)-3 Fertilizer containing organic materials, used catalysts and by-product oil, etc.	**428**	**361**
Effect Related to Saving Resources as in (1)-2 and 3 Conservation of energy, water and resources and waste reduction	**1,366**	**1,327**

Scope of Summary:
The production and R&D sites in Japan listed on Page 2 and Kyowa Hakko head office

Period Covered:
Fiscal 2004 (April 1, 2004–March 31, 2005)
Fiscal 2005 (April 1, 2005–March 31, 2006)

Calculations were based on suggested environmental accounting standards contained in the Environmental Accounting Guidelines 2005 of Ministry of the Environment.

- Expenses include depreciation, personnel costs, utility fees, cost of materials, cost of repairs, outside contracting costs.
- Green purchasing statistics represent total purchases of environmentally conscious products, including Eco Mark products.
- Environment-related expenses are shown in the environmental accounts. Kyowa Hakko also spent approximately ¥230 million on independent programs in the area of social contribution activities (see Page 26).

Kyowa Eco-Project (KEP)

KEP Targets

- To reduce the Group's CO_2 emissions by 6% from the fiscal 1990 level by fiscal 2010
- To reduce per unit energy consumption by 1% per annum
- To reduce the Group's environmental management costs by 10% from the fiscal 2003 level by fiscal 2007
- To achieve final disposal at landfills for the Group of 125 tons or less in fiscal 2007

Since 1998 the Kyowa Hakko Group has implemented the Kyowa Eco-Project (KEP) with the aim of contributing to the prevention of global warming and achieving zero emissions. Each year we hold an Eco-Project meeting where the results of project activities are reported.

This year's meeting featured case examples not only of zero emissions activities, but also of an initiative to increase the resource recycling rate at a food plant and reinforcement of the separation of waste thermal insulation materials at a chemical plant. Reporting on energy conservation activities included case examples of energy conversion and nighttime electricity use with the aim of reducing greenhouse gas emissions. A report on a waste treatment method that realizes both environmental cost reduction and resource recycling presented by the plant that has already achieved zero emissions prompted an active exchange of opinions.

Boiler fuel conversion at the Fuji Plant (completed in November 2005)

The NAS battery system at the Kyowa Hakko Food Specialties Tsuchiura Plant (installed in May 2006)

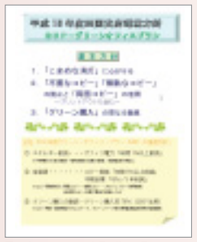
Green Office Plan (GOP)

GOP Targets

- To reduce electricity consumption by at least 1% per annum
- To reduce copy paper use by 10% from the fiscal 2003 level over next three years
- To achieve a green purchasing ratio of 70% in fiscal 2007

Since 2000, the Kyowa Hakko Group's head office, regional offices, branches, plants and research facilities, in cooperation with the labor union and Kyowa Hakko General Affairs Department, have engaged in the Green Office Plan, a program of administration environmental protection activities.

In GOP results for fiscal 2005, energy consumption was reduced by 5.3% from the previous year. Copier paper use was reduced by 5.5%, marking a year-on-year reduction exceeding 5% for the second consecutive year. The medium-term objective for the green purchasing ratio, which is the value of Eco-Mark products and other eco-friendly products expressed as a percentage of total office supplies and copier paper purchased, was achieved two years ahead of schedule: the ratio improved from 53% in 2003 to 70% in 2005.



Environmental Policy Poster (Shikoku Branch)

A posture of systematically pursuing environmental improvement is critically important in GOP implementation.

Tsutomu Yanai
General Affairs Department, Head Office

GOP is an environmental protection activity aimed at reducing the environmental impact of administration departments. The General Affairs Department plays a central role in implementing energy conservation measures, purchasing of Eco-Mark and Green Mark products, and waste separation and recovery under the program.

In activities at the head office, we report results at meetings of the Management and Union Communication Council, post notices and reports on the internal website, and periodically visit workplaces. We are making steady progress, accomplishing year-on-year reductions in electricity consumption and achieving the green purchasing target with a green purchasing ratio of 74%.

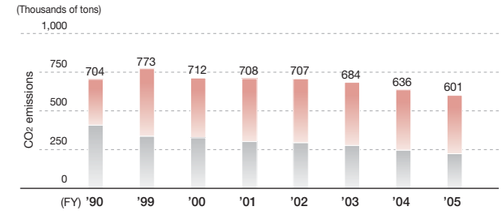
Internal website to promote GOP

Targets	Results for Fiscal 2005	Medium-term Targets
• To reduce the Group's CO_2 emissions by 6% from the fiscal 1990 level by fiscal 2010 (Kyowa Eco-Project) • To reduce per unit energy consumption at the seven principal plants by at least 1% annually (Kyowa Eco-Project) • To reduce per unit energy consumption to 90% of the fiscal 1990 level by fiscal 2010 (Japan Chemical Industry Association target)	• The Group's CO_2 emissions were 601,000 tons, 14% below the1990 level • Unit energy consumption at seven principal plants was reduced by 3.7% year on year • Continuation of results below the 90% per unit energy consumption index target: 74% for Kyowa Hakko (including Kyowa Hakko Food Specialties, Kyowa Medex and other consolidated subsidiaries) and 87% for Kyowa Hakko Chemical	• To reduce the Group's CO_2 emissions by 6% from the fiscal 1990 level by fiscal 2010 • To lower unit energy consumption index to 90% of the fiscal 1990 level by 2010 • To reduce CO_2 emissions at distribution units

Reducing Greenhouse Gas Emissions

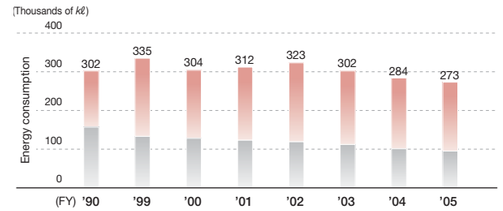
About 99% of the Kyowa Hakko Group's greenhouse gas emissions are CO_2 emissions resulting from energy use at plants and research facilities. In fiscal 2005 the Group achieved a steep reduction in total CO_2 emissions of 35,000 tons year on year. Kyowa Eco-Project activities have been coming into flower including continued low-energy operation of waste liquid and exhaust gas treatment facilities, greater efficiency at private power generation facilities, enhancement of fuel recovery from manufacturing processes and meticulous energy conservation measures at laboratories. Furthermore, in November 2005 the Fuji Plant, the principal pharmaceuticals plant, converted its boiler fuel from crude oil to city gas. This is expected to result in a reduction in CO_2 emissions of about 3,000 tons per year from fiscal 2006 onward.

CO_2 Emissions



CO_2 emissions of Kyowa Hakko, Kyowa Hakko Food Specialties, Kyowa Medex and other consolidated subsidiaries
CO_2 emissions of Kyowa Hakko Chemical

Energy Consumption (Crude-oil equivalent)



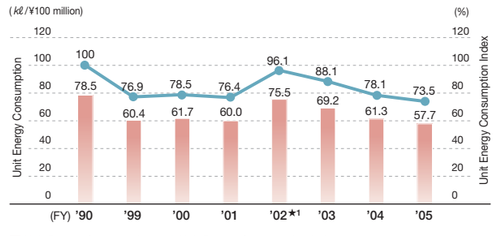
Energy consumption of Kyowa Hakko, Kyowa Hakko Food Specialties, Kyowa Medex and other consolidated subsidiaries
Energy consumption of Kyowa Hakko Chemical

The scope of energy consumption statistics is in accordance with the Energy Conservation Law.

Preventing Ozone Layer Depletion

The Kyowa Hakko Group uses chlorofluorocarbons (CFCs) in industrial freezers at 15 business sites. CFC emissions in fiscal 2005 totaled 2.30 tons (the greenhouse gas equivalent of approximately 7,800 tons of CO_2). Kyowa Hakko is converting to CFC alternatives.

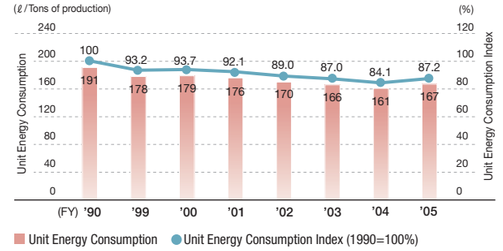
Trends in the Unit Energy Consumption Index (Kyowa Hakko, Kyowa Medex and other consolidated subsidiaries)



Unit Energy Consumption
Unit Energy Consumption Index (1990=100%)

★1 The deterioration in per-unit consumption in fiscal 2002 resulted from the sale of the liquor business.

Trends in the Unit Energy Consumption Index (Kyowa Hakko Chemical)



Unit Energy Consumption
Unit Energy Consumption Index (1990=100%)

Preventing Air and Water Pollution

Targets	Results for Fiscal 2005	Medium-term Targets
Atmospheric Emissions★1		
SOx emission less than 2,595 tons	SOx emission 833.0 tons, 3% reduction	SOx emission less than 250 tons
NOx emission less than 755 tons	NOx emission 548.0 tons, unchanged	NOx emission less than 731 tons
Dust emission less than 323 tons	Dust emission 24.6 tons, 7% increase	Dust emission less than 287 tons
Water Emissions★2	COD levels 401.0 tons, 18% reduction	COD levels less than 920 tons
COD levels less than 920 tons	Nitrogen levels 270.0 tons, 11% reduction	Nitrogen levels less than 850 tons
Nitrogen levels less than 950 tons	Phosphorous levels 21.2 tons, 14% increase	Phosphorous levels less than 25 tons
Phosphorous levels less than 29 tons		

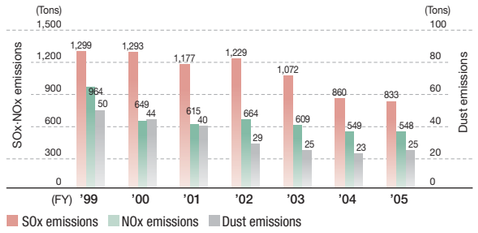
★1 The value obtained by applying a value equivalent to 50% of the legally mandated concentration to the total volume
★2 50% of the value subject to voluntary management at business sites.

Reducing Pollutant Emissions

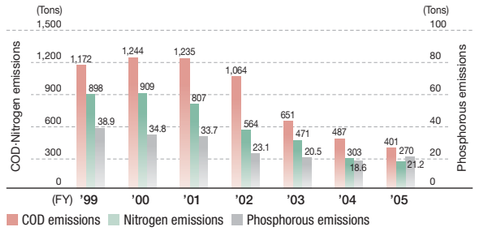
Although dust emissions increased slightly, SOx and NOx emissions were maintained at the prior-year low levels. Kyowa Hakko Group made a far-reaching decision to reduce SOx emissions by means of fuel conversion, and a substantial reduction is expected in fiscal 2007. Accordingly, we revised the medium-term target downward by about 90% to 250 tons.

With regard to water pollutants, COD and nitrogen emissions were reduced by 18% and 11%, respectively, to record-low levels as a result of efforts improve and stabilize the operation of air distributors at wastewater treatment facilities in the Yokkaichi, Hofu, and Fuji Plants. However, the volume of phosphorous emissions increased by 2.7 tons year on year and returned to the 2003 level owing to the impact of the production mix. The Hofu Plant is currently expanding its waste liquid treatment facility with the aim of increasing the phosphorous removal rate.

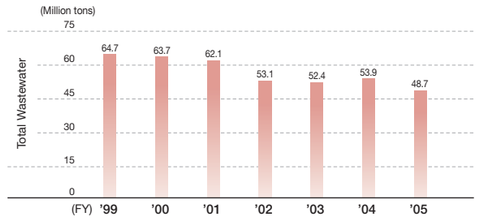
SOx·NOx·Dust Emissions



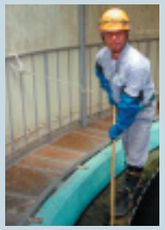
COD·Nitrogen and Phosphorous Emissions



Trends in Total Wastewater Emissions



Rapidly discovering and responding to small changes is the key to wastewater control.



Masahi Tamura
Technical Department, Fuji Plant

We engage in facilities maintenance day and night to ensure the stable operation of wastewater treatment facilities. The cleaning of wastewater strainers and sedimentation tanks is an especially arduous task performed while wearing protective equipment. We will continue to work to protect the Kise River (a Class A river) environment.

Chemical Substance Reduction

Targets	Results for Fiscal 2005	Medium-term Targets
• To reduce emissions of chemical substances by 50% from the 2003 level by fiscal 2007	• Emissions of twelve targeted chemical substances were 5.8 tons, 41% below the 2003 level • Emissions of PRTR Law-designated substances were 37.5 tons, 2% below the 2003 level • Emissions of VOCs were 390 tons, 37% below the 2003 level	• To reduce emissions of chemical substances by 50% from the 2003 level by fiscal 2007

Restriction on Emissions of 12 Chemical Substances

In fiscal 2005 emissions of 12 chemical substances targeted by the chemical industry for priority efforts to reduce emissions were 5.8 tons. This represents a reduction of 41% from the 2003 level.

Curbing Emissions of PRTR Law Class I Chemical Substances

The Kyowa Hakko Group issued a report for fiscal 2005 for seven plants subject to reporting requirements for PRTR Law Class I chemical substances. The total amount of these substances handled by the Kyowa Hakko Group in fiscal 2005 was approximately 270,000 tons, and emissions into the environment increased slightly year on year to 37.5 tons. The increase is attributable to a review of the volume of phthalic anhydride emitted into the water. Xylene accounts for a high proportion of PRTR Law designated substances, and we are continuing with reduction efforts by means of hard and soft approaches.

Managing Soil Pollution Risk

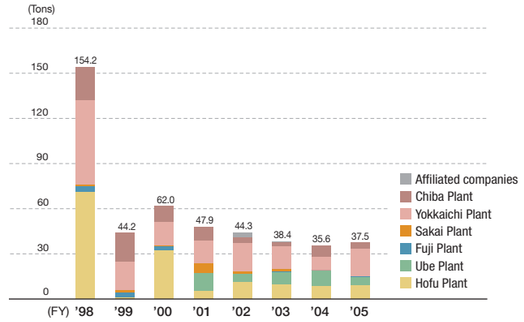
In fiscal 2005 Kyowa Hakko continued to conduct surveys to determine whether hazardous substances are used on the basis of soil pollution countermeasure regulations adopted in 2004.

To date no problems have been discovered. We have decommissioned an underground crude oil storage tank, and only one underground tank remains in operation in the Group.

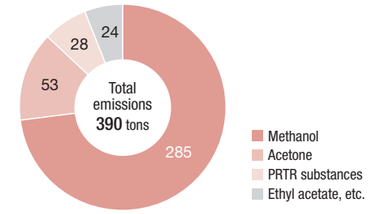
Reducing Volatile Organic Compound (VOC) Emissions

As a member of the Japan Chemical Industry Association, the Kyowa Hakko Group conducts surveys of VOC emission levels and engages in measures to reduce emissions. Three business sites are subject to legal reporting requirements for VOCs. In fiscal 2005 VOC emissions were 390 tons, and we are considering the adoption at all plants of measures to curb emissions of methanol, which accounts for 73% of the total volume of emissions.

Total Emissions of Class I Chemical Substances



Emissions of Volatile Organic Compounds (Fiscal 2005)



Targets	Results for Fiscal 2005	Medium-term Targets
• To maintain zero emission status of seven principal plants (Final disposal at landfills for the Group of 250 tons or less)★1	• Zero emission status maintained • Final disposal at landfills was 110 tons, a further reduction of 47% year on year	• To achieve Group-wide final disposal at landfills of 125 tons or less in fiscal 2007

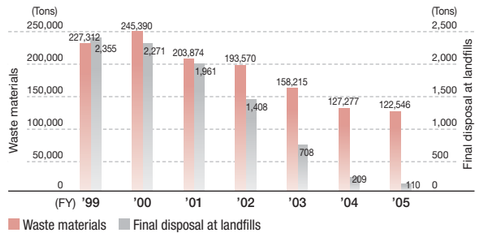
★1 In addition to recycling, the Kyowa Hakko Group must also deal with waste materials that require appropriate disposal through incineration. The Group's zero emission strategy, therefore, calls for the reduction of final disposal at landfills, which involves a high environmental risk, to no more than 0.1% of total waste. The target for fiscal 2005 is to reduce final disposal at landfills to no more than 0.1% of the total in fiscal 2000 (250,000 tons), or 250 tons.

Achieving Zero Emission Status

The Kyowa Hakko Group has set the challenging target of achieving less than 0.1% of the fiscal 2000 final disposal of waste at landfills (250 tons or less) and has been working to achieve zero emission status. The Group's seven principal plants achieved zero emission status by fiscal 2005. Initiatives implemented at Group business sites over the years and their results are shown in the table below.

1996	Improvement of fiber drums with metal lids (Hofu Plant)
1998	Commencement of Kyowa Eco-Project activities
2001	Elimination of outer packaging from the pharmaceutical production process (Fuji Plant)
2002	Achievement of zero emission status at the Fuji Plant
2003	Achievement of zero emission status at the Hofu Plant and Tsuchiura Plant
2004	Conversion of cinders into cement raw material (Ube Plant) Achievement of zero emission status at the Ube Plant and Kyowa Medex Fuji Plant
2005	Achievement of zero emission status at the Chiba Plant and Yokkaichi Plant
2006	Conversion of waste hard glass into lightweight aggregate (Fuji Plant)

Trends in Waste Materials and Final Disposal at Landfills



We will proceed with our next task, which is to aim for minimization of environmental load and cost while maintaining zero emission status.

Dioxin Reduction Measures

In fiscal 2005 Kyowa Hakko decommissioned one incinerator, and six incinerators remain in operation. We engage in rigorous management of these incinerators using hard and soft approaches and operate them in accordance with legal standards.

Measures Concerning Polychlorinated Biphenyls (PCBs)

In the past, the Kyowa Hakko Group used transformers, condensers, stabilizers and other items containing PCBs. In accordance with the PCB Special Measures Law, these items have been placed in secure storage facilities designed to prevent seepage into the ground. We have made arrangements with the Japan Environmental Safety Corporation for the treatment of condensers and other items.

Condensers and transformers	87
Lighting stabilizers	3,365
Insulation oil containing PCBs	454 ℓ

The key points in waste separation are understanding of mechanisms and full participation.

Seiya Kimura
Environment and Safety Office, Hofu Plant

At the Hofu Plant, reinforcement of waste separation with the participation of all workers with the objective of achieving the complete recycling of paper and efficient use of waste plastics has made possible inexpensive waste disposal methods and the construction of safe, secure disposal systems.

BIO-CHEMICALS

Phytase Kyowa and Driselase®
—Enzymes that Decompose Persistent Substances in Livestock Feed

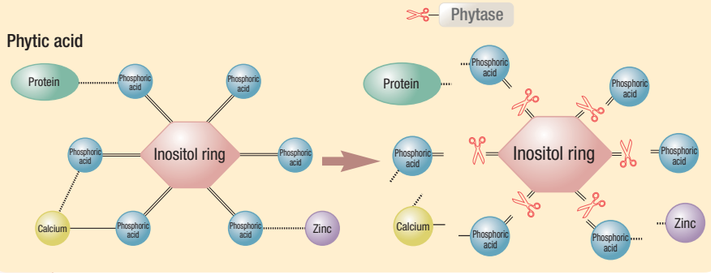
As the use of animal-derived materials in feed has been restricted in Japan since the autumn of 2001, the use of plant-derived materials is widespread. However, plant-derived materials contain large quantities of persistent substances such as phytic acid, cellulose and lignin, which cause increased excretion and poor growth in livestock. Kyowa Hakko feed enzymes Phytase Kyowa and Driselase® are products that contribute to livestock farming by improving deficiencies in plant-derived materials when added to livestock feed.

Phytase acts as "scissors" that cut phosphoric acid away from phytic acid (Inositol-phosphate). Added to livestock feed, it increases digestibility and the quantity of bio-available phosphorous to livestock, simultaneously delivering environmental benefits by reducing phosphorous excretion.

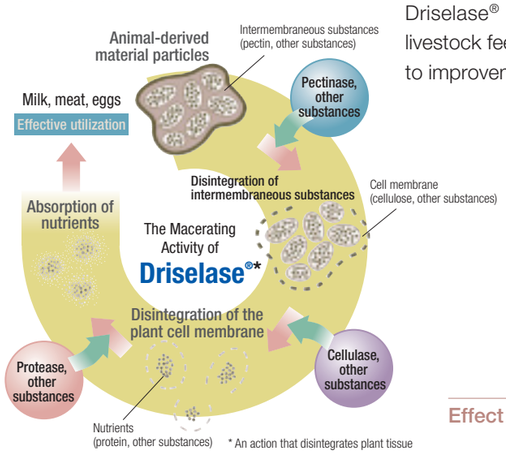
The action of enzymes (such as pectinase and cellulase) in Driselase® decomposes indigestible plant cell membranes in livestock feed, thereby increasing its digestibility and contributing to improvement in feed efficiency.

Agrochemicals of Kyowa Hakko's Bio-Chemicals Business Unit desires to contribute to reducing livestock farming production costs and improving the environment by supplying feed enzymes and amino acids.

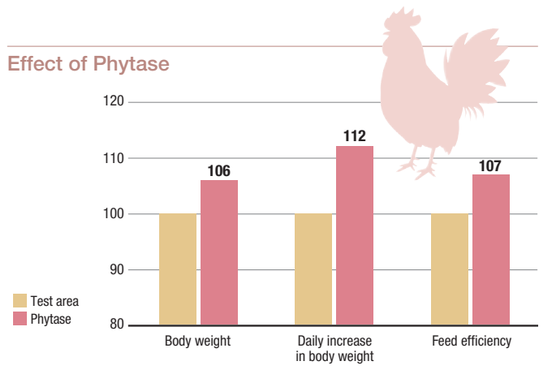
Chemical Action of Phytase



Digestion of Plant Tissue by Means of Driselase®



Effect of Phytase



- Test chickens: One-week-old single-comb white leghorn male chicks
- Test period: 10 days
- Body weight: daily increase in body weight and feed efficiency for the test area are taken as 100.

KYOWA HAKKO CHEMICAL

Isononanoic Acid and Octanoic Acid

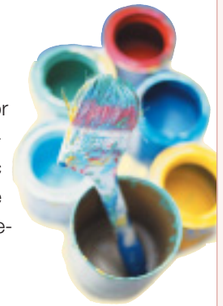
Lubricant Raw Materials for Ozone-friendly CFC-substitute (HFC) Refrigeration

It is necessary to manufacture air conditioners and large-capacity freezers with systems that use ozone-friendly CFC-substitute refrigerants, such as HFC R-407C and R-410A. Compressor lubricants used in air conditioners, large-capacity freezers and other equipment must be highly compatible with CFC-substitute products. The main ingredients of these lubricants are isononanoic acid and octanoic acid. Kyowa Hakko Chemical increased its production capacity of isononanoic acid to over 12,000 tons in 2005 and that of octanoic acid to 40,000 tons in 2006 as required to meet expanding world demand.

Diacetone Acrylamide (DAAM)

for Use in Water-based Coatings

Diacetone acrylamide (DAAM) is used in the manufacture of water-based coatings for application on building exteriors and wood products such as kitchen cabinets. Water-based coatings manufactured using DAAM produce significantly less volatile organic compound (VOC) emissions. There is intense interest in these products, which combine consideration for the environment and workers' health with excellent durability in both interior and exterior applications.

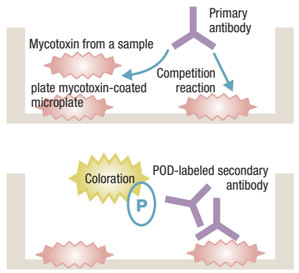


KYOWA MEDEX

ELISA Analysis

for Food Safety through Analysis of Harmful Substances

Mycotoxins are harmful substances produced by fungi. More than 100 types of mycotoxins are known. Although no mycotoxin-related accidents have been reported in Japan, a number of accidents have occurred overseas. Accordingly, analysis of imported foods and domestic agricultural produce is necessary. Kyowa Medex has developed an ELISA analysis method for three highly toxic mycotoxins (deoxynivalenol (DON), nivalenol (NIV) and T-2 toxin), produced when wheat or other grains are infected by wheat fusarium head blight, and undertakes contracted analysis. It also performs contracted analysis for the mycotoxins zearalenone, patulin and aflatoxin B1. In this way, Kyowa Medex contributes to food safety through analysis performed using unique technologies.

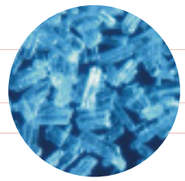


Environmental and Social History


Founder Dr. Benzaburo Kato

When asked for advice about which of two research subjects to choose, our founder told the person concerned to "choose the subject that brings greater benefit to the world."


streptomycin


L-glutamic acid


Awarded by Japan's Environment Agency


The Eco-tanker Sensho

1948	●	Establishment of Japan's first mass-production system for the manufacture of acetone and butanol from molasses. This technology will be the key to Kyowa Hakko's future success.
1949	●	Kyowa Hakko Kogyo Co., Ltd. is established.
1951	●	Kyowa Hakko makes an important contribution to the fight against tuberculosis by becoming the first manufacturer in Japan to mass-produce streptomycin, using technology licensed from Merck & Co. of the United States.
1956	●	Kyowa Hakko invents the world's first fermentation-based production method for L-glutamic acid, pioneering the use of fermentation technology to produce amino acids.
1958	●	Kyowa Hakko invents a fermentation-based production method for L-lysine.
	●	Kyowa Hakko receives the Chemical Society of Japan's Award for Technical Development and Okochi Memorial Prize in recognition of its invention of the fermentation-based method for the production of L-glutamic acid.
1964	●	Production of organic fertilizer using recycled fermentation mother liquor at the Hofu Plant.
1966	●	Kyowa Hakko receives the Japan Academy Prize for research on the production of amino acids using fermentation.
1970	●	An oxo process is used to recover CO_2.
1977	●	Kyowa Hakko becomes the first company in Japan to receive an award from the Japan's Environment Agency in recognition of its achievements in recycling fermentation waste liquids and improving water quality.
1988	●	The Kato Memorial Bioscience Foundation is established.
1993	●	Developed and commercialized Landfill Liner, polyurethane sheets for final waste-disposal sites.
	●	Developed and commercialized new raw lubricant for CFC-substitute refrigerant.
1996	●	Implementation of Responsible Care.
	●	Developed and commercialized phytase, an enzyme used in feed additives to prevent environmental damage caused by the livestock industry.
1997	●	Commercialized a new manufacturing method for hydroxyproline, an amino acid that uses no collagen and causes little environmental damage.
	●	Simplified and reduced the volume of packaging used for pharmaceuticals and foods.
1998	●	Kyowa Hakko establishes a system to recycle shochu distillate, allowing the cessation of ocean discharges.
	●	Commencement of global-warming prevention and zero emission activities in the Kyowa Eco-Project.
	●	Installation of cogenerator at the Chiba Plant.
1999	●	Kyowa Hakko receives the Technology Award from the Japan Scientific Feeds Association in recognition of its development and popularization of animal feeds designed to reduce environmental loads, through business activities centering on amino acid and enzyme products used in animal feeds.
	●	Implementation of deodorizing facilities at the Hofu Plant.
	●	Publication of the Health, Safety, and the Environment Report.
2000	●	Enhancement of NOx removal facility at the Yokkaichi Plant.
2001	●	Received ISO 14001 certification at eight Kyowa Hakko, Kyowa Hakko Chemical, Kyowa Hakko Food Specialties and Kyowa Medex plants.
	●	Conversion of boiler fuel to city gas at the Sakai Plant.
2002	●	Shipment of recyclable fiber drums.
	●	Commissioning of the Eco-tanker Sensho.
	●	Conversion of boiler fuel to city gas at the BioFrontier Laboratories.
2003	●	Installation of energy-saving air distributors for wastewater treatment facilities at the Yokkaichi, Hofu and Fuji plants.
2004	●	Zero emission status is achieved throughout the entire Group.
2005	●	Conversion of boiler fuel to city gas at the Fuji Plant.

●Business events ●R&D events ●Social contribution events ●Environmental events

Site Data

❶ Hofu Plant

Location 1-1, Kyowa-machi, Hofu City, Yamaguchi Prefecture
Telephone 0835-22-2511
Site area 694,000 m²
Main activities Pharmaceuticals, foodstuffs, biochemicals, alcohol
ISO 14001 accreditation date July 26, 1999

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/¥100 million of production)		238	229	96%
SOx emissions	(tons/year)	790	777	98%
NOx emissions	(tons/year)	209	190	91%
Dust emissions	(tons/year)	9	11	122%
Wastewater volume	(million tons/year)	19	18	94%
COD levels	(tons/year)	220	191	87%
Nitrogen levels	(tons/year)	165	178	108%
Phosphorous levels	(tons/year)	4	7	178%
Volume of waste materials★1	(tons/year)	80,405	81,344	101%
Volume of waste disposal at landfill sites	(tons/year)	31	33	106%

*crude-oil equivalent

❷ Ube Plant

Location 2548, Fujimagari, Ube City, Yamaguchi Prefecture
Telephone 0836-22-5500
Site area 479,000 m²
Main activities Pharmaceuticals, biochemicals
ISO 14001 accreditation date September 11, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/m²-floor area)		52	46	88%
SOx emissions	(tons/year)	47	48	102%
NOx emissions	(tons/year)	12	8	69%
Dust emissions	(tons/year)	1.2	0.2	17%
Wastewater volume	(million tons/year)	26	23	92%
COD levels	(tons/year)	166	145	87%
Nitrogen levels	(tons/year)	109	68	62%
Phosphorous levels	(tons/year)	11	9	81%
Volume of waste materials★1	(tons/year)	6,409	5,564	87%
Volume of waste disposal at landfill sites	(tons/year)	8	5	63%

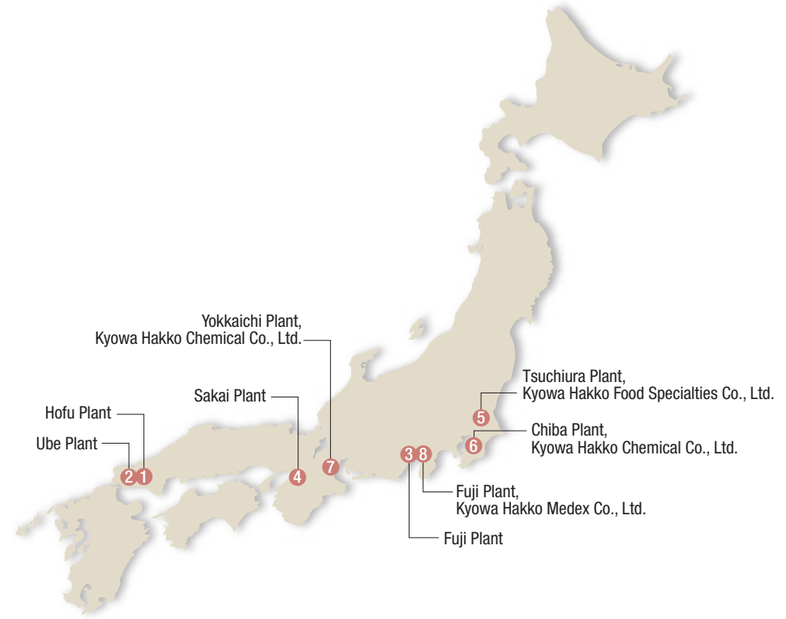
*crude-oil equivalent

❸ Fuji Plant

Location 1188, Shimotogari, Nagaizumi-cho, Sunto-gun, Shizuoka Prefecture
Telephone 055-986-7600
Site area 65,000 m²
Main activities Pharmaceuticals
ISO 14001 accreditation date May 29, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/m²-floor area)		0.21	0.20	96%
SOx emissions	(tons/year)	5	6	122%
NOx emissions	(tons/year)	13	11	86%
Dust emissions	(tons/year)	0.1	0.05	50%
Wastewater volume	(million tons/year)	2.7	2.5	93%
COD levels	(tons/year)	9.9	3.3	33%
Nitrogen levels	(tons/year)	5.3	3.0	56%
Phosphorous levels	(tons/year)	0.3	0.5	181%
Volume of waste materials★1	(tons/year)	631	657	104%
Volume of waste disposal at landfill sites	(tons/year)	0	0	—

*crude-oil equivalent



❹ Sakai Plant

Location 1-1-53, Takasu-cho, Sakai City, Osaka Prefecture
Telephone 072-223-5554
Site area 21,000 m²
Main activities Pharmaceuticals
ISO 14001 accreditation date November 27, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/¥100 million of production)		20	23	115%
SOx emissions	(tons/year)	0	0	—
NOx emissions	(tons/year)	0.5	0.5	100%
Dust emissions	(tons/year)	0	0	—
Wastewater volume	(million tons/year)	0.07	0.065	88%
COD levels	(tons/year)	1.4	2.3	164%
Nitrogen levels	(tons/year)	0.3	0.2	53%
Phosphorous levels	(tons/year)	0.07	0.06	86%
Volume of waste materials★1	(tons/year)	436	282	65%
Volume of waste disposal at landfill sites	(tons/year)	5	8	170%

*crude-oil equivalent

❺ Tsuchiura Plant, Kyowa Hakko Food Specialties Co., Ltd. Including Tsuchiura (Healthcare) of Kyowa Hakko

Location 4041, Ami, Ami-machi, Inashiki-gun, Ibaraki Prefecture
Telephone 029-888-8001
Site area 178,000 m²
Main activities Foodstuffs
ISO 14001 accreditation date March 21, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/¥100 million of production)		32	41	128%
SOx emissions	(tons/year)	0.4	0.3	75%
NOx emissions	(tons/year)	3.3	3.5	106%
Dust emissions	(tons/year)	0.2	0.2	100%
Wastewater volume	(million tons/year)	0.6	0.5	87%
COD levels	(tons/year)	3.4	2.2	65%
Nitrogen levels	(tons/year)	1.2	1.4	117%
Phosphorous levels	(tons/year)	0.2	0.1	50%
Volume of waste materials★1	(tons/year)	792	1049	132%
Volume of waste disposal at landfill sites	(tons/year)	0	0	—

*crude-oil equivalent

★1 Amounts calculated on the assumption that biologically treated sludge has an 85% water content

⑥ Chiba Plant, Kyowa Hakko Chemical Co., Ltd.

Location 11-1, Goiminamikaigan, Ichihara City, Chiba Prefecture
Telephone 0436-23-9111
Site area 215,000 m²
Main activities Chemicals
ISO 14001 accreditation date November 27, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (ℓ*/ton of production)		164	161	98%
SOx emissions	(tons/year)	0.2	0.2	100%
NOx emissions	(tons/year)	38	40	105%
Dust emissions	(tons/year)	1.7	2.5	147%
Wastewater volume	(million tons/year)	1.9	1.8	95%
COD levels	(tons/year)	17	20	119%
Nitrogen levels	(tons/year)	10.8	10.5	97%
Phosphorous levels	(tons/year)	1.1	0.9	82%
Volume of waste materials★1	(tons/year)	1,022	935	91%
Volume of waste disposal at landfill sites	(tons/year)	26	5	19%

*crude-oil equivalent

⑦ Yokkaichi Plant, Kyowa Hakko Chemical Co., Ltd. Including Yokkaichi (Pharmaceuticals) of Kyowa Hakko

Location 2-3, Daikyo-cho, Yokkaichi City, Mie Prefecture
Telephone 0593-31-0624
Site area 323,000 m²
Main activities Chemicals, pharmaceuticals
ISO 14001 accreditation date July 23, 2000

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (ℓ*/ton of production)		161	168	104%
SOx emissions	(tons/year)	1.9	1.4	74%
NOx emissions	(tons/year)	261	285	109%
Dust emissions	(tons/year)	11	10.4	95%
Wastewater volume	(million tons/year)	3.3	1.86	56%
COD levels	(tons/year)	42	29	70%
Nitrogen levels	(tons/year)	10	8.1	81%
Phosphorous levels	(tons/year)	2	3.8	190%
Volume of waste materials★1	(tons/year)	36,108	31,309	87%
Volume of waste disposal at landfill sites	(tons/year)	98	42	43%

*crude-oil equivalent

⑧ Fuji Plant, Kyowa Medex Co., Ltd.

Location 600-1, Minamiisshiki, Nagaizumi-cho, Sunto-gun, Shizuoka Prefecture
Telephone 055-988-6000
Site area 24,000 m²
Main activities Diagnostic reagents, medical equipment, contract analysis
ISO 14001 accreditation date November 26, 2001

Initiative		Fiscal 2004	Fiscal 2005	
		Performance	Performance	Comparison
Unit energy consumption (kℓ*/¥100 million of production)		19.2	17.6	92%
SOx emissions	(tons/year)	0.92	0.29	32%
NOx emissions	(tons/year)	9.9	6.4	65%
Dust emissions	(tons/year)	0.19	0.23	121%
Wastewater volume	(million tons/year)	0.11	0.09	84%
COD levels	(tons/year)	0.06	0.02	33%
Nitrogen levels	(tons/year)	—	—	—
Phosphorous levels	(tons/year)	—	—	—
Volume of waste materials★1	(tons/year)	74	65	88%
Volume of waste disposal at landfill sites	(tons/year)	0	0	—

*crude-oil equivalent

★1 Amounts calculated on the assumption that biologically treated sludge has an 85% water content

Stakeholder Meeting

On May 12, 2006, Kyowa Hakko convened its second annual stakeholder meeting. In preparation for the meeting, to deepen the understanding of Kyowa Hakko among the meeting participants, we conducted a tour of the Fuji Plant on March 31.

The Fuji Plant Tour

Ueda: It was my first time to tour a pharmaceutical plant. The ingenious measures to ensure safety and cleanliness in pharmaceutical production found everywhere throughout the plant were impressive. I was convinced that rigorous checks were being conducted of incinerators and that proper measures were being taken to dispose of incinerator waste.

Azuma: The Fuji Plant was the first at Kyowa Hakko to achieve zero emissions and is maintaining zero landfill disposal volume.

Ueda: I think another important consideration with regard to the environment is water. I think that plant wastewater is a matter of concern in relations with the local community, and believe the reason that conflict has been avoided is that wastewater is being skillfully managed.

Tsunoda: Mt. Fuji can be seen from the Fuji Plant, and there is clean water nearby. Issues connected with seeds and species tend to come up when talk turns to biodiversity, but habitat diversity is another consideration. I think that food for sweetfish is an important consideration for ensuring that sweetfish inhabit the river.

Tatsumi: Having a river nearby is soothing, and I think it's also good from the standpoint of having an indicator that can be visually confirmed. Water is always an important consideration when planning a town.

Azuma: The key reason founder Benzaburo Kato decided on this location for the Fuji Plant was the good water.

Ueda: I think that the fact that the plant location was selected because the water is good was the deciding factor that destined Kyowa Hakko to be conscious of the environment.

Tsunoda: I think the Fuji Plant is pharmaceutical "sacred ground" for Kyowa Hakko, the starting point for determining how corporate social responsibility has been handed down over the years. However, isn't it true that the fact that this area is the cradle of streptomycin, the core of Kyowa Hakko's pharmaceuticals business, isn't well known among local residents?

Honda: Although they probably know about streptomycin, their understanding might further increase if they knew that it was first made here.

Tsunoda: Mass production of streptomycin began 55 years ago. At the time it was extremely expensive and people couldn't afford it. In those days tuberculosis was an incurable disease.

Azuma: "Returning to the founding principle" is a subject that President Matsuda often raises. Perhaps streptomycin and Kyowa Hakko's relationship with nature are other corporate messages that should be communicated in the report.

Tsunoda: Protection of water resources is so important that in Europe it is covered by EU directives.

Fujisawa: The reason water resources are protected in Europe is probably that many rivers in Europe flow through a number of countries. The Fuji Plant and Kyowa Medex participate in cleaning up the Kano River System each year.




Touring the Fuji Plant

Okamura: It's important to continuously maintain environmental objectives. In the absence of objectives, people have to do things on their own and their efforts aren't readily understood or appreciated. The question of evaluation criteria is a difficult one.

Fujisawa: In 2005, Kyowa Hakko won an award for corporate advertising. The award was conferred for what you might call the "recycling society response" series of ads. They were based on the slogan "Nature as a Vast Hospital" and a concept that extolled calm and leisurely pursuit of the slow life.

Tatsumi: Although I think that in society today, this is linked to sustainment of the environment through measures such as water conservation and global warming prevention, when one takes the long-term view—for instance, what Kyowa Hakko will be like 50 years or 100 years from now—I think the present starting point of sustainability must be continued and that Kyowa Hakko must be sustainable from a long-term perspective as well.

Purpose of the Report

Tatsumi: I think it is important that employees take pride in their companies. That attitude isn't widespread among young people today, is it? I think that communicating to the employees the wonderful things that Kyowa Hakko is doing will make them aware that their company is an excellent company and motivate them to work. That attitude will certainly be communicated to people outside the Company, and I think it will be understood. Reaffirmation within the Company is important.

Tsunoda: I think that in that process, the key point should be what Kyowa Hakko regards as most important in issuing the sustainability report.

Okamura: The topic "corporate culture analysis" was included in last year's report. But, I found it difficult to distinguish the characteristics of Kyowa's corporate culture. I would like for that to be taken up in more detail.

Azuma: Ms. Okamura, you always attend regional dialogues of the Japan Responsible Care Council. I would like to hear your views about how Kyowa Hakko's activities compare to those of other companies.

Okamura: The other day, I attended a responsible care dialogue meeting for the Ube-Onoda district that involved a tour of the Kyowa Hakko Ube Plant. Participating members of the local residents' association toured the plant with considerable interest. I think that dialogue activities that include plant tours are a good opportunity for local residents and workers to learn about each other. As no particular complaints about Kyowa Hakko were expressed at the dialogue meeting, I got the impression that what needs to be done is being steadily accomplished and that communication with local residents is successful.

Tsunoda: For foreign companies, accountability commonly takes the form of reporting in the social and environmental sections of annual reports.

Honda: Although we touch upon society and the environment in the CSR section of the annual report, to some degree the content is limited to outline information. I think that it is sufficient that the Sustainability Report and corporate website are available for those who wish to know more about these matters.

Tsunoda: Annual reports are for investors. As people involved with socially responsible investment want to confirm whether the dividends they obtain are really dividends from companies that exercise social responsibility, I think companies must indicate how corporate profits are linked to social initiatives.




Ms. Kimie Tsunoda
Steering Committee of the Valdez Society

Mr. Akifumi Ueda
Representative Citizens' Science Initiative Japan

Ms. Kikuko Tatsumi
Board Member, Chairperson Environmental Committee Nippon Association of Consumer Specialists

Ms. Okamura
Student Doctoral Program Graduate School Kyushu University



Masaki Azuma
General Manager Quality Assurance, Environment and Safety Department Kyowa Hakko Kogyo

Toshio Fujisawa
Manager Quality Assurance, Environment and Safety Department Kyowa Hakko Kogyo

Kenshiro Honda
Manager Corporate Communications Department Kyowa Hakko Kogyo

Honda: In annual report preparation, we desire to increase the number of investors who would like to foster and develop Kyowa Hakko.

Tatsumi: I think that the concepts "placing importance on benefiting the world" and "being allowed to exist" are the starting point of Kyowa Hakko. I think it would be good to express the philosophy Kyowa Hakko has expounded since its founding without necessarily explaining what CSR is all over again.

Tsunoda: If it is clearly decided what social performance is required in the activities of the pharmaceutical, biochemical, chemical, food and other businesses, Kyowa Hakko can engage in management in line with that requirement and can report on appropriate performance indicators. Because the company does business globally, there are some aspects of the report that mustn't be altered. Because it is a group report, it is not only for Japanese readers, and a global perspective is necessary.

Resource Procurement

Azuma: Social responsibility in resource procurement is another difficult issue for us.

Tatsumi: It's important to demonstrate a posture of gathering information on resource procurement, even if it can't be accomplished right away. It's important to confirm things to the extent that information is available and expand the scope of available information.

Azuma: It's becoming an essential matter for Japanese companies. No matter the business activity, the subject of overseas resource procurement inevitably arises.

Tatsumi: Until recently, there was absolutely no awareness of the subject, was there? In many situations there was no consideration of how suppliers abroad dug up resources or what sort of people were working there.

Ueda: The sustainability report contains case examples from overseas. However, it doesn't touch on the environmental or social impact. It seems to me that people with that sort of perspective who read the report probably want to see data.

Azuma: Although we obtain data, we haven't organized it from that perspective.

Tsunoda: That's the argument put forth by NGOs. They maintain that resource procurement has such a great impact that companies should exercise social responsibility in this area. If biological raw materials come from Malaysia, Indonesia and Central and South America, people want to know how the purchasing company is managing the materials and whether it is exercising due influence.

Azuma: I've heard that green procurement extends to ensuring environmental consciousness on the part of supplier trading companies, but the real question is the environmental consciousness of the companies that supply the trading companies.

Tatsumi: I don't think it's something that can be accomplished overnight. However, aren't sensitive companies aware of it and already beginning to take action?

Tsunoda: I think that if a company is engaging in green procurement, it's important to communicate the fact.

Azuma: Although we may have doubts about how much a single company can contribute to solving these problems in an age when environmental problems and social contributions extend beyond the immediate vicinity of manufacturing plants and occur on a global scale, surely it is Kyowa Hakko's obligation as a company existing in these times to consider what it can do and contribute what it can.

What is a progressive environmental response?

Emeritus Professor, University of Tokyo
Former Head of the Center for Collaborative Research, University of Tokyo

An expert in materials chemistry, Dr. Itaru Yasui has been implementing major environmental research projects for the past 15 years and is an important opinion leader in this area. He is concerned that there have been no comprehensive environmental research projects to meet today's need for research data based on intelligent insights. In line with his view that appropriate policy decisions must be based on a comprehensive viewpoint, he is currently implementing his own Internet-based campaign asking people to consider the extent to which an individual can achieve comprehensiveness.

http://www.yasuienv.net

Itaru Yasui, Ph.D.
Vice-Rector
United Nations University

The hottest environmental topics of last year were probably ratification of the Kyoto Protocol and asbestos. If asked what this year's most pressing topic will be, I would guess "biofuel." Environmental problems are like seasonal goods: new ones come out each year. To companies that must pursue a progressive environmental response even in changing circumstances, environmental problems are a most troublesome subject.

First of all, in grappling with environmental problems it is necessary to decide just what the objective is. The fact is, the answer has been nearly unchanged for some time: the objective in grappling with environmental problems is to reduce total environmental risk. What is at risk are people and ecosystems: in short, life. That is all. If that is the case, is the way to respond to environmental problems to be infinitely strict? No, it is not. That is because there are links between risks.

The link between environmental risk and business risk is a frequently discussed issue. A virtuous cycle of the environment and the economy was also a hot topic at one time. The truth is that when economic conditions are bad, life tends to be disregarded. One factor contributing to the great difference in the average life expectancy of men and women in Japan is suicide among men, especially middle-age men. An environmental response that ignores economics inevitably invites economic loss and has the opposite effect of entailing high risk of a negative impact on people and life in ecosystems. Judging from the prospective future food supply trend, biofuel, a candidate for this year's environmental watchword, looks to become a construct that involves competition between vehicles and people for cereal grain, because the most popular biofuel currently is ethanol made from corn and sugar cane. Conflict between global warming risk and food supply risk is likely to be the true state of affairs for the foreseeable future.

Next, trends are important. One reason is that it is difficult to pass judgment on sensitive and complicated problems such as environmental problems on the basis of direct cause-and-effect relationships.

Finally, needless to say, comes awareness of the global situation.

When I pursue this line of reasoning, certain questions are invariably raised. What about biodiversity? Why isn't the need for woodland preservation mentioned? Biodiversity is an enormously critical problem, and our knowledge at the present time is so meager that we are unable to discuss it with any degree of certainty. Nevertheless, a study of the history of the Earth reveals that there have been about five mass extinctions. We understand that the development of mammals occurred thanks to the mass extinction of the reptiles. This suggests that the reason biodiversity is precious lies in the feelings of people who attempt to protect the abundance of nature and the preservation of a culture grounded in nature. The same applies to woodland preservation: whether or not we protect narrow tracts of land has next to no impact on biodiversity. However, the feelings of the people who protect this land and the attempt to preserve local culture are valuable.

When procuring biological resources from overseas, it is extremely difficult to judge whether those resources are being harvested under sustainable conditions. We should apply basic methods to ascertain the current state of things and at the very least confirm whether resources have been harvested using illegal methods. Furthermore, demonstrating through action a corporate culture that embraces the spirit of ensuring biodiversity is likely to become an extremely important issue in the coming years.

As I always mention in conclusion, these comments reflect my thoughts concerning future issues based on factors such as impressions obtained during conversations with personnel involved with environmental matters and the contents of this report.

Sustainability Report 2006
Third-Party Verification—Written Opinion
(Translation from Japanese)

August 24, 2006

Dr. Yuzuru Matsuda
President and Chief Executive Officer
Kyowa Hakko Kogyo Co., Ltd.

Akio Yamamoto
Chairman, Verification Advisory Committee

Yasuo Tanaka
Chief Director, Responsible Care Verification Center

● Objectives of Verification

This Responsible Care Report Verification refers to "Sustainability Report 2006," which was prepared by Kyowa Hakko Kogyo Co., Ltd. It expresses our opinion, as chemical industry specialists, concerning the following matters.

1. The reasonableness of the methods used to calculate and aggregate performance indicators (numerical values), and the accuracy of numerical values.
2. Consistency between information in the report and evidential documents and materials.
3. Evaluation of Responsible Care activities.
4. Characteristics of the report.

● Verification Procedures

- At the corporate level: The consistency of the report with the evidence was checked, and the methods used to aggregate and compile performance indicators reported from each site (office, plant) were confirmed by interviewing those responsible for operations and the compilation of data, and by seeking documents and requesting explanations of those documents.
- At the site level: The consistency of the report with the evidence was checked, and the methods used to aggregate and compile performance indicators reported to the head office by each site (office, plant) were confirmed by interviewing those responsible for operations and the compilation of data, and by seeking documents and requesting explanations of those documents. The site selected was the Fuji Plant.
- Performance indicators and information in the report were verified by sampling.

● Opinion

1) The reasonableness of methods used to calculate and aggregate performance indicators (numerical data), and the accuracy of numerical values.
   - Performance indicators were calculated and aggregated reasonably by the head office and the Fuji Plant.
   - The performance statistics were calculated and aggregated accurately across the scope of the survey.
2) Consistency between information in the report and evidential documents and materials.
   - It was confirmed that information shown in the report was consistent with the evidential documents and materials that were examined. There were issues with the appropriateness of expressions or ease of understanding at the draft stage, but these have been corrected in the present report, and there are now no specific aspects that require further documentation.
3) Evaluation of Responsible Care (RC) activities
   - We recognize that Kyowa Hakko respects the autonomy of business sites, that RC activities are engaged in under relaxed head office restrictions, and that results have been achieved.
   - We also recognize that the Fuji Plant meaningfully contributes to the local community, actively pursues the reduction of organic substances in the air emitted from the laboratory, continues its accident-free record and has devised methods to ensure the communication of information to employees (such as utilization of the Environment and Safety Department website and publication of minutes from meetings of the workshop health and safety meeting). We hope that these activities will be implemented at other plants and that further RC activities results will be achieved throughout the Kyowa Hakko Group.
4) Characteristics of the report
   - We were impressed by Kyowa Hakko's effort in again holding a stakeholder meeting, soliciting the views of concerned parties and reflecting those opinions in the report.
   - We were also impressed by Kyowa Hakko's efforts to make the report easy to read for third parties.

Polarization microscopic photograph of Mitomycin C

Mitomycin C was discovered in Japan in 1956 and introduced on the market in 1959. This chemotherapy agent from Kyowa Hakko has made a great contribution to the treatment of cancer worldwide.

KYOWA HAKKO KOGYO CO., LTD.
1-6-1 Otemachi, Chiyoda-ku,
Tokyo 100-8185, Japan

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URL:	**http://www.kyowa.co.jp**