

*May 23, 2000*

*Financial Results of March  
2000 Term Announcement*

*Recent Developments and Outlook*

*Kyorin Pharmaceutical, Co., Ltd.*

# Summary of Consolidated Results : March 2000

Total sales grew 12.5% to a record ¥52.7 billion boosted by 9.4% growth in steady sales of pharmaceuticals both in Japan and overseas, and contribution of full-year sales of Milton which helped healthcare sales grow 79.8%. Export sales grew 43.6% boosted by the launch of Gatifloxacin in the US and contractual fees from licensing agreements

Net profits rose 85.3% to ¥4.3 billion due to the effort toward improving management efficiency which resulted in lower SG&A ratio, offsetting a small rise in the COGS ratio.

For the March 2001 term, flat sales of ¥53.2 billion (+0.8% yoy), in large part due to 5.8% fall in official drug prices, and net profits of ¥2.2 billion (-49.0%) are estimated.

Units: ¥ Millions

	Mar-97	Mar-98	Mar-99	Mar-00	Yoy chg	Mar-01 fc	Yoy chg
Sales	50,956	47,179	46,932	52,776	12.5%	53,200	0.8%
Op profits	8,153	6,392	6,366	8,646	35.8%	7,800	-9.8%
Rec profits	8,615	6,137	6,687	8,795	31.5%	8,100	-7.9%
Net profits	3,954	2,303	2,325	4,310	85.3%	2,200	-49.0%
EPS	69.05円	40.01円	40.41円	74.89円	—	38.22円	—
Assets	110,920	113,190	112,007	117,606	5.0%	—	—
Sh/s equity	89,395	90,951	92,547	97,868	5.7%	—	—

# Financial Results (Single Entity): March 2000

## Highlights

Units: ¥ millions

	Mar-99	Mar-00
Sales	45,919	51,518
Medical	44,119	48,281
Domestic	39,315	41,381
Export	4,804	6,900
Other	1,799	3,236
Op profits	6,266	8,495
Rec profits	6,594	8,595
Net profits	2,336	4,194

### ■ Sales (+ ¥5.5 billion)

#### Pharmaceuticals (+ ¥4.1 billion)

##### • Domestic (+ ¥2.0 billion)

Mucodyne 14.3 15.5

Ketas 6.5 7.1

Pentasa 2.6 3.3

##### • Exports (+ ¥2.0 billion)

Commencement of Gatifloxacin bulk exports  
Income of licensing free for KRP-297

#### Others (+ ¥1.4 billion)

Contribution of full-year sales of Milton

# Forecasts for March 2001 (Single Entity)

## Highlights

Units: ¥ millions

	Mar-00	Mar-01 (FC)
Sales	51,518	52,000
Medical	48,281	48,400
Domestic	41,381	41,200
Export	6,900	7,200
Other	3,236	3,600
Op profits	8,495	7,700
Rec profits	8,595	7,900
Net profits	4,194	2,000

### ■ Sales (+ ¥0.4 billion)

#### Pharmaceuticals (+ ¥0.2 billion)

Domestic: Flat due to 5.8% fall in drug prices

Exports: Increase in Gatifloxacin and decrease in Norfloxacin

#### Others

Increase in Milton sales (+ ¥0.3 billion)

### ■ Rec. profits ¥7.9 billion (- ¥0.6 billion)

Losses at the Noshiro plant, previously treated as extraordinary losses, will be included in SG&A from autumn 2000.

### ■ Pension liabilities

Unfunded pension: ¥9.5 billion

Amortization: 3 years

Discount: 3.0%

¥3.1 billion amortized p.a.

### ■ Net profits ¥2.0 billion (- ¥2.1 billion)

### ■ DPS: ¥15 planned

# Update on main product pipeline: Gatifloxacin

## 1) Global markets

Gatifloxacin

NDA in Japan: March 1999 (Kyorin)

\* Joint-sales agreement with Dai Nippon Pharm (April 2000)

Launched in US: December 1999 (BMS)

\* Co-promotion with Schering-Plough (March 2000)

NDA in EC: December 1999 (Grünenthal)

## 2) Exports

¥ billions

	Mar 99	Mar 00	Mar 01 fc
Exports(Total)	4.8	6.9	7.2
Gatifloxacin	0	2.7	4.8

## 3) Product life extension management

new indications (pediatrics), new formulations(IV, ear and eye drops)

# Mid-term plan: Kyorin MIC-02

## 1) Philosophy

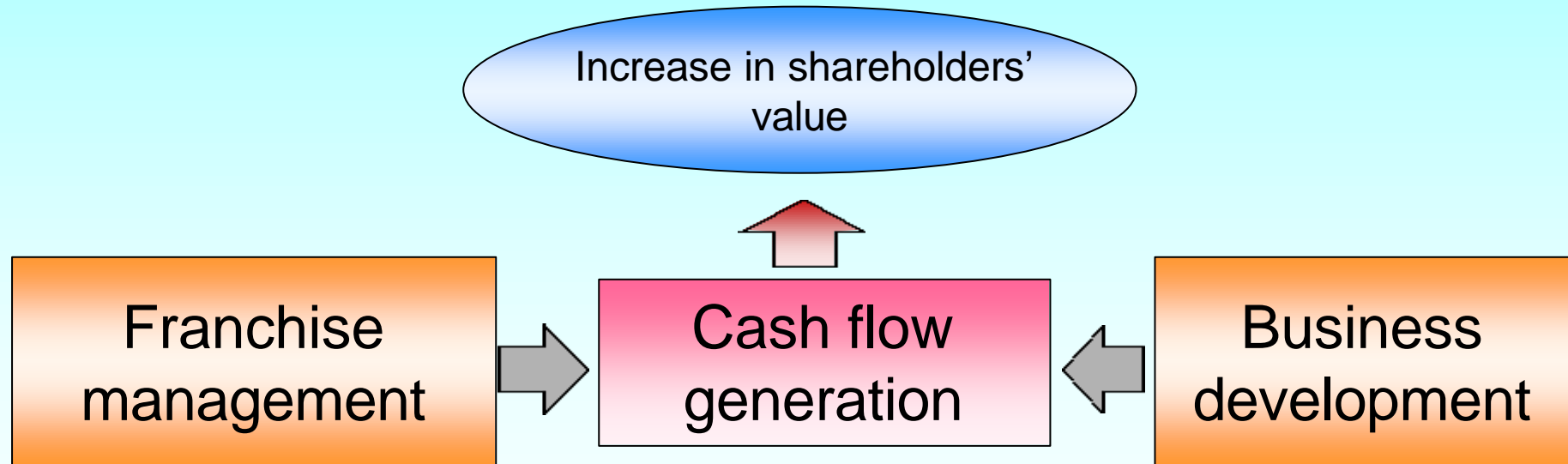
“Destruction and Creation: Building a new Kyorin”

## 2) March 2003

Sales	¥6 5.0 billion	
SGA ratio	46 %	
RP ratio	25 %	
ROE	7 %	
No.of Employees	1 6 0 0	1 7 0 0
	(original)	(revision)

## Central strategy on two axis

Kyorin seeks to increase shareholders' value through a franchise management strategy, focuses operation resources on its strong and targeted areas, and also through a business development strategy with an efficient usage and invest of excess cash reserved.



# Franchise management strategy

## Franchise management strategy

Kyorin's strategy to generate and materialize sustainable growth with high efficiency by selecting, integrating and focusing the target for R&D and sales activities to reach core customers

### Franchise portfolio strategy

Focused scope of R&D

- Infectious diseases
- Immunologies and allergies
- Others (Cerebral disorders, diabetes)

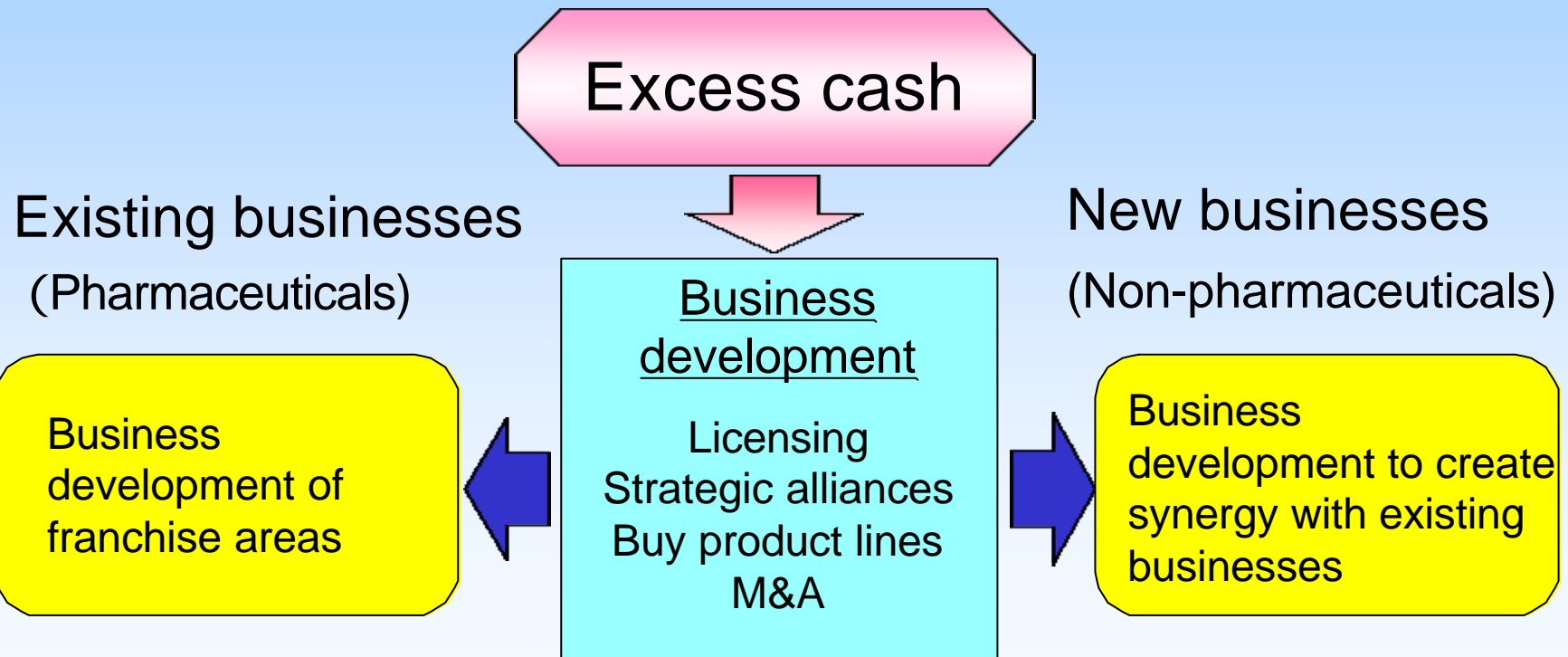
### Franchise customer strategy areas

Focused scope of marketing

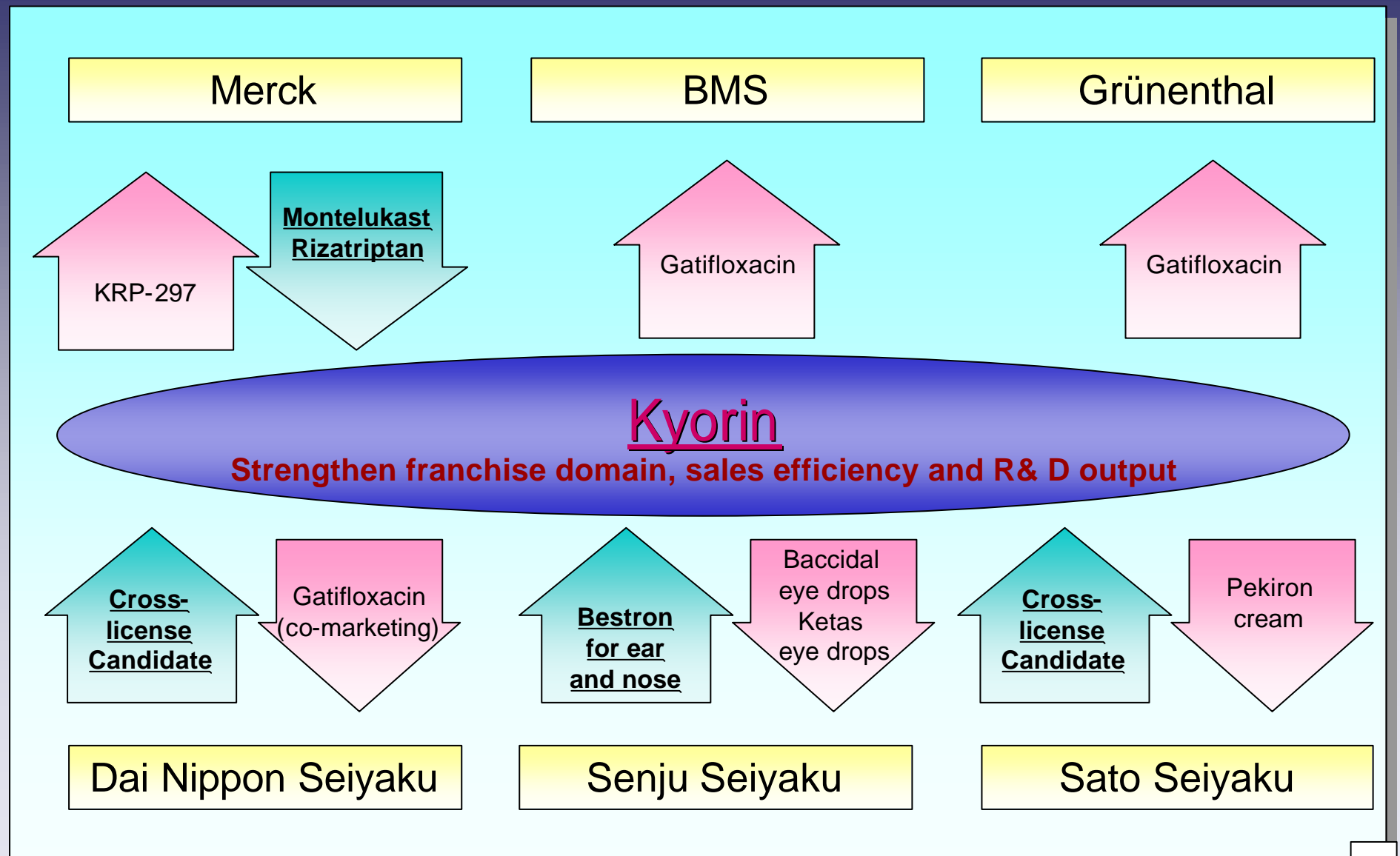
- Respiratory internal medicine
- Otolaryngology
- Urology

# Growth through business development

Surplus cash invested in business development accelerates growth, allows Kyorin to maintain independence despite industry reorganization, and provides flexibility to adjust to changes in the business climate



# Business development in pharmaceuticals



## Business focus: March 2001 term

1. Improve basic seed research and speed up development of new drugs
2. Reorganize sales and marketing system
3. Streamline administrative tasks
4. Strengthen new business development

# 1. Improve basic seed research and speed development of new drugs

## Improve basic seed research

Aggressive use of third-party seed research  
i.e. university alliances (Japan and overseas), VC funds

Renovate central laboratory with facilities for drug development  
collaboration with outside researchers

## Speed up development of new drugs

Offshore clinical testing outsourced to CRO (e.g. KRP-197)

Co-development (e.g. KRP-297 with Merck)

Aggressive alliances with outside laboratories, licensing, drug  
co-development

## 2. Reorganize sales and marketing system

### Focused sales on franchise customers

Reorganize head office sales staffing by medical field specialty

Strengthen comprehensive medical knowledge training for MRs

Strengthen doctor visit efforts in three fields: respiratory internal medicine, otorhinology, and urology

### Unify information of franchise customer

Use IT to unify information and to increase sales efficiency

### Strengthen MR

Current	2000	2001
550	600	650

## 3. Streamline administrative tasks

### Increase staff productivity through IT

- 1998 Introduction of groupware
- 1999 Accounting 2000 cashless, invoice-less system  
New system for faster distribution of scientific information  
MR2000 to improve MR efficiency
- 2000 FC2000 to unify user information

### Third-party logistics

Total distribution outsourced to Hitachi Butsuryu, July 2000

### Streamline cost centers

Launch Nogi Administration Center to centralize overall general affairs  
Plans to consolidate branch control functions

Staffing	Mar-96	Mar-99	Mar-00	Mar-01 fc
	1,976	1,823	* 1,677 (1,720)	1,700

(\*) Does not include interns reflecting new Disclosure Act

## 4. Strengthen new business development

### Sales update on Milton

March 2000  
¥3.0 billion

March 2001 (fc)  
¥3.3 billion

### Considering structure for new business development

Develop new BD structure for broader investment, focusing on businesses that satisfy our corporate mission of “contributing to the good health of people everywhere.”

- Accelerate growth
- Reduce risk inherent to the pharmaceutical business
- Higher return on capital

# Main R&D activities (3/31/00)

Stage	Compounds/Code	Therapeutic category	Origin	Launch	Characteristics	Comments
NDA	KETAS Eye drops (ibudilast)	Anti-allergic agent	In-house (Co-developed with Banyu)	2000	Inhibits activation and chemotaxis of neutrophil and eosinophil. Effective for Type allergy as well as Type allergy.	For sale effective 4/14/00; sales entrusted to Senju Seiyaku
NDA	MIROL Eye drops (leminoprazole)	Anti-glaucoma agent	Allergan	2000	Once a day $\beta$ -blocker	-
NDA	GATIFLO (gatifloxacin)	Broad spectrum synthetic antibacterial agent	In-house	2001	Effective against respiratory pathogens including resistant-strains. Good bioavailability.	US: Launch in US(12/99) BMS license (Schering-Plough and co-promotion) EU: NDA (12/99) Grünenthal Japan: JV Dai Nippon, MOU 4/00
NDA	KIPRES (montelukast sodium) KIPRES chewable	Bronchial asthma	Merck (US) (Co-developed with Banyu)	2001	First once-daily LTRA for asthma. A bed-time dose controls asthma symptoms. Reduces the dose of steroid inhaler. Indicated for children over 5 years old.	US: Sales began 2/99 - Merck license EU: Sales UK, others, began 1/98
Ph III	N-3389	Anti-emetic agent	Nisshin Flour Milling (Co-development)	-	5-HT3 and 5-HT4 dual antagonist.	-
Ph II	PEKIRON Nail lacquer	Anti-mycotic agent	Roche (Co-developed with Shiseido)	-	First nail varnish formulation for nail mycosis in Japan.	-
Ph II	KRP-197	Urinary incontinence treatment	In-house	-	Protent anti-cholinergic agent. Expected to be few dry mouth.	-
Ph I	KRP-297	Insulin sensitizer	In-house, developed with Banyu	-	Improves insulin resistance and lipid abnormality associated with Type 2 diabetes.	US: Merck license, 9/99