

May 24, 2001

March 2001 Financial Results

- ◆ Business conditions
- ◆ Update on main R&D
- ◆ Mid-term Management Plan
- Kyorin MIC-05

Kyorin Pharmaceutical, Co., Ltd.

March 2001 consolidated results

Sales rose to an historic high of ¥55.8 billion (+5.8% yoy) underpinned by strong performance by pharmaceuticals both in Japan and abroad. Recurring profits rose to ¥9.7 billion (+11.3% yoy) while net profits fell to ¥2.9 billion (-31.5 yoy) reflecting a ¥3.1 billion extraordinary charge for change in pension fund accounting standards. The next term should see an increase in exports of Gatifloxacin and the launch of new drugs (Kipres) to produce sales of ¥59.4 billion (+6.4% yoy), recurring profits of ¥9.5 billion (-2.9% yoy) and net profits of ¥3.2 billion (+8.4% yoy).

	3/98	3/99	3/00	3/01	Yoy	Cons./ Parent	3/02 fc	Yoy
Sales	47,179	46,932	52,776	55,832	5.8%	1.02	59,400	6.4%
Op Pr	6,392	6,366	8,646	9,049	4.7%	1.00	9,000	-0.5%
Rec Pr	6,137	6,687	8,795	9,786	11.3%	1.02	9,500	-2.9%
Net Pr	2,303	2,325	4,310	2,951	-31.5%	1.05	3,200	8.4%
EPS	¥40.01	¥40.41	¥74.89	¥51.27	-31.5%	1.05	¥55.59	
Assets	113,190	112,007	117,606	125,476	6.7%	1.00		
Sh/s eq	90,951	92,547	97,868	99,750	1.9%	1.00		

March 2001 parent results

Units = ¥ millions

	3/00	3/01
Sales	51,518	54,671
Pharms (Japan)	41,381	42,858
Pharms (Export)	6,900	8,646
Other	3,236	3,166
Op profits	8,495	8,980
Rec profits	8,595	9,524
Net profits	4,194	2,800

Points

■ Sales ¥54.671 billion (up ¥3.1 billion)

Pharmaceutical sales in Japan (up ¥1.4 billion)

Despite National Drug Price revisions (effective rate of 5.8%) sales declined less than expected reflecting strength of our three main products Codeveloped drugs (Ketas Eye Drops, Mirol Eye Drops) were launched, as well sales contract fees (Gatiflo Tablets, KRP-197)

- Mucodyne 155 161
- Ketas 71 75
- Pentasa 33 40
- New drugs 2 9

Pharmaceutical sales overseas (up ¥1.7 billion)

Gatifloxacin exports more than anticipated

- Gatiflo 27 55

Other (± 0)

■ Operating profits ¥8.980 billion (up ¥400 million)

■ Recurring profits ¥9.524 billion (up ¥900 million)

COGS ratio rose 0.6% points and the SGA ratio fell 0.5% points. Increase in non operating income and decrease in expense produced recurring profit margins of 17.4%, up 0.7% points.

■ Net profits ¥2.800 (down ¥1.3 billion)

Write-off of allowance for retirement benefits beginning 3/01 (¥3.1 billion)

- Allowance ¥9.5 billion
- Amortization 3 years (FY2000 through FY2002)
- Discount rate 3.0%

March 2002 parent forecasts

Units: ¥ millions

	3/00	3/01
Sales	54,671	58,100
Pharms (Japan)	42,859	44,400
Pharms (Export)	8,646	10,200
Other	3,166	3,500
Op profits	8,980	8,900
Rec profits	9,524	9,300
Net profits	2,800	3,000

Points

■ Sales ¥58.1 billion (up ¥3.4 billion)

Pharmaceutical sales in Japan (up ¥1.5 billion)

Increase in sales from new drug launches (Kipres ¥2.2 billion)

Does not include Gatiflo Tablets (market launch date unknown)

Pharmaceutical sales overseas (up ¥ 1.5 billion)

Gatifloxacin will rise to ¥8.1 billion

Other (up ¥300 million)

Increase in Milton sales

■ Operating profits ¥8.9 billion (± 0)

■ Recurring profits ¥9.3 billion (down ¥200 million)

Recurring profits ratio fall 1.4% points to 16.0%

Reason for the increase in COGS ratio

- No expected one-time contract fees

Reason for the rise SGA ratio

- Investment in start-up marketing for Kipres
- Increase of 50 MRs
- Amortization of unrealized pension fund losses (approx. ¥300 million)
 - Losses: ¥2.846 billion
 - Amortization: 10-year fixed

■ Net profits ¥3.0 billion (up ¥200 million)

■ Dividend 15 yen planned

Development/Marketing status of Gatifloxacin in Japan/US/EU

Region (licensees)	Launch plans					Alliance
	Tablets	IV	Pediatric	Eye drops	Ear drops	
Japan Kyorin Pharmaceutical Co.,Ltd .	Under registration Launch expected in 2 nd half of 3/01 or 1 st half of 3/02	Phase I	Take action after launch of tablets	Senju Pharm Phase III	Under preparation	Sales agreement with Dainippon Pharmaceutical in December 2000
US (BMS)	Launched Dec99	Launched Dec99	Phase II/III	Allergan Phase III	Considering licensing. partner	BMS started co-promotion with Schering-Plough in March 2000
EU (Grünenthal)	Under registration Approval expected in 2 nd half of 2001					

Status and projection of Gatifloxacin in Japan

1) Launch estimate

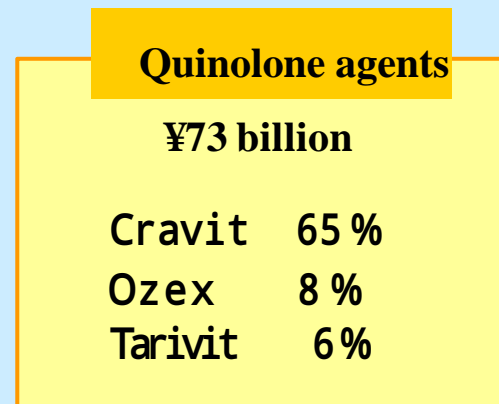
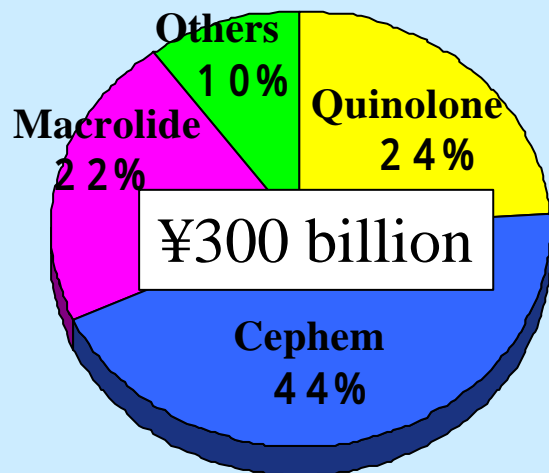
2nd half of 3/02 or 1st half of 3/03

Uncertainty due to NHI price revision expected April 2002 and consequential change of regular NHI price listing timing

2) Sales forecast

aiming to be a share leader in the quinolone agent market by means of joint sales with Dainippon Pharm(contract signed December 2000)

Oral antibacterial market
Market share by formulation



By means of joint sales with Dainippon Pharm

Status and projection of Gatifloxacin overseas

1) Countries (11) already launched and launch forecasts in EU

US, Canada, Mexico, Puerto Rico, Brazil, Argentina, Thailand, Singapore, Philippines, Australia, South Africa

US	Launched by BMS in December 1999 Began co-promotion with Schering-Plough (March 2000)
EU	NDA by Grünenthal in December 1999 Approval expected 2 nd half of 2001

Tequin® update

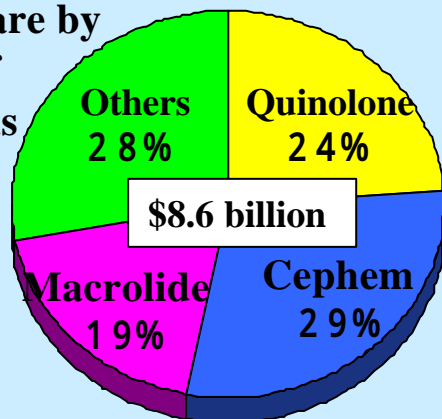
Tequine®, breaks the fastest record in surpassing 2.5 Million New Prescriptions in U.S. During December 1999 to March 2001.

2) Exports

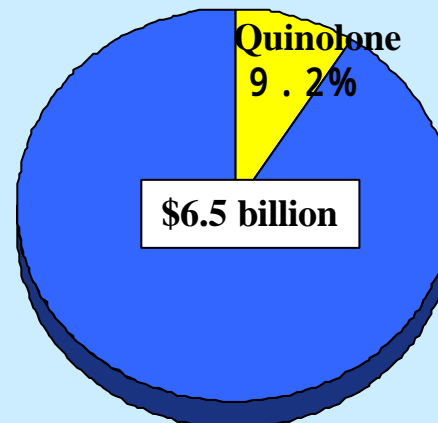
Units: ¥ 00 millions

	99.3	00.3	01.3	02.3 est
Total Exports	48	69	86	102
Gatifloxacin	0	27	55	81

Market share by category of Compounds



US (1999) including IV



EU (1999) including IV

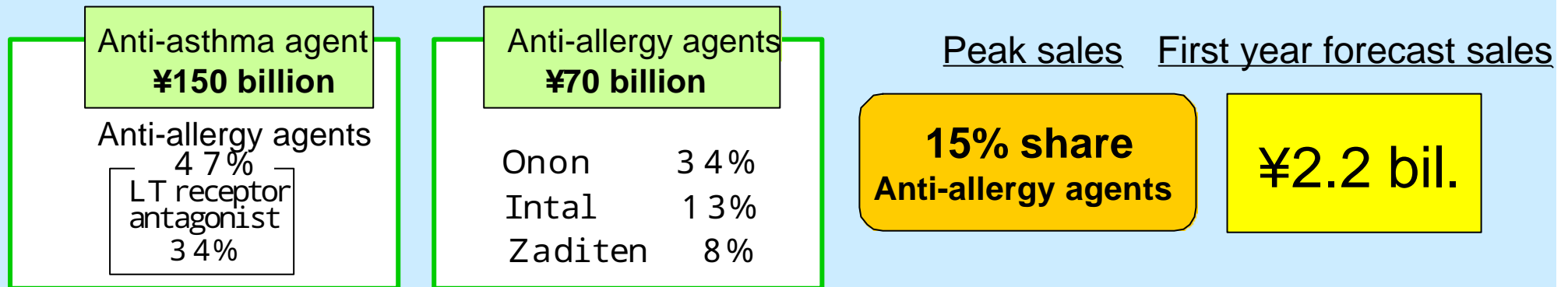
Update on Kipres®

1) Launch estimate

May 18, '01 Final approval recommended
 August, '01 listing of National Drug Reimbursement Price

2) Sales forecast

Market potential



cf. Merck sales

Source: Merck Annual Reports

Units: \$ million

	1998	1999	2000
Sales	143	500	860
Countries	launch	→ 74 countries worldwide	

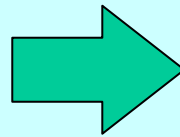
Mid-term management plan

Kyorin MIC-'05 Plan

MIC-'02 Plan: The Destruction Stage

Destroy existing conservative thinking and actions and change to a flat, nimble organization responsive to environmental changes

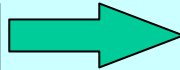
Traditional Kyorin with
70 years history



Destroy old
conservative thinking
and actions

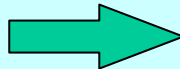
Four areas destroyed

Destroy closed thinking



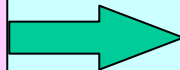
Aggressively pursue alliances
Product co-development, co-promotion, 3rd
party logistics

Destroy excessive focus
on financial stability



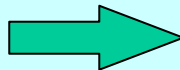
Focus on efficient use of capital
Aggressive investment in necessary
businesses (Milton, Bistner, Bistner Fund)

Destroy unfocused business

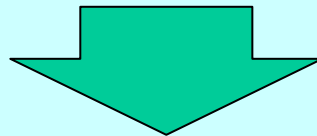


Focus on area of specialty (FM strategy)

Destroy product-out



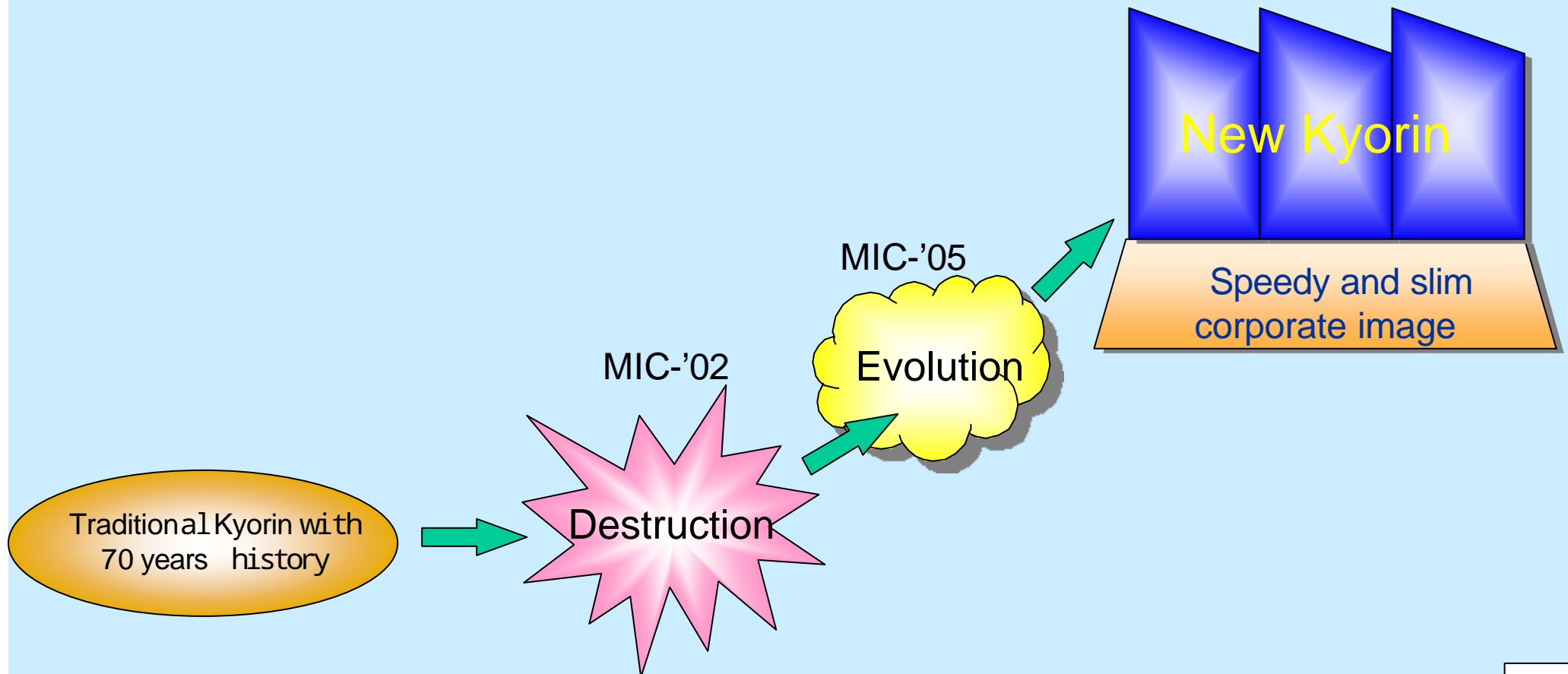
Shift to market-in (FC)
(Kipres licensing-in, Sales outsourcing of
eye drops)



Destroy conservative thinking and actions
and reform to a flat, nimble organization

MIC-' 05 Plan: The Evolution Stage

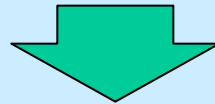
To create a new Kyorin with a speedy and slim corporate image



Goal of New Kyorin

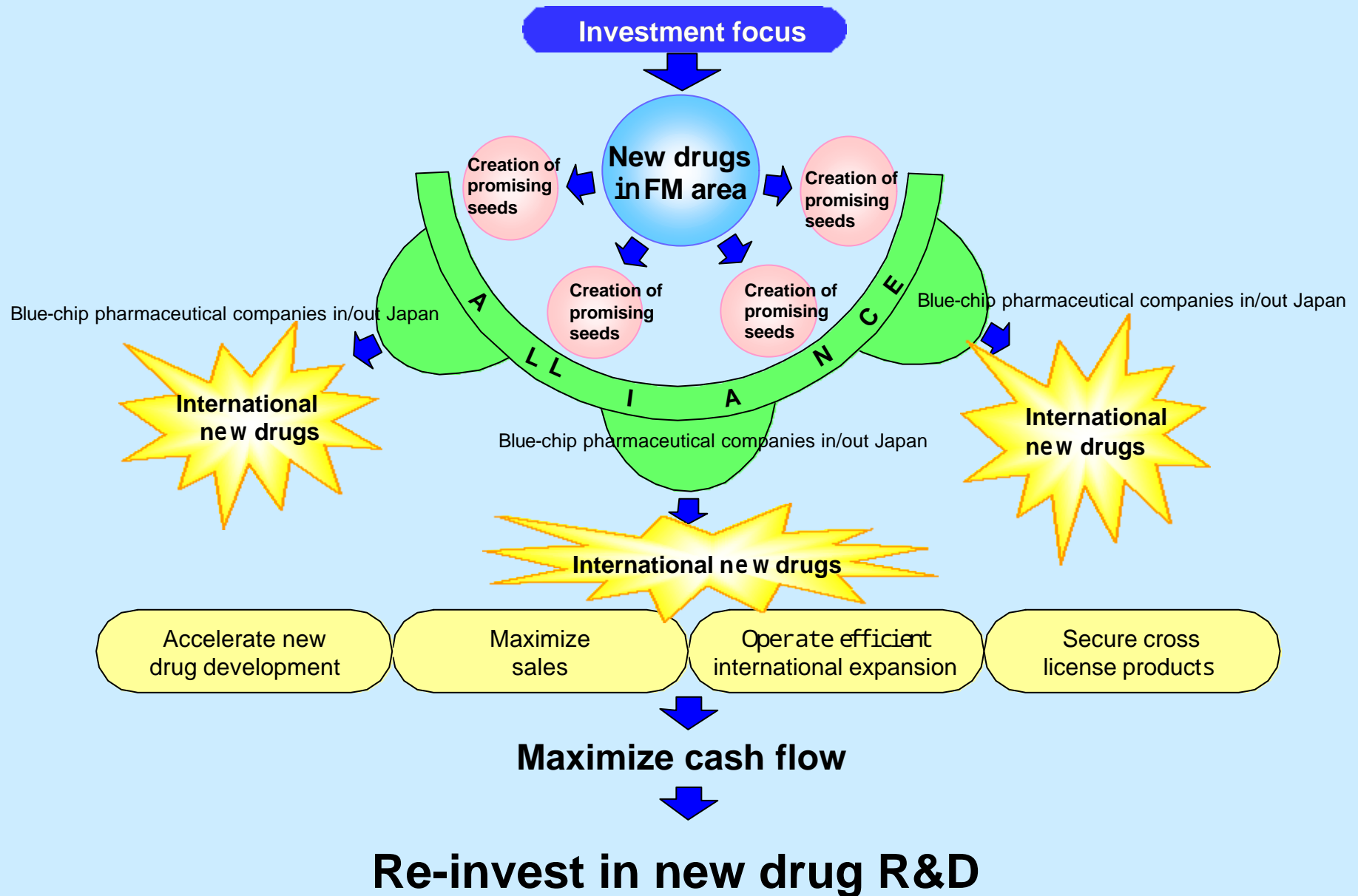
New Corporate Grand Design

To be a research-oriented company of world-class new drug R&D ability in its Franchise Marketing area



Priority investment in new drug creation scheme for FM area to efficient by find out the seeds of new drugs and to seek the Opportunities of global drug development in combination with the strategic alliances

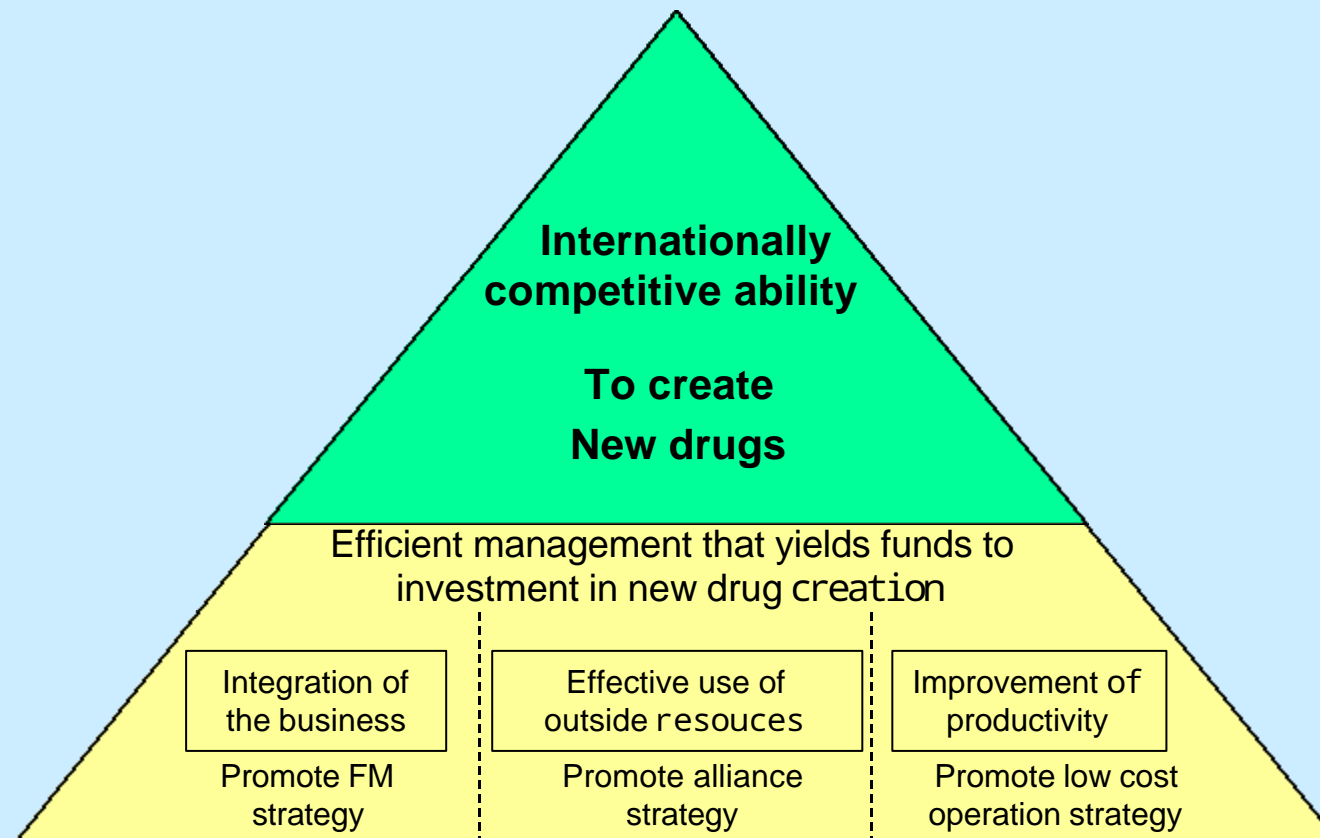
global New drug development combined with the strategic alliances



Principal of MIC-' 05 Plan

Concentrated capital investment in enhancing the internationally competitive ability to create new drugs . (R&D expenditure of ¥15 billion in 3/06)

To generate that level of new drug R&D investment funds , an efficient management system will be established through the concentration of the selected business, effective use of outside resources and improvement of productivity



Targets (March 2006)

R&D: ¥15.0 billion

Sales: ¥100.0 billion

Rec profit margin: 25%

Employees: 1700

Per person productivity:

¥60 million per year

Basic Strategy 1

Build globally competitive new drug R&D model

1. Primary R&D areas of expertise

Diseases (quinolones, synthetic antibacterial agents, new segment antibacterials)

Immunologies and allergies (PDE research)

Metabolic diseases (PPAR related research)

2. Kyorin core technology

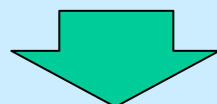
Apply human resources and technology to medicinal chemistry (optimal selection of candidates using advanced synthesizing technology, molecular design technology and combi-chem technology)

3. Network with outside R&D institutions

Proteomics R&D, codevelopment of bioinformatics technology

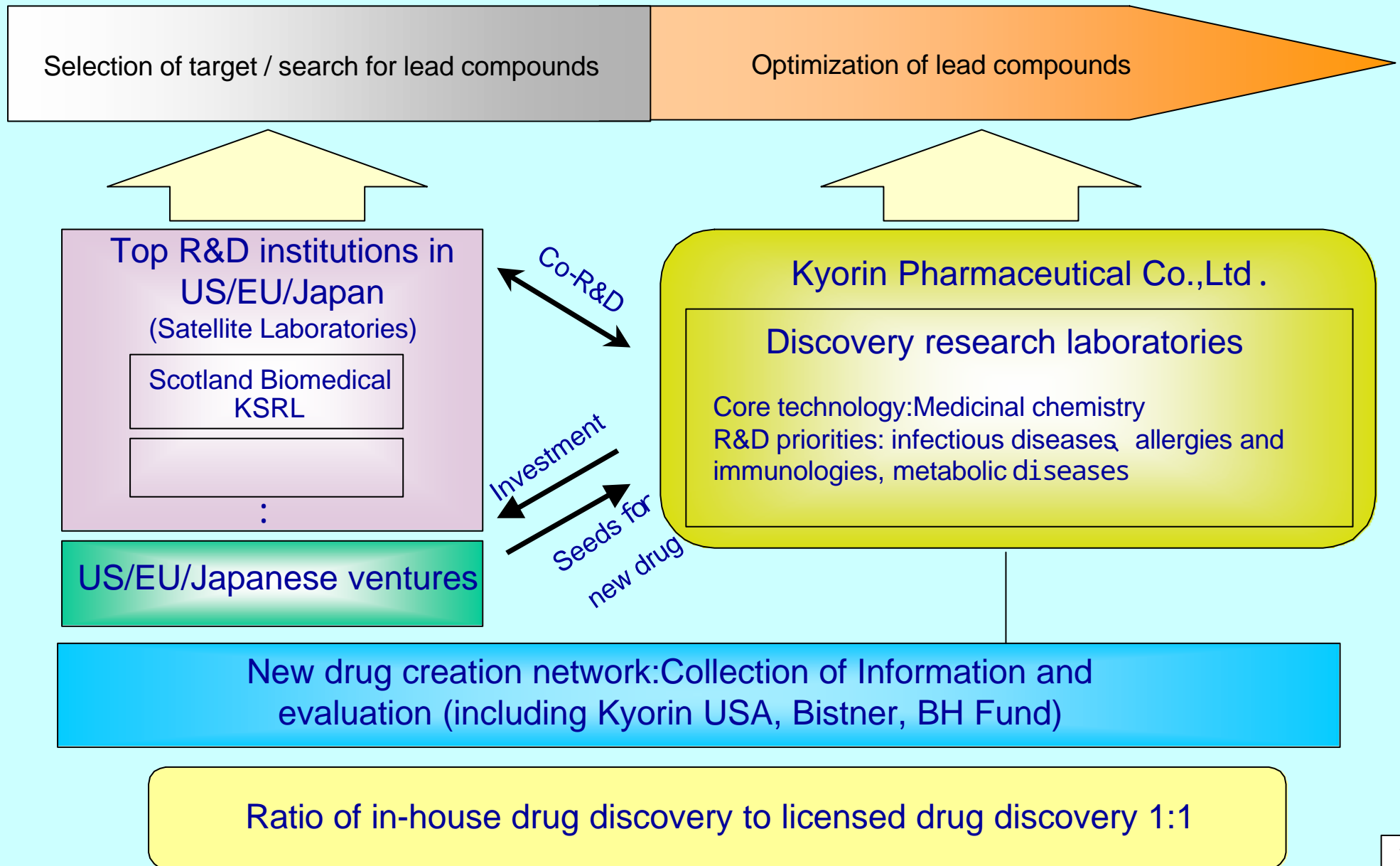
Building network of institution with leading-edge technology for new drug creation in US, Japan and Europe (such as The Scottish Biomedical Foundation Ltd.)

Investment in biotechnology venture businesses



Ratio of in-house drug discovery to licensed drug discovery 1:1

Concept For New drug creation model



I. Integration of the business – FM strategy

1. Customers first operation in FC3 fields

Respiratory, otorhinology, urology (FC3 fields)

Build strong reliable relation with medical professionals and patients by focusing management resources on the FC 3 fields

2. Goals of the FC strategy

Raise sales weight in FC 3 fields from 42% to 70% of domestic sales
(20% average growth)

Increase market share of FC 3 fields from 1% to 2.7% aiming to be a share leader in the otorhinology market

Visit and interview with 100% of registered FC3 field medical doctors (60,000 total)

650 MR coverage and foster knowledgeable and skillful MRs with expertise in FC 3 fields

II. Effective use of outside resources – Alliance strategy

1. Strengthen alliances that maximize sales efficiency

Enough supply of product pipeline in FC field (licensing-in, introduction of new products utilizing surplus cash)

- Stress evaluation for licensing-in of drugs in advanced stage such as in Phase III, NDA or already on the market specifically in the field of less original development candidates : otorhinology and urology

Co-marketing, contractual sales outsourcing and product line restructuring in non-FC fields

Promote alliances that maximize sales

2. Facilitate R&D alliances to shorten lead time of new drug development

Speedy new drug development by way of licensing-out of original compounds/drugs overseas

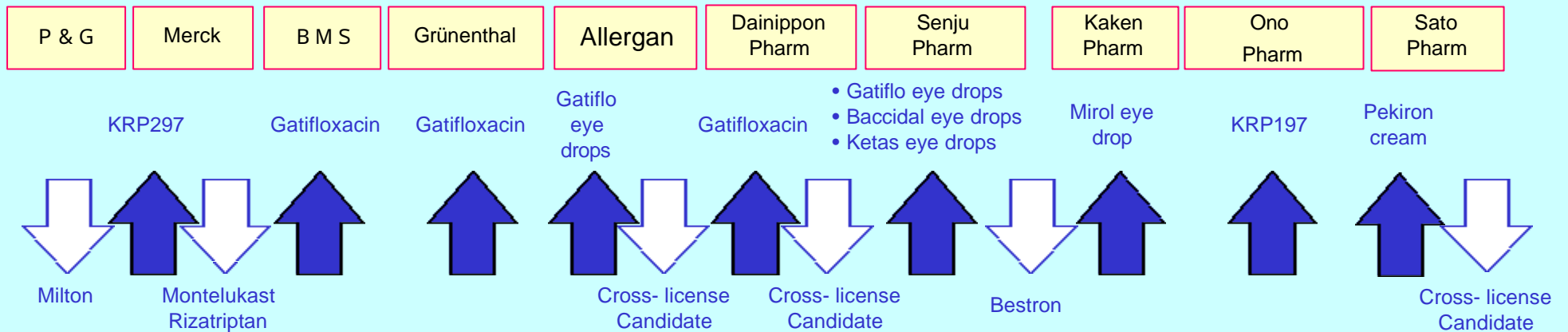
- Kyorin conducts studies through early phase
- After early phase , aggressively license out originals to speed up new drug development

Aggressive alliances in co-development

3. Exploitation of the M&A that can accelerate growth of Kyorin

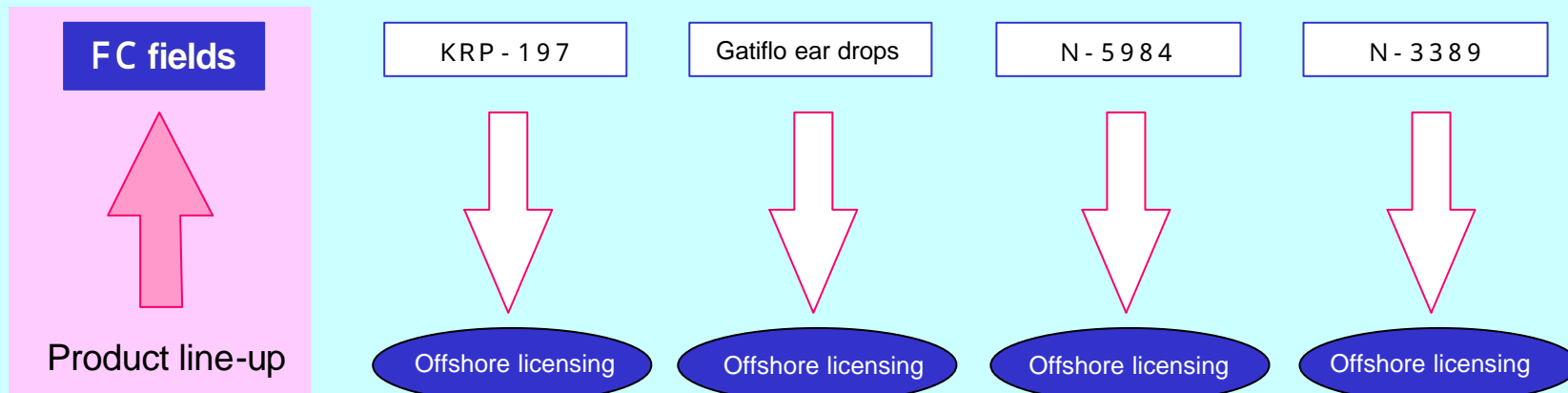
II. Effective use of outside capital – Alliance strategy

Current successes



**Strengthen franchise fields, maximize sales
Accelerate R&D**

Future strategic alliances



II. Effective use of outside resources – Alliance strategy

1. Strengthen alliances that maximize sales efficiency

Enough supply of product pipeline in FC field (licensing-in, introduction of new products utilizing surplus cash)

- Stress evaluation for licensing-in of drugs in advanced stage such as in Phase III, NDA or already on the market specifically in the field of less original development candidates : otorhinology and urology

Co-marketing, contractual sales outsourcing and product line restructuring in non-FC fields

Promote alliances that maximize sales

2. Facilitate R&D alliances to shorten lead time of new drug development

Speedy new drug development by way of licensing-out of original compounds/drugs overseas

- Kyorin conducts studies through early phase
- After early phase , aggressively license out originals to speed up new drug development

Aggressive alliances in co-development

3. Exploitation of the M&A that can accelerate growth of Kyorin

III. Productivity improvement / low-cost operation strategy

1. Restructuring production system by integrating resources, technologies, by reduction in product items, and by utilizing outsourcing and alliances,
Firm commitment to keep COGS ratio at 30%
2. Acceleration and increased efficiency in new drug development by revolutionizing development process
3. Establishment of CMC structure as Effective process from R&D to real production of bulk and dosage form
4. Efficiency improvements in sales activities by the introduction of a new information supply system using IT and a new sales scheme

Focus of business expansion in 3/02

Management policy

Evolution and creation: Creating new corporate value

- **Speed & challenge** -

Points

1. Create a new drug R&D platform
2. Strengthen FC strategy and launch a blockbuster new drug
3. Build a solid foundation overseas and aggressively expand
4. Improve productivity: promote a low-cost operation

Expansion points of main business during 3/02

1. Build new drug R&D platform

- a. Establish a head quarters new drug research utilizing internal and external resources
- b. Build an operation system that collects and monitors information on new foreign drugs through investment in a global venture capital fund

2. Strengthen FC strategy with goal of a blockbuster drug

- a. Promote the FC strategy which seeks to continue growth of existing drugs and create blockbuster success
- b. Increase number of MRs and enhance MR training to give specialist knowledge in franchise fields
- c. Improve market share through visits to all the doctors in FC 3 fields

3. Build a base overseas and aggressively expand the business

- a. Establish Business Development Head-quarters to aggressively promote strategic alliances
- b. Promote product license import / export to strengthen franchise fields
- c. the start of Kyorin USA, Inc. to promote clinical trials overseas and strengthen overseas alliances

4. Productivity improvements, promote low cost operation

- a. Announce a new production formation and strengthen quality control and quality assurance to eliminate complaints
- b. Review of new drug development process, increase outsourcing, project management and introduce a new system to accelerate the development for new drugs
- c. Reduction of indirect section by centralization of administrative duties to 2 core branches and development of IT bases through introduction of workflow
- d. Considering HR strategy to improve productivity including success-based incentives

Disclaimer

The forecasts contained in this mid-term management Plan MIC-05 are based on an analysis of information and current conditions and may change due to economic or industry factors

Main R&D activities (3/31/01)

Stage	Compound / code	Efficacy	Origin	Characteristics	Comments
NDA (3/99)	GATFLO (tablets)	Broad spectrum synthetic anti-bacteria agent	In-house	Effective against respiratory pathogens including resistant-strains. Good bioavailability.	US: License to BMS EC: License to Grünenthal Japan: MOU marketing agreement with Dai Nippon (12/00)
NDA (1/00)	KIPRES 10 KIPRES Chewable 5 (for children)	Anti-bronchial asthma agent	Merck (US) co-developed with Banyu	First once daily LTRA for asthma. Bed time dose controls asthma symptoms. Reduces dose of steroid inhaler. Children over 5 years	US: Sales began 2/98 -Merck license EU: Sales UK, others, began 1/98
Ph	N - 3389 (tablets)	Anti-emetic agent	Nisshin Flour Milling (co-developed)	5-HT3 and 5-HT4 dual antagonist	
Ph	PEKIRON Nail lacquer	Anti-mycotic agent	Roche, co-developed	First nail varnish formulation for nail mycosis in Japan	
Ph	KRP - 197 (tablets)	Urinary incontinence treatment	In-house, developed with Ono	Potent anti-cholinergic agent, little dry mouth	UK: Phase I (Outsource to CRO) Japan: Agreement with Ono Pharm for joint development and sales
Ph	KRP - 297 (tablets)	Insulin sensitizer	In-house, developed with Banyu	Improves insulin resistance and lipid abnormality of Type 2 diabetes	US: Merck license (9/99)
* Ph	GATIFLO (intravenous)	Broad spectrum synthetic anti-bacteria agent	In-house	Expected suitable for Community-acquired Pneumonia	
* Ph	N - 5984 (tablets)	Anti-diabetes agent Anti-obesity	Developed with Nisshin Flour Milling	A potent and selective β_3 AR agonist. The reduction of plasma glucose, insulin, TG and FFA, and the improvement of glucose tolerance.	

Licensing product development (3/31/01)

	Code	Licensee	Stage	Efficacy	Origin	Comments
Exports	Gatifloxacin	BMS	Sales began (12/99)	Synthetic antibacterial agent	In-house	Co-promotion with Schering-Plough (3/00)
		Grünenthal	NDA (12/99)			
	Gatifloxacin eye drops	Allergan	Ph III (USA)	Synthetic antibacterial agent	In-house	Provide R&D, production and sales rights to all countries worldwide except Japan, China, Korea and Taiwan
		Senju Seiyaku	Ph III (Japan)			Provide R&D, production and sales rights in Japan
KRP-297	Merck	Ph II	Insulin sensitizer	In-house	Provide R&D, production and sales rights to all countries worldwide except Japan, China, Korea and Taiwan	
Imports	Rizatriptan	Merck Developing in Japan by Banyu	Ph III (Japan)	Migraine headache remedy	Merck	R&D by Banyu, exclusive sales rights to Kyorin

Update on new businesses

1. Update on Bistner business fund

- Start: September 2000
- Investment: ¥5 billion (of which ¥1 billion during first year)
- Focus: Pharmaceuticals, healthcare, daycare, health

Invested companies

Focus	Companies invested	Business
Pharmaceuticals New drugs derived from genome and etc.	1	Sterilizer / disinfectant for poultry use
Medical-care Alternative and/or reproductive medicine, and IT	1	Dentist delivery (to daycare, nursing homes)
Nursing Facilities, Daycare at home, Related products	1	Organic waste management (lavatories for nursing use)
Health Food Environment		