

December 11, 2001

March 2002 Mid-Term Financial Results

— Business conditions, outlook for the current term —

Kyorin Pharmaceutical, Co., Ltd.

March 2002 mid-term consolidated results

Increase in consolidated sales to ¥29.2 billion (+11.8 yoy) reflected strong performance by pharmaceuticals in Japan and abroad including new drug launches (Kipres) and increased exports of Gatifloxacin. Consolidated recurring profits were ¥3.9 billion (+4.5% yoy) and consolidated net profits were ¥0.8 billion (-11.5% yoy) .

On a parent company basis, sales were ¥28.6 billion, recurring profits were ¥3.8 billion and net profits were ¥0.8 billion.

For the March 2002 term, we estimate sales of ¥62.4 billion (+11.8% yoy), recurring profits of ¥10.3 billion (+5.3% yoy) and net profits of ¥3.2 billion (+8.4% yoy).

Units: ¥ millions

	March '01 mid-term		March '02 mid-term			March '02	
	Cons.	Parent	Cons.	Parent	Cons/Par	Cons. est.	Yoy chg.
Sales	26,210	25,620	29,293 (11.8%)	28,695 (12.0%)	1.02	62,400	11.8%
Op profit	3,518	3,488	3,831 (8.9%)	3,788 (8.6%)	1.01	10,200	12.7%
Rec profit	3,778	3,710	3,946 (4.5%)	3,874 (4.4%)	1.02	10,300	5.3%
Net profit	985	949	871 (-11.5%)	867 (-8.6%)	1.00	3,200	8.4%
E P S	17.11	16.49	15.14	15.07	1.00	47.08	
Sh/s eq	98,522	98,359	100,107	99,791	1.00		
Tot assets	119,249	118,674	127,483	126,829	1.01		

Figures in () show yoy changes. Based on average of estimated shares outstanding for the term

March 2002 mid-term parent results

Units: ¥ millions

	9/00 (results)	9/01 (results)
Sales	25,620	28,695
Pharms (Japan)	20,419	21,116
Pharms (Export)	3,589	5,984
Other	1,612	1,595
Op profits	3,488	3,788
Rec profits	3,710	3,874
Net profits	949	867

< Points for the mid-term >

■ Sales ¥28,695 million (up ¥3,000 million)

Pharmaceutical sales in Japan (up ¥700 million)

Positives (Units: ¥100 millions)

- Good start from new drugs
 - Kipres 0 17
- Continued strength by main drugs
 - Mucodyne 70 76
 - Pentasa 19 22

Negatives

- No contract royalty fees during the current term
- Change in rebate rates due to lower market prices

Pharmaceutical sales overseas (up ¥2,400 million)

- Increase in exports of Gatifloxacin 20 48

Other (± 0)

Milton 14 14

■ Rec profits ¥3,874 million (up ¥200 million)

COGS ratio fell 0.2% points to 31.9% and the SGA ratio rose 0.6 points to 54.9%, resulting in 0.1 point decrease in recurring profits margins to 13.5%.

■ Net profits ¥867 million (down ¥100 million)

Re-evaluation of marketable securities: ¥300 million

Write-off of allowance for retirement benefits beginning 3/01 (¥1.5 billion)

- Allowance: ¥9.5 billion
- Amortization: 3 years
- Discount rate: 3.0% (¥3.1 billion p.a.)

March 2002 parent forecasts

Units: ¥ millions

	3/01 (results)	3/02 (forecast)
Sales	54,671	61,200
Pharms (Japan)	42,858	45,200
Pharms (Export)	8,646	12,600
Other	3,166	3,400
Op profits	8,980	10,100
Rec profits	9,524	10,200
New profits	2,800	3,100

< Points for the full- term >

- Sales ¥ 61,200 million (up ¥6,500 million)
Pharmaceutical sales in Japan (up ¥2,300 million)
(Units: ¥100 millions)

*Kipres		0	32
Main drugs	Mucodyne	161	174
	Ketas	75	82

- Pharmaceutical sales overseas (up ¥4,000 million)

* Anticipated rise in Gatifloxacin exports

Gatifloxacin	55	104
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- Other up ¥200 million

Expected increase in sales of Milton

- Rec profits ¥10,200 million (up ¥700 million)

• Recurring profit margins of 16.7% (down 0.7 points)

COGS ratio unchanged

Cause for rise in SGA expenses

• Promotion expense for Gatiflo in Japan will be newly included in the 2nd half of the term

- Net profits ¥3,100 million (up ¥300 million)

- Dividend ¥12.50 (planned)

(1) Development/Marketing status of Gatifloxacin

Region (Licensees)	Launch plans					Alliance
	Tablets	IV	Pediatric	Eye drops	Ear drops	
Japan Kyorin Pharmaceutical Co., Ltd.	NDA (Launch expected in 1st half of 3/03 term)	Phase I	Take action after launch of tablets	Senju Pharm Phase III	Under pre- paration	Joint sales agreement with Dainippon Pharmaceutical in December 2000
US BMS	Launched (12/99)	Launched	Phase II/III (Now Phase III)	Allergan Phase III	Considering licensing partner	BMS started co- promotion with Schering- Plough in March 2000 Approval For Tequin For The Short Course (5 Day) Treatment For Acute Bacterial Exacerbation of Chronic Bronchitis
EU Grünenthal	Approved in Germany (10/01)	Phase II/III				Launched in November 2001

(2) Development/Marketing status of Gatifloxacin in Japan

1 . Estimated launch

1st half of 3/03 term

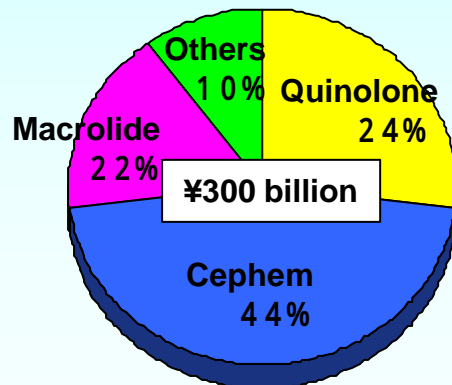
2 . Sales target

Top share of the quinolone market

Aiming for top share using joint sales of Gatflo tablets with Dainippon Pharm.

For reference:

Oral antibacterial market
(Market share by formulation)



Quinolone agents
¥76 billion

Cravit	65%
Ozex	8%
Tarivit	6%

Cephem
Macrolide
Total: ¥200 billion

¥76 billion

Respiratory, otorhinology,
urology and contagious
diseases

¥75 billion

Contagious respiratory
diseases

¥125 billion

Other contagious
diseases, pediatric use

Targeting roughly
¥150 billion market

(3) Development/Marketing status of Gatifloxacin overseas

1 . Countries launched: 15

US BMS (tablets, IV), launch 12/99

EU Grünenthal (Germany) tablets, launch 11/01

Other countries

Mexico, Puerto Rico, Brazil, Argentina, Thailand, Singapore Australia, Philippines , S. Africa Canada, Indonesia, Guam, Chili

2 . Exports

Units: ¥ billions

	3/99	3/00	3/01	March 2002 term	
				Initial fc	Revised fc
Gatiflo	0	2.7	5.5	8.1	10.4

Mid-term results

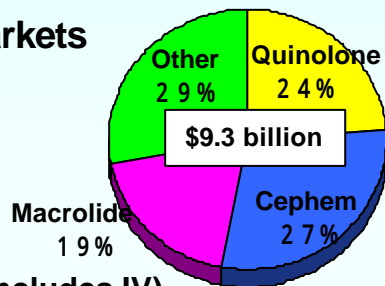
00/9	9/01	
	Initial fc	Actual
2.0	4.0	4.8

Reference (1) BMS sales

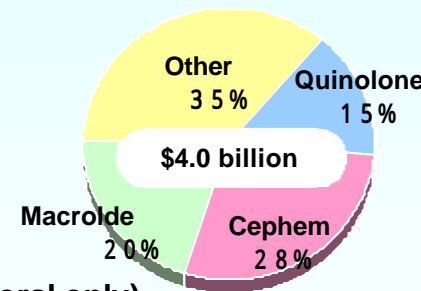
● For the 2001 year, Kyorin forecasted BMS sales in the US of \$200 million (1st half of \$100 million) but have revised the figure to \$270 million.

	1H 2000	2000	1H 2001	3 rd QTR est
BMS sales	\$37 mil	\$131 mil	\$127 mil	\$80 mil

(2) US, EU markets



● The US antibacterial market grew by 8% in 2000 of which the quinolone market grew by 18%. Tequin grew roughly 10%.



● In the EU, current drugs such as penicillin and cephem have strong positions.

US: 2000 (includes IV)

EU: 2000 (oral only)

Impact from bacillus anthracis (Anthrax) events

Bacillus anthracis (anthrax)

- Gram Positive rod.

Treatment

- Antibiotics
- Immunization

US guidelines

Penicillin, Tetracycline, New Quinolone

Effect on our products

No application of our drugs: Tequin, Baccidal, Megalocin .

Impact on business performance

< Gatifloxacin >

US We have not received any additional bulk orders from BMS
BMS intends to approach the FDA, but the impact is unknown

< Baccidal >

Japan Application with the Health, Labor and Welfare Ministry including pediatric use

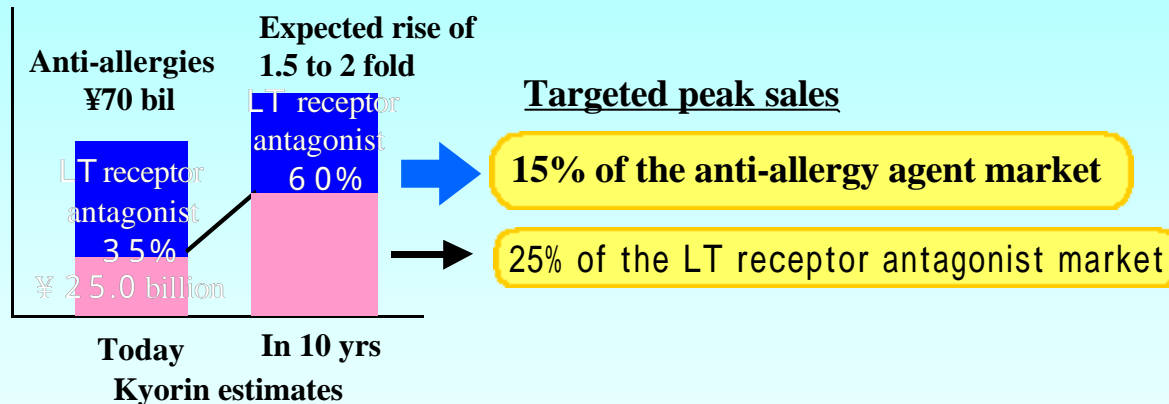
(1) Update and outlook for Kipres

1) Launch 8/31/01

2) 1H 2002 results and forecast

<u>3/02 mid-term</u>		<u>3/03 full-term forecast</u>	
<u>Initial fc</u>	<u>Actual</u>	<u>Initial fc</u>	<u>Revision</u>
¥700 mil	¥1.7 bil	¥2.2 bil	¥3.2 bil

3) Anti-allergy agent market potential and targeted peak of Kipres



Reference

1 . Asthma patients

<u>1999</u>	<u>Increase</u>
110 million	3 ~ 5 %
0 ~ 4 yrs 1.6 %	}
5 ~ 14 yrs 2.5 %	
15 yrs ~ 5.9 %	

Source : Health, Labor and Welfare Ministry (1997)

Reference (Merck Annual Reports)

2 . Merck sales

	1998	1999	2000	2001
Sales	143	500	860	1200~1400 (Merck fc)
Countries	Launch	----->		74 ---> Applied in over 90

Units: \$ mil

(2) Marketing strategy for Kipres

Request for indications

***Larger potential than existing anti-allergy agents**

1. Relieves asthmatic symptoms and restores respiratory functions with administration. Once daily before sleep.
2. Clinically recognized combination effect with inhaled steroids.
3. Anti-inflammatory effect and decreased eosinophiles in **septum**.
4. Chewable tablets for children are easy to take.

Patient-oriented marketing

1. Patient education support (improving environment, lifestyle)
2. Create tools for each indication (lifestyle guidance booklet for patients)

Fast market penetration

1. Information to specialists (respiratory and pediatrics)
2. Raise awareness of Kipres through symposiums

Progress of the Franchise Customer (FC) strategy

Increase FC domain for Kyorin through continuous efforts in the respiratory field

Update on Ketas Capsules

Re-evaluation of drugs with cerebrovascular and metabolic improvements

Background to the re-evaluation

January 1999: Requested re-evaluation using existing materials (31 compounds)

(Application limit: 4/30/99)



Submit existing
material for 11
compounds

September: Re-evaluation of 11 compounds



Ketas and three other drugs have begun new clinical trials to determine effectiveness (application deadline: 9/28/01) .



9/21/01

**Application for
re-evaluation**

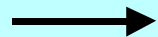
Comment on use of raw materials derived from bovine: Ensuring drug quality and safety (mad-cow disease issue)

Efforts to increase quality and safety of drugs produced with cow derivatives
(Japanese Article 1226 and Japanese Article 1069)

Background

Japanese Article 1226 (12/12/00)

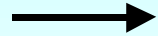
No imports of raw materials derived from cows from countries with known BSE or other high risk countries, excluding gelatin and glucose. No exceptions for countries with high incident rates



No connection to Kyorin products

Article 1069 (10/02/01)

No use of raw materials derived from cows, excluding glucose, from countries known or believed to be of high risk to BSE. No exceptions for countries with high incident rates



Submitted revised application

Kyorin products using raw materials derived from bovine gelatin (not covered by Articles 1226 and 1069)

Products made from raw materials from countries with unknown risk:

Insumin, Cardic.Q, Pyridoxal Phosphate

Products made from raw materials from countries with unknown risk:

Insumin, Oyslon, Lemar

Underlined items are Kyorin products

BSE : Bovine Spongiform Encephalopathy

Total sales

3/01 term

92 million

Major business initiatives for the March 2002 term

- 1 . Build new drug R&D platform**
- 2 . Strengthen FC strategy, focus on launching blockbuster drugs**
- 3 . Actively develop offshore networks, grow these businesses**
- 4 . Productivity improvements, promote low-cost operations**

1 . Build new drug R&D platform

Selection of target / search for lead compounds

Optimization of lead compounds

New drug development

Top R&D institutions in US/EU/Japan

(Satellite Laboratories)

Scotland Biomedical KSRL

PDE research

UE/EU/Japanese bio-ventures and co-R&D

Proteios Research Inc
Genome Research

Immunizations, metabolic diseases

Kyorin Pharmaceutical

New drug laboratories

Core competency: Medicinal chemistry
Fields of priority: Infectious diseases, immunologies, allergies and metabolic diseases

Nisshin Kyorin Pharmaceutical

New drug laboratories

Bio-venture investments in Japan/UE/EU

Japan

US

EU

BH fund

Considering

SC Bio-Capital

- Centralize data collection and use information on new drugs
- Performance evaluation system for new drug laboratories (using outside advisors)
- Staff training

3 . Develop offshore networks and Actively build the business

1 . Structure

- Establish business development headquarters
- Establish Kyorin, USA . Inc. (Staff of five)

Operations

- Evaluation of other technologies and alliances, research, analysis and negotiations of licenses
- Collection and analysis of information from medical labs and concerning legal and government policy issues
- Build up clinical trial operations in the US
- Other business to support Kyorin Pharmaceuticals Co., Ltd.

- Considering a base in Europe

2 . Increase offshore clinical trials and strengthen alliances

1) Efforts to increase offshore clinical trials

Gatiflo Eye Drops → **Allergan Phase III**

Gatiflo (pediatric) → **BMS Phase III**

KRP - 297 → **Merck Phase IIb**

2) Aggressively seeking licensing / licensee agreements and increasing co-development

KRP - 197, Gatiflo Ear Drops, N - 5984, N - 3389, Pekiron Nail Lacquer → **Considering exports and co-development**

Drugs to strengthen FC fields → **Considering imports**

4 . Productivity improvements, build low-cost operations

1 . Centralize resources and technology in production

Target 30% COGS ratio

- 1) Reduction in number of products
- 2) Outsourcing and increase in alliances
- 3) Improve efficiency through IT

2 . Revolutionary process to accelerate drug development and improve efficiency

Project to increase drug development efficiency

Digitized document management Accelerate decision making through project management Improve clinical trials process

3 . Introduce workflow to increase efficiency in operations

Reduce administrative staff

Main R&D activities (9/30/01)

Stage	Compound/Code	Efficacy	Origin	Features	Comments
Launch (8/01)	KIPRES 10 KIPRES Chewable 5 (pediatric)	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	Japan: Sales with Banyu US: Sales by Merck since 2/98
NDA (3/99)	GATIFLO Tablets	Broad spectrum synthetic anti-bacteria agent	In-house	Effective against respiratory pathogens including resistant-strains. Good bioavailability. Orally shows same hemoglobin profile as IV	US: Licensed to BMS EC: Licensed to Grünenthal Japan: MOU marketing agreement with Dai Nippon (12/00)
Preparing for NDA	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	Montelukast (KIPRES 4mg Tablets)	Anti-bronchial asthma agent	Merck (US), co-developed with Banyu	Newly produced for children 2 to 5 yrs	Add 4 mg tablets Change use and dosage
Ph	KRP - 297 Tablets	Insulin sensitizer	In-house, developed with Banyu	Improves insulin resistance and lipid abnormality of Type 2 diabetes	US: Licensed to Merck (9/99)
Ph	GATIFLO Intravenous	Broad spectrum synthetic anti-bacteria agent	In-house		Added formulation
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.	

Main R&D activities (9/30/01)

Other products (one change approved)

Stage	Compound/Code	Efficacy	Origin	Characteristics	Comments
Prepare for NDA	Mucodyne DS	Bronchial mucous disorders	Joullie In-house developed	Partially dissolved to improve efficacy. Produced in peach flavor for children	Changed to prescription Pediatric use Adult use: National Drug Prices listed on 7/6/01

Licensing developments

	Code	Licensee	Stage	Efficacy	Origin	Comments
Exports	Gatifloxacin Tablets	Grünenthal	Approval Germany (10/01)	Synthetic antibacterial agent	In- house	Launch in 11/01
	Gatifloxacin Intravenous	Grünenthal	Ph /	Synthetic antibacterial agent	In- house	
	Gatifloxacin Eye Drops	Allergan	Ph III (USA)	Synthetic antibacterial agent	In- house	Provide R&D, production and sales rights worldwide except Japan, China, Korea, Taiwan
		Senju Seiyaku	Ph III (Japan)			Provide R&D, production and sales rights in Japan
	KRP - 297	Merck	Ph b (US)	Insulin sensitizer	In- house	Provide R&D, production and sales rights worldwide except Japan, China, Korea, Taiwan
Imports	Rizatriptan	Merck Developing in Japan by Banyu	Preparing NDA applic.	Migraine headache remedy	Merck	R&D by Banyu, exclusive sales rights to Kyorin

Growth in new businesses: update

1. Update on Bistner business fund

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

Invested companies

Focus
Pharmaceuticals New drugs derived from genome etc.
Medical-care Alternative and/or reproductive medicine, and IT
Nursing Facilities, Daycare at home, Related products
Facilities, Daycare at home, Related products



Companies invested	Business
2	<ul style="list-style-type: none"> • Sterilizer / disinfectant for poultry use • Developing treatments for viral pneumonia and rheumatism
1	<ul style="list-style-type: none"> • Dentist delivery (to daycare, nursing homes)
1	<ul style="list-style-type: none"> • Organic waste management (lavatories for nursing use)
3	<ul style="list-style-type: none"> • Sales of health foods • Commercialize various water treatment methods • Securities firm Increase information from China (Kanpo Medicines and health food ventures)