

# Enhancing Management Quality

## Kyorin MIC-09 Medium-Term Business Plan

**Our new corporate vision is to remain an integrated, trusted and unique healthcare company centered on global drug discovery operations.**

### Basic Policy: Evolution and Innovation II

Evolution and Innovation II is the basic policy of the Kyorin MIC-09 plan. The name reflects a continuation of Evolution and Innovation, the basic policy of the Kyorin MIC-05 plan, which guided us through the four years prior to March 31, 2005. In line with this basic policy, we will evolve our drug discovery business model and create new businesses to support drug discovery operations.

#### Evolve Our Drug Discovery Business Model

Under the Kyorin MIC-09 plan, we will establish a global drug discovery organization based around our drug discovery and research institutes in Japan, the United States and Europe. We intend to build a business model whereby we achieve maximum profit in a short time frame by developing compounds to a late stage and then licensing them out.

#### Create New Businesses to Support Drug Discovery Operations

We plan to move beyond our traditional domain of ethical drug development, by stepping up efforts to promote innovative health-related businesses that complement our high-risk, high-return drug discovery operations to ensure stable growth.

### Development of the Drug Discovery and Research System

In December 2004, Kyorin acquired the U.S. company ActivX Biosciences, Inc. This move allows us to search for and evaluate targeted compounds using its proteomic technologies.

### Basic Strategy 1: Drug Discovery Business

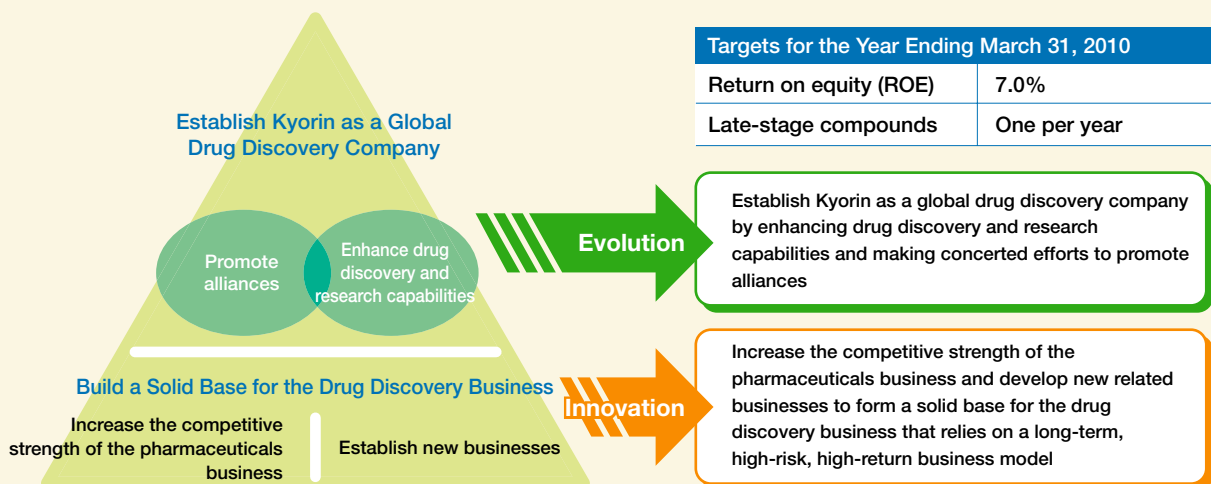
#### Establish Kyorin as a Global Drug Discovery Company

#### ■ Establish a Global Drug Discovery System through Drug Discovery and Research Bases in Japan, the United States and Europe

We will continue to adjust our business model so that our focus is not just on launching products but also on licensing out compounds to third parties. Accordingly, to facilitate the licensing business we aim to produce one “First in Class” or “Best in Class” late stage compound per year by reinforcing the stages of drug discovery and research, especially from initial drug discovery to proof of concept (POC)—proof of drug efficacy and safety in humans.

Our three drug discovery and research institutes are Kyorin Discovery Research Laboratories in Japan, ActivX Biosciences, Inc., in the United States and Kyorin-Scotland Research

## Kyorin MIC-09



Laboratories (KSRL) in the United Kingdom. We will establish a global drug discovery system that generates synergies between the three laboratories, which will facilitate a smooth progression from initial drug discovery to POC and ensure thorough and prompt evaluations of projects and compounds under development. We believe this will enable more effective drug discovery and development.

### Key Challenges

- Build a global drug discovery organization
- Enhance POC evaluation in terms of speed and accuracy
- Ensure better documentation
- Promote measures to improve overseas clinical development
- Reinforce intellectual property management

### ■ Make Concerted Efforts to Form Alliances that Generate Maximum Value More Quickly from Late-Stage Compounds

We will seek to accelerate and improve the efficiency of new drug development by making full use of outside capital. To this end, we will establish collaborations with leading domestic and multinational companies for further development, production and marketing of our compounds that have achieved POC. Under the Kyorin MIC-09 plan, we aim to discover and license out one drug per year until March 31, 2009, as a measure to counter the negative effects of our Gatiflo patent expiring the same year.

## Basic Strategy 2: Pharmaceuticals Business

### Increase the Competitive Strength of Our Pharmaceuticals Business to Increase Profits for Drug Discovery

#### ■ Increase the Competitive Strength of the Domestic Sales Organization

#### Cultivate customers that will become a long-term source of business

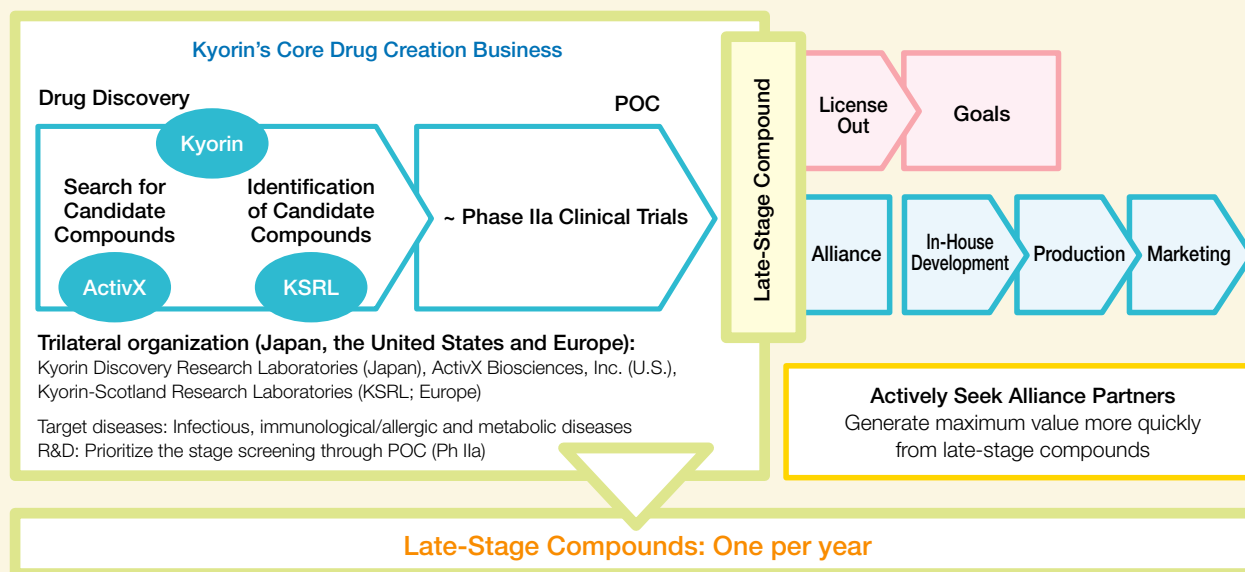
We will channel operating capital into cultivating demand from 50,000 physicians that are regularly visited by our medical representatives (MRs) and include a core of 26,000 Franchise Customer 3 (FC3)\* physicians. As we do so, we will strive to cultivate long-term customers with the goal of raising the number of prescriptions for our drugs. In line with this goal, we intend to bolster our sales capabilities by establishing a sales force of 630 MRs.

\* FC3 refers to the three areas—respiratory internal medicine, otolaryngology and urology—where we provide our principal products to patients with infectious, respiratory or other diseases.

#### Ensure better management of existing product lifecycles

We will promote the continued growth of our principal existing products through a lifecycle management program for the development of additional drug indications and formulations. To this end, we will establish the necessary scientific evidence while taking into account each product strategy.

## Shifting Our Focus from Total Drug Development to Drug Discovery



## Business Structure



### ■ Optimize Profits from the New Drug Uritos

We are seeking early approval of the new drug Uritos, which is currently under review by Japanese health authorities. In addition, we will prepare for the product's launch to secure maximum profits as early as possible. To this end, we will conduct pre-marketing activities that capitalize on relationships developed with customers as part of the FC3 strategy.

#### **Uritos KRP-197 Treatment of Overactive Bladder (OAB)**

**Features:** Steady and long-lasting efficacy with low incidence of adverse events such as dry mouth

**Market:** The Japanese market for OAB drugs is estimated to be worth approximately ¥30.0 billion. Factors that will probably influence the market include: simplified diagnosis based on new OAB guidelines, invigoration of the market due to the launch of new drugs and an increase of potential patients. Our goal is to capture an 8% to 10% share of the expanded market through sales of Uritos.

### ■ Utilize Outside Financial Resources by Promoting Alliance Strategies, Including M&As

#### **Introduce new products to reinforce our lineups in the FC3 areas**

We aim to enhance our product lineup by acquiring development, production and marketing rights from other pharmaceutical companies for products already under development and/or on the market.

#### **Promote marketing partnerships to maximize sales**

We will form marketing partnerships with leading companies inside and outside of Japan to provide innovative new drugs to a global healthcare market and thereby maximize sales.

### Basic Strategy 3: New Businesses

#### **Develop New Businesses that Will Build on the Foundations of the Pharmaceuticals Business and Contribute to Future Growth**

Ensuring business stability is a key goal for us. We will therefore establish new health-related businesses, which have short business cycles, to complement our drug discovery operations, which rely on a long-term, high-risk, high-return business model. Our new businesses include a healthcare business supported by physician recommendations, a generic drug business that provides reliable products, and a wellness business based on cooperation with physicians. We will capitalize on the reliability of the Kyorin brand to offer products and services that embody our corporate philosophy—to contribute to better health.

### ■ Promote a Generic Drug Business that Provides Reliable Products

In our pharmaceuticals business, which focuses on treatment, we will extend the scope of our operations to generic drugs. In May 2005, we acquired Toyo Pharmar Co., Ltd., a company that specializes in generic drug production and sales. With this step, we ventured into Japan's generic drug market, anticipating its future expansion.

### ■ Nurture a Consumer Healthcare Business Supported by Physician Recommendations and a Wellness Business Based on Cooperation with Physicians

In June 2005, we acquired full ownership of Dr. Program Co., Ltd., a developer of cosmetics with pharmaceutical functions. This step was part of a move into the consumer healthcare business. In the wellness business, our focus will be on health improvement. We will strive hard to discover and nurture new businesses in this area, in addition to promoting alliances and collaborations.