

January 23, 2003

## **Business integration between Kyorin Pharmaceutical Co., Ltd. and the Medical & Pharmaceutical Business Group of Teijin Ltd.**

Teijin Ltd.  
Kyorin Pharmaceutical Co., Ltd.

Teijin Ltd. (Head Office: Chuo-ku, Osaka; President: Toru Nagashima; “Teijin”) and Kyorin Pharmaceutical Co., Ltd. (Head Office: Chiyoda-ku, Tokyo; President: Ikuo Ogihara; “Kyorin”) have reached a basic agreement that, scheduled for October 1, 2003, the Medical & Pharmaceutical Business Group of Teijin will be spun off and integrated into Kyorin, thus being developed as a key consolidated subsidiary of the Teijin Group. The newly integrated company will maintain its independent operation as a listed company.

Today, the boards of directors of both companies have approved the proposed integration, and both companies will enter into a memorandum agreement to start full-fledged negotiations.

Currently, the environment surrounding the pharmaceutical industry is growing increasingly difficult as evidenced by the reduction in medical prices and as a result, mergers and acquisitions among pharmaceutical companies in the world and restructuring in the domestic pharmaceutical industry are in progress. Under such circumstances, Kyorin, an independent company specializing in pharmaceuticals, and the Medical & Pharmaceutical Business Group, a division of Teijin, a well-diversified company, have decided to start a full-fledged negotiations of the future integration, in light of the fact that they can share synergies in strategic fields and business strategies, despite their different organization forms.

By this business integration, the sales would amount to approximately 160 billion yen, R&D expenses would amount to approximately 20 billion yen and operating profit would amount to approximately 29 billion yen, in total figures if calculated by the figures as of March 2002. The newly integrated company, as a medical and pharmaceutical manufacturer having strength in specific areas, and as a company contributing to human healthcare with a new business model involving home health care, will aim at achieving, at an early stage, sales of 200 billion yen, which will enable greater resource for R&D investment of approximately 30 billion yen.

The details are as follows:

### **1. Background of the Integration**

(1) The environment surrounding the Japanese pharmaceutical industry is becoming increasingly challenging with progress of significant reform in the medical care system and sluggish trend in pharmaceutical prices. Under such circumstances, each company in the industry is actively pursuing to strengthen their R&D and marketing activities.

(2) In particular, enhancing new drug pipeline is a dominant factor for surviving as a winner and increase in R&D investment is becoming essential for such purpose. The

need to increase company size is being emphasized, and mergers and acquisitions involving overseas companies and restructuring in the domestic pharmaceutical industry are in progress.

(3) The Medical & Pharmaceutical Business Group of Teijin has developed its business with two main business pillars, one of which is the medical business focusing on the bone, respiratory and CVS / metabolism fields and the other is the home health care business, which has a large industry share. Actively inputting its operating resources and pursuing efficiency and cost reduction, the Group has aimed at achieving, at an early stage, sales of 200 billion yen, by strengthening the R&D and marketing infrastructures focusing on specific fields and eyeing M&A and alliances.

(4) Kyorin, with its basic principle of “Evolution and Creation,” is pursuing (i) the establishment of internationally competitive new drug development models, and (ii) efficient operation generating cost for new drug development. With a focused investment in the franchise area, Kyorin has effectively created seeds for new drugs and tried to make international development for new drugs combined with an alliance strategy. Kyorin aims to achieve sales of 100 billion yen in 2005 in order to generate R&D investment of 15 billion yen.

(5) Under the current environment surrounding the pharmaceutical industry, both companies have decided that it would be mutually beneficial for them to separate the Medical & Pharmaceutical Business Group from Teijin and integrate it into Kyorin and develop the newly integrated company as a key consolidated subsidiary of the Teijin Group.

## **2. Outline of the Integration**

### **(1) Purpose of the integration**

The purpose of the business integration is to enhance the presence in the domestic medical and pharmaceutical business and ensure operational resources necessary for new drug development. The newly integrated company aims at becoming a R&D driven company with an internationally competitive creativity in specific areas. Furthermore, by fully utilizing Teijin’s global network, the newly integrated company will be able to accelerate its international development.

### **(2) Scheme of the integration**

(i) Scheduled for October 1, 2003, both companies will integrate their business by using the method of “absorbing division,” under which Teijin separates its Medical & Pharmaceutical Business Group and Kyorin succeeds to the business.

(ii) Prior to the separation, Teijin will acquire the holding company which currently holds Kyorin shares, and then, Teijin will have more than 50% of Kyorin shares, including the shares of Kyorin to be acquired as a result of the proposed integration. Thus, Kyorin will become a consolidated subsidiary of Teijin.

### **(3) Management system of the newly integrated company**

We believe this proposed integration is a win-win situation between Japanese companies involving an independent pharmaceutical company and a medical and pharmaceutical business group in a diversified company, both of which are highly profitable. The newly integrated company after integration will maintain an independent operation as a listed company. Mr. Ikuo Ogihara, the current president of Kyorin, will continue to handle the new Kyorin as its president. Such integration is expected to produce strengthened competitiveness as well as flourished creativity and vitalized organization as a result of the highly efficient operation, which meets the needs for the business environment and allows for rapid decision-making.

#### **(4) Outline of the newly integrated company**

- (i) Share Allotment Ratio: To be discussed and determined by the two companies based on an evaluation by independent institutions.
- (ii) Company Name: Kyorin Pharmaceutical, Co., Ltd. The company will also use brands of the Teijin group, which will be separately announced.
- (iii) Location of Head Office: 5, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo (same as the current Kyorin)
- (iv) Representative: Ikuo Ogihara, Representative Director and President
- (v) Others: Items necessary for the integration will be discussed and determined by the two companies. The six Teijin Group companies marketing home health care service will continue to use their current trade names.

#### **(5) System promoting the integration**

To facilitate and expedite the integration, the Integration Committee will be organized by the two companies, which will have functional sub-committees.

The integration is subject to approval of the general shareholders' meetings of both companies and of the authorities.

### **3. Effect of the Integration**

The Integration Committee will examine the specific policies and methods to realize and maximize the effect of the integration. At the current stage, we expect great integration synergies, from the following standpoints:

#### **(1) Establishment of a solid franchise in the respiratory area**

With the present lineup of pharmaceutical products of two companies, the Teijin's home health care business having a large share, and the enhanced pipeline, the respiratory area will be widely covered.

#### **(2) Strengthened and enriched development pipeline**

In addition to the respiratory area, focused R&D areas will increase to six, including

infections, immunology / allergy and metabolism areas of Kyorin, and bone and CVS areas of Teijin. The pipeline will have eighteen products with eight products from Kyorin and 10 from Teijin under clinical development.

**(3) Strengthened marketing arm**

In the whole aspects of the medical and pharmaceutical business, the newly integrated company will have approximately 1,750 members in the sales & marketing area (of which there will be 1,200 medical representatives), and such sales force will be regarded as first rate in Japan. The strengthened sales force will enable effective business activities through strong promotional development in areas of franchise and synergetic effect of both companies' medical representatives.

**(4) Strengthening research activities**

In the lead optimization, which is the strength of both companies, human resources and quality of researchers will be strengthened.

**(5) Future prospects**

By structuring a solid business base in Japan, increased product portfolios and global business development will be expected.

**4. Impact on Business Results**

**(1) Business results of the both companies**

Consolidated financials for the fiscal year ended March 2002

(1 billion yen)

	<b>【Kyorin】</b>	<b>【Medical &amp; Pharmaceutical Business Group of Teijin】</b>
Sales	62.4	94.5
Operating profit	12.0	16.9

Prospective consolidated accounting for the fiscal year ended March 2003

(1 billion yen)

	<b>【Kyorin】</b>	<b>【Medical &amp; Pharmaceutical Business Group of Teijin】</b>
Sales	71.9	95.0
Operating profit	14.3	14.5

The business integration will be scheduled for October 1, 2003, and it will not have any impact on the consolidated business results for the fiscal year ended March 2003. We will disclose the prospective business results on and after fiscal year 2003 sequentially.

**(2) Teijin**

Teijin had initially planned to spin-off its pharmaceuticals and health care

business and transfer it to Teijin Pharma, Ltd. under the total plan of Teijin to become a holding company. Although such separation was resolved by the general shareholders' meeting of last year, due to the changed plan to the proposed business integration with Kyorin, Teijin cancels said transfer to Teijin Pharma, Ltd.

With regard to the consolidated business results of the pharmaceutical and health care business for the fiscal year 2003, the prospect of sales will increase since the newly integrated company will be intended to become a consolidated subsidiary.

5. Schedule in the future

- (1) Execution of the Company split Agreement  
End of April 2003 (expected)
- (2) Approval of the Company split Agreement by the shareholders of both companies  
Late in June 2003 (expected)
- (3) Date of the Company split  
October 1, 2003 (expected)

Concluded

**【Reference about this matter】**

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Yoshikawa, Usami (Tel:03-3506-4055 Fax:03-3506-4150)

Kyorin Pharmaceutical Co., Ltd., Planning office  
Hogawa (Tel:03-3293-3414 Fax:03-3293-3450)

### **Summary of Kyorin Pharmaceutical Co., Ltd.**

1. Establishment: December 1940
2. Head office: 5, Kanda Surugadai, 2-chome Chiyoda-ku, Tokyo
3. Capital stock: ¥4,3 billion (As of March 31, 2002)
4. Representative: President Ikuo Ogihara
5. Number of employees: 1,671 (ditto)
6. Sales: ¥61,1 billion  
(Fiscal year ended March 2002)
7. Description of business: Manufacture and sale of pharmaceuticals, quasi-drugs, reagents, industrial products, etc.

### **Summary of Teijin Ltd.**

1. Establishment: June 1918
2. Head office: 1-6-7, Minami-honcho, Chuo-ku, Osaka-shi
3. Capital stock: ¥70.8 billion (As of March 31, 2002)
4. Representative: President & CEO Toru Nagashima
5. Number of employees: Consolidated 24,026  
(ditto)  
Non-consolidated 4,252  
(ditto)
6. Sales: Consolidated ¥923.4 billion  
(Fiscal year ended March 2002)  
Non-consolidated ¥232.3 billion  
(ditto)
7. Description of business: Carrying on business activities focusing on synthetic fiber, chemical products, pharmaceutical and medical care in Japan and more than 10 foreign countries; and developing its business with group companies on a global scale.

**【Medical & Pharmaceutical Business Group of Teijin】**

Group leader: Teijin group Executive operating officer  
Toshio Naito

Employees: 2,202 (As of March 31, 2002)

Sales: ¥94.5 billion  
(Fiscal year ended March 2002)

Description of business: Core business of Teijin group. It expands its business nationwide respectively, focusing on the three fields of bone metabolism, respiratory and cardiovascular in the ethical pharmaceutical, additionally, focusing on the domiciliary oxygen therapy business which occupies a high share in the home care market.

Subsidiaries: Teijin Home Healthcare East Japan Ltd.  
Teijin Home Healthcare Tokyo Ltd.  
Teijin Home Healthcare Central Ltd.  
Teijin Home Healthcare Kansai Ltd.  
Teijin Home Healthcare West Japan Ltd.  
Teijin Home Healthcare Kyushu Ltd.  
TEYSAN Pharmaceuticals Co., Ltd.