Striving development of high quality products for greater value

DAINIPPON PHARMACEUTICAL CO., LTD.

Annual Report 2002

For the year ended March 31, 2002

Corporate Profile

Dainippon Pharmaceutical Co., Ltd., as one of the pioneers of the modern pharmaceutical industry in Japan, has continuously striven to contribute to society with its research and development of better pharmaceuticals and in the supply of those products to the health care world.

Since its foundation in 1897, the Company has used its novel perspectives and insights toward the creation of ever more useful pharmaceuticals. Many of our quality products have won firm confidence and an enviable reputation in the health care profession.

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Disclaimer Regarding Forward-looking Statements

Statements made in this annual report regarding Dainippon Pharmaceutical's plans, strategies, beliefs, and other statements that are not historical facts, are forward-looking statements based on management's assumptions and beliefs in light of information available at the time of publication, and involve risks and uncertainties that could cause the Company's actual results to differ materially from those presented in this report.

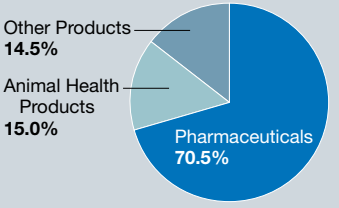
Financial Highlights

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note)
	2002	2001	2002/2001	2002
For the Year:				
Net sales	¥164,117	¥158,873	3.3%	$1,233,962
Operating income	17,181	16,150	6.4	129,181
Net income	9,596	9,376	2.3	72,150
R&D expenses	13,124	12,565	4.4	98,677
Capital expenditures	6,414	4,074	57.4	48,226
Depreciation and amortization	4,334	4,267	1.6	32,587
At Year-End:				
Total assets	186,834	187,309	-0.3	1,404,767
Shareholders' equity	115,985	109,267	6.1	872,068
	Yen			U.S. Dollars (Note)
Per Share Data:				
Net income	¥57.06	¥55.75	2.3%	$0.43
Net income assuming full dilution	54.18	52.70	2.8	0.41
Cash dividends	10.00	8.50	17.6	0.08
	Percent			
Key Ratios:				
Return on equity (ROE)	8.5%	9.0%		
Return on assets (ROA)	5.1	5.0		

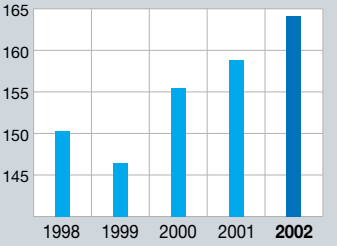
Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥133 to US$1 prevailing on March 31, 2002.

2002 Composition of Sales by Business Segment

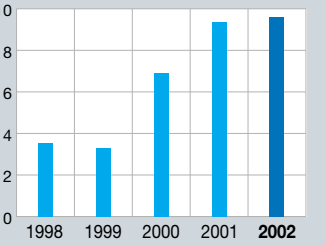


FY 2002

Net Sales
(Billions of Yen)



Net Income
(Billions of Yen)



The operating environment of the pharmaceutical industry remains challenging, affected by measures to contain heath care expenditures and moves to restructure the domestic industry amid a sluggish market. Despite these difficult conditions, the Dainippon Pharmaceutical Group continued to achieve increases in sales and earnings for the third consecutive year. We were also able to substantially improve operating efficiency through initiatives to rebuild our operating base set forth in the Phase I 5-Year Management Plan, which we began in fiscal 1998 and completed in fiscal 2002.

Achievements under Phase I

Overview

This report covers the performance of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the Dainippon Pharmaceutical Group) in fiscal 2002, the year ended March 31, 2002.

To achieve further reforms and growth while adapting to the constantly changing business environment, Dainippon Pharmaceutical and the Dainippon Pharmaceutical Group in 1997 instituted P-UP 21, a revolutionary company vision for itself in the year 2011. The principles of customer satisfaction, human resource development and earning the trust of society form the basis of our business activities. We strive to be a company that constantly creates new value and makes a wide range of contributions to society through our operations in the fields of human and animal health.

The Phase I 5-Year Management Plan has been aimed at realizing the P-UP 21 vision of corporate reform. During fiscal 2002, the final year of the Phase I Plan, we worked to restructure our operating base in line with its provisions.

We focused investment of management resources on our core ethical pharmaceuticals business and implemented the CR30 Initiative to promote low-cost operations. These efforts enabled us to smoothly execute our greatest task—reforming our profit structure. As a result, although we were unable to reach our sales target, we did meet other targets related to profitability, including the operating margin and return on equity (ROE). In addition, we made substantial progress in restructuring our operating base through our efforts to consolidate factories, review our management and R&D organizations, rationalize personnel and reduce expenses.

Results

In fiscal 2002, the area team marketing system introduced the previous year made

Takeshi Tomotake
Chairman

Kenjiro Miyatake
President

pharmaceutical marketing more strategic and efficient. Efforts to strengthen research and development capabilities included a fundamental restructuring and the introduction of a cross-organizational "project system." Other structural reforms included rationalization to optimize production. In addition, we continued to streamline management through our CR30 Initiative, which aims to reduce operating costs by 30 percent.

As a result, net sales rose 3.3 percent from the previous fiscal year to ¥164,117 million. Operating income increased 6.4 percent year-on-year to ¥17,181 million, supported by an improvement in the cost of sales ratio due to changes in our product mix. Despite an extraordinary loss on write-down of investments in securities, net income rose 2.3 percent from the previous year to ¥9,596 million.

Phase I 5-Year Management Plan

As stated above, in fiscal 2002 Dainippon Pharmaceutical completed the Phase I 5-Year Management Plan, with the basic aim of restructuring its operating base. The plan focused on the following strategic initiatives:

- Restructuring the operating base and reforming the product lineup and organizational functions of our core ethical pharmaceuticals business,
- Implementing low-cost operations through business innovations, and
- Vigorously promoting a broad range of strategic alliances.

As a result of these Phase I initiatives, although non-consolidated sales were ¥151.1 billion, below our target of ¥171 billion, we achieved an operating margin of 10.9 percent (target: 10 percent) and ROE of 8.5 percent (target: 7.5 percent) one year ahead of schedule. In addition, under the CR30 Initiative we have rationalized personnel, reducing the number of employees to 2,400 from 2,800 in fiscal 1997.

To adapt to changes in the pharmaceutical industry, Dainippon Pharmaceutical has implemented measures to fundamentally overhaul our operating base, enhance organizational functions, augment our proprietary technologies and streamline the corporate structure. Key initiatives have included reducing the number of company directors from 19 to 9 and implementing an executive officer system; promoting low-cost operations; introducing a group system for a flatter organization; reviewing the R&D organization; adopting an area team marketing system for an improved sales structure; optimizing the production system; and carrying out strategic licensing activities.

The activities of the past five years have resulted in significant improvements in management efficiency. As we set more ambitious targets under the next 5-year plan, every member of the Dainippon Pharmaceutical Group will work together to establish its presence as a research-driven pharmaceutical company.

Outlook

During fiscal 2003, we expect continued sales growth for our high-margin mainstay products such as GASMOTIN®, a gastrointestinal motility enhancer, and PRORENAL®, an agent for the improvement of peripheral circulation. In addition, we anticipate rapid market penetration for three products scheduled to be launched during the year: GATIFLO® Tablets, a broad-spectrum oral antibiotic; QVAR™, an inhaled steroid asthma treatment; and PYLONIC®, an internal-use diagnostic agent for *Helicobacter pylori* infection. As a result, we project a continued increase in net sales.

However, revisions to National Health Insurance drug price standards that went into effect at the beginning of the current

Phase II 5-Year Management Plan

Basic Aim **Realization of Qualitative Operations**

—The challenge of reform towards survival—

1. Promotion of strategies that maximize the potential of each product through close collaboration among the Research, Development and Marketing teams.
2. Enhancement of profitability within domestic pharmaceutical operations.
3. Further development of overseas business activities.
4. Substantial improvements in productivity by optimizing business activities through reducing costs and the labor force.
5. Realization of the full independence of each non-pharmaceutical business by their establishing solid independent profits.
6. Improvement of operational efficiency by aggressively promoting alliances that offer synergies at both a business and functional level.

Goal under Phase II

fiscal year are expected to reduce gross profit. In addition, we anticipate substantially higher selling, general and administrative expenses than previous years as we carry out proactive investments to secure future growth. These expenses will include the sharply higher marketing costs for new product launches and increased investment in R&D to accelerate product development. Consequently, we project year-on-year decreases in operating income and net income.

In April 2002, Dainippon Pharmaceutical and the Dainippon Pharmaceutical Group commenced the Phase II 5-Year Management Plan, the second stage of our effort to realize the P-UP 21company vision. The basic aim of this Phase II plan is to achieve qualitative management. We are committed to carrying out the management reforms outlined below to ensure our continued success in today's increasingly competitive business environment.

Dainippon Pharmaceutical has established the following targets for fiscal 2007, the final year of the Phase II 5-Year Management Plan.

- Operating margin 17%
- Return on equity (ROE) 10%
- Earnings per share (EPS) ¥96

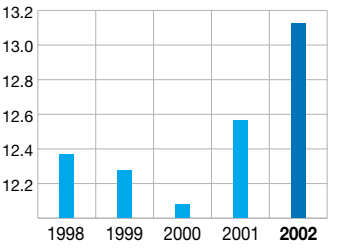
Takeshi Tomotake
Chairman

Kenjiro Miyatake
President

Building a continuous R&D pipeline

Process of research and development of pharmaceuticals is now becoming a more and more sophisticated one due to the rapid evolution of life sciences. In concert with this present situation, in June 2001, Dainippon divided R&D Division into the Drug Research Division and Drug Development Division, to establish and to make clearer their independence and responsibility. We also introduced a lateral "project system" organization for the Research and Development Divisions to work together for strengthening their capability and coordination.

R&D Expenditures
(Billions of Yen)

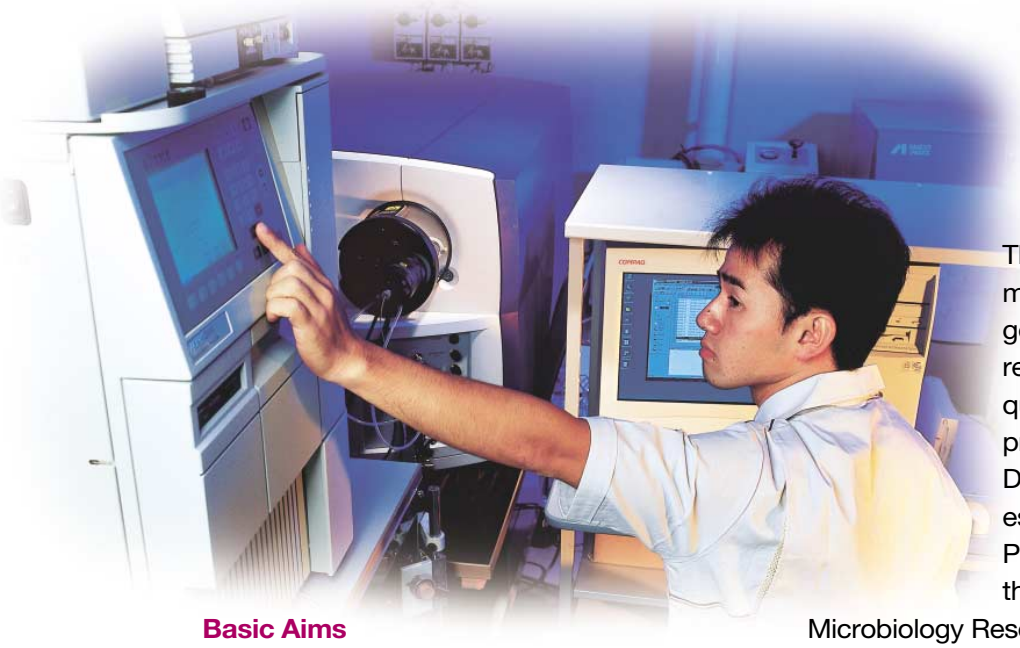


In June 2001, Dainippon Pharmaceutical's long-standing R&D Operations structure was divided into the Drug Research Division and the Drug Development Division. The reorganization is aimed at making clear the respective missions and responsibilities of research and development, and working to carry them out.

Furthermore, the new "project system" is designed to be composed of personnel concerned with a project article (a drug candidate) amongst all divisions from basic research to post-marketing and to accelerate the pace and efficiency of development of the article. The teams are also expected to make stronger the lateral partnerships through research, clinical development and marketing divisions and to serve to raise the team leaders and members as well, which resulting in encouragement of young scientists and researchers who have to conduct multifaceted assessments and to hold energetic discussions aimed to the practical research and development of new drugs.

DRUG RESEARCH DIVISION

Previously, Dainippon Pharmaceutical's research organization was composed of three laboratory facilities—the Discovery Research Laboratories, the Developmental Research Laboratories and the Pharmaceutical Research Laboratories—each responsible for a different stage of drug development. However, following organizational restructuring of Research Laboratories was conducted: the Discovery Research Laboratories were divided into the Chemistry Research Laboratories and the Pharmacology & Microbiology Research Laboratories, and the Developmental Research Laboratories, into the Safety Research Laboratories and the Pharmacokinetics & Physico-Chemical Property Research Laboratories. Dainippon Pharmaceutical's new research organization, comprising the four new laboratories and the Pharmaceutical Research Laboratories, has served to make their roles and responsibilities clearer regarding the selection and focus of resources on the development of new drugs.



Basic Aims

Global R&D investment for new drug development has nearly doubled in the past ten years, but the number of new drugs launched has fallen by roughly 50 percent. Companies are being forced to make drastic changes to their drug development strategies in the face of such fierce competition.

The basic aim of the Drug Research Division is to increase the speed and success of global drug discovery. Accordingly, the Division is carrying out discovery research following the above mentioned restructuring along with the new concept, with prescribed strategies in view of domestic and international regulations involving the quality assurance.

Areas of Exploratory Research

Dainippon is concentrating on exploratory research in four selected areas of vascular, psychic & neurologic, immuno-inflammatory and infectious diseases. Early definition of clear priority within an exploratory research stage and introduction of a research team system have helped to enhance the speed and efficiency of research activities. Early-stage evaluations using early ADME/TOX screening have expectedly assured an improved success rate.

Genomic Drug Discovery

The introduction of high throughput screening (HTS) and automated combinatorial chemistry systems in the 1990s resulted in a quantitative change in drug discovery research activities. The announcement of the mapping of the human genome sequence in 2001 represents an even greater qualitative change in the process. In response, Dainippon Pharmaceutical established the Advanced Pharmacology Group within the Pharmacology & Microbiology Research Laboratories to conduct genetic research and the Structural Chemistry Group within the Chemistry Research Laboratories to analyze protein expression and structure. Both Groups are working to identify and validate drug targets using genomics, proteomics and bioinformatics. Application of basic technologies such as HTS is also succeeded to this new strategy.

Dainippon Pharmaceutical also plans to make use of genome technology and information for predicting pharmacokinetics and drug safety in humans, not only for use in exploring drug targets but also to improve the likelihood of success of research. We are also working to improve our know-how of leading-edge technologies by participating in various projects at external research institutions and conducting the external joint researches.

DRUG DEVELOPMENT DIVISION

The Drug Development Division is comprised up of Development Management, Clinical Development, International Clinical Development, GCP Assurance and Pharmacovigilance & Medical Information. Development Management is responsible for project management, regulatory affairs, and resource management, Clinical Development handles clinical studies in Japan and International Clinical Development is in charge of clinical studies overseas. Pharmacovigilance & Medical Information conducts post-marketing surveys, prepares post-marketing product information and manages safety data.

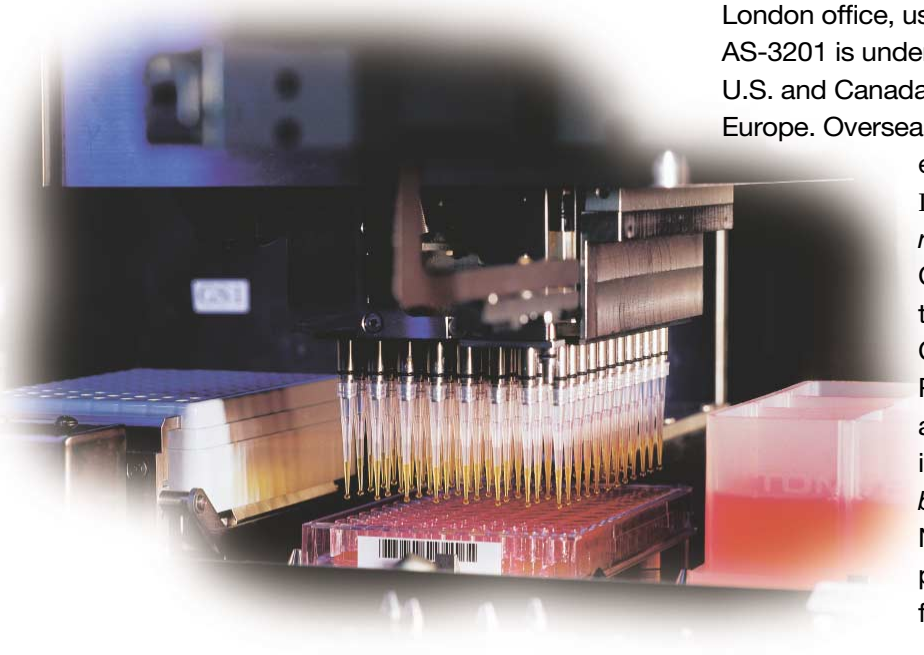
Basic Aims

The first basic aim of the Drug Development Division is to shorten the development period. Currently, the standard period from the start of clinical trials to application for approval is aimed to be five years. A key strategy for reducing this timeframe is to concentrate development resources on high-priority candidates. The Division will also make effective use of external resources such as clinical research organizations (CRO) and site management organizations (SMO) in clinical trials. The second basic aim is prompt rapid assessment of product characteristics. To this end, the Division conducts clinical studies, from Phase I to the proof-of-concept (POC) study, wherever the quickest development is possible, whether it be in Japan or overseas. The third basic aim is value-added development.

In July 2001, Pharmacovigilance & Medical Information (then the Pharmacovigilance & Medical Information Center), which had been separated off from the R&D Division, became part of the Drug Development Division. This led to the establishment of a unified development strategy encompassing the entire process from Phase I clinical trials to post-marketing, and a clinical development system that generates product information from the development stage for use in post-marketing activities. Management of safety data has also been centralized through all stages. The basic aims of Pharmacovigilance & Medical Information include establishing and maintaining a reliable post-marketing survey system, promoting proper use at the international level, and providing support for pharmacovigilance activities through effective use of product information.

Globalization of Development

For development candidates identified by Dainippon Pharmaceutical, the Company generally conducts clinical tests up to the POC study stage either in Japan or overseas, and then searches for a licensee to further develop the product overseas. In the case of candidates such as AJ-9677 and AC-5216, where companies expressed interest at a very early stage, we finalize the licensing agreement at that time. Because the slow pace of clinical trials has long been a problem in Japan, the results of clinical trials already completed overseas are used to shorten the time to approval and launch. Overseas clinical trials are performed by International Clinical Development in cooperation with Dainippon Pharmaceutical U.S.A Corporation and the London office, using local CROs. At present, AS-3201 is undergoing Phase II trials in the U.S. and Canada and AC-3933 is in Phase I in Europe. Overseas clinical trials being conducted by licensees include Phase II trials for AJ-9677 and *mosapride citrate* by Takeda Chemical Industries, Ltd. in the U.S. In Europe, Elan Corporation, plc. is conducting Phase III trials for *zonisamide* and Almirall Prodesfarma, S.A. is conducting Phase I trials for *blonanserin*. In addition, Novartis Pharma AG is in preparation for Phase I trials for AC-5216.



Summary of Major Development Candidates

Blonanserin

Blonanserin has a novel chemical structure that is completely different from the existing antipsychotic agents. This serotonin-2 (5-HT_2) and dopamine-2 receptor antagonist has demonstrated efficacy on both the positive and negative symptoms of schizophrenia. The results of recently completed clinical trials have proved the both efficacies of *blonanserin*, and suggest that *blonanserin* causes fewer extrapyramidal adverse reactions compared to other agents. In addition, side effects such as weight gain and elevated blood sugar levels, which are problems with *olanzapine*, another new antipsychotic, were not observed. Phase III clinical trials have been completed, and Dainippon Pharmaceutical is preparing to file for approval during the first half of fiscal 2003. Spanish pharmaceutical company Almirall Prodesfarma, S.A. has licensed from Dainippon Pharmaceutical the rights to develop and market *blonanserin* worldwide, excluding Japan, South Korea, China and Taiwan, and is currently conducting Phase I trials in Europe.

AJ-9677

AJ-9677, developed by Dainippon Pharmaceutical, is a $ß_3$-adrenaline receptor agonist that reduced insulin resistance by improving both lipid and glycemic metabolism, offering a new type of treatment for type-2 diabetes. In addition, since the compound promotes energy consumption by breaking down triglycerides in adipocytes, it has the potential to be developed as an anti-obesity drug. Diabetes and obesity have received the greatest attention among lifestyle-related illnesses, and this market is expected to continue expanding. In September 1999, Takeda Chemical Industries, Ltd. received the license to develop and market AJ-9677 worldwide, excluding Japan, South Korea, China and Taiwan, and is currently conducting Phase II trials in the U.S. Dainippon Pharmaceuticals is also conducting Phase II trials in Japan for patients with type-2 diabetes.

AS-3201

In diabetic patients, glucose, which cannot be metabolized in the usual manner, is metabolized by aldose reductase into sorbitol, which accumulates in cells, causing complications such as nerve and blood vessel damage, kidney disease, and retinopathy. AS-3201, discovered by Dainippon Pharmaceutical, is an aldose reductase inhibitor (ARI) that prevents complications due to the accumulation of sorbitol in the cells of diabetic patients. Due to its strong enzyme-inhibiting activity and long-acting effects, AS-3201 is expected to demonstrate clear clinical efficacy compared with similar agents on the market or under development. Dainippon Pharmaceutical is currently conducting Phase II trials in the U.S. and Canada.

Zonisamide (EXCEGRAN®)

Zonisamide is an antiepileptic agent developed by Dainippon Pharmaceutical that has been marketed in Japan under the brand name EXCEGRAN® since 1989. At the Neurology Department of the University of Tokyo Hospital, when epilepsy patients with Parkinson's symptoms were given *zonisamide*, their Parkinson's symptoms improved significantly. These findings attracted a great deal of attention when they were reported at the Annual Meeting of the Japanese Society of Neurology held in May 2001. Parkinson's disease is currently treated with *L-dopa*, which becomes less effective as the disease progresses. However, *zonisamide* produces a beneficial effect through a completely different mechanism of action, and there are high expectations for its clinical efficacy. Dainippon Pharmaceutical is currently conducting Phase II trials for an additional indication for *zonisamide* as a treatment for Parkinson's disease.

AC-3933

The nursing of elderly patients with Alzheimer's dementia and cerebrovascular dementia has become a major social issue, and treatments for senile dementia, have become increasingly important products. AC-3933 is a benzodiazepine receptor inverse agonist with a novel mechanism of action that is expected to improve memory loss, one of the core symptoms of senile dementia. At present, Dainippon Pharmaceutical is conducting Phase I trials of AC-3933 in Europe.

AC-5216

Dainippon Pharmaceutical's discovery research team for neuropsychiatric agents has concentrated for many years on benzodiazepine receptors. AC-3933 and AC-5216 are two drugs of this class with novel mechanisms of action that have gained wide attention in the expanding market for anxiety and depression treatments. AC-5216 is a mitochondrial benzodiazepine receptor agonist that treats anxiety and depression by promoting the production of neurosteroids. In February 2002, Novartis Pharma AG received exclusive rights to develop and market AC-5216 globally, excluding Japan, South Korea, China and Taiwan.

New Drugs in the R&D Pipeline

Products under Development in Japan and Overseas

Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Preparation for launch	PYLONIC®	*^{13}C-urea*	Tablet	Diagnostic (for ^{13}C-urea breath test of H. Pylori)	Developed in-house
	QVAR™	*beclomethasone dipropionate*	Non-CFC Metered dose inhaler	Bronchial asthma	Licensed from 3M
NDA filed	TIENEF®	*sonermin*	Injection	Anticancer agent (skin); Human γTNF	Developed in-house
	OPSO® (AN-982) *New Formulation	*morphine hydrochloride*	Liquid	Analgesic	Developed in-house
	VALERIN® *New Indication	*sodium valproate*	Tablet	Mania and manic states of manic-depressive psychosis	Co-developed with 9 companies
Preparation for NDA filing	LONASEN® (AD-5423)	*blonanserin*	Tablet Powder	Antipsychotic	Developed in-house
	ANPEC® *New Administration Route: epidural morphine	*morphine hydrochloride*	Injection	Analgesic	Co-developed with 4 companies
Preparation for Phase Ⅲ	ZANIDIP®	*lercanidipine hydrochloride*	Tablet	Anti-hypertensive (Ca antagonist)	Licensed from Recordati Co-developed with Tsumura
Phase Ⅱ	AURORIX®	*moclobemide*	Tablet	Antidepressant	Licensed from Roche
	AS-3201	—	Tablet	Aldose reductase inhibitor	Developed in-house
	AJ-9677	—	Tablet	Antidiabetic	Developed in-house
	EXCEGRAN® *New Indication	*zonisamide*	Tablet	Anti-parkinson disease	Developed in-house
Preparation for Phase Ⅱ	DSE-9912	*tocopherol acetate*	Ointment	Antidermatitis	Licensed from Sekisui
	GASMOTIN® *New Indication	*mosapride citrate*	Tablet	Post-gastrectomy syndrome	Developed in-house
Phase Ⅰ	MGI-114	*irofulven*	Injection	Anticancer	Licensed from MGI
	AC-3933	—	Tablet	Antidementia	Developed in-house
Preparation for Phase Ⅰ	AC-5216	—	Tablet	Antianxiety & Antidepressant	Developed in-house
	AE-3763	—	Injection	Human leukocyte elastase inhibitor	Developed in-house

Being a research-driven pharmaceutical company, Dainippon's primary aim is to bring the best medicines to the marketplace to help those people who need them most. At the same time, Dainippon is constantly challenging to improve its strategy for growth in pursuit of ever-higher performance. While promoting these ideals, Dainippon continues to expand its business and research base by developing opportunities and by establishing productive relationships with other companies, thereby realizing synergies through combined philosophies, capabilities and assets.

Developing Strategic Alliances

During the fiscal year under review, Dainippon concluded five contracts with other major pharmaceutical companies that will maximize the potential of our mutual activities and realize potential opportunities.

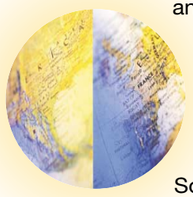
Domestic Activities

In September 2001, Dainippon entered into an agreement with Schering-Plough K.K. to co-market QVAR™ in the Japanese market. QVAR™ is a new metered-dose inhaler (MDI) of *beclomethasone dipropionate*, using the chlorofluorocarbon-free (CFC-Free) propellant HFA-134a, which has no ozone-depletion potential. Planning to launch QVAR™ in August 2002, Dainippon expects this collaboration with Schering-Plough K.K. will strengthen the mutual market positions of each company and encourage a more rapid market penetration of the product. Through this collaboration Dainippon is proud to expand its contribution towards not only improving the treatment of asthma but also towards ozone layer protection as well.

In December 2001, Dainippon announced that it had signed a preliminary agreement to acquire the right to co-develop and co-market *lercanidipine*, a new calcium antagonist, with Tsumura & Co. in the Japanese market. Dainippon expects this agreement will accelerate the speed of the development and will amplify the potential of the product, which originated from the laboratories of the Italian company, Recordati Industria Chimica E Farmaceutica S.p.A., and has been launched in more than 30 countries, including Italy, France, Germany and the U.K.

In September 2001, Dainippon Pharmaceutical and Schering-Plough K.K. signed a contract for co-marketing for QVAR™, an anti-asthmatic agent, in the Japanese market.

International Activities



In May 2001, Dainippon concluded an agreement to grant the Spanish pharmaceutical company, Almirall Prodesfarma S.A. restricted-worldwide (excluding Japan, China, Taiwan and South Korea) development and marketing rights of Dainippon's original antipsychotic agent "*blonanserin* (AD-5423)". *Blonanserin* has dopamine 2 and serotonin 5-HT_2 receptor antagonistic properties, and through this agreement is already under worldwide development—with its Japanese development being the most advanced.

In February 2002, Dainippon Pharmaceutical and Novartis Pharma AG signed a licensing agreement for development and distribution of AC-5216, an anti-anxiety/anti-depressant drug invented by Dainippon.

In November 2001, Dainippon finalized and concluded an agreement with Takeda Chemical Industries, Ltd., following a preliminary agreement concluded last year. Under this agreement, Takeda Chemical Industries, Ltd. receives restricted-worldwide (excluding Japan, China, Taiwan and South Korea) development and marketing rights of *mosapride citrate*. *Mosapride citrate* is the world's first selective serotonin 5-HT_4 receptor agonist that enhances gastrointestinal motility, and has been on the market in Japan since 1998 under the trade name of GASMOTIN®.

Also in February 2002, Dainippon licensed out Dainippon's original AC-5216 to Novartis Pharma AG who has received restricted-worldwide (excluding Japan, China, Taiwan and South Korea) development and marketing rights of AC-5216. AC-5216 is an anti-anxiety/anti-depressant drug with an innovative therapeutic mechanism. Unlike most of the currently available anti-anxiety agents of benzodiazepine type, AC-5216 is an agonist for the mitochondrial benzodiazepine receptor and stimulates the production of neurosteroids that act on $GABA_A$ receptors.

Dainippon believes that these strategic alliances will allow both Dainippon and its partnering companies to continuously activate our mutual pipelines in these collaborative fields and promote us to stronger positions in the marketplace.

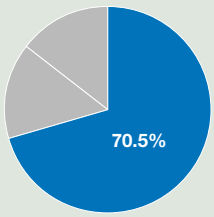
Dainippon's central focus is on the greatest current and future needs for patient medication. Through our partnerships with outside talent, Dainippon envisages contributing even more to those medical needs.

Dainippon Pharmaceutical at a Glance

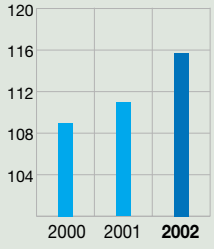
Pharmaceuticals

The pharmaceuticals business—Dainippon Pharmaceutical's core field of operations—focuses on ethical pharmaceuticals as well as offering over-the-counter drugs and diagnostics. In the ethical pharmaceuticals business, Dainippon Pharmaceutical continues to promote even more strategic and effective marketing with the introduction of "area team marketing system". This new system is designed to be responsive to the shift toward the localized, self-contained health care systems of secondary healthcare zones, which are the future of Japanese healthcare provision, as well as other changes in the pharmaceutical industry, such as the separation of medical prescription and dispensing functions. In fiscal 2002, pharmaceuticals sales totaled ¥115,707 million, accounting for 70.5 percent of total sales.

2002 Composition of Sales



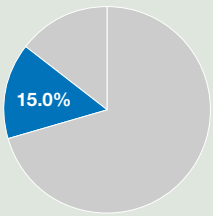
Sales
(Billions of Yen)



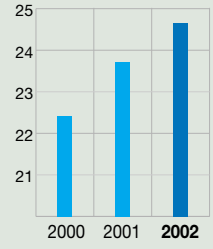
Animal Health Products

Based on the theme of offering comprehensive health care for pets, Dainippon Pharmaceutical's animal health products business focuses marketing on the veterinary market for small animals. The product lineup in this segment consists of pharmaceuticals for the prevention or treatment of various animal diseases, as well as canine nutritional formulas licensed from Hill's Pet Nutrition, Inc. In fiscal 2002, sales in the animal health business totaled ¥24,646 million, accounting for 15.0 percent of total sales.

2002 Composition of Sales



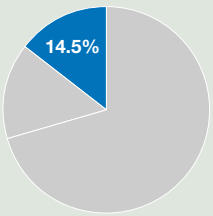
Sales
(Billions of Yen)



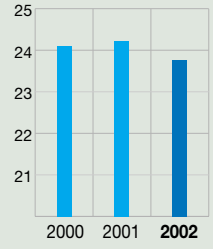
Other Products

Other businesses include food and food additives such as natural thickening agents, stabilizers and seasonings; industrial chemicals; and research materials, including research reagents, cell culture products and measuring equipment for laboratories. In fiscal 2002, sales of other businesses totaled ¥23,764 million, accounting for 14.5 percent of total sales.

2002 Composition of Sales



Sales
(Billions of Yen)



Pharmaceuticals

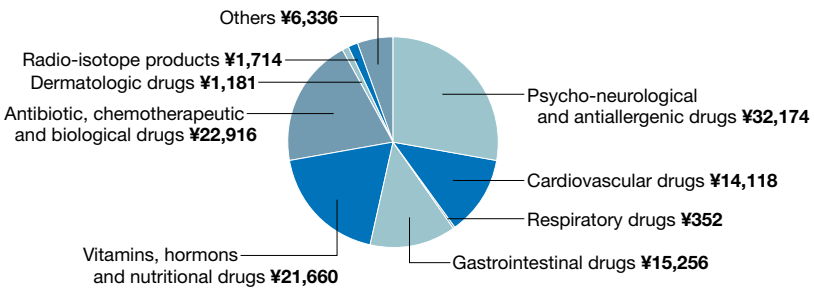
Ethical Pharmaceuticals

Domestic Operations

Dainippon Pharmaceutical has continued to restructure its marketing activities in order to achieve the key objectives of its Phase I5-Year Management Plan—namely, to improve and revitalize its marketing organization and build on its sales strengths. Marketing innovations implemented to attain these objectives include area team marketing system, a support system for medical representatives (MRs), solutions-based MR activities, revised sales methods for distributors, personnel rotation and a study of approaches to objective-based management.

The new "area team marketing system" is the result of a structural review and overhaul of the previous system aimed at clearly delineating individual roles. Keeping in mind the field of secondary healthcare, which will form the basis of the future structure for providing medical care, the new system was designed in response to market changes such as the shift to local healthcare provision and the separation of medical prescriptions and pharmaceutical dispensing. The flat organization will better enable all team members to make the most of the system's functions, thus energizing marketing. Within this framework, we are aiming to build a powerful marketing staff by raising the consciousness of each member under the themes of building an open organization, embracing real change and creating a learning environment.

Sales by Product Category
(Millions of Yen)



Subtotal: ¥115,707 million

Performance of Mainstay Products

The gastroprokinetic GASMOTIN® (*mosapride citrate*) was independently developed by Dainippon Pharmaceutical, and promotional efforts since its 1998 launch have built it into one of the Company's flagship products. The world's first selective serotonin 5-HT_4 receptor agonist, GASMOTIN® promotes gastrointestinal motility. Because GASMOTIN® does not block dopamine D_2 receptors, there is reduced likelihood of extrapyramidal adverse reactions or prolonged QT intervals. As a result, GASMOTIN® has earned a reputation as an extremely effective agent, and we plan to expand sales from its position as a mainstay product.

EBASTEL® (*ebastine*), a long-acting selective H_1 receptor antagonist, was licensed from Almirall Prodesfarma S.A. and launched in Japan in 1996. Administered in a single daily dose, EBASTEL® exhibits potent antihistamine activity and superior efficacy, while adverse reactions such as drowsiness are rare. As a result, market penetration has increased steadily. Although intense competition is expected due to the launch of rival products, the antiallergenic market as a whole is expanding, and Dainippon Pharmaceutical will work to maximize sales of EBASTEL®.

Dainippon Pharmaceutical has long contributed to the field of epilepsy treatments by developing new drugs and ensuring their stable supply, as well as through the activi-

ties of the Japan Epilepsy Research Foundation. Our lineup was further augmented in fiscal 2001 with the launch of MYSTAN® (*clobazam*), the first new antiepileptic on the Japanese market in 11 years. A broad spectrum of activity and indications for use in treating most types of seizures have earned MYSTAN® a reputation as a highly useful adjunctive therapy, helping to further bolster Dainippon Pharmaceutical's strong position in this field. In addition, the antiepileptic agent EXCEGRAN® (*zonisamide*), developed in-house, is highly valued by specialists for its broad spectrum of activity and superior efficacy in refractory cases. It is thought that EXCEGRAN® may also be effective against Parkinson's disease, and we are planning to develop additional indications, which would expand the applications of this drug even further.

Dainippon Pharmaceutical is one of five companies in Japan licensed to manufacture and supply narcotics for medicinal use. Continuing product development in this field has yielded a series of narcotic agents for the treatment of cancer pain, including ANPEC® (*morphine hydrochloride*), available in suppository and injection form, and KADIAN® (*morphine sulfate*), a sustained-release preparation. In addition to relieving the severe pain experienced by cancer patients, the once-daily administration regimen of KADIAN® has been recognized as improving patients' quality of life. Dainippon Pharmaceutical is working to increase market penetration of KADIAN® while contributing further to treatment in this area by expanding its lineup of morphine solutions and high-concentration injections.

GATIFLO® Tablets, a broad-spectrum oral antibiotic.

Three new drugs are scheduled for launch in fiscal 2003: GATIFLO® (*gatifloxacin*), a broad-spectrum oral antibiotic; QVAR™ (*beclomethasone dipropionate*), an inhaled steroid asthma treatment; and PYLONIC®, an internal-use diagnostic agent used to detect *H. pylori* infection. A broad spectrum of activity and strong antibacterial properties make GATIFLO® tablets a particularly important development. Through co-marketing with Kyorin Pharmaceutical Co., Ltd., Dainippon Pharmaceutical is working to make GATIFLO® the number-one oral antibiotic on the market and quickly establish it as a mainstay product. The Company is focusing its efforts on rapid post-launch development of these new products to expand market share.

Overseas Operations

Dainippon Pharmaceutical's international operations have for many years been centered in Asia. However, overseas sales and earnings increased substantially following the April 2000 launch in the United States of *zonisamide*, an antiepileptic developed in-house and has been marketed in Japan under the trade name of EXCEGRAN®. In fiscal 2002, export sales of *zonisamide* totaled ¥1,400 million, accounting for nearly 70 percent of all exports, and operating income rose to more than ¥1,000 million, helping Dainippon Pharmaceutical to achieve its earnings target. *Zonisamide* will be launched in Europe and other regions, and is expected to become one of our major export products.

Mosapride citrate, a gastroprokinetic agent introduced in Japan in 1998 and has been marketed under the trade name of GASMOTIN®, was launched in China in June 2001 and South Korea in April 2002, and has grown into our second major export product after *zonisamide*. Takeda Chemical Industries, Ltd. is handling development the United States and in Europe, and *mosapride citrate* is expected to become a global product in the near future.

Zonisamide is marketed in the U. S. under the trade name of ZONEGRAN®. *Mosapride citrate* is marketed in China and South Korea under the trade name of GASMOTIN®

Dainippon Pharmaceutical markets a wide range of other products internationally, from ethical pharmaceuticals such as a quinolone antibiotic, two cardiovascular agents, an intravenous iron preparation and an antiallergenic agent.

All of these ethical pharmaceuticals are introduced under licensing agreements, and are marketed in each country by the licensee. However, when the opportunity arises, Dainippon Pharmaceutical plans to take a more active role in marketing overseas, and is considering marketing its own products in the future.

Overseas bases consist of Dainippon Pharmaceutical U.S.A. Corporation, as well as offices in Beijing and London, which provide support for overseas development, facilitate communication with licensees, and collect information on local markets. A wholly owned subsidiary in Taiwan, Taiwan Dainippon Pharmaceutical Co., Ltd., is involved in development and marketing through not only its own field force but the local distributors. In the future, Dainippon Pharmaceutical plans to review its operations in South Korea, where the largest number of its products are out-licensed, and reorganize the operations for more efficient activities in South Korea.

Diagnostics

Dainippon Pharmaceutical develops and markets in vitro diagnostic products, including kits that diagnose illness by measuring or detecting biochemical markers and kits that measure blood concentration of drugs.

In March 2002, Dainippon Pharmaceutical launched RAPICHECK® H-FABP, a point-of-care in vitro diagnostic. Developed jointly with Wakunaga Pharmaceutical Co., Ltd., RAPICHECK® is a reagent that uses immunochromatography to detect human heart fatty acid-binding protein (H-FABP) in whole blood within 15 minutes. Because of its ability to rapidly diagnose early phase of acute myocardial infarction, this product is particularly popular with emergency hospitals and medical practitioners. The Company also markets MARKIT®-M H-FABP, which measures H-FABP concentration using the enzyme-linked immunosorbent assay (ELISA) method.

Other products in the MARKIT® series include MARKIT®-M PA, which measures prostate-specific antigen (PSA) in blood and is used in the diagnosis of prostate cancer, and MARKIT®-M PSA-ACT, which measures the new diagnostic prostate marker PSA α_1-antichymotrypsin complex (PSA-ACT). Hyperlipemia diagnostics include MARKIT®-M LPL, which measures lipoprotein lipase (LPL) in post-heparin plasma, and a kit that measures hepatic triglyceride lipase (HTGL) for which approval is pending.

Kits to measure blood concentration of drugs include MARKIT®-M *Haloperidol* II and MARKIT®-M *Bromperidol* II, tests for anti-schizophrenic drugs *haloperidol* and *bromperidol*. MARKIT®-M *Zonisamide* was designed to measure blood levels of the antiepileptic agent *zonisamide*, which was developed in-house. All three kits are used for therapeutic drug monitoring (TDM).

Dainippon Pharmaceutical was the first company in Japan to develop these diagnostics and obtain manufacturing approval for in vitro use. The kits are widely used in hospitals and clinical assay laboratories throughout Japan. Diagnostics under development for TDM of ethical drugs developed in-house include kits to measure blood levels of morphine used in the treatment of cancer pain, the antipsychotic agent *sultopride*, and the antiarrhythmic drug PIMENOL®.

Animal Health Products

Animal Health Products, Feeds and Feed Additives

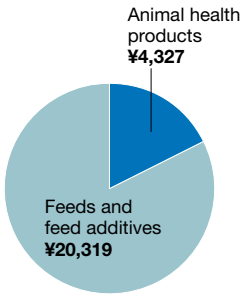
Based on the theme of offering comprehensive health care for pets, Dainippon Pharmaceutical's animal health products business focuses marketing on the veterinary market for small animals. Our product lineup includes PRESCRIPTION DIET®, a nutritional formula for veterinary clinics, and SCIENCE DIET®, a premium pet food recommended by veterinarians, both of which are licensed from Hill's Pet Nutrition, Inc., as well as pharmaceuticals and diagnostic kits used in the prevention or treatment of various animal diseases.

In addition, Dainippon Pharmaceutical uses the database of the Veterinarians & Marupi Association (VMA), a network of animal hospitals Dainippon organizes throughout Japan, to increase the effectiveness of marketing activities by systematically linking products for prevention, diagnosis and treatment of animal diseases. Subsidiary Marupi Lifetech Co., Ltd. has won strong support from small-animal veterinarians for its superior testing services in the areas of pathology and immunology.

In fiscal 2002, sales of products in the veterinary market for small animals grew by 10 percent compared to the previous fiscal year. A number of Dainippon Pharmaceutical's products boast the top share in their respective sectors of the small-animal market. These include PRESCRIPTION DIET®, licensed from Hill's; CARDOMEC®, a preventative treatment for canine heartworm disease licensed from Merial, Ltd.; ENACARD®, a treatment for chronic heart failure in dogs licensed from Merial; the VICTAS®-S series of new quinolone antibacterial preparations containing the active ingredient *orbifloxacin*, developed in-house; and ISOFLU®; an inhaled anesthetic licensed from Abbott Laboratories. In addition, the number of veterinary hospitals using LIFECHIP®, an ID microchip developed by Digital Angel Corporation, has steadily increased since the December 2000 enactment of the Law Concerning the Protection and Control of Animals.

Also during fiscal 2002, the Company formed new tie-ups with Pfizer Pharmaceuticals Inc., and Senju Pharmaceutical Co., Ltd. Dainippon Pharmaceutical licensed RIMADYL®, a canine non-steroidal anti-inflammatory and analgesic, from Pfizer, and TEAROSE®, a non-steroidal treatment for canine conjunctivitis, from Senju.

Sales by Product Category
(Millions of Yen)



Subtotal: ¥24,646 million

Other Products

Foods and Food Additives

The operating environment in the food industry was extremely challenging in fiscal 2002. Economic factors such as deflation were exacerbated by the terrorist attacks in the U.S., as well as the outbreak of bovine spongiform encephalopathy (BSE), incidents of food mislabeling and a revision to the Food Sanitation Law requiring ingredient labels to list potential allergens in Japan.

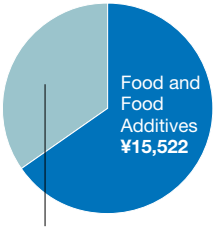
Although the seasonings business, Dainippon Pharmaceutical's primary focus in this segment, was severely affected by these adverse circumstances, aggressive marketing efforts maintained sales at the same level as the previous fiscal year. In the polysaccharides business, sales of products used in candy and desserts were comparatively favorable, but sales of products used in sauce for grilled beef were sluggish. Although overall food science sales decreased year-on-year, operating income increased due to cost reduction efforts. New projects linked to future business expansion include overseas materials procurement, entry into overseas markets and development of new food ingredients with large potential markets.

Industrial Chemicals

The industrial chemicals business plays an important role in improving the functionality, value and quality of a wide range of products, from sophisticated electronic materials to daily necessities such as cosmetics, by supplying chemicals used in information technology (IT)-related products, personal care products and dyeing auxiliaries.

Sales of the GARO® series of sensitizers for photoresists decreased in tandem with the slowdown in IT-related industries. However, sales increased of agents for use with excimer lasers, which are at the forefront of photoresist technology, and Dainippon Pharmaceutical is a major manufacturer in this market segment.

Sales by Product Category
(Millions of Yen)



Industrial chemicals, research reagents and instruments, and others
¥8,242

Subtotal: ¥23,764 million

Research Materials

The main research materials imported and marketed by Dainippon Pharmaceutical are research reagents, cell culture products and measuring equipment for laboratories. We offer approximately 5,000 research reagents, including antibody reagents, cytokine-related reagents and genetic reagents, and also sell tissue culture materials, supplying Japanese researchers with a variety of animal-derived cells, particularly human-derived cells. In April 2001, we began marketing mouse embryonic stem (ES) cells, used in regenerative medicine research.

Dainippon Pharmaceutical also markets microplate readers to detect absorbance, fluorescence and luminescence, as well as measuring equipment widely used in molecular biology research, including PCR equipment, nucleic acid purification devices, and the Single Nucleotide Polymorphisms (SNPs) scoring device.

In fall 1998, Dainippon Pharmaceutical began sales of FLUCLET®, the first software system developed in-house, which provides fully automated measurement of circulatory dynamics and the activity of the autonomic nervous system. This innovative system, which performs analysis in a matter of seconds using electrocardiogram and blood pressure waveform data, has gained attention as a basic research tool from university hospitals, pharmaceutical manufacturers and other research institutes for the study of biocybernetics.

Basic Directive on Environmental Conservation

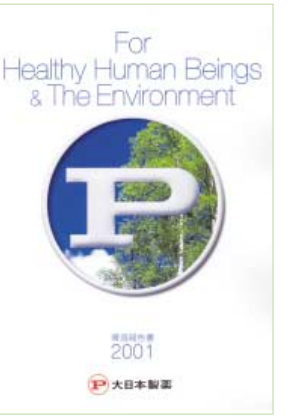
In recognition of its obligations as a pharmaceutical company and a member of society, Dainippon Pharmaceutical has made environmental protection, through reducing the global environmental impact of its business activities, a top management priority. In 1995, Dainippon Pharmaceutical established the Environmental Management Division and appointed a director of environmental management to facilitate the smooth implementation of environmental activities. The activities of the Environment Committee, formed in 1996, include the establishment of basic directives on environmental conservation as well as discussions, decisions, evaluations and reviews of companywide environmental goals, targets and plans. Key initiatives during the current fiscal year include building and operating an environmental organization that encompasses all divisions; complying with all laws and regulations; and reducing environmental impact (reducing CO_2 emissions and waste and managing chemical substances).

Implementation

The Suzuka Plant obtained ISO 14001 certification for its environmental management system in December 2000, and passed its annual review in December 2001. Dainippon Pharmaceutical is now introducing environmental management systems that conform to ISO 14001 standards throughout the organization, involving all departments and personnel. We are also working to enhance our environmental protection activities by conducting internal audits once a year at each of our factories.

Priority issues in this process are targeted reductions in carbon dioxide emissions, industrial waste and chemical substance emissions throughout R&D and manufacturing operations. In particular, as a pharmaceutical company that deals with chemical substances, self-management of chemicals is an important task. In June 2001, recycling equipment for solvents used in experiments was introduced at all research laboratories to reduce chemical emissions and recover chemicals used in large quantities that are subject to the Pollutant Release and Transfer Registers (PRTR) Law. We are also shifting to packaging materials with lower environmental impact.

In 2001, Dainippon Pharmaceutical focused on public disclosure of its environmental activities, with the publication of its first Environmental Report and the creation of a page devoted to environmental protection efforts on its website.



Environmental Report 2001

Future Direction

Dainippon Pharmaceutical began environmental accounting in April 2002, and plans to make its first public disclosure in the coming fiscal year. In addition, under its plan to reduce chemical emissions, the Company will work to reduce environmental impact by studying the use of alternative solvents at manufacturing sites and introducing recycling equipment for volatile organic solvents emitted in exhaust gas and water runoff.

Financial Section

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Six-Year Summary

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen(*)						Thousands of U.S. Dollars(*) (Note 3)
	2002	2001	2000	1999	1998	1997	2002
Results of Operations							
Net sales	¥164,117	¥158,873	¥155,497	¥146,452	¥150,292	¥150,537	$1,233,962
Cost of sales	100,073	97,126	97,195	92,889	94,687	93,112	752,428
Selling, general and administrative expenses	46,863	45,597	45,616	45,603	47,554	48,667	352,353
Operating income	17,181	16,150	12,686	7,960	8,051	8,758	129,181
Income before income taxes and minority interests	17,863	17,619	13,595	9,438	9,305	11,877	134,308
Net income	9,596	9,376	6,884	3,319	3,524	4,064	72,150
Per share amounts (in Yen and U.S.Dollars):							
Net income	57.06	55.75	40.93	19.73	20.96	24.17	0.43
Net income assuming full dilution	54.18	52.70	39.05	19.16	20.14	23.06	0.41
Cash dividends	10.00	8.50	8.50	7.50	7.50	8.75	0.08
Financial Position							
Current assets	119,247	117,877	117,548	120,128	126,878	129,929	896,594
Net property, plant and equipment	33,637	31,487	31,188	32,640	29,931	28,900	252,910
Total assets	186,834	187,309	171,064	172,978	176,721	178,889	1,404,767
Current Liabilities	49,784	56,409	44,836	55,413	47,370	51,711	374,316
Long-term debt	11,118	11,119	17,005	17,005	27,725	27,859	83,594
Shareholders' equity	115,985	109,267	98,092	89,012	90,068	88,071	872,068
Other Statistics							
R&D expenses	13,124	12,565	12,079	12,276	12,369	12,892	98,677
Capital expenditures	6,414	4,074	2,041	5,699	4,525	3,810	48,226
Depreciation and amortization	4,334	4,267	3,936	3,629	3,397	3,282	32,587

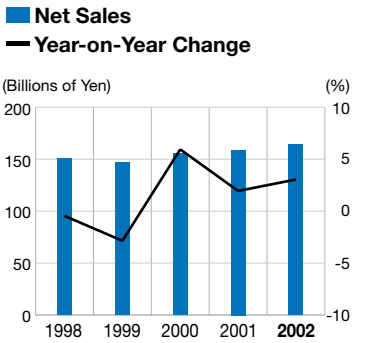
(*) except "Per share amounts" information.

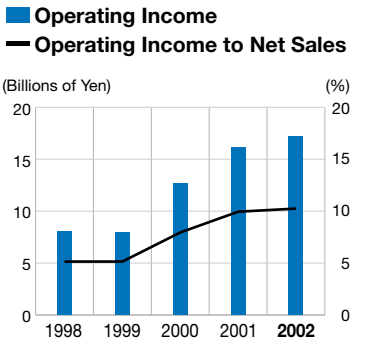
Results of Operations

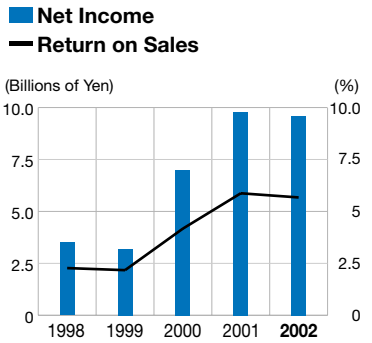
For the fiscal year ended March 2002, sales of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries increased 3.3 percent year-on-year to ¥164,117 million, mainly due to increased sales of ethical pharmaceuticals. Primary contributors to growth included GASMOTIN®, a gastroprokinetic agent; PRORENAL®, an agent for the improvement of peripheral circulation for which Dainippon Pharmaceutical received approval for an additional indication in April 2001; and KADIAN®, a sustained-release morphine preparation for cancer pain treatment launched during the previous fiscal year.

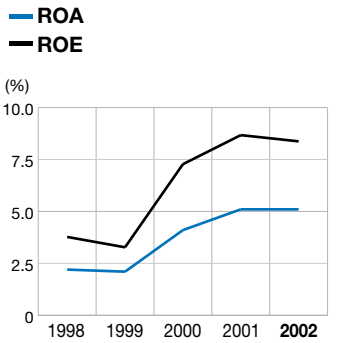
Operating income increased 6.4 percent year-on-year to ¥17,181 million, and the ratio of operating income to net sales improved to 10.5 percent from 10.2 percent for the previous fiscal year. Factors included a greater proportion in overall net sales of higher-margin products, including those that Dainippon Pharmaceutical has developed on its own, which improved the ratio of cost of sales to net sales by 10 basis points. In addition, Dainippon Pharmaceutical successfully controlled operating expenses. Research and development expenses, which are included in selling, general and administrative expenses, increased 4.4 percent to ¥13,124 million.

Net income increased 2.3 percent to ¥9,596 million. The year ended March 2002 was therefore the third consecutive year in which Dainippon Pharmaceutical achieved growth in net sales and net income, and the third consecutive year of record net income. Profitability was affected, however, by the impairment write-down of investments in securities totaling ¥1,363 million due to the deterioration of the stock market during the fiscal year, and by losses on redemption of investments in securities totaling ¥493 million. These charges were offset by the sale of a portion of the shares Dainippon Pharmaceutical holds in Dainabot Co., Ltd. to Abbott Finance Company S.A. for ¥1,853 million. Return on average total shareholders' equity (ROE) was 8.5 percent. Earnings per share increased to ¥57.06 from ¥55.75 for the previous fiscal year.









Operating Performance by Business Segment

Sales of pharmaceuticals increased 4.3 percent year-on-year to ¥115,707 million, and operating income in this segment increased 6.7 percent to ¥17,907 million. Sales of GASMOTIN®, which was developed by the Company, increased 45.3 percent to ¥12.5 billion. Supported by the approval for an additional indication, sales of PRORENAL® increased 128.6 percent to ¥4.8 billion. Sales of KADIAN®, a pharmaceutical launched during the year to March 2001, increased 26.7 percent to ¥1.9 billion. Dainippon Pharmaceutical also emphasized sales of other core pharmaceuticals, including EBASTEL®, a long-lasting antiallergenic agent, and GLIMICRON®, an oral hypoglycemic.

The table below presents a detailed breakdown of sales of major pharmaceutical products.

Sales of animal health products increased 4.0 percent year-on-year to ¥24,646 million, and operating income in this segment increased 12.5 percent to ¥802 million. Increased sales were the result of Dainippon Pharmaceutical's focus on core animal health products, including CARDOMEC®, which helps prevent canine heartworm disease, and VICTAS®, a synthesized quinolone antibacterial.

Sales of other products, excluding intersegment sales and transfers, decreased 1.9 percent year-on-year to ¥23,764 million as market conditions became less favorable, while operating income in this segment increased 4.7 percent to ¥1,536 million. The main products in this segment include ECHO GUM® and GLY-LOID®, which are natural hydrocolloid stabilizers used as food additives; AJIPOL® natural seasonings; and industrial chemical products and research reagents and instruments.

Financial Position

As of March 31, 2002, total assets decreased ¥475 million from a year earlier to ¥186,834 million, reflecting in part the redemption of an issue of 1.9 percent unsecured convertible bonds with cash during the fiscal year.

Current assets increased ¥1,370 million from a year earlier to ¥119,247 million. Additions to inventory in preparation for the integration of production to the Suzuka Plant contributed to the increase in current assets. Property, plant and equipment increased ¥2,150 million to ¥33,637 million mainly in reflection of extensive capital expenditures at the Suzuka Plant. Investments and other assets decreased ¥3,995 million to ¥33,950 million, primarily because worsening stock market conditions resulted in significant impairment losses on investment securities.

Current liabilities decreased ¥6,625 million from a year earlier to ¥49,784 million, primarily a result of repayment of the current portion of convertible bonds in connection with the redemption discussed above, and a decrease in accrued income taxes.

Sales of Major Pharmaceutical Products

(Fiscal years ended March 31 ; Billion Yen)

Brand name *(Generic name)*	Category	Sales for Fiscal Year 2001	Sales for Fiscal Year 2002
KLARICID® *(clarithromycin)*	Macrolide antibiotic	¥17.2	¥19.1
ENSURE LIQUID® (—)	Eternal nutrition	14.5	14.3
EBASTEL® *(ebastine)*	Antiallergic	13.5	13.4
GASMOTIN® *(mosapride citrate)*	Gastro-Prokinetic	8.6	12.5
GLIMICRON® *(gliclazide)*	Oral hypoglycemic	6.1	5.9
PRORENAL® *(limaprost alfadex)*	Vasodilator	2.1	4.8
EXCEGRAN® *(zonisamide)*	Antiepileptic	3.9	4.7
CETAPRIL® *(alacepril)*	Anti-hypertensive	5.1	4.3
SERENACE® *(haloperidol)*	Psychotropic	4.4	4.1
LOPEMIN® *(loperamide hydrochloride)*	Antidiarrheal	3.7	3.6
SEVOFRANE® *(sevoflurane)*	Anesthetic	3.4	3.6
RISUMIC® *(amezinium metilsulfate)*	Antihypotensive	3.1	3.0
PIMENOL® *(pirmenol hydrochloride)*	Antiarrhythmic	2.2	2.2
ERYTHROCIN® *(erythromycin stearate)*	Macrolide antibiotic	2.0	2.0
ANPEC® *(morphine hydrochloride)*	Analgesic	1.8	2.0
KADIAN® *(morphine sulfate)*	Analgesic	1.5	1.9
SPARA® *(sparfloxacin)*	New quinolone antibacterial	1.9	1.5

Shareholders' equity increased ¥6,718 million from a year earlier to ¥115,985 million, reflecting the net positive change in assets over liabilities due to repayment of debt, investment of cash in operations and other factors. Consequently, the ratio of shareholders' equity to total assets increased to 62.1 percent from 58.3 percent at the previous fiscal year-end. Shareholders' equity per common share of stock outstanding was ¥689.79, an increase of ¥40.09 from a year earlier.

Cash Flows

Net cash provided by operating activities increased ¥350 million year-on-year to ¥7,373 million. Income before income taxes and minority interests increased to ¥17,863 million, but this contribution to cash flow was offset by the increase in inventories discussed above and substantially higher income taxes paid.

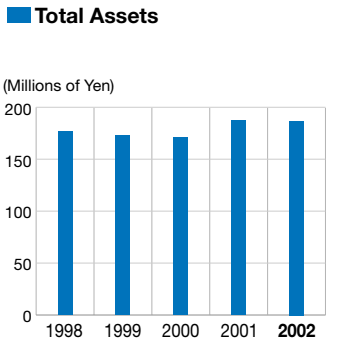
Net cash used in investing activities decreased ¥12,253 million year-on-year to ¥1,108 million. While purchases of property, plant and equipment nearly doubled during the fiscal year to ¥4,767 million, Dainippon Pharmaceutical generated net proceeds from sales of marketable and investment securities of ¥3,653 million, compared to net purchases of ¥9,631 million in the previous fiscal year.

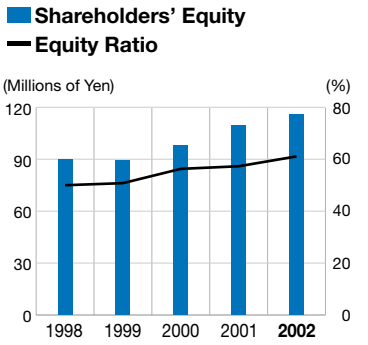
Net cash used in financing activities increased to ¥7,345 million from ¥1,321 million for the previous fiscal year. This change was primarily the result of the redemption of convertible bonds for cash totaling ¥5,882 million.

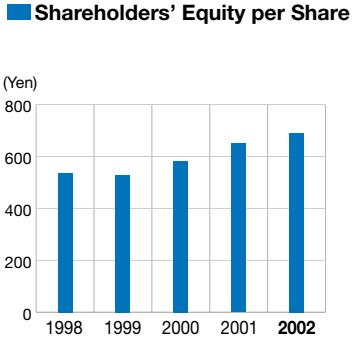
Dainippon Pharmaceutical supplemented cash provided by operating activities with internal capital resources in executing the bond redemption. As a result, cash and cash equivalents, which consists of cash and time deposits and marketable securities with a maturity of three months or less when purchased, decreased ¥1,080 million year-on-year to ¥23,933 million.

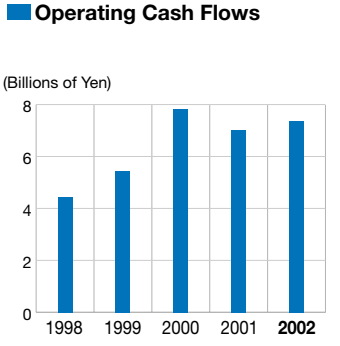
Dividend Policy

The consistent payment of appropriate dividends to shareholders is a primary management priority. Management links dividends to corporate performance in working to strengthen the Company's financial structure to support long-term growth. Given Dainippon Pharmaceutical's improved performance during the fiscal year ended March 2002 and the progress the Company has made in raising operating efficiency, cash dividends per share applicable to the fiscal year were increased ¥1.50 to ¥10.00. Looking forward, Dainippon Pharmaceutical intends to deploy capital resources to invest in research and development in Japan and overseas, programs to increase operating efficiency and property, plant and equipment.









Consolidated Balance Sheets

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

Assets	Millions of Yen 2002	2001	Thousands of U.S. Dollars (Note 3) 2002
Current Assets:			
Cash and time deposits	¥ 23,971	¥ 20,459	$ 180,233
Marketable securities (Notes 4 and 6)	2,649	8,435	19,917
Trade receivables:			
Notes	7,320	8,887	55,038
Accounts	57,895	55,727	435,301
Allowance for doubtful accounts	(104)	(72)	(782)
	65,111	64,542	489,557
Inventories (Note 5)	22,770	21,049	171,203
Deferred income taxes (Note 8)	2,497	2,192	18,774
Other current assets	2,249	1,200	16,910
Total Current Assets	119,247	117,877	896,594
Investments and Other Assets:			
Investments in non-consolidated subsidiaries and affiliates	670	684	5,038
Investments in securities (Note 6)	24,729	29,650	185,932
Loans to employees	1,097	1,118	8,248
Deferred income taxes (Note 8)	2,057	566	15,466
Other investments	5,397	5,927	40,579
Total Investments and Other Assets	33,950	37,945	255,263
Property, Plant and Equipment at Cost (Note 2)**:**			
Land	5,205	5,208	39,135
Buildings	35,173	34,928	264,459
Machinery and equipment	34,231	34,719	257,376
Construction in progress	4,142	806	31,143
	78,751	75,661	592,113
Less accumulated depreciation	45,114	44,174	339,203
Net Property, Plant and Equipment	33,637	31,487	252,910
Total	¥186,834	¥187,309	$1,404,767

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of Yen 2002	2001	Thousands of U.S. Dollars (Note 3) 2002
Current Liabilities:			
Short-term borrowings (Note 7)	¥ 1,370	¥ 1,350	$ 10,301
Current portion of long-term debt (Note 7)	—	5,884	—
Trade payables:			
Notes	4,915	6,598	36,955
Accounts	27,837	27,020	209,301
	32,752	33,618	246,256
Accrued income taxes (Note 8)	4,954	6,054	37,248
Accrued expenses	5,649	5,697	42,473
Other current liabilities	5,059	3,806	38,038
Total Current Liabilities	49,784	56,409	374,316
Long-term Debt (Note 7)	11,118	11,119	83,594
Retirement and Severance Benefits (Notes 2 and 9)	9,366	9,965	70,421
Minority Interests	581	549	4,368
Commitments and Contingent Liabilities (Notes 12 and 14)**:**			
Shareholders' Equity (Notes 7, 10 and 15)**:**			
Common stock			
authorized—600,000,000 shares			
Issued 168,184,154 shares in 2002 and 168,182,800 shares in 2001	13,444	13,443	101,083
Capital surplus	15,860	15,859	119,248
Retained earnings	84,767	76,642	637,346
Unrealized gains on securities, net of tax	1,960	3,326	14,737
	116,031	109,270	872,414
Treasury stock, at cost			
36,945 shares in 2002 and 1,591 shares in 2001	(46)	(3)	(346)
Total Shareholders' Equity	115,985	109,267	872,068
Total	¥186,834	¥187,309	$1,404,767

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Net Sales	¥164,117	¥158,873	$1,233,962
Cost of Sales	100,073	97,126	752,428
Gross Profit	64,044	61,747	481,534
Selling, General and Administrative Expenses (Note 11)	46,863	45,597	352,353
Operating Income	17,181	16,150	129,181
Other Income (Expenses):			
Interest and dividend income	1,076	1,235	8,090
Interest expense	(262)	(323)	(1,970)
Gains on sales of investments in securities (Note 6)	1,853	2,444	13,932
Gains on securities contribution to employee retirement benefit trust (Note 9)	—	12,810	—
Amortization of transitional obligation for employees' retirement benefits arising from adoption of the new accounting standard (Notes 2 and 9)	—	(14,276)	—
Other, net	(1,985)	(421)	(14,925)
Income before Income Taxes and Minority Interests	17,863	17,619	134,308
Income Taxes (Note 8)**:**			
Current	9,010	9,462	67,744
Deferred	(799)	(1,248)	(6,007)
Minority Interests	56	29	421
Net Income	¥ 9,596	¥ 9,376	$ 72,150

Per Share Amounts (Note 2)**:**

	Yen		U.S. Dollars (Note 3)
Net income	¥ 57.06	¥ 55.75	$ 0.43
Net income assuming full dilution	54.18	52.70	0.41
Cash dividends	10.00	8.50	0.08

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Common Stock (Note 10)**:**			
Balance at beginning of year	¥13,443	¥13,442	$101,075
Shares issued upon conversion of convertible bonds	1	1	8
Balance at end of year	¥13,444	¥13,443	$101,083
Capital Surplus (Note 10)**:**			
Balance at beginning of year	¥15,859	¥15,858	$119,240
Conversion of convertible bonds	1	1	8
Balance at end of year	¥15,860	¥15,859	$119,248
Retained Earnings (Note 10)**:**			
Balance at beginning of year	¥76,642	¥68,794	$576,256
Cumulative effect arising from the adoption of deferred tax accounting	—	27	—
Net income	9,596	9,376	72,150
Cash dividends paid	(1,430)	(1,514)	(10,752)
Bonuses to directors and corporate auditors	(41)	(41)	(308)
Balance at end of year	¥84,767	¥76,642	$637,346
Unrealized gains on securities, net of tax:			
Balance at beginning of year	¥ 3,326	—	$ 25,008
Net increase (decrease) in unrealized holding gains on available-for-sale securities	(1,366)	¥ 3,326	(10,271)
Balance at end of year	¥ 1,960	¥ 3,326	$ 14,737

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2002	2001	2002
Cash flows from operating activities:			
Income before income taxes and minority interests	¥17,863	¥17,619	$134,308
Adjustments for:			
Depreciation and amortization	4,334	4,267	32,587
Provision for retirement and severance benefits, less payments	(190)	(648)	(1,429)
Interest and dividend income	(1,076)	(1,235)	(8,090)
Interest expense	262	323	1,970
Gains on securities contribution to employee retirement benefit trust (Note 9)	—	(12,810)	—
Amortization of transitional obligation for employees' retirement benefits arising from adoption of the new accounting standard (Notes 2 and 9)	—	14,276	—
Gains on sales of investments in securities	(1,853)	(2,444)	(13,932)
Changes in assets and liabilities:			
Increase in trade receivables	(601)	(4,814)	(4,519)
Increase in inventories	(1,721)	(3,044)	(12,940)
Increase (decrease) in trade payables	(866)	1,693	(6,511)
Other, net	500	(85)	3,759
Subtotal	16,652	13,098	125,203
Interest and dividend received	1,093	1,241	8,218
Interest paid	(262)	(323)	(1,970)
Income taxes paid	(10,110)	(6,993)	(76,015)
Net cash provided by operating activities	7,373	7,023	55,436
Cash flows from investing activities:			
Net decrease (increase) in marketable securities	3,760	(5,718)	28,271
Purchases of property, plant and equipment	(4,767)	(2,450)	(35,842)
Purchases of investments in securities	(3,028)	(9,471)	(22,767)
Proceeds from sales of investments in securities	2,921	5,558	21,962
Other, net	6	(1,280)	45
Net cash used in investing activities	(1,108)	(13,361)	(8,331)
Cash flows from financing activities:			
Net increase in short-term borrowings	20	200	150
Redemption of convertible bonds	(5,883)	—	(44,233)
Dividends paid	(1,431)	(1,513)	(10,759)
Dividends paid to minority interests	(7)	(7)	(52)
Other, net	(44)	(1)	(331)
Net cash used in financing activities	(7,345)	(1,321)	(55,225)
Net decrease in cash and cash equivalents	(1,080)	(7,659)	(8,120)
Cash and cash equivalents at beginning of year	25,013	32,672	188,067
Cash and cash equivalents at end of year (Note 4)	¥23,933	¥25,013	$179,947
Non-cash investing and financing activities:			
Marketable equity securities contributed to employee retirement benefit trust	—	¥14,277	—
Convertible bonds converted into common stock and capital surplus	¥ 2	2	$ 15

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements presented for domestic reporting purposes. Dainippon Pharmaceutical Co., Ltd. (the "Company") and its consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with generally accepted accounting principles and practices in Japan, which are different from accounting and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan, but no change has been made in the application of accounting policies.

All significant intercompany balances and transactions have been eliminated in consolidation.

2. Significant Accounting Policies

(a) Marketable securities, investments in securities and investments in non-consolidated subsidiaries and affiliates

Securities are classified into the following categories: held-to-maturity debt securities, investments in non-consolidated subsidiaries and affiliates, and available-for-sale securities.

(Held-to-maturity debt securities)

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates the classification as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity debt securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

(Investments in non-consolidated subsidiaries and affiliates)

Investments in non-consolidated subsidiaries and affiliates are carried at cost, and the Company's equity in undistributed earnings of these companies is not significant.

(Available-for-sale securities)

Equity securities, debt securities not classified as held-to-maturity, and investments in non-consolidated subsidiaries and affiliates are classified as available-for-sale securities. Available-for-sale securities whose fair values are readily determinable are carried at fair value with the unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. Under the Code, unrealized holding gains on securities, net of related taxes are not available for distribution as dividends and bonuses to directors and corporate auditors. Realized gains and losses and declines in fair value on available-for-sale securities judged to be other than temporary are charged or credited to income.

(b) Inventories

Inventories are stated at cost, being determined by the average method. (Note 5)

(c) Depreciation

Depreciation of buildings is computed under the straight-line method at rates based on the estimated useful lives of the assets.

Depreciation of machinery and equipment is computed under the declining-balance method at rates based on the estimated useful lives of the assets.

Ranges of useful lives used in the computation of depreciation are as follows;

Buildings	3-60 years
Machinery and equipment	2-17 years

(d) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(e) Research and development expenses, and computer software

Research and development expenses are charged to income as incurred. (Note 11)

Expenditures capitalized relating to computer software for internal use is amortized on a straight-line basis principally over 5 years.

(f) Retirement and severance benefits

Upon retirement or termination of employment, employees are normally entitled to lump-sum and / or annuity payments based on current rate of pay and length of service.

The Company and one of the consolidated subsidiaries have non-contributory funded pension plans for qualified employees. The pension benefits under these plans cover approximately 70% of total benefits with respect to such employees. The balance of benefits is covered by the lump-sum plan which is unfunded.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the Accounting Standard for Retirement Benefits which was issued by the Business Accounting Deliberation Council. In accordance with the new standard, the liabilities for retirement and severance benefits are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period. The transitional obligation resulting from adopting the new standard at April 1, 2000, of ¥14,276 million was fully charged to income in the year ended March 31, 2001. The effect of the new standard adoption for the year ended March 31, 2001, was to decrease income before income taxes and minority interests by ¥1,272 million.

In addition, directors and corporate auditors are customarily entitled to lump-sum payments under the unfunded retirement plan. Provisions of retirement and severance benefits for those officers for the years ended March 31, 2002 and 2001 were ¥487 million ($3,662 thousand) and ¥896 million, respectively.

(g) Net income and cash dividends per share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

Net income per share of common stock assuming full dilution is based on the assumption of full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance if later) with an applicable adjustment for related interest expense net of tax.

Cash dividends per share shown for each year in the consolidated statements of income represent dividends applicable to the respective period, including dividends to be paid after the end of year.

(h) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, which mature within three months of the date of aquisition, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates. (Note 4)

(i) Foreign currency items

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date.

Revenue and expense items denominated in foreign currencies are translated at historical rates.

Exchange gains or losses are charged or credited to income as incurred.

(j) Finance leases

Under Japanese accounting principles for leases, finance leases that are deemed to transfer the ownership of the leased property to the lessee are capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. Financial leases which are not deemed to transfer the ownership are accounted for in the same manner as operating leases for the Company and its consolidated subsidiaries. (Note 12)

(k) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current presentation.

3. Translation into United States Dollars

The accompanying consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥133=U.S.$1, the approximate exchange rate on March 31, 2002. The translation should not be construed as representations that Japanese yen amounts have been, could have been, or could in the future be converted into United States dollars.

4. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2002 and 2001 for purposes of the consolidated statements of cash flows consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Cash and time deposits	**¥23,971**	¥20,459	**$180,233**
Time deposits with maturity over three months	**(49)**	(79)	**(369)**
Marketable securities with a maturity of three months or less when purchased	**11**	4,633	**83**
Cash and cash equivalents	**¥23,933**	¥25,013	**$179,947**

5. Inventories

Inventories at March 31, 2002 and 2001 comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Finished goods	**¥12,880**	¥12,109	**$ 96,842**
Semi-finished goods and work in process	**4,565**	4,350	**34,323**
Raw materials and supplies	**5,325**	4,590	**40,038**
	¥22,770	¥21,049	**$171,203**

6. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable securities and investments in securities at March 31, 2002 and 2001 were as follows:

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Available-for-sale				
Equity securities	¥11,066	¥5,153	¥842	¥15,377
Bonds and debentures	514	—	92	422
Other securities	4,389		831	3,558
Held-to-maturity	7,188	3	544	6,647

	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Available-for-sale				
Equity securities	¥11,668	¥7,329	¥865	¥18,132
Bonds and debentures	500	—	185	315
Other securities	3,636		518	3,118
Held-to-maturity	11,254	42	453	10,843

	Thousands of U.S. Dollars			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Available-for-sale				
Equity securities	$83,203	$38,744	$6,331	$115,616
Bonds and debentures	3,865	—	692	3,173
Other securities	33,000		6,248	26,752
Held-to-maturity	54,045	22	4,090	49,977

Available-for-sale securities and held-to-maturity securities whose fair values are not readily determinable as of March 31, 2002 and 2001 were as follows:

	Carrying amounts		
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Available-for-sale:			
Equity securities	**¥822**	¥ 633	**$6,180**
Money management funds (MMF) and other	**11**	4,633	**83**
Total	**¥833**	¥5,266	**$6,263**

Proceeds from sales of held-to-maturity securities ware ¥1,500 million ($11,278 thousand) for the year ended March 31, 2002. Those securities were sold during this fiscal year due to increasing credit risks of the issuer.

Proceeds from sales of available-for-sale securities were ¥1,999 million ($15,030 thousand) and ¥4,085 million for the years ended March 31, 2002 and 2001, respectively. On those sales, gross realized gains and losses computed on a moving-average cost basis were ¥1,853 million ($13,932 thousand) and ¥1 million ($8 thousand), respectively, for the year ended March 31, 2002 and ¥2,887 million and ¥12 million, respectively, for the year ended March 31, 2001.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2002 and 2001 are as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due in one year or less	**¥2,638**	¥ 4,801	**$19,835**
Due after one year through five years	**1,973**	3,968	**14,835**
Due after five years through ten years	**3,000**	3,800	**22,556**
Total	**¥7,611**	¥12,569	**$57,226**

7. Short-term Borrowings and Long-term Debt

Short-term borrowings are represented by unsecured loans from banks bearing interest of 0.52% to 2.49% at March 31, 2002 and 2001, respectively. Other current liabilities include deposits received from customers in the amount of ¥766 million ($5,759 thousand) and ¥764 million as of March 31, 2002 and 2001, respectively, bearing interest of 3.0%.

Long-term debt at March 31, 2002 and 2001 comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
1.9% unsecured convertible bonds due 2001	**¥ —**	¥ 5,884	**$ —**
1.4% unsecured convertible bonds due 2003	**11,118**	11,119	**83,594**
	11,118	17,003	**83,594**
Less current portion	**—**	5,884	**—**
	¥11,118	¥11,119	**$83,594**

The annual maturity of long-term debt at March 31 2002 is as follows:

Year ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2004	¥11,118	$83,594
	¥11,118	$83,594

The 1.9% unsecured convertible bonds maturing September 28, 2001 were converted to common stock and capital surplus of ¥1 million ($8 thousand) or redeemed of ¥5,883 million ($44,233 thousand) during the year ended March 31, 2002.

On September 30 , 1994, the Company issued 1.4% unsecured convertible bonds due September 30, 2003, in an aggregate amount of ¥12,000 million ($90,226 thousand). The conversion price per share of common stock is ¥1,093 ($8.22) on March 31, 2002. Under the indentures, the conversion price is subject to adjustment in certain cases which include stock splits. The bonds are redeemable at the option of the Company, in whole or in part, at prices which range from 103% to 100% of the principal amount on any date after October 1, 1999. The indentures for the 1.4% convertible bonds maturing in 2003 provide that, if any other convertible bonds are secured by a mortgage on property, plant and equipment in the future, the bonds should also be covered to the same degree by such mortgage.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in case of default, to offset cash deposits against such obligations due to the bank.

None of the lenders has ever exercised these rights against debts of the Company and its consolidated subsidiaries.

8. Income Taxes

The Company and its subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42.0% for the years ended March 31, 2002 and 2001.

Reconciliation of the differences between the statutory tax rates and the effective tax rates for the years ended March 31, 2002 and 2001 is as follows :

	2002	2001
Statutory tax rate	42.0%	42.0%
Increase (reduction) in taxes resulting from:		
Expenses not deductible for tax purposes	5.7	6.5
Non-taxable dividend income	(1.6)	(2.9)
Other	(0.1)	1.0
Effective tax rate	46.0	46.6

Significant components of deferred tax assets and liabilities as of March 31, 2002 and 2001 are as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Retirement and severance benefits	¥ 1,778	¥ 1,789	$ 13,368
Accrued enterprise taxes	451	550	3,391
Accrued bonuses to employees	1,141	817	8,579
Accrued other expenses	422	469	3,173
Write-down on investments in securities	686	—	5,158
Other	1,558	1,613	11,714
Total deferred tax assets	6,036	5,238	45,383
Deferred tax liabilities:			
Unrealized gains on securities	(1,423)	(2,420)	(10,699)
Deferred gain on sales of fixed assets	(54)	(54)	(406)
Other	(5)	(6)	(38)
Total deferred tax liabilities	(1,482)	(2,480)	(11,143)
Net deferred tax assets	¥ 4,554	¥ 2,758	$ 34,240

9. Retirement and Severance Benefits

The following tables sets forth the changes in projected benefit obligation, plan assets and funded status of the Company and its consolidated subsidiaries at March 31, 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Projected benefit obligation	¥61,809	¥55,995	$464,729
Fair value of plan assets	(36,269)	(41,996)	(272,699)
Funded status:			
Projected benefit obligation in excess of plan assets	25,540	13,999	192,030
Unrecognized prior service benefit	3,102	3,325	23,323
Unrecognized actuarial losses	(19,763)	(8,255)	(148,594)
Accrued pension liability recognized in the consolidation balance sheets	¥ 8,879	¥ 9,069	$ 66,759

Consolidated subsidiaries have adopted the simplified calculation method for projected benefit obligation allowed for small business entities in Japan.

Severance and pension costs of the Company and its consolidated subsidiaries included the following components for the years ended March 31, 2002 and 2001:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥ 1,657	¥ 1,885	$12,459
Interest cost	1,935	1,995	14,549
Expected return on plan assets	(1,067)	(1,172)	(8,023)
Amortization:			
Transitional obligation at date of adoption	—	14,276	—
Prior service benefit	(223)	(19)	(1,677)
Actuarial losses	551	—	4,143
Net periodic benefit costs	¥ 2,853	¥16,965	$21,451

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Method of attributing benefits to periods of service	straight-line basis	straight-line basis
Discount rates	3.0%	3.5%
Long-term rates of return on fund assets	3.0%	3.5%
Amortization period for prior service benefit	15years	15years
Amortization period for actuarial losses	15years	15years

In September 2000, the Company contributed certain marketable equity securities to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥14,277 million, resulting in a gain of ¥12,810 million in the year ended March 31, 2001.

10. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to capital surplus. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total capital surplus and legal reserve equals 25% of stated capital. The amount of total capital surplus and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, and may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥3,033 million ($22,805 thousand) and ¥2,958 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, capital surplus or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of capital surplus and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2002 and 2001 were as follows:

Millions of Yen		Thousands of U.S. Dollars
2002	2001	**2002**
¥13,124	¥12,565	**$98,677**

12. Leases

At March 31, 2002 and 2001, assets leased under non-capitalized financial leases are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Machinery and equipment			
Acquisition cost	**¥1,823**	¥2,262	**$13,707**
Less accumulated depreciation	**847**	1,403	**6,369**
Net	**¥ 976**	¥ 859	**$ 7,338**

Depreciation expenses and lease expenses for the years ended March 31, 2002 and 2001 amounted to ¥495 million ($3,722 thousand) and ¥515 million, respectively. The above "as if capitalized" depreciation is calculated using the straight-line method over the lease terms.
Future minimum lease payments, inclusive of interest, under such leases at March 31, 2002 and 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥368	¥394	$2,767
Due after one year	608	465	4,571
Total	¥976	¥859	$7,338

13. Segment Information

The Company and its consolidated subsidiaries operate principally in the manufacture and sale of products in three business segments—pharmaceuticals, animal health products and other products.

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 is as follows:

	Millions of Yen					
	2002					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations and Corporate	Consolidated
I Sales and Operating income						
Sales to customers	¥115,707	¥24,646	¥23,764	¥164,117	¥ —	¥164,117
Inter-segment sales/transfers	—	—	1,807	1,807	(1,807)	—
Total	115,707	24,646	25,571	165,924	(1,807)	164,117
Operating expenses	97,800	23,844	24,035	145,679	1,257	146,936
Operating income	17,907	802	1,536	20,245	(3,064)	17,181
II Identifiable assets, depreciation and capital expenditures						
Identifiable assets	107,254	8,067	14,689	130,010	56,824	186,834
Depreciation	3,054	103	126	3,283	220	3,503
Capital expenditures	5,526	192	231	5,949	465	6,414

	Thousands of U.S. Dollars					
	2002					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations and Corporate	Consolidated
I Sales and Operating income						
Sales to customers	$869,977	$185,308	$178,677	$1,233,962	$ —	$1,233,962
Inter-segment sales/transfers	—	—	13,586	13,586	(13,586)	—
Total	869,977	185,308	192,263	1,247,548	(13,586)	1,233,962
Operating expenses	735,338	179,278	180,714	1,095,330	9,451	1,104,781
Operating income	134,639	6,030	11,549	152,218	(23,037)	129,181
II Identifiable assets, depreciation and capital expenditures						
Identifiable assets	806,421	60,654	110,444	977,519	427,248	1,404,767
Depreciation	22,962	774	947	24,683	1,654	26,337
Capital expenditures	41,549	1,444	1,737	44,730	3,496	48,226

	Millions of Yen					
	2001					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations and Corporate	Consolidated
I Sales and Operating income						
Sales to customers	¥110,945	¥23,709	¥24,219	¥158,873	¥ —	¥158,873
Inter-segment sales/transfers	—	—	1,818	1,818	(1,818)	—
Total	110,945	23,709	26,037	160,691	(1,818)	158,873
Operating expenses	94,162	22,996	24,571	141,729	994	142,723
Operating income	16,783	713	1,466	18,962	(2,812)	16,150
II Identifiable assets, depreciation and capital expenditures						
Identifiable assets	101,695	8,073	15,122	124,890	62,419	187,309
Depreciation	2,910	106	149	3,165	216	3,381
Capital expenditures	3,384	171	184	3,739	335	4,074

Each business segment comprises the following:

Business Segment	Major Product
Pharmaceuticals	Cardiovascular system drugs
	Antibacterial and antibiotic agents
	Central nervous system and antiallergic drugs
	Nutrients, hormones and vitamins
	Diagnostics
Animal health Products	Animal health products
	Feeds and feed additives
Other Products	Food additives
	Other products (industrial chemicals, research reagents and instruments, etc.)

Geographical segment information and overseas sales information are not disclosed, because none of the Company's consolidated subsidiaries is located outside Japan, and the overseas sales of the Company and its consolidated subsidiaries for the year ended March 31, 2002 and 2001 were less than 10% of consolidated net sales.

14. Contingent Liabilities

Contingent liabilities for guarantees of indebtedness of an affiliate, and employees' housing loans guaranteed at March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2002	2002
Guarantees of indebtedness	¥1,887	$14,188
Loans guaranteed	40	301

15. Subsequent Events

On June 27, 2002, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2002 of ¥5.75 ($0.04) per share or a total of ¥967 million ($7,271 thousand), and bonuses to directors and corporate auditors of ¥31 million ($233 thousand).

On June 27, 2002, the shareholders of the Company also authorized the repurchase of up to 5,000,000 shares, or up to ¥7,500 million ($56,391 thousand), of the Company's common stock on the open market, commencing after the general shareholders' meeting through the next general shareholders' meeting.

Independent Auditors' Report

To The Board of Directors and Shareholders of
Dainippon Pharmaceutical Co., Ltd.

We have audited the consolidated balance sheets of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, effective April 1, 2000, the Company and its consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits.

Osaka, Japan
June 27, 2002

Seiwa Audit Corporation

SEIWA AUDIT CORPORATION

CORPORATE DATA
(As of March 31, 2002)

Foundation
May 14, 1897

Capital
13,444 million yen

Number of Employees
2,552

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1450 Yasuzuka-cho, Suzuka City 513-0818
Tel 0593-82-8951

Research Laboratories
33-94 Enoki-cho, Suita City 564-0053
Tel 06-6337-5876

Branch Offices
Sapporo, Sendai, Tokyo 1st, Tokyo 2nd,
Yokohama, Koshin-etsu, Nagoya, Kyoto, Osaka, Hiroshima,
Takamatsu, Fukuoka

Consolidated Subsidiaries

Gokyo Trading Co., Ltd. (Osaka, Japan)

Nichiei Sangyo Co., Ltd. (Osaka, Japan)

Marupi Drug Co., Ltd. (Osaka, Japan)

Marupi Butsuryu Service Co., Ltd. (Osaka, Japan)

BOARD OF DIRECTORS
(As of June 27, 2002)

Chairman and
Representative Director
Takeshi Tomotake

President and
Representative Director
Kenjiro Miyatake

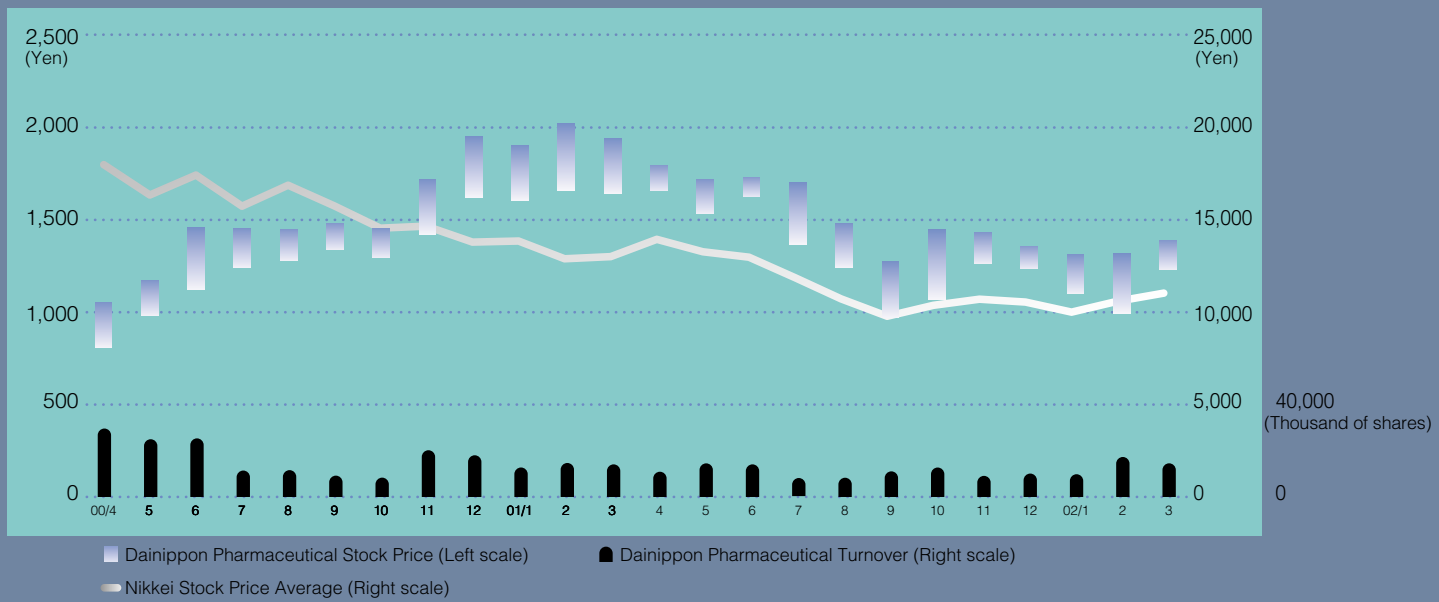
Managing Directors
Yutaka Sekine
Tadashi Inoue

Directors
Hisashi Fujita
Toshiro Funakura
Noriaki Shimokawa
Hironobu Kaneda
Tadahiro Sawayama

Full-Time Corporate Auditors
Hiroshi Murase
Fuminori Hashimoto

Corporate Auditors
Michihiro Ishii
Takayuki Usui

Stock Price Range and Turnover



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Printed in Japan