Annual Report 2003

For the year ended March 31, 2003

DAINIPPON PHARMACEUTICAL CO., LTD.

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.

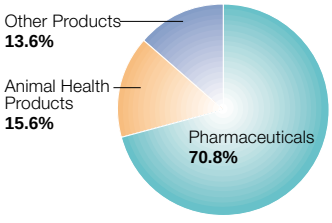
Contents

Financial Highlights

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note)
	2003	2002	2003/2002	**2003**
For the Year:				
Net sales	**¥ 172,162**	¥ 164,117	4.9%	**$ 1,434,683**
Operating income	**12,876**	17,181	-25.1	**107,300**
Net income	**6,364**	9,596	-33.7	**53,033**
R&D costs	**15,218**	13,124	16.0	**126,817**
Capital expenditures	**6,532**	6,414	1.8	**54,433**
Depreciation and amortization	**5,316**	4,334	22.7	**44,300**
At Year-End:				
Total assets	**187,416**	186,834	0.3	**1,561,800**
Shareholders' equity	**116,044**	115,985	0.1	**967,033**
	Yen			U.S. Dollars (Note)
Per Share Data:				
Net income	**¥38.02**	¥57.06	-33.4	**$0.32**
Net income assuming full dilution	**36.36**	54.18	-32.9	**0.30**
Cash dividends	**10.00**	10.00		**0.08**
	Percent			
Key Ratios:				
Return on equity (ROE)	**5.5%**	8.5%		
Return on assets (ROA)	**3.4**	5.1		

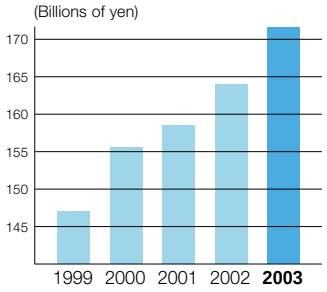
Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 to US$1 prevailing on March 31, 2003.

2003 Composition of Sales by Business Segment

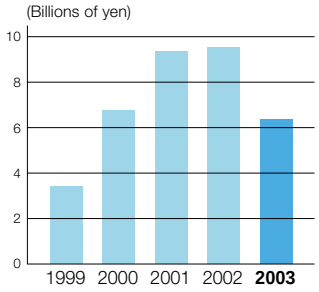


FY2003

Net Sales



Net Income



Message from the Management

Overview

This report covers the performance of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the Dainippon Pharmaceutical Group) in fiscal 2003, the year ended March 31, 2003.

Dainippon Pharmaceutical strives to be a company that widely contributes to society through its value creation based on continual research and development for the betterment healthcare and the fuller lives of all peoples worldwide. In order to realize such ideals, our business activities are infused with the principles of customer satisfaction, human resource development and expanding the trust of society. As a responsible member of society, the Company is aiming for further growth in the fields of human and animal health through aggressive business development and constant adaptation to a rapidly changing operating environment.

Phase II 5-Year Management Plan

Basic Aim Realization of Qualitative Operations
—The Challenge of reform towards survival—

1. Develop strategies to maximize the potential of each product through coordination among research, development and marketing.
2. Improve profitability of the domestic pharmaceuticals business.
3. Establish an overseas operating base.
4. Realize significantly improved productivity and optimum results with lower costs and fewer personnel.
5. Establish a solid and independent profit base for related operations.*
6. Improve operating efficiency by forming alliances in all aspects of our business.

*"Related operations" means non-pharmaceutical operations, including animal health, food science and industrial chemicals.

Fiscal 2003 marked the start of the Phase II 5-Year Management Plan aimed at further realizing the P-UP 21 vision of corporate reform. We will vigorously and determinedly take on the challenge of our new management reforms, thereby realizing qualitative operations and creating a company culture of success amid intensifying competition.

Results

With widespread implementation of new measures to restrain healthcare costs, including an industry average 6.3 percent reduction in National Health Insurance (NHI) drug prices at the beginning of fiscal 2003, market conditions were severe in the pharmaceutical industry, where Dainippon Pharmaceutical Group's main operations are focused. Despite these conditions, net sales rose 4.9 percent from the previous fiscal year to ¥172,162 million. However, because of increased raw materials and marketing costs, and general and administrative expenses, operating income decreased 25.1 percent year-on-year to ¥12,876 million. After posting a loss on devaluation of investment securities due to declining stock prices and special retirement expenses, net income decreased 33.7 percent from the previous fiscal year to ¥6,364 million.

Looking at results by business segment, in the pharmaceuticals business we concentrated on the sales of mainstay products such as GASMOTIN®, a gastroprokinetic agent and EBASTEL®, an antiallergy drug, as well as new products such as GATIFLO®, a new quinolone antibacterial, and QVAR™, an inhaled steroid asthma treatment. As a result, sales in this segment increased 5.4 percent year-on-year to ¥121,970 million. However, the revision of NHI drug prices, changes in the product mix, promotional expenses for new product launches and increased research and development expenses resulted in a 26.0 percent year-on-year decrease in operating income to ¥13,257 million. In the animal health products, feeds and feed additives business, we focused our efforts on sales of animal health products such as CARDOMEC®, a

preventative treatment for canine heartworm disease, and the VICTAS® series of new quinolone antibacterial preparations, as well as canine nutritional formulas. In addition, Dainippon Pharmaceutical purchased the animal health business of Tanabe Seiyaku Co., Ltd. in November 2002. As a result, net sales increased 8.8 percent year-on-year to ¥26,816 million, and operating income increased 28.1 percent to ¥1,028 million. In other businesses, efforts were made to promote the sales of food additives, including ECHO GUM® and GLYLOID® natural hydrocolloid stabilizers, and AJIPOL® natural seasoning, as well as industrial chemicals and research materials. However, lackluster market conditions led to a 1.6 percent decrease in net sales for this segment to ¥23,376 million, although operating income rose 1.5 percent to ¥1,558 million. Operating income for each business segment represents the total before elimination of expenses unrelated to the segment, such as administrative and financial expenses of the parent company.

In research and development, Dainippon Pharmaceutical is concentrating on exploratory research in the four core fields of vascular, psychological and neurological, infectious, and immuno-inflammatory diseases. We have introduced a lateral "project system" organization for the Research and Development Divisions to improve efficiency and accelerate R&D. In December 2002, an R&D Project Support System was newly implemented to promote even greater efficiency.

Outlook

In March 2003, a significant reduction was realized in the market potential of GATIFLO®, which had been anticipated to be a major source of earnings under the Phase II 5-Year Management Plan. Consequently, revisions to the Plan are currently under way, facilitated by the July 2003 establishment of a Management Reform Committee and a Product Strategy Committee that will allow the Company to progress confidently in a rapidly changing market environment. The Management Reform Committee is responsible for proposing measures to reduce unnecessary management costs and raise earnings potential, while the Product Strategy Committee is responsible for securing profits through the strategic investment of management resources in high-margin products. In the future, we will continue to aim for profit-focused management while reducing management costs, and enrich and accelerate our drug development pipeline through aggressive investment in R&D. We look forward to our stakeholders' continued support and cooperation as Dainippon Pharmaceutical progresses forward with our positive new initiatives.

Takeshi Tomotake
Chairman

Kenjiro Miyatake
President

Takeshi Tomotake
Chairman

Kenjiro Miyatake
President

Start of the Phase II 5-Year Management Plan

From 1997 to 2002, Dainippon Pharmaceutical implemented its Phase I 5-Year Management Plan as the first stage in the realization of its P-UP 21 vision for corporate reform. This plan was central in the Company's efforts to reform its profit structure and rebuild its operating base. In April 2002, the Company embarked on the second stage of its corporate reform with the Phase II 5-Year Management Plan. To succeed in the increasingly competitive environment of our industry, we will continue to aggressively tackle new management reforms with the primary goal of realizing qualitative operations. "Qualitative operations" refers to our strengthened focus on the pursuit of maximum profit rather than blindly pursuing quantitative increases in sales. Specifically, the Company will aim to promote strategies that maximize the potential of each product, enhance profitability in domestic pharmaceutical operations, promote development of our products licensed overseas, quickly build our overseas business infrastructure, and establish a solid profit foundation and independence for non-pharmaceutical businesses. To ensure such success and to reflect recent reassessments of the GATIFLO® 's future market potential, the Phase II 5-Year Plan is currently under revision.

Agreement Signed on Joint Development of Drug for Diabetes Complications

Dainippon Pharmaceutical signed a preliminary agreement with Kyorin Pharmaceutical Co., Ltd. for the joint development and co-marketing in Japan of AS-3201 (development code number), an agent for the treatment of diabetic complications. This agent suppresses the accumulation of sorbitol in cells by strongly inhibiting aldose reductase, with development focusing on its ability to improve the condition of diabetic neuropathy. Dainippon Pharmaceutical considers this drug has the potential to be a strategic international product, and is currently conducting Phase IIa development in the United States and Canada.

Under the preliminary agreement, the two companies will evaluate the results after the conclusion of the Phase IIa clinical trials for this agent, and then begin full-scale joint development in Japan aiming towards the earliest possible market launch.

Transfer of Tanabe's Animal Health Products Business to Dainippon

Dainippon Pharmaceutical and Tanabe Seiyaku Co., Ltd. completed an agreement for transfer of Tanabe's animal health products business to Dainippon Pharmaceutical. The transfer process progressed smoothly and took effect on November 1, 2002.

In terms of importance, Dainippon considers its animal health products business as second only to its pharmaceutical business. Until now, the Company has conducted its business activities with a focus on the field of companion animals, and has established a leading position in this area. However, in addition to expanding its operations in the companion animal field, Dainippon saw this business transfer as an opportunity to proactively enhance its position in the area of farm animals, including livestock and aquaculture, creating positive synergies for the Company to succeed during the current realignment and consolidation in the Japanese animal health products industry.

Through this business transfer, Dainippon will leverage Tanabe's management resources ina the livestock and aquaculture market to fully enter the farm animal field, the largest market for animal health products.

Inactivated Iridovirus Vaccine "BIKEN" for acquaculture transferred from Tanabe Seiyaku Co., Ltd.

Dainippon Launches GATIFLO® and QVAR™

Two major new products launched during the past fiscal year are GATIFLO®, a broad-spectrum oral antibacterial, and QVAR™, an inhaled steroid asthma treatment.

GATIFLO® (*gatifloxacin*), a new quinolone antibacterial developed by Kyorin Pharmaceutical

Co., Ltd., has shown potent antibacterial activities against even drug-resistant bacteria that have posed a challenge to existing new quinoline antibacterials, including pneumococcus, as well as causing fewer side effects such as phototoxicity. This drug has been prescribed in the United States and other countries around the world since 1999, and Dainippon Pharmaceutical began co-marketing it in Japan under a uniform brand name with Kyorin Pharmaceutical in June 2002.

QVAR™ is a metered dose inhaler (MDI) with *beclomethasone dipropionate*—which is widely used in maintenance therapy for asthma—as its principal agent. It was licensed from 3M Pharmaceuticals and developed in Japan by Dainippon Pharmaceutical. QVAR™ uses HFA-134a, an ozone-safe CFC substitute, as the air spray, and has been shown to be as effective as existing *beclomethasone* MDIs at only half the dosage. Dainippon Pharmaceutical began co-marketing QVAR™ in Japan with Schering-Plough K.K. in August 2002.

QVAR™, an inhaled steroid asthma treatment

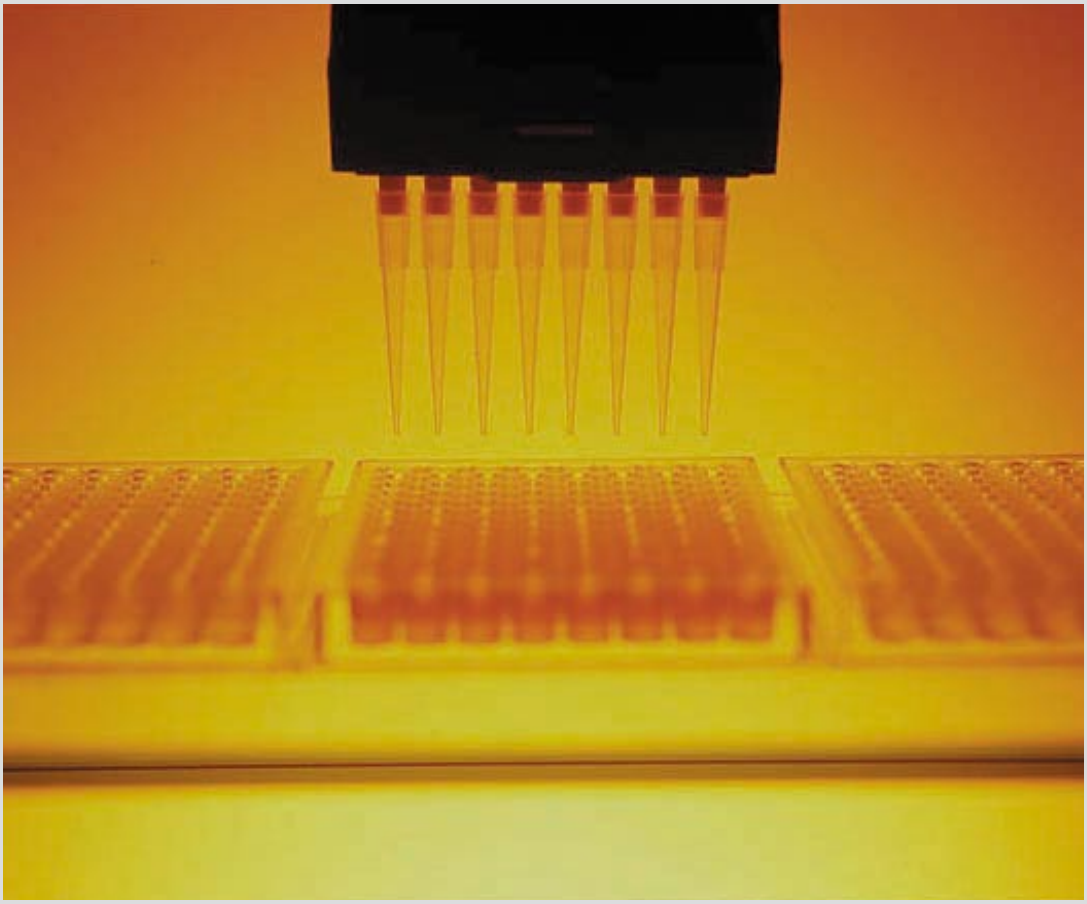
Dainippon Pharmaceutical Implements Solutions-Based Marketing Activities

Enhancing marketing capabilities is a key management issue for pharmaceutical manufacturers, and in recent years, increasing the number of medical representatives (MRs) has been considered a key measure of their competitive ability in the marketplace. As part of Dainippon Pharmaceutical's efforts since 1999 to strengthen its marketing capabilities through management and MR reform, the Company discovered the competitive advantages available to it by utilizing solutions-based marketing activities that accurately grasp the issues and needs of doctors and patients, and at the same time provides marketing solutions to those issues and needs. We began implementing such marketing activities in April 2002. While the benefits of solutions-based activities will ultimately be realized through raising the abilities and knowledge of our MRs, we will also enhance our information sharing and support infrastructure to allow for greater synergies to occur. With solutions-based marketing activities as its core strategy, Dainippon Pharmaceutical is devoted to boosting its MR skills and efficiency such that the present sales force of 700 can perform with the creativity of 1,000.

Mosapride Citrate Awarded Invention and Innovation Prize

Mosapride citrate (brand name: GASMOTIN®), developed by Dainippon Pharmaceutical, received the 2002 National Innovation Award sponsored by the Japan Institute of Invention and Innovation (JIII). *Mosapride citrate* is the world's first gastroprokinetic drug that selectively targets serotonin 5-HT$_4$ receptors, and has a superior mode of action that enhances gastrointestinal motility and gastric evacuation. Serotonin 5-HT receptors are present in many types of internal organs, including nerves and circulatory organs. The award was given in recognition of the development of an effective drug that acts only on serotonin 5-HT$_4$ receptors, which exist in large numbers almost exclusively in the gastrointestinal tract. *Mosapride citrate* was launched in Japan in 1998 under the brand name GASMOTIN®, and has grown into one of the Company's core products. Dainippon Pharmaceutical has granted the worldwide development and marketing rights, excluding Japan, China, Taiwan and Korea, for this drug to Takeda Chemical Industries, Ltd., which is now developing it in the United States.

Research and Development



With the rapid evolution in life sciences, the pharmaceutical research and development process has been required to become ever more sophisticated in order to harness the benefits. To reflect the needs of this exciting new environment, in June 2001, Dainippon restructured its combined R&D Division into the separate Drug Research Division and Drug Development Division, thereby establishing and clarifying their independent roles and responsibilities.

A lateral "project system" was also introduced that allows the Research and Development Divisions to more effectively collaborate together, while creating synergies from their independent strengths. The new "project system" encourages all personnel related to a project—from those involved in basic research to those involved in post-marketing—to increase the speed and efficiency of development through the use of project teams.

These teams have strengthened the lateral ties between the research, clinical development and marketing divisions, while also promoting the professional development of team members through practical experience in multidiscipline R&D. To support this project system, the electronic R&D Project Support System was developed and began operation in 2002. This electronic system enables centralized management of information on schedules, project progress and resource uses, as well as facilitating the easy sharing of information among project members, thus raising the efficiency of both research and development.

Drug Research Division

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. Pharmaceutical companies are being forced to make drastic changes to their drug development strategies in the face of such fierce competition.

The primary aim of the Drug Research Division is to increase the speed and success of global drug discovery activities. As anticipated, following the Company's R&D restructuring in 2001, the discovery research operations of the Division have become more streamlined while continuing to ensure strict observance of both domestic and international regulations involving quality assurance.

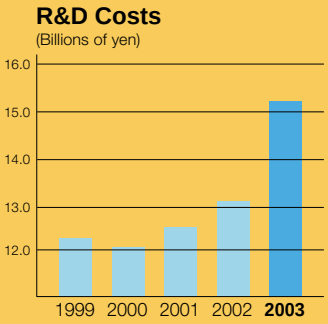
Previously, Dainippon Pharmaceutical's research organization was comprised of three laboratory facilities—the Discovery Research Laboratories, the Developmental Research Laboratories and the Pharmaceutical Research Laboratories—each responsible for a different stage of drug development. However, following the organizational restructuring of the Research Laboratories (the Discovery Research Laboratories were separated 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, is comprised of four new laboratories with the Pharmaceutical Research Laboratories structure remaining unchanged. This new organizational structure has served to clarify each laboratory's roles and responsibilities regarding the selection and focus of resources for the development of new drugs.

Areas of Exploratory Research

Dainippon is concentrating on exploratory research in its four selected areas of vascular, psychic & neurologic, immuno-inflammatory and infectious diseases. Clear definition of research priorities within the exploratory research stage and the introduction of a research team system have helped to enhance the speed and efficiency of research activities. Early-stage evaluation using early ADME/TOX screening has also 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. Also considerable progress has been made on the development of necessary skills for in-house HTS of new targets.



Dainippon Pharmaceutical also plans to make use of genome technology and information for predicting pharmacokinetics and drug safety for humans, not only for use in exploring drug targets but also to improve the likelihood of success in research. We are

continually challenging to improve our know-how of leading-edge technologies by actively participating in various projects with external research institutions and the conduct of joint research.

Drug Development Division

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 is also making 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.

The Drug Development Division is comprised of Development Management, Clinical Development, International Clinical Development, Biostatistics, 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 development outside Japan. Pharmacovigilance & Medical Information conducts post-marketing surveys, prepares post-marketing product information and manages safety data.

Globalization of Development

For development candidates identified by Dainippon Pharmaceutical, the Company generally conducts clinical trials 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 AC-5216, where a licensee company expressed interest at a very early stage, a licensing agreement may be finalized at that time.

With the slow pace of clinical trials long being a problem in Japan, Dainippon leverages the results of clinical trials completed overseas to shorten the time to approval and launch in Japan. Overseas clinical trials are managed by International Clinical Development in cooperation with Dainippon Pharmaceutical U.S.A. Corporation and the London office, and performed using local CROs. At present, AS-3201 is undergoing Phase II trials in the U.S. and Canada, and AC-3933 is undergoing Phase II trials in Europe. Overseas clinical trials being conducted by licensees include Phase II trials for *mosapride citrate* by Takeda Chemical Industries, Ltd. in the U.S. In Europe, Elan Pharma International Limited is preparing Marketing Authorization Application for *zonisamide* and Almirall Prodesfarma, S.A. is conducting Phase II trials for *blonanserin*. In addition, Novartis Pharma AG is conducting 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 older agents. In addition, side effects such as weight gain and elevated blood sugar levels, which are problems with another new antipsychotics, were not observed. Dainippon Pharmaceutical is conducting Phase III trials. Spanish pharmaceutical company Almirall Prodesfarma, S.A. has licensed from Dainippon Pharmaceutical the rights to develop and market *blonanserin* worldwide, excluding east Asia, and is currently conducting Phase II trials in Europe and the U.S.

■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 conducting Phase II trials in the U.S. and Canada.

(See Highlights of the Year.)

■*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, 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 conducting late Phase II/Phase lll trials for the 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. 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. Comparing with antidementia agents already marketed, it is expected that AC-3933 demonstrates better efficacy for improving memory deficit, that is a major symptom of dementia, by enhancement of the cholinergic function through the allosteric reduction of GABA activity, as well as by enhancement of the glutamatergic function. At present, AC-3933 is undergoing Phase II trials 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 an antianxiety/antidepressant drug with an innovative mechanism that is different from existing benzodiazepine type antianxiety agents. Unlike most of the currently available antianxiety agents that belong to the benzodiazepine type, AC-5216 is an agonist for mitochondrial benzodiazepine receptors and promotes the production of neurosteroids, which act on the $GABA_A$ receptors.

Dainippon Pharmaceutical is conducting Phase I trials in Japan. In February 2002, Novartis Pharma AG received exclusive rights to develop and market AC-5216 globally, excluding east Asia, and is currently conducting Phase I trials in Europe.

Products under Development in Japan and Overseas

(As of September 30, 2003)

Stage	Brand name	Generic name	Formulation	Category	Remarks
NDA filed	ANPEC® *New Administration Route: epidural injection	*morphine hydrochloride*	Injection	Analgesic	Co-developed with 4 companies
	GLIMICRON HA ® *New Formulation: 20mg tablet	*gliclazide*	Tablet	Oral hypoglycemic	Developed in-house
	EPHEDRINE NAGAI® *New Administration Route: intravenous injection	*ephedrine hydrochloride*	Injection	Hypotension during anesthesia	Co-developed with 2 companies
Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Phase III	LONASEN® (AD-5423)	*blonanserin*	Tablet Powder	Antipsychotic	Developed in-house
	ZANIDIP®	*lercanidipine hydrochloride*	Tablet	Anti-hypertensive (Ca antagonist)	Licensed from Recordati Co-developed with Tsumura
	QVAR™ *Additional Use: Pediatric	*beclomethasone dipropionate*	Non-CFC Metered dose inhaler	Bronchial asthma	Licensed from 3M
Late Phase II / Phase III	EXCEGRAN® *New Indication	*zonisamide*	Tablet	Antiparkinson disease	Developed in-house
Phase II	AURORIX®	*moclobemide*	Tablet	Antidepressant	Licensed from Roche
	AS-3201	Not determined	Tablet	Aldose reductase inhibitor	Developed in-house
	DSE-9912	*tocopherol acetate*	Ointment	Antidermatitis	Licensed from Sekisui
	GASMOTIN® *New Indication	*mosapride citrate*	Tablet	Post-gastrectomy syndrome	Developed in-house
	AC-3933	Not determined	Tablet	Antidementia	Developed in-house
Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Phase I	AC-5216	Not determined	Tablet	Antianxiety & Antidepressant	Developed in-house
	EBASTEL® *New Formulation	*ebastin*	OD Tablet	Antiallergic	Licensed from Almirall
Preparation for Phase I	AE-3763	Not determined	Injection	Human leukocyte elastase inhibitor	Developed in-house

Business Development

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 the 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.

And thus, in the last couple of years, Dainippon concluded a number of significant contracts with other major pharmaceutical companies, including Kyorin Pharmaceutical Co., Ltd. (for co-marketing *gatifloxacin* under the name of GATIFLO® in the Japanese market), Chugai Pharmaceutical Co., Ltd. (for co-marketing BLUTAL® in the Japanese dialysis market), Takeda Chemical Industries, Ltd. (for licensing out *mosapride citrate* in a restricted world-wide* territory), Almirall Prodesfarma S.A. (for licensing out *blonanserin* in a restricted world-wide* territory), Schering-Plough K.K. (for co-marketing QVAR™ in the Japanese market), and Novartis Pharma AG (for licensing out AC-5216 in a restricted world-wide* territory).

During the fiscal year under review, Dainippon concluded three additional contracts, establishing new collaborations that will maximize the potential of our mutual activities and fulfill potential opportunities.

In May 2002, Dainippon acquired the right from the Italian pharmaceutical company, Recordati S.p.A., to develop and market *lercanidipine* in the Japanese market. *Lercanidipine* is a new calcium antagonist, and it has been approved in 61 countries and has been marketed in 43 countries including Italy, France Germany and the U.K. And also in May 2002, Dainippon finalized and concluded an agreement with Tsumura & Co., following a preliminary agreement concluded in the previous year, to co-develop and co-market *lercanidipine* in the Japanese market. Dainippon expects this agreement will accelerate the speed of the development and will amplify the potential of the product.

In December 2002, Dainippon announced that it had signed a preliminary agreement to grant Kyorin Pharmaceutical Co., Ltd. the co-development and co-marketing rights of AS-3201 in the Japanese market. AS-3201, discovered by Dainippon, is an aldose reductase inhibitor 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 is currently conducting Phase II trials in the U.S. and Canada.

In May 2002, Dainippon Pharmaceutical and Recordati S.p.A signed a licensing agreement for *lercanidipine*.

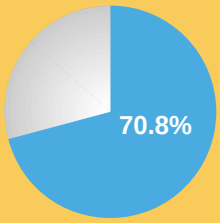
Dainippon believes that these strategic alliances will allow both Dainippon and its partnering companies to continuously activate our mutual pipelines in these collaborative fields and promote us to stronger positions in the marketplace.

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.

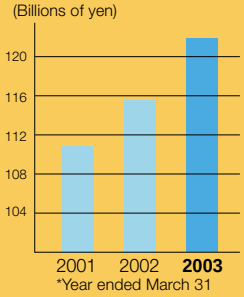
(*restricted world-wide territory means world-wide territory excluding Japan, China, Taiwan and South Korea.)

Pharmaceuticals

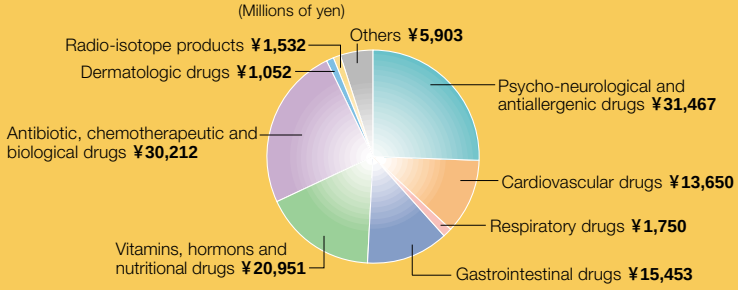
2003 Composition of Sales



Sales



Sales by Product Category



The pharmaceuticals business, Dainippon Pharmaceutical's core field of operations, focuses on ethical pharmaceuticals in addition to offering over-the-counter drugs and diagnostics. In the ethical pharmaceuticals business, Dainippon Pharmaceutical is promoting more strategic and effective marketing with the introduction of area team marketing. This new system is designed to respond to the shift toward the localized, self-contained health care systems of secondary healthcare zones, which are the future of healthcare provision, as well as other changes in the pharmaceutical industry, such as the separation of medical prescription and dispensing functions. In fiscal 2003, pharmaceuticals sales totaled ¥121,970 million, accounting for 70.8 percent of total sales.

Ethical Pharmaceuticals

Domestic Operations

Dainippon Pharmaceutical is continuing to restructure its marketing activities to achieve the key objectives of its Phase II 5-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 an 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.

Marketing activities have been solutions-based in Dainippon Pharmaceutical since April 2002. And while some pharmaceutical companies are focusing on their total number of MRs to evaluate their competitive ability in

the marketplace, Dainippon Pharmaceutical is instead focusing on promotion of its marketing power through improving the abilities and knowledge of its current MRs. With solutions-based marketing activities as its core strategy, Dainippon Pharmaceutical is devoted to boosting its MR skills and efficiency such that the present sales force of 700 can perform with the creativity of 1,000. (See Highlights of the Year.)

During fiscal 2003, challenging market conditions within the pharmaceutical industry intensified with the advancement of measures to contain healthcare costs, including an industry average 6.3 percent reduction in National Health Insurance (NHI) drug prices. Even in this environment, the Company's net sales from pharmaceutical operations increased 5.4 percent compared with the previous year to ¥121.9 billion. A brief overview highlighting the performance of the main pharmaceutical products is as follows.

The gastroprokinetic GASMOTIN® (*mosapride citrate*) was independently developed by Dainippon Pharmaceutical, and promotional efforts since its launch have established it as one of the Company's flagship products. Sales increased 2.4 percent over the previous fiscal year to ¥13.0 billion. The world's first selective serotonin 5-HT_4 receptor agonist, GASMOTIN® promotes gastrointestinal motility, and because GASMOTIN® does not block dopamine D_2 receptors, there is a reduced likelihood of extrapyramidal adverse reactions or prolonged QT intervals. Naturally, GASMOTIN® has earned a reputation as an extremely effective agent, and through efforts to expand sales, the Company plans to further cement its position as a mainstay product.

EBASTEL® (*ebastine*), an antiallergy drug licensed from Almirall Prodesfarma S.A., faces increasing competition in the market. Although it exhibits potent antihistamine action and superior efficacy with a single daily dose, as well as a low incidence of undesirable effects such as drowsiness, sales of EBASTEL® decreased 17.1 percent compared with the previous fiscal year to ¥11.1 billion due to factors including an NHI drug price reduction and the launch of rival products. By creating greater awareness of EBASTEL®'s advantages, the Company will ensure that it develops to its full market potential.

Sales of PRORENAL® (*limaprost alfadex*), an orally administered prostaglandin agent for the improvement of peripheral circulation jointly developed with Ono Pharmaceutical Co., Ltd., were ¥6.1 billion, a year-on-year increase of 24.9 percent. Sales of PRORENAL® have grown rapidly since 2001, when it was approved for the additional indication of lumbar spinal canal stenosis. Although lumbar spinal canal stenosis occurs in many elderly people, its importance and the need for treatment are not well recognized, therefore Dainippon Pharmaceutical will devote further efforts to education about this disease.

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. Despite a reduction of the NHI drug

PRORENAL®, an orally administered prostaglandin agent

price at the beginning of the fiscal year, sales of EXCEGRAN® increased 40.7 percent compared with the previous fiscal year to ¥6.5 billion due to a substantial increase in exports. Dainippon Pharmaceutical plans to further expand the applications of this drug, and therapeutic trials for the additional indication of Parkinson's disease are now under way.

The macrolide antibiotic KLARICID® (*clarithromycin*) and the enteral nutrition product ENSURE LIQUID®, which were developed by Dainabot Co., Ltd. (now Abbott Japan Co., Ltd.), posted sales of ¥19.4 billion and ¥14.4 billion, respectively.

Sales of the oral hypoglycemic GLIMICRON® (*gliclazide*), the psychotropic drug SERENACE® (*haloperidol*) and the ACE inhibitor CETAPRIL® (*alacepril*), mid-level products in terms of net sales, were limited to ¥5.2 billion, ¥3.5 billion and ¥3.2 billion, respectively. These products faced intense market competition with both the NHI drug price reductions and a series of rival product launches.

During fiscal 2003, Dainippon Pharmaceutical began marketing GATIFLO® (*gatifloxacin*), a broad-spectrum oral antibacterial; QVAR™ (*beclomethasone dipropionate*), an inhaled steroid asthma treatment; PYLONIC®, an internal-use diagnostic agent used to detect H. pylori infection; and SYNAGIS® (*palivizumab*), a humanized monoclonal antibody for the prevention of respiratory synctial virus (RSV) infection.

GATIFLO® is highly effective, with a broad spectrum of activity and strong antibacterial action. Dainippon Pharmaceutical is pursuing an aggressive sales strategy for GATIFLO® through a co-marketing agreement with Kyorin Pharmaceutical Co., Ltd. Despite the post-marketing emergence of a previously blood sugar effect, sales of this product reached ¥5.2 billion.

QVAR™, in-licensed from 3M Pharmaceuticals, is an MDI that uses an ozone-safe non-CFC propellant and is as effective as previous products at only half the dosage due to its improved drug formulation. The market for MDIs is expected to expand further as a result of the enactment of asthma prevention guidelines in Japan in 1998. Dainippon Pharmaceutical co-markets QVAR™ in Japan with Schering-Plough K.K.

SYNAGIS®, developed by Abbott Laboratories, is a humanized monoclonal antibody that prevents RSV infection. Its sales during the first fiscal year were already ¥3.9 billion.

Overseas Operations

Dainippon Pharmaceutical's international operations have for many years been centered in Asia. However, overseas sales and earnings have increased substantially following the April 2000 launch in the United States of *zonisamide*, an antiepileptic developed in-house, that has been marketed in Japan under the trade name of EXCEGRAN®. In fiscal 2003, export sales of *zonisamide* more than doubled compared with the previous fiscal year to ¥3.3 billion, substantially increasing operating income from overseas operations and contributing strongly to earnings of the Company as a whole. Additionally, Dainippon Pharmaceutical expects to file a new drug application for *zonisamide* in Europe in fall 2003 and launch it in other regions, further expanding its importance as a major export product.

Mosapride citrate, a gastroprokinetic agent introduced in Japan in 1998 and marketed under the trade name of GASMOTIN®, was launched in June 2001 in China and in April 2002 in South Korea, where sales for its first year surpassed 10 billion won. Approval is

Zonisamide is marketed in the U.S. under the trade name of ZONEGRAN®

also expected in Taiwan in 2004, as *mosapride citrate* continues to establish itself as our second major export product after *zonisamide*. Takeda Chemical Industries, Ltd. is handling development in the United States and in Europe, and *mosapride citrate* is expected to become a global product in the near future.

Dainippon Pharmaceutical markets a wide range of other products internationally, from ethical pharmaceuticals such as a quinolone antibacterial, 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 also 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 its 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 Wakanuga 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.

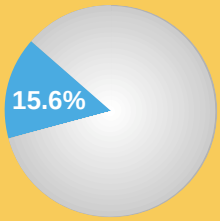
Other products in the MARKIT® series include MARKIT®-MPA, which measures prostate-specific antigen (PSA) in blood and is used in the diagnosis of prostate cancer, and MARKIT®-M PSA-ACT, which measures the new diagnostic prostate marker PSA 1-antichymotrypsin complex (PSA-ACT). Hyperlipemia diagnostics 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 drug *zonisamide*, which was developed in-house. All three kits are used for therapeutic drug monitoring (TDM).

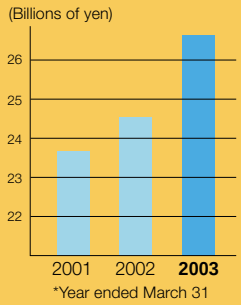
Dainippon Pharmaceutical was the first company in Japan to develop these diagnostics and obtain manufacturing approval for in vitro use. The kits are widely used in hospitals and clinical assay laboratories throughout Japan. Diagnostics under development for TDM of ethical drugs developed in-house include 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

2003 Composition of Sales



Sales



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 companion animals. The product lineup consists of pharmaceuticals for the prevention or treatment of various animal diseases, as well as canine and feline nutritional formulas licensed from Hill's Pet Nutrition, Inc.

Dainippon Pharmaceutical plans to use the transfer of the livestock and aquaculture business of Tanabe Seiyaku Co., Ltd. as a base for a full-fledged entry into the field of farm animals. In fiscal 2003, sales in the animal health business totaled ¥26,816 million, accounting for 15.6 percent of total sales.

Animal Health Products

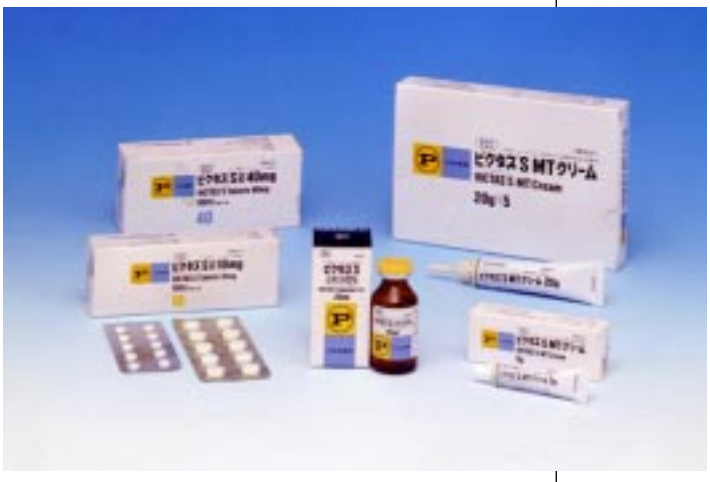
Based on the theme of offering comprehensive healthcare for pets, Dainippon Pharmaceutical's animal health products operations focus on the veterinary market for companion animals. Our product lineup includes PRESCRIPTION DIET®, a nutritional formula for veterinary clinics, and SCIENCE DIET®, a premium 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.

Dainippon Pharmaceutical benefits from the database of the Veterinarians & Maru-P 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. In addition, subsidiary Marupi Lifetech Co., Ltd. has won strong support from companion-animal veterinarians for its superior testing services in the areas of pathology and immunology.

This quality-based focus on the field of companion animals has made Dainippon Pharmaceutical a leading company in the animal health products business. In order to stay ahead in this competitive market, Dainippon Pharmaceutical acquired the rights to the livestock and fishery business of Tanabe Seiyaku Co., Ltd. in November 2002. Through this business transfer, Dainippon Pharmaceutical fully enters the industrial livestock field, which is the largest market for animal health products, while also creating synergies for its companion-animal operations.

In fiscal 2003, sales of animal health products were ¥26.8 billion, with a number of Dainippon Pharmaceutical's products boasting the top share in their respective sectors of the companion-animal market. Such products include PRESCRIPTION DIET®, in-licensed from Hill's Pet Nutrition, Inc.; CARDOMEC®, a preventative for canine heartworm disease in-licensed from Merial, Ltd.; ENACARD®, a treatment for chronic heart failure in dogs in-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 in-licensed from Abbott Laboratories. The launches in fiscal 2002 of RIMADYL®, a canine non-steroidal anti-inflammatory and analgesic in-licensed from Pfizer Pharmaceuticals Inc., and TEAROSE®, a non-steroidal treatment for canine conjunctivitis in-licensed from Senju Pharmaceutical Co., Ltd., also contributed to the increase in sales.

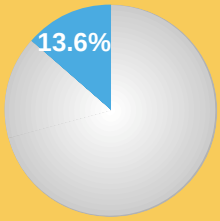
In addition, the number of veterinary hospitals using LIFECHIP®, an ID microchip in-licensed from Digital Angel Corporation, has steadily increased since the December 2000 enactment of the Law Concerning the Protection and Control of Animals.



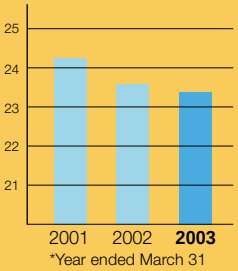
VICTAS®-S series, new quinolone antibacterial

Other Products

2003 Composition of Sales



Sales
(Billions of yen)



*Year ended March 31

Other businesses include food science, which focuses on 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 2003, sales of other businesses totaled ¥23,376 million, accounting for 13.6 percent of total sales.

Food and Food Additives

The Food and Food Additives operations handle food ingredients such as natural additives and seasonings. Because these ingredients are used in daily food preparation, high levels of safety, purity and quality are required. By utilizing its technologies for purity control, developed as a pharmaceutical manufacturer, Dainippon Pharmaceutical has earned a high reputation in the food industry. Main products currently marketed are GLYLOID®, a natural hydrocolloid used as a thickening and stabilizing agent in *tonkatsu* (pork cutlet) sauce and ice cream, and AJIPOL®, a natural seasoning used in ramen soup and other types of foods.

During fiscal 2003, scandals over issues such as use of unauthorized additives in aromatic chemicals and residual pesticides in vegetables from China added to popular

anxieties about the food industry. Moreover, in the restaurant industry, a revision to the Road Traffic Law strengthening restrictions on drunk driving decreased the number of people dining out. As a result, the severe conditions from the previous fiscal year persisted in the food industry overall. Despite these conditions, by strengthening its operations, this division achieved a limited increase in current profit compared with the previous fiscal year.

In the pursuit of new business opportunities to develop as core operations of the future, Dainippon Pharmaceutical is currently involved in new projects that promote future expansion, including overseas procurement of raw ingredients, entry into overseas markets, and large-scale development of food materials.

Industrial Chemicals

The industrial chemicals operations play 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 mainstay GARO® series of sensitizers for photoresists increased in tandem with the market recovery in IT-related fields. Sales of personal care products also rose due to an increase in new users, resulting in an overall increase in sales for the industrial chemicals operations.

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.

Commitment to Environmental Protection

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 operating an environmental management system 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 in February 2003 Dainippon Pharmaceutical began activities to obtain ISO 14001 certification for the Research Laboratories. In addition, Dainippon Pharmaceutical is 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 regarded with utmost importance.

In fiscal 2001, Dainippon Pharmaceutical established a page on its website devoted to the Company's environmental protection efforts, and began publishing an annual Environmental Report. The Company's Second Environmental Report was published in 2002. We are also making public disclosure of the results of environmental accounting in 2003, which was introduced in April 2002.

Future Direction

Dainippon Pharmaceutical will conduct an Energy Service Company project as a measure to reduce CO_2 emissions, and will promote policies to conserve energy. The Company will work to reduce the final amount of industrial waste disposed of by promoting thorough waste separation and expanded recycling. In addition, the Company established a chloroform recovery system in 2003 as a measure to reduce chemical emissions, and will continue working towards further reductions of all emissions.

Financial Section

CONTENTS

Information concerning the merger of the Company's independent auditors
On July 1, 2002, Seiwa Audit Corporation, the Company's former independent auditors, merged with Tohmatsu & Co., a member firm of Deloitte Touche Tohmatsu. As a result, the Company's independent auditors became Deloitte Touche Tohmatsu.

Six-Year Summary

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen						Thousands of U.S. Dollars
	2003	2002	2001	2000	1999	1998	**2003**
RESULTS OF OPERATIONS:							
Net sales	**¥ 172,162**	¥ 164,117	¥ 158,873	¥ 155,497	¥ 146,452	¥ 150,292	**$ 1,434,683**
Cost of sales	**108,046**	100,073	97,126	97,195	92,889	94,687	**900,383**
Selling, general and administrative expenses	**51,240**	46,863	45,597	45,616	45,603	47,554	**427,000**
Operating income	**12,876**	17,181	16,150	12,686	7,960	8,051	**107,300**
Income before income taxes and minority interests	**12,718**	17,863	17,619	13,595	9,438	9,305	**105,983**
Net income	**6,364**	9,596	9,376	6,884	3,319	3,524	**53,033**
FINANCIAL POSITION:							
Current assets	**116,241**	119,247	117,877	117,548	120,128	126,878	**968,675**
Net property, plant and equipment	**35,374**	33,637	31,487	31,188	32,640	29,931	**294,783**
Total assets	**187,416**	186,834	187,309	171,064	172,978	176,721	**1,561,800**
Current liabilities	**61,507**	49,784	56,409	44,836	55,413	47,370	**512,558**
Long-term debt		11,118	11,119	17,005	17,005	27,725	
Shareholders' equity	**116,044**	115,985	109,267	98,092	89,012	90,068	**967,033**
OTHER STATISTICS:							
R&D costs	**15,218**	13,124	12,565	12,079	12,276	12,369	**126,817**
Capital expenditures	**6,532**	6,414	4,074	2,041	5,699	4,525	**54,433**
Depreciation and amortization	**5,316**	4,334	4,267	3,936	3,629	3,397	**44,300**

	Yen						U.S. Dollars
PER SHARE OF COMMON STOCK:							
Basic net income	**¥ 38.02**	¥ 57.06	¥ 55.75	¥ 40.93	¥ 19.73	¥ 20.96	**$ 0.32**
Diluted net income	**36.36**	54.18	52.70	39.05	19.16	20.14	**0.30**
Cash dividends applicable to the year	**10.00**	10.00	8.50	8.50	7.50	7.50	**0.08**

Note: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003.

Results of Operations

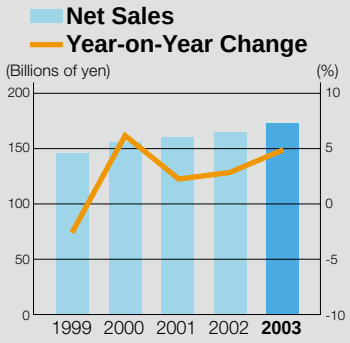
For the fiscal year ended March 31, 2003, net sales of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries increased 4.9 percent over the previous fiscal year to ¥172,162 million. The increase reflected steady growth in sales of the Company's core ethical pharmaceuticals, primarily GASMOTIN®, a gastroprokinetic agent, EXCEGRAN®, an antiepileptic agent, PRORENAL®, an agent for the improvement of peripheral circulation, and GATIFLO®, a broad spectrum oral antibiotic launched during the past fiscal year.

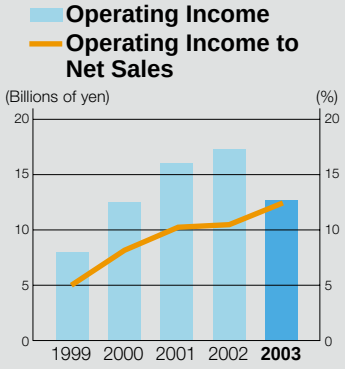
Operating income decreased 25.1 percent to ¥12,876 million. The primary reasons for the decrease were an increase in the cost of sales ratio associated with the reduction of National Health Insurance drug prices and changes in the product mix, higher personnel expenses due to increased retirement benefit obligations, and an increase in research and development expenses to speed up product development.

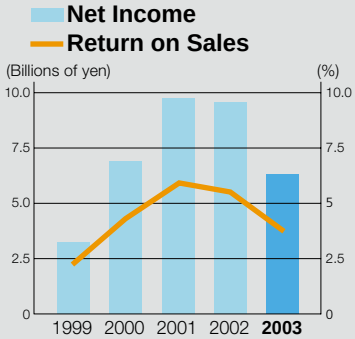
Research and development costs increased 16.0 percent to ¥15,218 million.

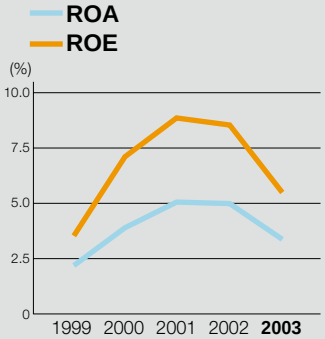
Net income decreased 33.7 percent to ¥6,364 million. Dainippon Pharmaceutical sold a portion of its shares held in ABBOTT JAPAN Co., Ltd. (formerly DAINABOT Co., Ltd.) to Abbott Finance Company S.A. for ¥1,853 million. However, the Company recorded a loss of ¥1,494 million in devaluation of investment securities, reflecting the weak stock market, and special retirement expenses of ¥845 million due to implementation of an outplacement support program associated with integration of production facilities. These and other factors resulted in a negative turnaround from the results of the previous fiscal year.

The operating margin for the period under review was 7.5 percent, and the return on average total shareholders' equity (ROE) was 5.5 percent. Earnings per share amounted to ¥38.02.









Operating Performance by Business Segment

Sales of pharmaceuticals increased 5.4 percent year-on-year to ¥121,970 million. Operating income in this segment declined 26.0 percent to ¥13,257 million due to factors including initial sales promotion expenses related to new products. Sales of GASMOTIN®, a gastroprokinetic agent developed by Dainippon Pharmaceutical, increased 2.4 percent to ¥13.0 billion. Sales of EXCEGRAN®, an antiepileptic drug also developed by the Company, expanded 40.7 percent to ¥6.5 billion. Supported by the approval of an additional indication in the previous year, sales of PRORENAL®, an agent for the improvement of peripheral circulation, continued to grow steadily, increasing 24.9 percent to ¥6.1 billion. Sales of GATIFLO®, a broad spectrum oral antibacterial launched during the period, totaled ¥5.2 billion. In addition, the Company continued to promote sales of other core pharmaceuticals, including EBASTEL®, a long-lasting antiallergenic agent, GLIMICRON®, an oral hypoglycemic, and QVAR™, an inhaled steroid asthma treatment introduced during the past fiscal year.

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

Sales of animal health products increased 8.8 percent year-on-year to ¥26,816 million, and operating income in this segment increased 28.1 percent to ¥1,028 million. The Company focused its sales efforts on animal health products such as CARDOMEC®, which helps prevent canine heartworm disease, and VICTAS®, a synthesized quinolone antibacterial, as well as canine nutritional formulas. In addition, the transfer of the animal health business of Tanabe Seiyaku Co., Ltd. to Dainippon Pharmaceutical in November 2002 also contributed to sales in this segment.

Sales of other products, excluding intersegment sales and transfers, declined 1.6 percent to ¥23,376 million. Despite the Company's efforts to expand sales of ECHO GUM® and GLYLOID®, which are natural hydrocolloid stabilizers used as food additives, AJIPOL® natural seasonings, industrial chemical products and research reagents and instruments, sales decreased because of weak market conditions. Operating income in this segment, however, increased 1.5 percent to ¥1,558 million.

Sales of Major Pharmaceutical Products

(Fiscal Years ended March 31; Billions of Yen)

Brand name (Generic name)	Category	Sales for Fiscal Year 2002	Sales for Fiscal Year 2003
KLARICID® (*clarithromycin*)	Macrolide antibiotic	19.1	**19.4**
ENSURE LIQUID® (–)	Eternal nutrition	14.3	**14.4**
GASMOTIN® (*mosapride citrate*)	Gastro-prokinetic	12.5	**13.0**
EBASTEL® (*ebastine*)	Antiallergic	13.4	**11.1**
EXCEGRAN® (*zonisamide*)	Antiepileptic	4.7	**6.5**
PRORENAL® (*limaprost alfadex*)	Vasodilator	4.8	**6.1**
GLIMICRON® (*gliclazide*)	Oral hypoglycemic	5.9	**5.2**
GATIFLO® (*gatifloxacin*)	New quinolone antibacterial		**5.2**
SEVOFRANE® (*sevoflurane*)	Anesthetic	3.6	**3.9**
SYNAGIS® (*palivizumab*)	Monoclonal antibody		**3.9**
SERENACE® (*haloperidol*)	Psychotropic	4.1	**3.5**
LOPEMIN® (*loperamide hydrochloride*)	Antidiarrheal	3.6	**3.3**
CETAPRIL® (*alacepril*)	Antihypertensive	4.3	**3.2**
RISUMIC® (*amezinium metilsulfate*)	Antihypotensive	3.0	**2.6**
PIMENOL® (*pirmenol hydrochloride*)	Antiarrhythmic	2.2	**2.0**
ERYTHROCIN® (*erythromycin stearate*)	Macrolide antibiotic	2.0	**1.7**
ANPEC® (*morphine hydrochloride*)	Analgesic	2.0	**1.7**
KADIAN® (*morphine sulfate*)	Analgesic	1.9	**1.6**
QVAR™ (*beclomethasone dipropionate*)	Bronchial asthma		**1.4**

Financial Position

As of March 31, 2003, total assets were ¥187,416 million, an increase of ¥582 million from a year earlier. Property, plant and equipment, and investments and other assets increased because of expansion of production facilities and other factors, but cash and time deposits decreased.

Current assets decreased ¥3,006 million from a year earlier to ¥116,241 million. Accounts receivable increased along with the growth in sales, while inventories were expanded to prepare for the integration of production at the Suzuka Plant. However, cash and time deposits decreased because the Company used cash to invest in property, plant and equipment and to repurchase shares of its own stock.

Property, plant and equipment increased ¥1,737 million from a year earlier to ¥35,374 million. The Company made major capital investments in connection with the integration of production at the Suzuka Plant.

Investments and other assets increased ¥1,851 million to ¥35,801 million. Weak stock market conditions resulted in higher impairment losses on investment securities, but deferred tax assets increased.

Current liabilities increased ¥11,723 million to ¥61,507 million, as unsecured convertible bonds due within one year were transferred to current liabilities.

Although the Company repurchased shares of its stock, shareholders' equity was essentially unchanged at ¥116,044 million because of the net positive change in assets over liabilities. Consequently, the ratio of shareholders' equity to total assets was 61.9 percent. Shareholders' equity per share of common stock outstanding at the end of the period increased ¥12.30 from a year earlier to ¥702.09.

Cash Flows

Net cash provided by operating activities decreased ¥1,235 million year-on-year to ¥6,138 million. Trade payables increased and income taxes paid decreased compared with the previous fiscal year, but income before income taxes and minority interests decreased ¥5,145 million.

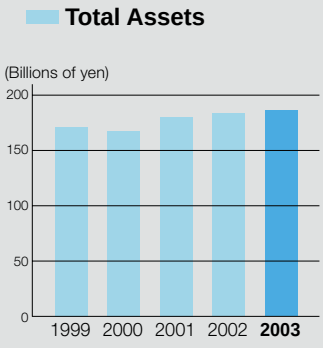
Net cash used in investing activities increased ¥6,637 to ¥7,745 million, primarily because of an increase in purchases of property, plant and equipment.

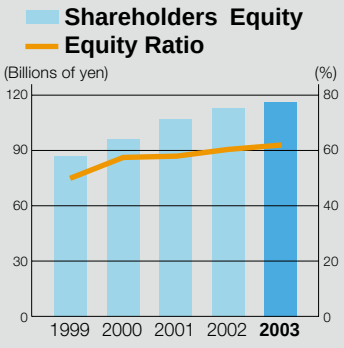
Net cash used in financing activities decreased ¥1,918 million to ¥5,427 million. Payment for purchase of treasury stock was ¥3,275 million, but this was more than offset by the absence of redemption of convertible bonds during the past fiscal year.

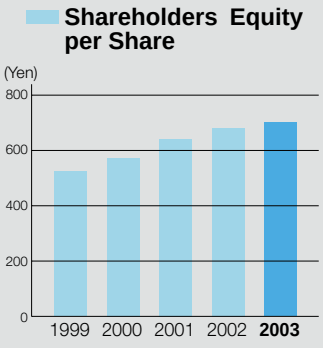
As a result, cash and cash equivalents as of March 31, 2003 totaled ¥16,899 million, a decrease of ¥7,034 million from a year earlier.

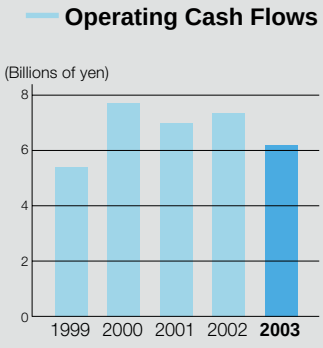
Dividend Policy

The consistent payment of appropriate dividends to shareholders is a primary management priority. Although paying steady dividends is a basic policy, management will continue linking dividends to corporate performance, while working to strengthen the Company's financial to support the growth of its business. On the basis of this policy, cash dividends applicable to the fiscal year were ¥10.00 per share. The Company intends to deploy capital resources mainly for investment in research and development in Japan and overseas, and in property, plant and equipment to increase operating efficiency.









Consolidated Balance Sheets

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
CURRENT ASSETS:			
Cash and time deposits (Note 3)	**¥ 13,907**	¥ 23,971	**$ 115,892**
Marketable securities (Notes 3 and 5)	**5,090**	2,649	**42,417**
Receivables:			
Trade notes	**6,299**	7,320	**52,491**
Trade accounts	**61,065**	57,895	**508,875**
Allowance for doubtful receivables	**(85)**	(104)	**(708)**
	67,279	65,111	**560,658**
Inventories (Note 4)	**24,134**	22,770	**201,117**
Deferred tax assets (Note 7)	**3,095**	2,497	**25,791**
Prepaid expenses and other current assets	**2,736**	2,249	**22,800**
Total current assets	**116,241**	119,247	**968,675**
PROPERTY, PLANT AND EQUIPMENT (Note 2.e):			
Land	**5,175**	5,205	**43,125**
Buildings and structures	**36,058**	35,173	**300,483**
Machinery and equipment	**35,712**	34,231	**297,600**
Construction in progress	**4,778**	4,142	**39,817**
Total	**81,723**	78,751	**681,025**
Accumulated depreciation	**(46,349)**	(45,114)	**(386,242)**
Net property, plant and equipment	**35,374**	33,637	**294,783**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	**22,892**	25,399	**190,767**
Deferred tax assets (Note 7)	**4,024**	2,057	**33,533**
Other assets	**8,885**	6,494	**74,042**
Total investments and other assets	**35,801**	33,950	**298,342**
TOTAL	**¥ 187,416**	¥ 186,834	**$ 1,561,800**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	2002	Thousands of U.S. Dollars (Note 1) 2003
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 1,020**	¥ 1,370	**$ 8,500**
1.4% unsecured convertible bonds due September 2003 (Note 6)	**11,118**		**92,650**
Payables:			
Trade notes	**3,566**	4,915	**29,717**
Trade accounts	**32,887**	27,837	**274,058**
	36,453	32,752	**303,775**
Income taxes payable	**3,975**	4,954	**33,125**
Accrued expenses	**5,581**	5,649	**46,508**
Other current liabilities (Note 6)	**3,360**	5,059	**28,000**
Total current liabilities	**61,507**	49,784	**512,558**
1.4% UNSECURED CONVERTIBLE BONDS DUE SEPTEMBER 2003 (Note 6)		11,118	
LIABILITY FOR RETIREMENT BENEFITS (Notes 2.f and 8)	**9,248**	9,366	**77,067**
MINORITY INTERESTS	**617**	581	**5,142**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 12):			
SHAREHOLDERS' EQUITY (Notes 6, 9 and 13):			
Common stock: authorized - 600,000,000 shares; issued, 168,184,154 shares	**13,444**	13,444	**112,033**
Capital surplus	**15,860**	15,860	**132,167**
Retained earnings	**89,300**	84,767	**744,167**
Unrealized gains on available-for-sale securities, net of tax	**761**	1,960	**6,341**
Total	**119,365**	116,031	**994,708**
Treasury stock - at cost			
2,946,313 shares in 2003 and 36,945 shares in 2002	**(3,321)**	(46)	**(27,675)**
Total shareholders' equity	**116,044**	115,985	**967,033**
TOTAL	**¥ 187,416**	¥ 186,834	**$ 1,561,800**

Consolidated Statements of Income

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
NET SALES	**¥ 172,162**	¥ 164,117	**$ 1,434,683**
COST OF SALES	**108,046**	100,073	**900,383**
Gross profit	**64,116**	64,044	**534,300**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**51,240**	46,863	**427,000**
Operating income	**12,876**	17,181	**107,300**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**858**	1,076	**7,150**
Interest expense	**(204)**	(262)	**(1,700)**
Gains on sales of investment securities (Note 5)	**1,853**	1,853	**15,441**
Loss on devaluation of investment securities	**(1,494)**	(1,363)	**(12,450)**
Special retirement expenses (Note 8)	**(845)**	(170)	**(7,042)**
Other - net	**(326)**	(452)	**(2,716)**
Other income (expenses) - net	**(158)**	682	**(1,317)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**12,718**	17,863	**105,983**
INCOME TAXES (Note 7):			
Current	**7,966**	9,010	**66,383**
Deferred	**(1,661)**	(799)	**(13,842)**
Total income taxes	**6,305**	8,211	**52,541**
MINORITY INTERESTS IN NET INCOME	**49**	56	**409**
Net income	**¥ 6,364**	¥ 9,596	**$ 53,033**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.f):			
Basic net income	**¥ 38.02**	¥ 57.06	**$ 0.32**
Diluted net income	**36.36**	54.18	**0.30**
Cash dividends applicable to the year	**10.00**	10.00	**0.08**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2001	168,182,800	¥ 13,443	¥ 15,859	¥ 76,642	¥ 3,326	¥ (3)
Net income				9,596		
Cash dividends, ¥8.50 per share				(1,430)		
Bonuses to directors and corporate auditors				(41)		
Increase in treasury stock (35,354 shares)						(43)
Conversion of convertible bonds	1,354	1	1			
Net unrealized losses on available-for-sale securities					(1,366)	
BALANCE, MARCH 31, 2002	168,184,154	13,444	15,860	84,767	1,960	(46)
Net income				6,364		
Cash dividends, ¥10.75 per share				(1,795)		
Bonuses to directors and corporate auditors				(36)		
Increase in treasury stock (2,909,368 shares)						(3,275)
Net unrealized losses on available-for-sale securities					(1,199)	
BALANCE, MARCH 31, 2003	**168,184,154**	**¥ 13,444**	**¥ 15,860**	**¥ 89,300**	**¥ 761**	**¥ (3,321)**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2002	$ 112,033	$ 132,167	$ 706,392	$ 16,333	$ (383)
Net income			53,033		
Cash dividends, $0.09 per share			(14,958)		
Bonuses to directors and corporate auditors			(300)		
Increase in treasury stock (2,909,368 shares)					(27,292)
Net unrealized losses on available-for-sale securities				(9,992)	
BALANCE, MARCH 31, 2003	**$ 112,033**	**$ 132,167**	**$ 744,167**	**$ 6,341**	**$ (27,675)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 12,718**	¥ 17,863	**$ 105,983**
Adjustments for:			
Depreciation and amortization	**5,316**	4,334	**44,300**
Provision for liability for retirement benefits, less payments	**(174)**	(190)	**(1,450)**
Interest and dividend income	**(858)**	(1,076)	**(7,150)**
Interest expense	**204**	262	**1,700**
Gains on sales of investment securities	**(1,853)**	(1,853)	**(15,441)**
Loss on devaluation of investment securities	**1,494**	1,363	**12,450**
Changes in assets and liabilities:			
Increase in receivables	**(2,150)**	(601)	**(17,917)**
Increase in inventories	**(1,364)**	(1,721)	**(11,366)**
Increase (decrease) in payables	**3,700**	(866)	**30,833**
Other - net	**(2,603)**	(863)	**(21,692)**
Sub-total	**14,430**	16,652	**120,250**
Interest and dividend received	**858**	1,093	**7,150**
Interest paid	**(204)**	(262)	**(1,700)**
Income taxes paid	**(8,946)**	(10,110)	**(74,550)**
Net cash provided by operating activities	**6,138**	7,373	**51,150**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(6,472)**	(4,767)	**(53,933)**
Proceeds from sales of investment securities	**3,905**	2,921	**32,542**
Net decrease in marketable securities	**1,638**	3,760	**13,650**
Purchases of investment securities	**(3,398)**	(3,028)	**(28,317)**
Other - net	**(3,418)**	6	**(28,484)**
Net cash used in investing activities	**(7,745)**	(1,108)	**(64,542)**
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	**(350)**	20	**(2,917)**
Redemption of convertible bonds		(5,883)	
Increase in treasury stock	**(3,275)**	(43)	**(27,292)**
Dividends paid	**(1,795)**	(1,432)	**(14,958)**
Dividends paid to minority interests	**(7)**	(7)	**(58)**
Net cash used in financing activities	**(5,427)**	(7,345)	**(45,225)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,034)**	(1,080)	**(58,617)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**23,933**	25,013	**199,442**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	**¥ 16,899**	¥ 23,933	**$ 140,825**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

1. BASIC OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting 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 and rearrangements 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. In addition, certain reclassifications have been made in 2002 financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Dainippon Pharmaceutical Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥120 to $1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 4 significant subsidiaries (together, the "Group") .

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in the unconsolidated subsidiaries and all associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The differences between the costs of the Company's investments in consolidated subsidiaries and its equities in the net assets at the respective dates of acquisition, are amortized over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and ii) available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. Inventories

Inventories are stated at cost, determined by the average method.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings is computed by the straight-line method over the estimated useful lives of the assets. Depreciation of machinery and equipment is computed by the declining-balance method over 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

f. Liability for Retirement 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. The liability for retirement benefit are provided based on projected benefit obligations and plan assets at the balance sheet date.

The liability for retirement benefits for directors and corporate auditors is recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. These amounts are paid subject to approval of the shareholders. Liability for retirement benefits includes retirement benefits for those officers at March 31, 2003 and 2002 of ¥543 million ($4,525 thousand) and ¥487 million, respectively.

g. Research and Development Costs

Research and development costs are charged to income as incurred. Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2003 and 2002 were ¥15,218 million ($126,817 thousand) and ¥13,124 million, respectively.

h. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be 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.

i. 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.

j. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders’ approval.

k. Foreign Currency Items

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

l. Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Basic net income and diluted net income per share for the years ended March 31, 2003 and 2002 are computed in accordance with the new standard. The number of shares used in the calculation of basic net income per share and diluted net income per share was 166,558 thousand and 176,730 thousand, respectively, for the year ended March 31, 2003 and 168,172 thousand and 179,623 thousand, respectively, for the year ended March 31, 2002.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2003 and 2002 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Cash and time deposits	**¥ 13,907**	¥ 23,971	**$ 115,892**
Time deposits with maturity over three months	**(19)**	(49)	**(159)**
Marketable securities with a maturity of three months or less when purchased	**3,011**	11	**25,092**
Cash and cash equivalents	**¥ 16,899**	¥ 23,933	**$ 140,825**

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Finished goods	**¥ 16,490**	¥ 12,880	**$ 137,417**
Semi-finished goods and work in process	**3,448**	4,565	**28,733**
Raw materials and supplies	**4,196**	5,325	**34,967**
Total	**¥ 24,134**	¥ 22,770	**$ 201,117**

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Current:			
Government and corporate bonds	**¥ 2,079**	¥ 2,638	**$ 17,325**
Commercial paper and other	**3,011**	11	**25,092**
Total	**¥ 5,090**	¥ 2,649	**$ 42,417**
Non-current:			
Equity securities	**¥ 16,958**	¥ 16,199	**$ 141,317**
Investment in unconsolidated subsidiaries and associated companies	**738**	670	**6,150**
Government and corporate bonds	**2,580**	4,972	**21,500**
Trust fund investments and other	**2,616**	3,558	**21,800**
Total	**¥ 22,892**	¥ 25,399	**$ 190,767**

The carrying amounts and aggregate fair values of marketable and investments securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 11,987**	**¥ 4,004**	**¥ 807**	**¥ 15,184**
Bonds and debentures	**109**			**109**
Other securities	**4,524**		**1,908**	**2,616**
Held-to-maturity	**4,550**	**3**	**531**	**4,022**

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
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

	Thousands of U.S. Dollars			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 99,892**	**$ 33,367**	**$ 6,725**	**$ 126,534**
Bonds and debentures	**908**			**908**
Other securities	**37,700**		**15,900**	**21,800**
Held-to-maturity	**37,917**	**25**	**4,425**	**33,517**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Available-for-sale:			
Equity securities	**¥ 1,774**	¥ 822	**$ 14,783**
Money management funds (MMF) and other	**11**	11	**92**
Held-to-maturity:			
Commercial papers	**3,000**		**25,000**
Total	**¥ 4,785**	¥ 833	**$ 39,875**

Proceeds from sales of held-to-maturity securities were ¥1,461 million for the year ended March 31, 2002 due to increasing credit risks of the issuer.

Proceeds from sales of available-for-sale securities were ¥1,900 million ($15,833 thousand) and ¥1,999 million for the years ended March 31, 2003 and 2002, respectively. On those sales, gross realized gains and losses computed on a moving average cost basis were ¥1,853 million ($15,441 thousand) and ¥0 million ($0 thousand), respectively for the year ended March 31, 2003 and ¥1,853 million and ¥1 million, respectively for the year ended March 31, 2002. Gross realized gains of ¥1,853 million ($15,441 thousand), respectively, for the years ended March 31, 2003 and 2002 resulted from sales of equity securities of ABBOTT JAPAN Co., Ltd. (formerly DAINABOT Co., Ltd.)

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due in one year or less	**¥ 5,079**	¥ 2,638	**$ 42,325**
Due after one year through five years	**579**	1,973	**4,825**
Due after five years through ten years	**2,000**	3,000	**16,667**
Total	**¥ 7,658**	¥ 7,611	**$ 63,817**

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans were represented by unsecured loans from banks bearing interest of 0.53% to 2.49% at March 31, 2003 and 2002, respectively. Other current liabilities as of March 31, 2003 and 2002 include deposits received from customers in the amount of ¥736 million ($6,133 thousand) and ¥766 million, respectively, bearing interest of 2.7% and 3.0%, respectively. Unused short-term bank loan credit lines were ¥10,000 million ($83,333 thousand) at March 31, 2003.

On September 30, 1994, the Company issued 1.4% unsecured convertible bonds due September 30, 2003, in an aggregate amount of ¥12,000 million. The conversion price per share of common stock is ¥1,093 ($9.11) on March 31, 2003. 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 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 banks. None of the lenders has ever exercised these rights against debts of the Group.

7. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2003 and 2002.

On March 31, 2003, Cabinet Order No. 9 entitled “Reform of a Portion of Local Tax Law” was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result of this reform, the statutory income tax rate to be used for the calculation of deferred income taxes concerning temporary differences, which are expected to be realized or settled after April 1, 2004, was changed from 42.0% to 40.4%. The effect of this change was to decrease deferred tax assets by ¥147 million ($1,225 thousand), and to increase income taxes-deferred by ¥167 million ($1,392 thousand), and net unrealized gain on available-for-sale securities by ¥20 million ($167 thousand), respectively, for the year ended March 31, 2003.

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,191**	¥ 1,778	**$ 18,258**
Accrued enterprise taxes	**363**	451	**3,025**
Accrued bonuses to employees	**1,475**	1,141	**12,292**
Accrued other expenses	**352**	422	**2,933**
Loss on devaluation of investment securities	**1,266**	686	**10,550**
Other	**2,155**	1,558	**17,958**
Total deferred tax assets	**7,802**	6,036	**65,016**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(520)**	(1,423)	**(4,333)**
Deferred gain on sales of fixed assets	**(159)**	(54)	**(1,325)**
Other	**(4)**	(5)	**(34)**
Total deferred tax liabilities	**(683)**	(1,482)	**(5,692)**
Net deferred tax assets	**¥ 7,119**	¥ 4,554	**$ 59,324**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2003 and 2002 was as follows:

	2003	2002
Normal effective statutory tax rate	**42.0%**	42.0%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**8.3**	5.7
Non-taxable dividend income	**(1.4)**	(1.6)
Adjustment of deferred tax assets and liabilities due to change in tax rates	**1.3**	
Other	**(0.6)**	(0.1)
Actual effective tax rate	**49.6%**	46.0%

8. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Projected benefit obligation	**¥ 65,879**	¥ 61,809	**$ 548,992**
Fair value of plan assets	**(30,525)**	(36,269)	**(254,375)**
Unrecognized prior service benefit	**2,879**	3,102	**23,992**
Unrecognized actuarial loss	**(29,528)**	(19,763)	**(246,067)**
Liability for employee's retirement benefit	**¥ 8,705**	¥ 8,879	**$ 72,542**

Consolidated subsidiaries have adopted the simplified calculation method for projected benefit obligation allowed for small business entities in Japan. The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Service cost	**¥ 1,914**	¥ 1,657	**$ 15,950**
Interest cost	**1,834**	1,935	**15,283**
Expected return on plan assets	**(922)**	(1,067)	**(7,683)**
Amortization of prior service cost	**(223)**	(223)	**(1,858)**
Recognized actuarial loss	**1,354**	551	**11,283**
Net periodic benefit costs	**¥ 3,957**	¥ 2,853	**$ 32,975**

In addition to the above costs, the special retirement costs charged to income are ¥845 million ($7,042 thousand) and ¥170 million for the years ended March 31, 2003 and 2002, respectively.

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Method of attributing benefits to periods of service	**straight-line basis**	straight-line basis
Discount rate	**2.5%**	3.0%
Expected rate of return on plan assets	**2.5%**	3.0%
Amortization period for prior service cost	**15 years**	15 years
Recognition period for actuarial loss	**15 years**	15 years

9. SHAREHOLDERS' EQUITY

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

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

At the general shareholders' meeting held on June 27, 2002, the Company's shareholders authorized the Company to repurchase up to 5,000,000 shares of the Company's common stock (aggregate amount of ¥7,500 million) as treasury stock until the closing of the next general shareholders' meeting in accordance with the Code. The Company repurchased 2,500,000 shares (aggregate amount of ¥2,848 million ($23,733 thousand)) of the Company's common stock under this plan for the year ended March 31, 2003.

The amount of retained earnings available for dividends under the Code was ¥81,781 million ($681,508 thousand) as of March 31, 2003, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

10. LEASES

The Group lease certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥2,407 million ($20,058 thousand) and ¥2,269 million, respectively, including ¥493 million ($4,108 thousand) and ¥495 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2003 and 2002 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Machinery and equipment:			
Acquisition cost	**¥ 2,583**	¥ 1,823	**$ 21,525**
Accumulated depreciation	**(964)**	(847)	**(8,033)**
Net leased property	**¥ 1,619**	¥ 976	**$ 13,492**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	**2003**
Due within one year	**¥ 611**	¥ 368	**$ 5,092**
Due after one year	**1,008**	608	**8,400**
Total	**¥ 1,619**	¥ 976	**$ 13,492**

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥493 million ($4,108 thousand) and ¥495 million for the years ended March 31, 2003 and 2002, respectively.

11. SEGMENT INFORMATION

The Group operates 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 Group for the years ended March 31, 2003 and 2002 was as follows:

	Millions of Yen					
	2003					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**¥ 121,970**	**¥ 26,816**	**¥ 23,376**	**¥ 172,162**		**¥ 172,162**
Intersegment sales/transfers			**1,683**	**1,683**	**¥ (1,683)**	
Total	**121,970**	**26,816**	**25,059**	**173,845**	**(1,683)**	**172,162**
Operating expenses	**108,713**	**25,788**	**23,501**	**158,002**	**1,284**	**159,286**
Operating income	**¥ 13,257**	**¥ 1,028**	**¥ 1,558**	**¥ 15,843**	**¥ (2,967)**	**¥ 12,876**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**¥ 116,183**	**¥ 8,881**	**¥ 13,663**	**¥ 138,727**	**¥ 48,689**	**¥ 187,416**
Depreciation	**3,488**	**104**	**119**	**3,711**	**225**	**3,936**
Capital expenditures	**5,716**	**203**	**189**	**6,108**	**424**	**6,532**

	Thousand of U.S. Dollars					
	2003					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**$ 1,016,417**	**$ 223,466**	**$ 194,800**	**$ 1,434,683**		**$ 1,434,683**
Intersegment sales/transfers			**14,025**	**14,025**	**$ (14,025)**	
Total	**1,016,417**	**223,466**	**208,825**	**1,448,708**	**(14,025)**	**1,434,683**
Operating expenses	**905,942**	**214,900**	**195,841**	**1,316,683**	**10,700**	**1,327,383**
Operating income	**$ 110,475**	**$ 8,566**	**$ 12,984**	**$ 132,025**	**$ (24,725)**	**$ 107,300**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**$ 968,192**	**$ 74,008**	**$ 113,858**	**$ 1,156,058**	**$ 405,742**	**$ 1,561,800**
Depreciation	**29,067**	**866**	**992**	**30,925**	**1,875**	**32,800**
Capital expenditures	**47,633**	**1,692**	**1,575**	**50,900**	**3,533**	**54,433**

	Millions of Yen					
	2002					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	¥ 115,707	¥ 24,646	¥ 23,764	¥ 164,117		¥ 164,117
Intersegment 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

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 Group for the years ended March 31, 2003 and 2002 were less than 10% of consolidated net sales.

12. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an associated company, and employees' housing loans guaranteed at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of indebtedness	¥1,729	$14,408
Loans guaranteed	31	258

13. SUBSEQUENT EVENTS

On June 27, 2003, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2003 of ¥5.00 ($0.04) per share or a total of ¥826 million ($6,883 thousand), and bonuses to directors and corporate auditors of ¥28 million ($233 thousand) and also authorized the repurchase of up to 5,000,000 shares, or up to ¥5,000 million ($41,667 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

Tohmatsu & Co.

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Deloitte Touche Tohmatsu

To the Board of Directors of Dainippon Pharmaceutical Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Dainippon Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dainippon Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2003

Corporate Information

Corporate Data
(As of March 31, 2003)

Foundation
May 14, 1897

Capital
13,444 million yen

Number of Employees
2,480

Head Office
6-8 Doshomachi 2-chome, Chuo-ku,
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Tel 06-6203-5307
Fax 06-6203-6581

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2-5 Nihonbashi Honcho 2-chome,
Chuo-ku, Tokyo 103-0023
Tel 03-3270-2011

Osaka Plant
5-51 Ebie 1-chome, Fukushima-ku,
Osaka 553-0001
Tel 06-6454-8151

Suzuka Plant
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 Office
Sapporo, Sendai, Tokyo 1st, Tokyo 2nd, Yokohama, Koshin-etsu, Nagoya, Kyoto, Osaka, Hiroshima, Takamatsu, Fukuoka

Board of Directors
(As of June 27, 2003)

Chairman and Representative Director
Takeshi Tomotake

President and Representative Director
Kenjiro Miyatake

Managing Director
Tadashi Inoue

Directors
Hisashi Fujita
Hironobu Kaneda
Tadahiro Sawayama
Fujio Okamoto

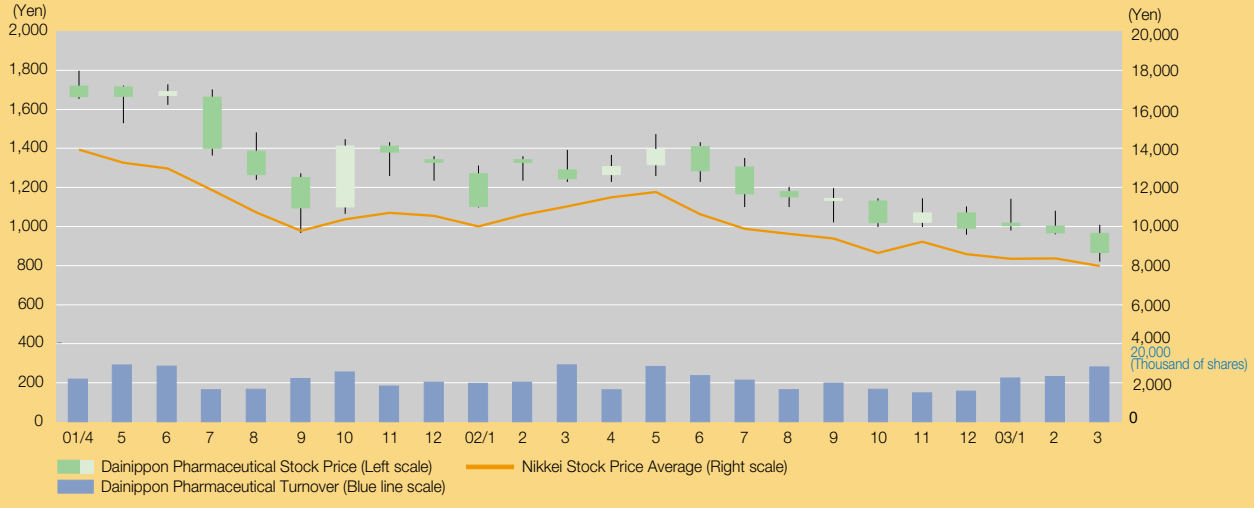
Full-Time Corporate Auditors
Toshiro Funakura
Fuminori Hashimoto

Corporate Auditors
Michihiro Ishii
Takayuki Usui

Businesses of Consolidated Subsidiaries

Gokyo Trading Co., Ltd.:	Purchasing and sales of industrial chemicals, food and food additives, and other chemical products
Nichiei Sangyo Co., Ltd.:	Parking garage management, clinical assay and testing of pharmaceuticals
Marupi Drug Co., Ltd.:	Sales of over-the-counter pharmaceuticals
Marupi Butsuryu Service Co., Ltd.:	Warehouse management

Stock Price Range and Turnover



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